

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 31, 2023

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

(Mark One)

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
or
- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2022
or
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from to
or
- ☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report
Commission file number 1-16055

PEARSON PLC

(Exact name of Registrant as specified in its charter)

England and Wales
(Jurisdiction of incorporation or organization)
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London, England WC2R 0RL
(Address of principal executive offices)
Graeme Baldwin
Telephone: +44 20 7010 2000
Email address: companysecretary@pearson.com
80 Strand
London, England WC2R 0RL

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Class	Trading Symbol	Name of Each Exchange on Which Registered
*Ordinary Shares, 25p par value	PSO	New York Stock Exchange
American Depositary Shares, each Representing One Ordinary Share, 25p per Ordinary Share		New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the SEC.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer’s classes of capital or common stock at the close of the period covered by the annual report:
Ordinary Shares, 25p par value 715,733,241

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of “accelerated filer”, “large accelerated filer” and “emerging growth company”, in Rule 12b-2 of the Exchange Act.

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with US GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b) ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing

☐ US GAAP ☒ International financial Reporting Standards as Issued by the International Accounting Standards Board ☐ Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow: Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ☐ No ☒

Former Auditor Firm ID	876	Former Auditor Name	PricewaterhouseCoopers LLP	Former Auditor Location	London, United Kingdom
Auditor Firm Id:	01438	Auditor Name:	Ernst & Young LLP	Auditor Location:	London, United Kingdom

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INTRODUCTION

In this Annual Report on Form 20-F (the “Annual Report”) references to “Pearson”, the “Company” or the “Group” are references to Pearson plc and its consolidated subsidiaries, except as the context otherwise requires. “Ordinary Shares” refer to the ordinary share capital of Pearson of par value 25p each. “ADSs” refer to American Depositary Shares which are Ordinary Shares deposited pursuant to the Second Amended and Restated Deposit Agreement dated August 15, 2014, amended and restated as of August 8, 2000 among Pearson, The Bank of New York Mellon as depositary (the “Depositary”) and owners and holders of ADSs (the “Deposit Agreement”). ADSs are represented by American Depositary Receipts (“ADRs”) delivered by the Depositary under the terms of the Deposit Agreement.

Certain information is included herein by incorporation by reference to the Pearson Annual Report and Accounts 2022, which has been included as Exhibit 15.3 to this Annual Report.

The basis of preparation that the financial statements referenced in this Form 20-F are prepared under, is set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Basis of Preparation” within Note “1.a. Accounting policies” on page 140.

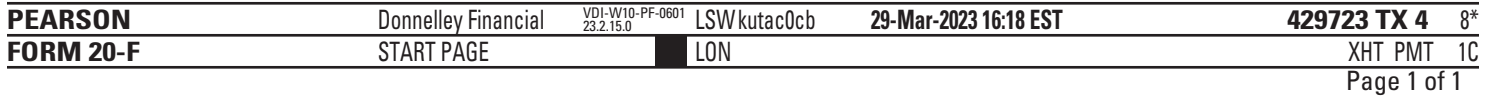
Unless otherwise indicated, any reference in this Form 20-F to consolidated financial statements is to pages 134 to 200 of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3.

The Group publishes its consolidated financial statements in sterling. The Group has included, however, references to other currencies. In this Form 20-F:

- references to “sterling”, “pounds”, “pence” or “£” are to the lawful currency of the United Kingdom,
- references to “euro” or “€” are to the lawful currency of the participating Member States in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Commission, and
- references to “US dollars”, “dollars”, “cents” or “\$” are to the lawful currency of the United States
- references to “brl”, “R\$” are to the lawful currency of Brazil.

For convenience and except where specified otherwise, the Group has translated some sterling figures into US dollars at the rate of £1.00 = \$1.21, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on December 31, 2022. The Group does not make any representation that the amounts of sterling have been, could have been or could be converted into dollars at the rates indicated. On February 28, 2023 the noon buying rate for sterling was £1.00 = \$1.21.

Pearson plc, (Pearson or the Group) is a worldwide learning company with its principal operations in the education, assessment and certifications markets. On 28 January 2022, the Group acquired 100% of the share capital in Credly Inc (Credly), having previously held a 19.9% interest in the company. On 28 April 2022, the Group acquired 100% of the share capital of ATI STUDIOS A.P.P.S S.R.L (Mondly). In 2022, the Group disposed of its interests in the Canadian educational publisher, ERPI in June, its investment in Pearson Italia S.p.A and Stark Verlag GmbH in August, its interest in Austin Education (Hong Kong) Limited in September, and its interest in South Africa in November. In September 2021, the Group acquired the remaining stake in Faethm Holdings Pty Limited to bring its ownership up to 100% of the share capital of the Company. In October 2021, the sale of the Group’s interests in K12 Sistemas in Brazil was completed. In April 2020, the Group completed the sale of the remaining 25% equity interest in the consumer publishing business Penguin Random House to Bertelsmann, the owner of the 75% interest. In November 2020, the Group announced the sale of its interests in Pearson Institute of Higher Education (PIHE) in South Africa, with the sale completing in February 2021. See “Item 4. Information on the Company — Overview of operating divisions”. The Pearson plc Consolidated Financial Statements are included on pages 134 to 200 of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3.



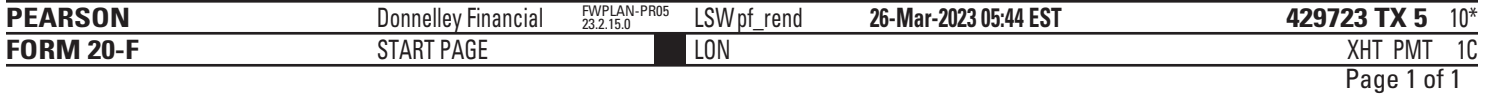
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You should not rely unduly on forward-looking statements in this Form 20-F. This Form 20-F, including the sections entitled “Item 3. Key Information — Risk Factors”, “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects”, contains forward-looking statements that relate to future events or the Group’s future financial performance. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “expect”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other comparable terminology. Examples of these forward-looking statements include, but are not limited to, statements regarding the following:

- operations and prospects,
- growth strategy,
- funding needs and financing resources,
- expected financial position,
- market risk,
- currency risk,
- US federal and state spending patterns,
- debt levels, and
- general market and economic conditions.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Group's or its industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. In evaluating them, you should consider various factors, including the risks outlined under "Item 3. Key Information — Risk Factors", which may cause actual events or industry results to differ materially from those expressed or implied by any forward-looking statement. Although the Group believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements.

The forward-looking statements, specifically the margin target, financial expectations, 2023 outlook and 2025 ambition information, included on pages 13 and 21 of the Pearson Annual Report and Accounts 2022 which is included within Exhibit 15.3 in this document has been prepared by, and is the responsibility of, the Company's management. Ernst & Young LLP and PricewaterhouseCoopers LLP have not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the forward-looking statements and, accordingly, Ernst & Young LLP and PricewaterhouseCoopers LLP do not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in this document relates to the Company's previously issued financial statements. It does not extend to the forward-looking statements and should not be read to do so.



ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

- A. [Reserved]**
- B. Capitalisation and indebtedness:** Not applicable
- C. Reasons for the offer and use of proceeds:** Not applicable
- D. Risk Factors**

You should carefully consider the risk factors described below, as well as the other information included in the rest of this document. The Group's business, financial condition or results from operations could be materially adversely affected by any or all of these risks, or by other risks that it presently cannot identify.

Content & Channel Risk

If the Group fails to successfully invest in and deliver the right products and services and to respond to competitive threats, its sales and profits could be adversely impacted.

A common trend facing all the Group's businesses is the digitization of content and proliferation of distribution channels, either over the internet, or via other electronic means, replacing traditional print formats. The digital migration has led to changes in consumers' perception of value and the publisher's position between consumers, retailers, and authors, and has required the Group to make changes in product and content distribution.

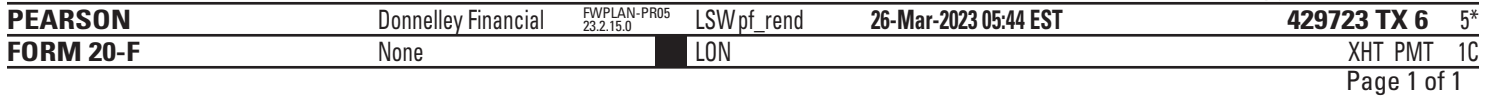
A proliferation of available supply routes for content in addition to buying or subscribing to Pearson content, mean that the Group is not guaranteed to be rewarded for its investment in developing and distributing this content. Alternatives such as second hand and rental copies, open educational resources, online discounters, file sharing and use of pirated copies all offer either lower or no financial returns to the Group.

Where the purchaser is a school or institution, they will typically use educational funding to purchase our materials or assessments. However, there are multiple competing demands for educational funds and there is no guarantee that new courseware or testing or training programs will be funded, or that the Group will win or retain this business.

If the Group does not adapt rapidly to these changes, it may lose business to ‘faster’ and more ‘agile’ competitors, who increasingly are non-traditional competitors, making their identification all the more difficult. The Group may be required to invest significant resources to further adapt to the changing competitive environment, which requires continued development of both content and the method of delivery to be able to provide differentiated products and services, and can result in competitive disadvantage and missed opportunity for revenue and growth.

Failure to use the Group's data effectively to enhance the quality and scope of current products and services in order to improve learning outcomes could adversely affect the Group's business.

The Group seeks to maximize data to enhance the quality and scope of current products and services in order to improve learning outcomes while managing associated risks. The Group's ability to continue to do so



If the Group does not adequately protect its intellectual property and proprietary rights, its competitive position and results may be adversely affected and its ability to grow restricted.

Failure, or an inability, to adequately manage, procure, register or protect intellectual property rights (including trademarks, patents, trade secrets and copyright) in the Group's brands, content and technology, may (1) prevent the Group from enforcing its rights, and (2) increase the risk that bad actors will infringe the Group's content rights (print and digital counterfeit, digital piracy), which will reduce sales and/or erode sales.

The Group's intellectual property rights (IPR) in brands and content — historically its core assets — are generally well established in key markets. As technology and digital delivery of content have become an increasingly critical component of the Group's business strategy, the Group has grown its patent portfolio to expand its protection of high value technology in the US and key international markets.

Online copying and security circumvention have become increasingly sophisticated and resistant to available countermeasures. Notably, in recent years “digital counterfeit” websites have offered or attempted to offer unprotected PDF files of many of Pearson’s titles, at scale, using modern and sophisticated ecommerce methods, with a professional or legitimate appearance. From an IPR perspective, increasing the Group’s digital business continues to expose it to evolving trademark, copyright and patent infringement risks.

The Group's forward-looking IPR strategy includes efforts to maintain a broad footprint of intellectual property rights in key markets outside the US. However, the Group also conducts business in other countries where its intellectual property protection efforts have been limited or where legal protection for intellectual property may be uncertain and these limitations could affect future growth.

Where the Group has registered or otherwise established its IPR, it cannot guarantee that such rights will provide competitive advantages due to: the challenges and costs of monitoring and enforcement in jurisdictions where competition may be intense; the limited and/or ineffective IPR protection and enforcement mechanisms available to it in many countries; the potential that its IPR may lapse, be invalidated, circumvented, challenged, or abandoned, or that it may otherwise lose the ability to assert its intellectual property rights against others. The loss or diminution in value of these proprietary rights or the Group's intellectual property could have a material adverse effect on the Group's business and financial performance.

Risks Related to the Competitive Marketplace

Global economy and cyclical market factors may adversely impact the Group's financial performance.

With continued pressure and uncertainty in worldwide economies, particularly in Pearson's major markets in the US and UK, there is a risk of a weakening in trading conditions, which could adversely impact the Group's future financial performance. The effect of continued deterioration or lack of recovery in the global economy will vary across different businesses and will depend on the depth, length and severity of any economic downturn. The education market can be affected by cyclical factors which, although they can have a positive impact for some of the Group's businesses, could for others lead to a reduction in demand for the Group's products and services.

Increased competitive pressure or reduced demand due to changing consumer learning preferences may adversely impact the Group’s financial performance and reduce the expected return on investment.

The Group competes in a highly competitive market that is subject to rapid change in some areas. The Group faces competitive threats both from large media players and from smaller businesses, online and mobile portals and operators in the digital arena that provide alternative sources of content. Alternative distribution channels, such as digital format, the internet, online retailers and growing delivery platforms (e.g., e-readers or tablets), pose both threats and opportunities to traditional publishing business models, potentially impacting both sales volumes and pricing. In addition, new competitive entrants, increased price competition or shifts in learners away from educational institutions (as seen in reduced Higher Education enrolments) may lead to lower profitability and cash flow performance.

The Group’s investment in new markets may deliver returns that are lower than anticipated.

The Group has invested in and has plans to continue to invest in new markets such as workforce and direct to consumer learning experiences of which the Group has less experience and faces a variety of competition to be successful. Failure to achieve our planned outcomes may lead to lower than expected sales and profitability.

A significant deterioration in the Group’s profitability and/or cash flows caused by prolonged economic instability or recession could reduce its liquidity and/or impair its financial ratios and trigger a need to raise additional funds from the capital markets and/or renegotiate its banking covenants.

To the extent that worldwide economic conditions materially deteriorate, the Group’s sales, profitability and cash flows could be significantly reduced as customers could be unable to purchase products and services in the expected quantities and/or pay for them within normal agreed terms.

Disruption in capital markets or potential concerns about the Group’s credit rating, for instance manifested in downgrades or negative outlooks by the credit rating agencies, may mean that this capital may not be available on favorable terms or may not be available at all.

Risks Related to the Group’s Portfolio of Businesses

The Group’s failure to generate anticipated sales growth, synergies and/or cost savings from acquisitions, mergers and other business combinations, could lead to goodwill and intangible asset impairments.

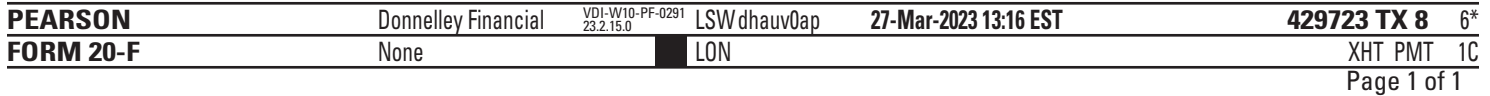
The Group periodically acquires and disposes of businesses to achieve its strategic objectives and will continue to consider both as means to pursue its strategic priorities.

Acquisitions may involve significant risks and uncertainties, including difficulties in integrating acquired businesses in order to realize anticipated sales growth, synergies and/or cost savings; diversion of management attention from other business concerns or resources; and diversion of resources that are needed in other parts of our business. If these risks are not managed, acquisitions could result in goodwill and intangible asset impairments. Divestitures also involve risks and uncertainties that could adversely affect our business, results of operations and financial condition including, among others, the inability to find potential buyers on favorable terms, disruption to our business and/or diversion of management attention from other business concerns, loss of key employees and possible retention of certain liabilities related to the divested business.

Risks relating to accreditation

Changes in government policy and/or regulations have the potential to affect the Group’s business model and/ or decisions across all markets.

The Group’s educational services and assessment businesses may be adversely affected by changes in government funding resulting from trends that are beyond the Group’s direct control, such as general economic



The results and growth of the Group's US educational services and assessment businesses are dependent on the level of federal and state educational funding, which in turn is dependent on the robustness of state finances and the level of funding allocated to educational programs. State, local and municipal education funding pressures remain, competition from low price and disruptive new business models continues and open source is promoted as a way to keep costs down for customers. The current challenging environment could impact the Group's ability to collect education-related debt. State and local government leadership changes and resultant shifts in education policy can also affect the funding available for educational expenditure, which include the impact of educational reform. Similarly, changes in the government procurement process for textbooks, learning material and student tests, and vocational training programs can also affect the Group's markets. Political pressure on testing, changes in curricula, delays in the timing of the adoptions and changes in the student testing process can all affect these programs and therefore the size of the market in any given year.

The Group faces risks of government limiting the ability of non-local companies to compete and/or limiting repatriation of profits. Operating in a variety of geographies also exposes the group to tariffs or other regulatory restrictions. Political, regulatory, economic, currency, reputational, corporate governance and compliance risks (including fraud, sanctions, bribery and corruption) as well as unmanaged expansion are all factors which could limit returns on investments made in these markets and limit the ability to reinvest funds or distribute them to shareholders.

Risks Related to the Group's Responsibility & Reputation

Protecting the Pearson brand is critical to maintaining and expanding the Group's business and will depend largely on its ability to maintain its customers' trust in its solutions and in the quality and integrity of its products and services, including how it protects the data and privacy of customers and users. If the Group does not successfully maintain a strong brand, its business could be harmed. Beyond protection, strengthening the Pearson brand will enable the Group to more effectively engage with governments, administrators, teachers, learners and influencers.

Failure to prevent or detect a malicious attack on the Group's systems has in the past and could in future result in loss of system availability, breach of confidentiality, integrity and/or availability of sensitive information. Such incidents have in the past resulted, and could in future result, in damage to the customer experience and the Group's reputation and in financial loss. In particular, the Group has experienced, and may continue to experience in the future, an unauthorized disclosure of personal information despite best efforts to prevent it. This has also occurred and may again in the future as a result of a failure of IT controls to protect such data, principally due to software malfunctions.

Information security and cyber risk are continually evolving and comprise many complex external drivers: increasing customer demand to demonstrate a strong security posture, external compliance requirements, ongoing digital revolution, increasing use of the cloud, greater volumes of data and increasingly sophisticated attack

strategies. Across its businesses, the Group holds large volumes of personal data including that of employees, customers, students and citizens, and other highly sensitive business critical data such as financial data, internal sensitive information, and intellectual property. Despite its implementation of security measures, threat actors of all types, including individuals, criminal organizations and state sponsored operatives, have from time to time gained access, including in 2018 in the events leading to the SEC settlement discussed in “Item 4. Information on the Company — *Legal Proceedings*”, and may in the future gain access to the Group’s data through unauthorized means in order to misappropriate such information for fraudulent or other purposes.

Any perceived or actual unauthorized disclosure of personal data or confidential information, whether through a breach of the Group’s network or a third party partner with whom we share data or access to our network by an unauthorized party, employee theft, misuse or error or otherwise, could harm the Group’s reputation, impair its ability to attract and retain its customers, impair business and operations, or subject the Group to regulatory investigations and/or to claims or litigation arising from damages suffered by individuals and customers, and thereby harm its business and operational results. Failure to adequately protect personal data and confidential information has in the past led, or could potentially lead to, respectively, regulatory penalties, litigation costs and damages, significant remediation costs, reputational damage, cancelation of some existing contracts and/or difficulty in competing for future business, among other things. In addition, the Group could incur significant costs in complying with the relevant laws and regulations regarding the protection of personal data and confidential information against unauthorized disclosure, payments due to cyber extortion or to responding to regulatory investigations into such matters. Changes to data privacy legislation must also be monitored and acted upon to ensure the Group remains in compliance across different markets.

A control breakdown or service failure in the Group’s testing businesses could result in financial loss and reputational damage.

The Group’s testing businesses, including those in the Assessment & Qualifications, workforce and English language learning involve complex contractual relationships with both government agencies and commercial customers for the provision of various testing services. The Group’s financial results, growth prospects and/or reputation may be adversely affected if these contracts and relationships are poorly managed or face increased competitive pressures.

There are inherent risks associated with the Group’s testing businesses, both in the US and the UK. A service failure caused by a breakdown in testing and assessment processes could lead to a mis-grading of student tests and/or late delivery of test results to students and their schools. During 2022, the Group suffered negative publicity as a result of failures to deliver certain BTEC qualification results in a timely manner. Failures to meet expected service standards have in the past and/or could in future leave the Group subject to regulatory sanctions (including fines), legal claims, penalty charges under contracts, non-renewal of contracts and/or the suspension or withdrawal of its accreditation to conduct tests. A late delivery of qualification results could result in a potentially significant regulatory fine in addition to the contractual penalties. It is also possible that any such events described above would result in adverse publicity, which may affect the Group’s ability to retain existing contracts and/or obtain new customers.

Failure to adequately protect learners could result in significant harm to one or more learners.

Incidents have occurred and may in future occur where learners may not have been, or may not be, adequately protected. For example, where the Group has direct learner contact via online learning, or in its test centres. These incidents can cause harm to learners, which is something the Group takes extremely seriously, and could also have a negative financial, legal and reputational impact to the business.

Failure to effectively manage risks associated with compliance with global and local anti-bribery and corruption (ABC) legislation could result in costly legal investigations and/or adversely impact the Group’s reputation.

The Group is committed to an effective compliance program in keeping with changing regulatory expectations, and it is also committed to conducting business in a legal and ethical manner in compliance with local and international statutory requirements and standards applicable to its business. Despite those commitments, there is a risk that the Group’s management, employees or representatives may take actions that violate applicable laws and regulations including regarding accurate keeping of books and records or prohibiting the making of improper payments for the purposes of obtaining or keeping business, including laws such as the US Foreign Corrupt Practices Act or the UK Bribery Act. Any regulatory inquiry or investigations could be costly, require a significant amount of management’s time and attention, adversely impact the Group’s reputation, or lead to litigation and financial impacts.

Failure to comply with antitrust and competition legislation and/or legal or regulatory proceedings could result in substantial financial cost and/or adversely impact the Group’s reputation.

The Group is subject to global and local antitrust and competition law and although it is committed to conducting business in compliance with local and international laws, there is a risk that management, employees or representatives may act in a way that violates applicable antitrust or competition laws. Further, the Group and its subsidiaries are and may be in the future subject to legal and regulatory proceedings in the countries in which the Group operates. These proceedings could result in greater scrutiny of the Group’s operations in other countries for anti-competitive behavior and, in the worst case, incur a substantial financial cost. This would also have an adverse impact on the Group’s reputation.

Failure to adequately protect the health, safety and well-being of the Group’s employees, learners and other stakeholders could adversely impact the Group’s reputation, profitability and future growth.

Although the Group has invested in global health and safety procedures and controls to safeguard the health, safety and wellbeing of its employees and other stakeholders, accidents or incidents could still occur due to unforeseen risks, causing injury or harm to individuals and impacting the Group’s business operations. The continued effects of the COVID-19 pandemic or another pandemic may exacerbate the risk. This has the potential to lead to criminal and civil litigation, business disruption leading to operational loss, reduction in profitability and impact on the Group’s reputation.

Failure to ensure security for the Group’s staff, learners, assets and reputation, due to increasing numbers of and variety of local and global threats.

Pearson is a global business with locations in diverse, sometimes high-risk, locations worldwide. Although it has protective measures in place to secure its staff, learners and assets, the Group could still be impacted by external threats, such as localized incidents, terrorist attacks, strikes or extreme weather. Future occurrences could cause harm to individuals and/or disrupt business operations. These have the potential to lead to operational loss, a reduction in profitability and impact on the Group’s global reputation.

Capability related risks

The Group’s strategy involves significant change, including moving into new markets. This increases the risk of failure to realise anticipated benefits or of costs being higher than anticipated, or that the Group’s business as usual activities are adversely impacted.

The Group’s strategy aims to achieve significant growth in markets in which Pearson has less experience, including enterprise sales of content, direct to consumer language learning and increasing direct to consumer sales. At the same time, the Group is completing a margin improvement program. The pace and scope of change

potentially increases the risk that not all these changes will deliver within anticipated timeframes, and that the costs of these changes may increase. In addition, as a result of the increased pressure of transformational change, business as usual activities may not perform in line with plans, or the level of customer service may not meet expectations. Resistance to change could restrict the organization from making the necessary changes to the business model.

If the Group fails to attract, retain and develop appropriately skilled employees, it may limit its ability to achieve its strategic and operational goals and its business may be harmed.

The Group’s success depends on the skill, experience and engagement of its employees. It has a key dependency on the Chief Executive and certain other key employees. If it is unable to attract, retain and develop sufficiently experienced and capable staff, especially in technology, product development, sales and leadership, its business and financial results may suffer. When talented employees leave, the Group may have difficulty replacing those skills, and its business may suffer. There can be no assurance that the Group will be able to successfully attract and retain the skills that it needs.

All the Group’s businesses depend on Information Technology (IT) systems and technological change. Failure to maintain and support customer facing services, systems, and platforms, including addressing quality issues and execution on time of new products and enhancements, could negatively impact the Group’s sales and reputation.

All the Group’s businesses, to a greater or lesser extent, are dependent on IT. It either provides software and/or internet services to its customers or uses complex IT systems and products to support its business activities, including customer-facing systems, back-office processing and infrastructure. The Group faces several technological risks associated with software product development and service delivery, information technology security (including viruses and cyber-attacks), e-commerce, enterprise resource planning system implementation and upgrades. Although plans and procedures are in place to reduce such risks, from time to time the Group has experienced verifiable attacks on its systems by unauthorized parties. To date, such attacks have not resulted in any material damage, but the Group’s businesses could be adversely affected if its systems and infrastructure experience a significant failure or interruption.

Operational disruption to its business, including that caused by third party providers, a major disaster and/or external threats, could restrict the Group’s ability to supply products and services to its customers.

Across all its businesses, the Group manages complex operational and logistical arrangements including distribution centers, data centers, and educational and office facilities, as well as relationships with third party print sites. It has also outsourced some support functions, including information technology, warehousing and logistics to third party providers. The failure of third parties to whom it has outsourced business functions could adversely affect its reputation or financial condition. Failure to recover from a major disaster, (e.g. fire, flood, etc.) at a key facility and/or a major failure of a key facility, such as a data center outage or the disruption of supply from a key third party vendor or partner (e.g. due to bankruptcy) could restrict the Group’s ability to service its customers and meet the terms of its contractual relationships with both government agencies and commercial customers. Penalty clauses and/or the failure to retain these contracts at the end of the contract term could adversely impact future revenues and/or operations.

Customer expectations related risks

Failure to meet our customers’ rapidly changing expectations in our products and services and not being able to anticipate new customer demands could result in reduced market share, profitability and brand erosion.

We continue to adjust our business model to keep a pace with the increasing end user demands. The group may not be able to adapt, change and succeed in a rapidly changing and uncertain environment resulting in competitive disadvantage, higher cost and brand erosion. This could result from failing to identify changes in learner preferences or in failing to create products and services which meet these revised expectations.

With the direct to consumer strategic focus and the launch of new products we risk that the customer experience expectations are not met with regard to how the products and services are delivered e.g. quality and timeliness, impacting the customer’s brand loyalty and propensity to purchase; resulting in customer complaints, less favorable social media sentiment, bad reviews, low recommendations, and customer attrition.

There is also the risk that our technology and data dependent products and services do not meet accessibility requirements in respect of customers’ and prospective customers’ ability to access the products and services, and this could result in increased costs, restrictions and fines.

Other significant near-term and emerging risks,

Pandemic risks — the risk of forced closure of part of the group’s operations could impact profitability

Restrictions on movement of individuals and forced business closures due to a pandemic and efforts to contain it have had and could have an impact on the Group’s financial results, in particular if test centres were forced to close or if high stakes examinations were cancelled.

Environmental, social and governance risks including Climate Transition may adversely impact the Group’s business.

The Group considers environmental, social and governance (ESG) risks no differently to the way it manages any other business risk. These include ethical business behavior, compliance with UN Global Compact standards, environmental impact, people and editorial standards. A failure to comply with such standards, or other ESG-related laws or regulations, whether in the UK or elsewhere, could adversely affect the Group’s reputation and have a negative impact on its relations with employees, vendors and customers. Costs associated with offsetting carbon emissions which cannot be fully reduced may lead to decreased margins. Expectations around climate change commitments and measurements change on a regular basis, as a result, the cost of meeting these emissions reduction standards may increase. Further, there is a risk that certain existing or potential future customers, including US state governments, view Pearson’s ESG initiatives as misaligned with their own priorities and consequently withdraw their business from the Group, which in turn could significantly harm the Group’s businesses, financial performance, reputation and/or outlook.

Financial markets disruption — A lack of sufficient capital resources could adversely impact the Group’s ability to operate.

If the global economy weakens further and/or there are more bank failures (following Silicon Valley Bank and the rescue of Credit Suisse), the Group may not have access to or could lose its bank deposits or suffer a significant increase in customer bad debts. Lack of sufficient capital resources could significantly limit the Group’s ability to take advantage of business and strategic opportunities. If replacement funds are not available, the Group may be required to delay, reduce the scope of, or eliminate material parts of its business strategy, including potential additional acquisitions or development of new products, services and technologies.

Inflation — High levels of global inflation could increase costs and adversely impact the Group’s profits and financial performance.

Rising global inflation factors have increased and could further increase the cost of production for Pearson, particularly through wage inflation. There is no guarantee that we can increase prices or reduce cost for products and services that can mitigate the effects of inflation, which could lead to reduced earnings and ability to invest in future growth.



Ukraine — the ongoing situation in Ukraine and its regulatory and macroeconomic consequences, including in respect of inflation and sanctions, could impact the Group's cost base and supply chain and have a material adverse impact on the Group's operations, profits and financial performance.

The major impact of Russia's invasion of Ukraine in respect of Pearson has been to increase inflation (see above) and increase energy instability. However, the full impact, particularly in the event of an escalation of the conflict beyond those countries, cannot be determined at this time. The conflict and associated sanctions could also increase the risk associated with other risks such as inflation due to energy and food supply issues or increased risk of cyber attacks, any of which could have a material adverse impact on the Group's operations, profits and financial performance.

Other risks

Changes in tax law or perceptions on tax planning strategies may lead to a higher effective tax rate or negative reputational impact.

Changes in corporate tax rates and/or other relevant tax laws in the UK, US or other jurisdictions could have a material impact on the Group's future reported tax rate and/or its future tax payments. The application of tax legislation can be complex and tax authorities may take a different view to management. The Group has been subject to audit by tax authorities. In particular, the Group is under assessment from the tax authorities in Brazil challenging the deduction for tax purposes of goodwill amortisation for the years 2012 to 2017 (similar assessments may be raised for other years). In addition, on 25 April 2019, the European Commission published the full decision that the United Kingdom controlled foreign company group financing partial exemption partially constitutes State Aid. On 8 June 2022, the EU General Court dismissed appeals brought by the UK Government and other parties. Following the decision of the EU General Court it has been concluded that a provision is now required in relation to this issue and this is included in the 2022 results. This decision of the EU General Court has been appealed by the UK Government and other parties.

The Group believes its overall tax provision is reasonable, however, the final determination of its tax liability could be materially different from its historical income tax provisions, which could have a material effect on the Group's financial position, results of operations or cash flows.

The Group's tax strategy reflects its business strategy and the locations and financing needs of its operations. In common with many companies, the Group seeks to manage its tax affairs to protect value for its shareholders, in line with its broader fiduciary duties. The Group is committed to complying with all statutory obligations, to undertake full disclosure to tax authorities and to follow agreed policies and procedures with regard to tax planning and strategy.

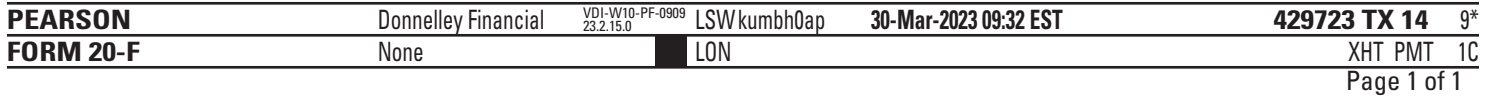
The Group generates a substantial proportion of its revenue in foreign currencies, particularly the US dollar, and foreign exchange rate fluctuations could adversely affect the Group's earnings and the strength of its balance sheet.

As with any international business, the Group's earnings can be materially affected by exchange rate movements. The main exposure is to movements in the US dollar to sterling exchange rate as approximately 69% of the Group's total revenue is generated in US dollars. The Group also has exposure to a range of other international currencies including emerging market currencies.

The Group holds debt in the form of foreign currency sale contracts in US dollars to act as a partial hedge, but this can only offer a partial mitigation of the total currency exposure.

The Group's reported earnings and cash flows may be adversely affected by changes in its pension costs and funding requirements.

The Group operates a number of pension plans throughout the world, the principal ones being in the UK and the US. The major plans are self-administered with the plans' assets held independently of the Group. Regular



It is the Group's policy to ensure that each pension plan is adequately funded, over time, to meet its ongoing and future liabilities. The UK Group plan expects to be able to provide benefits (in accordance with the plan rules) with a very low level of reliance on future funding from the Group. The Group's earnings and cash flows may be adversely affected by the need to provide additional funding to eliminate pension fund deficits in its defined benefit plans. The Group's greatest exposure relates to the UK defined benefit pension plan, which is valued every three years. Pension fund deficits may arise because of inadequate investment returns, increased member life expectancy, changes in actuarial assumptions and changes in pension regulations, including accounting rules and minimum funding requests.

Although the UK defined benefit plan is significantly de-risked (given, in addition to a de-risked investment policy, it was also in significant surplus as at 1 January 2021, being the date of the last triennial valuation) the ability to achieve and maintain this standard remains subject to market conditions, meaning that additional funding could still be required from the Group in the future.

The Group identified a material weakness during 2022 and although it has been remedied, it resulted in an error in the Group's accounting for certain investments in unlisted securities.

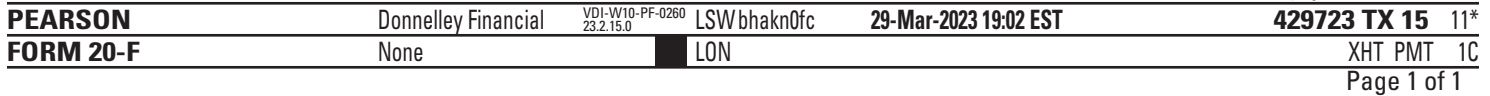
In 2022, an error was identified related to the Group’s accounting for certain investments in unlisted securities. Investments that should have been accounted for at fair value through profit and loss were previously accounted for at fair value through other comprehensive income. The Group has corrected its accounting for these investments in the comparative financial statement line items and related disclosures have also been revised to reflect the change in accounting treatment. See note 1b to the Consolidated Financial Statements in the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3, for further details about the impact of the revision.

As a result of the above-described error, management concluded that during 2022 a deficiency had existed in the design of internal controls over the classification of investments in unlisted securities. Management assessed the severity of the control deficiency and has concluded that it was a material weakness.

During 2022, management took actions to remediate the material weakness. Additional controls have been implemented which specifically address the correction and ongoing accounting. Although the remediated controls have been tested and found to be effective as of December 31, 2022, there can be no assurance that no additional material weaknesses will arise in the future due to a failure to implement and maintain adequate internal control over financial reporting.

ITEM 4. INFORMATION ON THE COMPANY

Pearson plc, (Pearson or the Group) is a worldwide learning company with its principal operations in the education, assessment and certifications markets. The Group provides digital content, learning experiences, assessments, qualifications and data in the learning market. We are increasingly adapting our business model to go direct to consumers to meet our customers at the point of their learning need. It creates and manages intellectual property, which it promotes and sells to its customers under well-known brand names. The Group delivers its content in a variety of forms and through a variety of channels, with emphasis on digital services. It also provides test development, processing and scoring services to governments, educational institutions, corporations and professional bodies around the world. It provides content across the curriculum and a range of education services including teacher development, educational software and system-wide solutions and owns and operates virtual schools. Though it has a presence in numerous countries around the world, today its largest markets are North America (72% of 2022 sales) and Europe (including the UK) (16% of 2022 sales).



- Assessment & Qualifications — Pearson VUE, US Student Assessment, Clinical Assessment, UK GCSE and A Levels and International academic qualifications and associated courseware including the English-speaking Canadian and Australian K-12 businesses;
- Virtual Learning — Virtual Schools and Online Program Management;
- English Language Learning — Pearson Test of English, Institutional Courseware and English Online Solutions;
- Workforce Skills — BTEC, GED, TalentLens, Faethm, Credly, Pearson College and Apprenticeships; and
- Higher Education — US, Canadian and International Higher Education Courseware businesses.

Pearson was incorporated and registered in 1897 under the laws of England and Wales as a limited company and re-registered under the UK Companies Act as a public limited company in 1981. The Group conducts its operations primarily through its subsidiaries and other affiliates. Its principal executive offices are located at 80 Strand, London WC2R 0RL, United Kingdom (telephone: +44 20 7010 2000) and its website address is <https://plc.pearson.com/>. The Company is registered in England and Wales under the company number 00053723. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “At a glance” on pages 2 to 5;
- “Highlights” on page 6;
- “Chair’s note” on pages 7 to 9;
- “CEO’s review” on pages 10 to 11;
- “Our strategy” on pages 12 to 15;
- “Our business model” on pages 16 to 17;
- “Financial review” on pages 20 to 25; and
- “Stakeholder engagement” on pages 26 to 29.

See pages 215 to 219 of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3, for a full reconciliation of the alternative performance measures to the equivalent statutory measure.

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 30 “Business combinations” of the financial statements on pages 193 to 194;
- Note 31 “Disposals and business closures” of the financial statements on pages 194 to 195;
- Note 32 “Held for sale” of the financial statements on page 196; and
- Note 37 “Events after the balance sheet date” of the financial statements on page 200.

The Group’s strategy

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Our strategy” on pages 12 to 15.

Operating divisions

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 2 “Segment information” of the financial statements on page 148 for a description of each segment, and which businesses are included in each operating segment;
- “At a glance” on pages 2 to 5;
- “Our strategy” on pages 12 to 15;
- See “Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2022 compared to year ended December 31, 2021 — Sales and operating profit by division” for a discussion of developments during 2022 with respect to each segment; and
- See “Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2021 compared to year ended December 31, 2020 — Sales and operating profit by division” for a discussion of developments during 2021 with respect to each segment.

Operating cycles

The Group determines a normal operating cycle separately for each entity/cash generating unit with distinct economic characteristics. The “normal operating cycle” for each of the Group’s businesses is primarily based on the expected period over which content or services will generate cash flows.

The Higher Education courseware market is primarily driven by an adoption cycle, with colleges and professors typically refreshing their courses and selecting revised programs on a regular basis, often in line with the release of new content or new technology offerings. The Company renews its product development assets to reflect new content and capabilities which enhance the attractiveness of its offering to both educators and learners.

Analysis of historical data shows that the typical life cycle of Higher Education content is up to 5 years but varies by product. In addition to content, the Group also develops technology platforms for products and the life cycle for these platforms can be in excess of the 5 years cycle for content. Again, the operating cycle for content and platforms mirrors the market cycle.

Historically for a major content refresh a development phase of typically 12 to 18 months for Higher Education precedes the period during which the Company receives and delivers against orders for the products it has developed for the program.

The operating cycles in respect of the Group’s professional and clinical content are more specialized in nature as they relate to educational or heavy reference products released into smaller markets (e.g. the financial training and IT sectors). Nevertheless, in these markets, there is still a regular cycle of product renewal, in line with demand which management monitor. Typically, the life cycle is 5 years for Professional content and 7 years for Clinical content. Elsewhere in the Group, operating cycles are typically less than one year.

Competition

The Group’s businesses operate in highly competitive markets. The Group faces competitive threats both from large media players and from smaller businesses, online and mobile portals and operators in the digital arena that provide alternative sources of content. Alternative distribution channels, e.g. digital format, the



internet, online retailers, growing delivery platforms (e.g. e-readers or tablets), pose both threats and opportunities to traditional publishing business models, potentially impacting both sales volumes and pricing.

In Assessment & Qualifications, the Group competes with other companies offering test development and administration including Cambium, Data Recognition Corp (DRC), Educational Testing Service (ETS), and NWEA, and others. The Professional Certification business competes with Prometric globally and a number of other smaller players in local markets. The Clinical Assessment business competes with MHS and WPS. The UK qualifications business competes with AQA and OCR in general qualifications, as well as a number of smaller players.

In Virtual Learning, the Group competes with companies such as Stride in virtual schools and 2U Inc. in Online Program Management, alongside smaller niche players that specialize in a particular academic discipline or focus on a learning technology.

In Institutional English Language Learning, the Group competes with Oxford University Press, Macmillan and other publishers. In High Stakes Assessments, Pearson Test of English Academic competes with alternative tests including IELTS and TOEFL. In the online language learning market, the Group competes with Duolingo, Babbel and Busuu, as well as a number of smaller players.

In Workforce Skills, the vocational qualifications business competes with City and Guilds globally alongside smaller niche and local market providers, our assessments businesses compete with HiSET in high school equivalency and SHL in skills and ability testing, and our enterprise data, technology and learning businesses compete with Learning platforms such as Guild, talent management platforms such as Eightfold.ai, and data services such as Emsi.

In Higher Education, the Group competes with other publishers and creators of educational materials and services. These companies include publishers such as Cengage Learning and McGraw-Hill Education.

Competition is based on the ability to deliver quality products and services that address the specified curriculum needs and appeal to the student, organizations, school boards, educators, employers and government officials making purchasing decisions.

Intellectual property

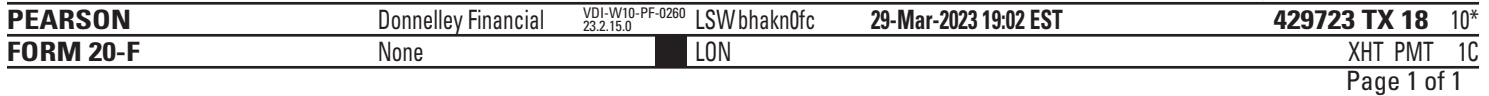
The Group's principal intellectual property assets consist of its:

- trademarks and other rights via its brands (including corporate and business unit brands and imprints, as well as product and service brands);
- copyrights for its textbook and related educational content and software code; and
- patents and trade secrets related to the innovative methods deployed in its key technologies.

The Group believes it has taken reasonable legal steps to protect its key brands in its major markets and copyright in its content and has taken appropriate steps to develop a comprehensive patent program to ensure appropriate protection of emerging inventions that are critical to its new business strategies.

Licenses, patents and contracts

The Group is not dependent upon any particular licenses, patents or new manufacturing processes that are material to its business or profitability. Notwithstanding the foregoing, the Group's education business is dependent upon licensed rights since most textbooks and digital learning tools include content and/or software that is licensed to it by third parties (or assigned subject to royalty arrangements). In addition, some software products in various business lines rely upon patents licensed from third parties.



Raw materials

Paper remains the principal raw material used by the Group although its use is declining given the shift to digital products. The Group purchases most of its paper through its global outsourcing partner LSC Communications located in the United States. The Group has not experienced and does not anticipate difficulty in obtaining adequate supplies of paper for its operations, with sourcing available from numerous suppliers. While local prices fluctuate depending upon local market conditions, the Group has not experienced extensive volatility in fulfilling paper requirements. In the event of a sharp increase in paper prices, the Group has a number of alternatives to minimize the impact on its operating margins, including modifying the grades of paper used in production and passing on price increases to customers.

Government regulation

The manufacture of certain products in various markets is subject to governmental regulation relating to the discharge of materials into the environment. Operations are also subject to the risks and uncertainties attendant to doing business in numerous countries. Some of the countries in which the Group conducts these operations maintain controls on the repatriation of earnings and capital and restrict the means available for hedging potential currency fluctuation risks. The operations that are affected by these controls, however, are not material. Accordingly, these controls have not significantly affected the Group's international operations. Regulatory authorities may have enforcement powers that could have an impact. The Group believes, however, that in light of the nature of its business the risk of these sanctions does not represent a material threat.

Climate change

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Sustainability” on pages 30 to 38; and
- “Task Force on Climate-related Financial Disclosures” on pages 39 to 41.

Legal proceedings

The Group and its subsidiaries are from time to time the subject of legal proceedings incidental to the nature of its and their operations. These may include private litigation or arbitrations, governmental proceedings and investigations by regulatory bodies.

On August 16, 2021 Pearson reached a settlement with the SEC concerning Pearson’s public disclosures in July 2019 relating to a data breach that had occurred in 2018 in connection with AIMSweb 1.0, a web-based software for entering and tracking students’ academic performance (that was retired in July 2019 in accordance with a previously scheduled retirement plan). The settlement included findings that Pearson violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933, as amended, Section 13(a) of the Securities Exchange Act of 1934, as amended, and certain of the rules thereunder respecting accurate and not misleading reporting and the maintenance of disclosure controls and procedures, the entry of an administrative cease-and-desist order, and the payment of a civil penalty of \$1.0 million. Under the settlement, Pearson neither admitted nor denied the findings set forth in the SEC’s order. The issues occurred in 2018 and 2019, since which time a series of improvements have been made in relation to data privacy, cyber security and communications.

In addition, see the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- Note 34 “Contingencies, other liabilities and commitments” of the financial statements on page 198.



Organizational structure

Pearson plc is a holding company which conducts its business primarily through subsidiaries and other affiliates throughout the world. Below is a list of its significant subsidiaries as at December 31, 2022, including name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.

Name	Country of incorporation/residence	Percentage interest/voting
Pearson Education Inc.	United States (Delaware)	100%
Pearson Education Ltd.	England and Wales	100%
NCS Pearson Inc	United States (Minnesota)	100%

For recent developments with regards to acquisitions and disposals of entities within the Group, see the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 30 “Business combinations” of the financial statements on pages 193 to 194;
- Note 31 “Disposals and business closures” of the financial statements on pages 194 to 195;
- Note 32 “Held for sale” of the financial statements on page 196; and
- Note 37 “Events after the balance sheet date” of the financial statements on page 200.

Property, plant and equipment

The Group's headquarters are located at leasehold premises in London, England. As at December 31, 2022 it owned or leased approximately 700 properties, including approximately 576 testing/teaching centers in over 55 countries worldwide, the majority of which are located in the United Kingdom and the United States.

The properties owned and leased by the Group consist mainly of offices, distribution centers and computer testing / teaching centers. In some cases properties leased by the Group are then sublet to third parties.

The vast majority of printing is carried out by third party suppliers. The Group operates a small digital print operation as part of its Pearson Assessment & Testing businesses which provides short-run and print-on-demand products, typically custom client applications.

The Group owns the following principal properties at December 31, 2022:

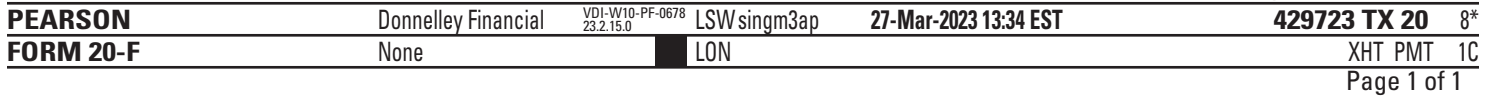
<u>General use of property</u>	<u>Location</u>	<u>Area in square feet</u>
Office	Iowa City, Iowa, USA*	312,760
Warehouse/Office	Cedar Rapids, Iowa, USA	205,000
Testing	Owatonna, Minnesota, USA	128,000
Office/Warehouse	Hadley, Massachusetts, USA*	85,570

* Properties are recorded as held for sale at December 31, 2022

The Group leased the following principal properties at December 31, 2022:

<u>General use of property</u>	<u>Location</u>	<u>Area in square feet</u>
Office	Hudson, New York, USA*	311,473
Office	Westminster, London, UK*	282,923
Office	Hoboken, New Jersey, USA*	216,273
Office	Bloomington, Minnesota, USA*	147,159
Warehouse/Office	Cedar Rapids, Iowa, USA	119,682
Office	San Antonio, Texas, USA*	117,063

* Properties have either been fully or partially sublet or are being marketed for sublet.



See “Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources” for description of the Company’s capital expenditure.

The Company has not received, 180 days or more before the end of the 2022 fiscal year, any written comments from the Securities and Exchange Commission staff regarding its periodic reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which remain unresolved.

The following discussion and analysis of the Group’s performance from management’s perspective is based on and should be read in conjunction with the consolidated financial statements, including the related notes, to the consolidated financial statements on pages 134 to 200 of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3. The purpose of item 5 is to facilitate a discussion and analysis of the Group’s performance from management’s perspective.

The basis of preparation that the financial statements referenced in this Form 20-F are prepared under, is set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Basis of Preparation” within Note “1.a. Accounting policies” on page 140.

Where this discussion refers to constant currency comparisons, these are estimated by re-calculating the current year results using the exchange rates prevailing for the prior period. The increase or reduction in the value calculated is the estimate of the impact of exchange rates. The Group believes this presentation provides a more useful period to period comparison as changes due solely to movements in exchange rates are eliminated. Where this discussion refers to portfolio changes this is calculated by taking account of the contribution from acquisitions and by excluding sales and profits made by businesses disposed in either 2022 or 2021. Where this discussion refers to underlying comparisons this includes both constant currency and portfolio changes.

Adjusted operating profit is the key financial measure used by management to evaluate the performance of the Group and allocate resources to business segments over time by separating out those items of income and expenditure relating to acquisitions and disposals, major restructuring programs and certain other items that are not representative of underlying performance. Reconciliations of adjusted operating profit to consolidated operating profit are included below under 'Group performance', 'Sales and operating profit by segment' and in note 2 to the consolidated financial statements on pages 148 to 150 of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3.

On 8 March 2021, the Group announced a new strategy, which included a new management structure and operating model. As a result, the primary operating segments reported to the Group's chief operating decision-maker, the Pearson Executive Management team, changed from 1 July 2021 to reflect the new Group structure. There are five main global business divisions, which are each considered separate operating segments for management and reporting purposes. These five divisions are Assessment & Qualifications, Virtual Learning, English Language Learning, Higher Education and Workforce Skills. In addition, the International Courseware local publishing businesses, which were under strategic review, are being managed as a separate division, known as Strategic Review. In 2022, some of the businesses from the Strategic Review division have been disposed of (see note 31) and the decision was made to retain the English-speaking Canadian and Australian K12 courseware businesses. Both of these businesses have been transferred from the Strategic Review division to the Assessment & Qualifications division to reflect changes to the management and reporting structure. Comparative figures for 2021 and 2020 have been restated to reflect the move between segments, resulting in £34m of sales being transferred from the Strategic Review division to the Assessment & Qualifications division in 2021 and £36m in 2020. The Group has separately disclosed the results from the Penguin Random House associate to the point of disposal in April 2020.

In 2022, an error was identified related to the Group’s accounting for certain investments in unlisted securities. Investments that should have been accounted for at fair value through profit and loss were previously accounted for at fair value through other comprehensive income. Having assessed both the quantitative and qualitative factors, management determined that the error did not have a material impact on its previously issued consolidated financial statements. The Group has corrected its accounting for these investments in the current year and the comparative financial statement line items and related disclosures have also been revised to reflect the change in accounting treatment. All impacted primary statements and related notes have been revised. See note 1b to the Consolidated Financial Statements in the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3, for further details about the impact of the revision.

General overview

Introduction

The Group’s primary segments for management and reporting are as follows:

- Assessment & Qualifications — Pearson VUE, US Student Assessment, Clinical Assessment, UK GCSE and A Levels and International academic qualifications and associated courseware including the English-speaking Canadian and Australian K-12 businesses;
- Virtual Learning — Virtual Schools and Online Program Management;
- English Language Learning — Pearson Test of English, Institutional Courseware and English Online Solutions;
- Workforce Skills — BTEC, GED, TalentLens, Faethm, Credly, Pearson College and Apprenticeships; and
- Higher Education — US, Canadian and International Higher Education Courseware businesses.

In addition, the International Courseware local publishing businesses were under strategic review and during this time are being managed as a separate division, known as Strategic Review. For the comparative period, the Group has separately disclosed the results from the Penguin Random House associate to the point of disposal in April 2020.

See the “Recent Developments” section within Item 4 for a summary of recent acquisition and disposal activity.

Group Performance

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review” on pages 20 to 25.

Going concern and liquidity

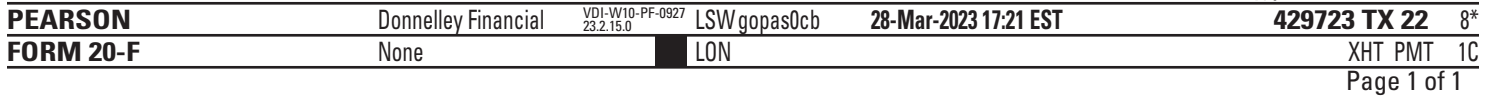
See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Financial Review — liquidity and capital resources” on page 24; and .
- Note 1.c “Going concern” of the financial statements on page 147.

Sales information by segment

For sales information by segment for each of the past three years, see the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 2 “Segment information” of the financial statements on pages 148 to 150.



For sales information by geographic region for each of the past three years, see the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 2 “Segment information” of the financial statements on pages 148 to 150.

The Group earns a significant proportion of its sales and profits in overseas currencies, principally the US dollar. Sales and profits are translated into sterling in the consolidated financial statements using average rates. The average rate used for the US dollar was £1:\$1.24 in 2022, £1:\$1.38 in 2021 and £1:\$1.28 in 2020. Fluctuations in exchange rates can have a significant impact on the Group's reported sales and profits. In 2022, the Group generated 69% of its continuing sales in the US (2021: 64%; 2020: 69%). In 2022, the Group estimates that a five-cent change in the average exchange rate between the US dollar and sterling would have had an impact on its reported earnings per share of approximately 1.0p. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk" for more information on how foreign exchange risk is managed. The year-end US dollar rate for 2022 was £1:\$1.21 compared to £1:\$1.35 for 2021 and £1:\$1.37 for 2020. The total impact on shareholders' funds of foreign exchange translation was a gain of £325m in 2022 compared to a loss of £2m in 2021. These net movements are principally driven by movements in the US dollar as a significant portion of the Group's operations are in the US.

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- Note 1.a “Accounting policies — 3. Critical accounting assumptions and judgements” of the financial statements on pages 140 to 141.

Year ended December 31, 2022 compared to year ended December 31, 2021

Consolidated results of operations

Sales

The Group's total sales increased to £3,841m in 2022 from £3,428m in 2021, an increase of £413m or 12%. The year on year increase was impacted by currency movements, primarily the comparative strength of the US dollar relative to sterling during the year. In 2022, currency movements increased sales by £296m when compared to the equivalent figures at constant 2021 rates. When measured at 2021 constant exchange rates, the Group's sales increased by 3%. There is also a £37m decrease in sales as a result of portfolio changes. Portfolio changes are calculated by taking account of the additional sales (at constant exchange rates) from acquisitions made in the current year, such as Credly and Mondly. Sales made by businesses disposed in either the current year or the prior year are also excluded, such as our international courseware local publishing businesses in Europe, French-speaking Canada, South Africa and Hong Kong. On an underlying basis, sales increased by 5% in 2022 compared to 2021.

Cost of goods sold and operating expenses

The following table summarizes the Group’s cost of sales, net operating expense and other net gains and losses:

	Year ended December 31	
	2022	2021
	£m	£m
Cost of goods sold	2,046	1,747
Operating expenses:		
Distribution costs	61	62
Selling, marketing and product development costs	564	521
Administrative and other expenses	823	802
Restructuring costs	150	214
Other income	(49)	(37)
Total net operating expenses	1,549	1,562
Other net gains	(24)	(63)
Total continuing operations	3,571	3,246

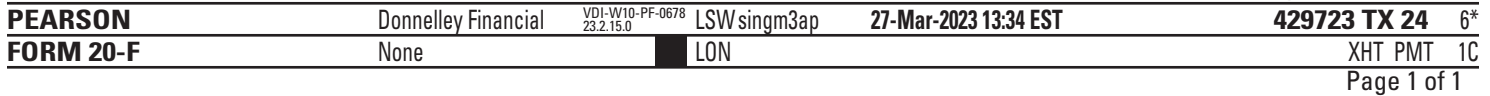
Cost of goods sold. Cost of goods sold consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs, royalty charges, the cost of service provision in the assessment and testing business and the cost of facilities in virtual schools. The Group’s cost of goods sold increased by £299m, or 17%, from £1,747m in 2021, to £2,046m in 2022. The increase is largely due to foreign exchange rate movements. On a constant exchange rate basis cost of goods sold have increased due to sales recovery in Assessment & Qualifications and English Language Learning, partially offset by sales decline in Higher Education and the absence of costs from businesses disposed. Cost of goods sold as a percentage of sales increased largely as a result of cost inflation in School Assessment and Qualifications as exams returned to normal following COVID-19, and investment in Workforce Skills. Cost of goods sold was 53.3% of sales in 2022 compared to 51.0% in 2021.

Distribution costs. Distribution costs consist primarily of shipping costs, postage and packing. Distribution costs are broadly consistent year on year.

Selling, marketing and product development costs. The Group’s selling, marketing and product development costs increased by £43m or 8% from £521m in 2021 to £564m in 2022. The increase is explained by unfavorable foreign exchange movements and inflation. As a percentage of sales, these costs decreased in 2022 from 15.2% in 2021 to 14.7% in 2022.

Administrative and other expenses. The Group’s administrative and other expenses increased by £21m or 3% from £802m in 2021 to £823m in 2022. The increase reflects the adverse impact of foreign exchange movements and inflationary increases partially offset by favorable benefits from restructuring programs.

Restructuring costs. In August 2022, the Group announced a major restructuring programme to run in 2022. The programme includes efficiencies in product and content, support costs, technology and corporate property. The restructuring costs in 2022 of £150m mainly relate to staff redundancies and impairment of right-of-use property assets. In March 2021, the Group announced a major restructuring programme, which included the reorganisation of the Group into five global business divisions and the simplification of the Group’s property portfolio. The restructuring costs in 2021 of £214m mainly related to the impairment of right of use property assets, the write-down of product development assets and severance.



Other income includes freight income and sublet income. Included in administrative and other expenses are research and efficacy costs of £10m (2021: £12m). Other operating income increased to £49m in 2022 compared to £37m in 2021.

Other net gains and losses. Other net gains and losses in 2022 relate to the gains on the disposal of our international courseware local publishing businesses in Europe, French-speaking Canada and Hong Kong and a gain arising on a decrease in the deferred consideration payable on prior year acquisitions, offset by a loss on disposal of our international courseware local publishing businesses in South Africa, due to the recycling of currency translation adjustments, and costs related to disposals and acquisitions. In 2021, other net gains and losses largely related to gains from the disposal of PIHE and the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethm and the wind down of certain strategic review businesses.

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – operating results” on page 21.

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – net finance costs” on page 23.

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – taxation” on page 23.

There were no discontinued operations in either 2022 or 2021.

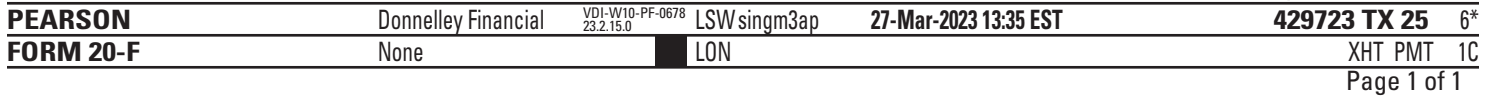
The profit for the financial year in 2022 was £244m compared to a profit in 2021 of £178m. The increase in 2022 is mainly due increased operating profits, and a reduction in net finance costs.

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – earnings per share” on page 23.

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 2 “Segment information” of the financial statements on pages 148 to 150; and



- 25

Selling, marketing and product development costs. The Group’s selling, marketing and product development costs decreased by £51m or 9% from £572m in 2020 to £521m in 2021. The decrease is explained by the absence of costs from businesses disposed, benefits from restructuring programs and favorable foreign exchange movements. As a percentage of sales, these costs decreased in 2021 from 16.8% in 2020 to 15.2% in 2021.

Administrative and other expenses. The Group’s administrative and other expenses decreased by £14m or 2% from £816m in 2020 to £802m in 2021. The decrease is primarily explained by the impact of lower intangible charges, benefits from restructuring programs and favorable foreign exchange movements, partially offset by an increase in costs as the business returned to ‘normal’ post COVID-19.

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

Other income. Other operating income mainly consists of freight recharges, sub-rights and licensing income, distribution commissions, investment income and gains on minor asset disposals together with service fee income from Penguin Random House. Other operating income decreased to £37m in 2021 compared to £45m in 2020.

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

Operating profit

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

After stripping out the effect of the portfolio changes, intangible charges, restructuring costs and the impact of currency movements, profits from trading increased by £103m or 33%. This underlying trading increase was primarily due to operating leverage on our revenue growth and cost savings, offset by inflation and investment to drive future growth. At a divisional level, you can see more normalised margins as the businesses recovered post-COVID.

Net finance costs

Net finance costs decreased by £25m from £31m in 2020 to £6m in 2021. The Group’s net interest payable reflected in adjusted earnings decreased from £61m in 2020 to £57m in 2021. The decrease is mainly due a reduction in interest payable on lease liabilities following the disposal of PIHE. In 2021, the total of items excluded from adjusted earnings was income of £51m compared to income of £30m in 2020. Net finance income relating to retirement benefits decreased from £6m in 2020 to £4m in 2021 reflecting the comparative funding position of the plans at the beginning of each year and higher prevailing discount rates. Fair value gains on investments in unlisted securities were £20m in 2021 compared to £26m in 2020. In 2021, finance income of £6m relating to the revaluation of the US K-12 disposal proceeds was recorded and there were gains on long- term interest rate hedges and foreign exchange gains on unhedged inter-company loans and cash and cash equivalents in 2021 compared to 2020.

For a more detailed discussion of the Group’s borrowings and interest expenses see “Liquidity and Capital Resources — Capital Resources” and “— Borrowings” below and “Item 11. Quantitative and Qualitative Disclosures about Market Risk”.

Taxation

The reported tax credit in 2021 was £1m (0.6%) compared to a charge of £50m (13.2%) in 2020. The principal reasons for reduction in the tax charge are the benefit received from the revaluation of deferred tax assets following the increase in the UK tax rate from 19% to 25% together with a benefit from a change in Italian tax law.

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

In February 2021, the Group received charging notices requiring payment of materially all of the alleged State Aid. Payments totalling £105m (comprising tax and interest) were made during 2021. The Group expects to recover the funds in due course.

Discontinued operations

There were no discontinued operations in either 2020 or 2021.

Profit for the year

The profit for the financial year in 2021 was £178m compared to a profit in 2020 of £330m. The decrease in 2021 is mainly due to a reduction in the operating profit as a result of the gain on sale of Penguin Random House recognized in 2020 and restructuring costs in 2021 offset by improved trading profits, reduced intangible charges and gains on the 2021 business disposals. In addition, there were higher finance costs and tax charges in 2020.

Earnings per ordinary share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 23.5p in 2021 compared to 43.7p in 2020. The decrease in 2021 is mainly due to a reduction in the operating profit as a result of the gain on sale of Penguin Random House recognized in 2020 and restructuring costs in 2021 offset by improved trading profits, reduced intangible charges and gains on the 2021 business disposals. In addition there were higher finance costs and tax charges in 2020.

The diluted earnings per ordinary share was 23.3p in 2021 and 43.7p in 2020, with the dilutive effect of options being minimal.

Sales and operating profit by segment

The following tables summarize the Group’s sales and adjusted operating profit for each of the Group’s business segments. Adjusted operating profit is included as it is the key financial measure used by management to evaluate the performance of the Group and allocate resources to business segments over time by separating out those items of income and expenditure relating to acquisitions and disposals, major restructuring programs and certain other items that are not representative of underlying performance. Reconciliations of adjusted operating profit to consolidated operating profit are included below and in note 2 within Item 18 — Financial Statements.

The Group’s adjusted operating profit, excludes other net gains and losses, amortization and impairment of acquired intangibles and the cost of major restructuring programs. The intangible charges relate only to intangible assets acquired through business combinations and intangibles relating to associates. These intangible charges are excluded as they reflect past acquisition activity and do not necessarily reflect the current year

performance of the Group. Other net gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets. Other net gains and losses also includes costs related to business closures and acquisitions. Other net gains and losses are excluded from adjusted operating profit as it is important to highlight their impact on operating profit in the period in which the transactions take place. The costs related to major restructuring programmes are excluded from adjusted operating profit as they do not necessarily reflect the current year performance of the Group.

Comparative figures for 2021 and 2020 have been restated to reflect the move between segments, resulting in £34m of sales being transferred from the Strategic Review division to the Assessment & Qualifications division in 2021 and £36m in 2020. A reconciliation of operating profit to adjusted operating profit for continuing operations is included in the tables below:

<i>all figures in £ millions</i>	Assessments & Qualifications	Virtual learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	PRH	Total
	2021							
Sales	1,238	713	238	172	849	218	—	3,428
	36%	21%	7%	5%	25%	6%	—	100%
Operating profit /(loss)	158	(41)	(15)	(10)	8	83	—	183
Cost of major restructuring	48	48	27	28	63	—	—	214
Intangible charges	13	25	3	7	2	1	—	51
Other net gains and losses	—	—	—	2	—	(65)	—	(63)
Adjusted operating profit	219	32	15	27	73	19	—	385
	2020							
Sales	1,118	692	218	163	956	250	—	3,397
	33%	20%	6%	5%	28%	8%	—	100%
Operating profit / (loss)	118	(1)	(6)	18	90	11	181	411
Cost of major restructuring	—	—	—	—	—	—	—	—
Intangible charges	29	30	7	8	3	3	—	80
Other net gains and losses	—	—	—	—	—	2	(180)	(178)
Adjusted operating profit	147	29	1	26	93	16	1	313

1. Comparative amounts have been represented to reflect the move between operating segments.

Assessment & Qualifications

Assessment & Qualifications sales increased from £1,118m in 2020 to £1,238m in 2021, an increase of £120m or 11%. The Group estimates that after excluding the impact of exchange rates and the contribution from portfolio changes, Assessment & Qualifications sales increased by 17% in 2021 compared to 2020. Professional Certification (VUE) revenue was up 19%, with OnVUE continuing to benefit from growth in the IT sector. US Student Assessment revenue was up 17% and Clinical Assessment revenue was up 30% with strong product launches in the year. Pearson VUE and Clinical Assessment revenues have now grown in comparison to 2019, showing more than post-COVID-19 recovery.

Adjusted operating profit increased 61% in underlying and 49% in headline terms due to the operating leverage on revenue growth partly offset by currency movements.

Pearson VUE revenue grew 19% in underlying terms with test volumes increasing 30% to 16.8m due to COVID-19 recovery, new client launches and growth in existing programmes. We renewed 99% of our expiring



contract base and fully resumed exam deliveries in our testing centres. Volumes in OnVUE, Pearson's online proctoring service, grew 46% to 3m reflecting continuing demand for remote testing and as a complementary expansion to our test center-based delivery options.

In US Student Assessment, revenue increased 17% in underlying terms due to new contract wins and a return to state testing in 2021, following 2020 COVID-19-related cancellations.

In Clinical Assessment, revenue increased 30% in underlying terms due to new product releases and a backlog of demand for mental health services as in-person assessments resumed and schools reopened. Revenue growth continued for our digitally delivered assessments as they have become more widely accepted.

The Assessment & Qualifications results also include intangible charges of £13m in 2021 compared to £29m in 2020 reflecting impairments made in 2020. Major restructuring costs were £48m in 2021 and £nil in 2020.

Virtual Learning

Virtual Learning sales increased from £692m in 2020 to £713m in 2021, an increase of £21m or 3%. The Group estimates that after excluding the impact of exchange rates, Virtual Learning's sales increased by 11% in 2021 compared to 2020. Revenue growth reflects strong enrolment growth in Virtual Schools in the 2020/2021 academic year, with good underlying enrolment growth in OPM.

Adjusted operating profit grew 28% in underlying terms, due to operating leverage and efficiency improvements in OPM more than offsetting the investment in our Virtual Schools' platform and customer care support, as well as margin impact in OPM due to discontinued programs. Headline profit grew 10% with good growth in adjusted operating profit partially offset by currency movements.

Virtual Schools performed strongly driven by 43% enrolment growth in new and existing schools for the 2020/2021 academic year. We opened five new full-time, online partner schools in Florida, Rhode Island, Colorado, South Carolina, and Oregon. We also announced our first Connections Academy in the state of Virginia, which begins enrolment in March 2022, one school in New Mexico moved from a partner school to district programme. This brings the 2021/2022 total number of partner schools to 47 in 30 states. Enrolments in the 2021/2022 academic year grew by 2% despite a significant unwinding of the “covid cohort”.

In OPM, we saw good underlying enrolment growth of 7% as Maryville University extended its OPM partnership for online degrees in the high-demand field of Nursing through to 2033 and Northeastern University added a new online master's degree and certificate programs in Nursing and Healthcare. We ended the year with a total of 477 programs across 31 partners with the addition of 43 new programs in North America across 21 partners, and 7 new programs internationally where underlying enrolments grew by more than 80%.

The Virtual Learning results also include intangible charges of £25m in 2021 compared to £30m in 2020 reflecting the impact of historical acquisition activity. Major restructuring costs were £48m in 2021 and £nil in 2020.

English Language Learning

English Language Learning sales increased from £218m in 2020 to £238m in 2021, an increase of £20m or 9%. The Group estimates that after excluding the impact of exchange rates, English Language Learning's sales increased by 17% in 2021 compared to 2020. Revenue growth is due to COVID-19 recovery in both International courseware and Pearson Test of English (PTE) where volumes grew 25% compared to 2020.

Adjusted operating profit increased in underlying and headline terms due to increased revenue.

The English Language Learning results also include intangible charges of £3m in 2021 compared to £7m in 2020 reflecting the impact of historical acquisition activity. Major restructuring costs were £27m in 2021 and £nil in 2020.

Workforce Skills

Workforce Skills sales increased from £163m in 2020 to £172m in 2021, an increase of £9m or 6%. The Group estimates that after excluding the impact of exchange rates and the contribution from portfolio changes, Workforce Skills sales increased by 6% in 2021 compared to 2020. This was predominantly driven by strong growth in GED and TalentLens due to a recovery from COVID-19 and further expansion of their enterprise sales. GED test volumes increased by 43%, enabled by the provision of online proctored testing, launched in June 2020, which grew by 200%. BTEC and Apprenticeship sales grew by 4%, with strong international growth partially offset by lower growth in the UK, as registrations declined as a result of COVID-19 disruption and rebates for exam cancellations continued in 2021.

Adjusted operating profit grew 8% in underlying terms, with strong flow through of sales growth operating leverage. Headline profits grew 4% with good underlying growth offset by portfolio changes.

The Workforce Skills results also include intangible charges of £7m in 2021 compared to £8m in 2020. Major restructuring costs were £28m in 2021 and £nil in 2020. Other net gains and losses in 2021 relate to the acquisition of Faethm.

Higher Education

Higher Education sales decreased from £956m in 2020 to £849m in 2021, a decrease of £107m or 11%. The Group estimates that after excluding the impact of exchange rates, Higher Education sales decreased by 5% in 2021 compared to 2020. Growth in Canadian and UK Higher Education Courseware were more than offset by a 6% decline in US Higher Education Courseware driven by a decline in enrolments and courses per enrolment combined, as well as price pressure due to the mix shift from print and bundles to e-text and platform, and lower monetisation.

Adjusted operating profit declined 15% in underlying and 22% in headline terms. This is driven by the combined effects of the revenue declines and continued investments in our content and platforms (inclusive of Pearson+).

We saw continued momentum in Inclusive Access where sales to not-for-profit institutions grew 18% representing 16% of total US Higher Education Courseware revenue versus 13% last year.

The Higher Education results also include intangible charges of £2m in 2021 compared to £3m in 2020. Major restructuring costs were £63m in 2021 and £nil in 2020.

Strategic Review

Strategic Review sales decreased from £250m in 2020 to £218m in 2021, a decrease of £32m or 13%. The Group estimates that after excluding the impact of exchange rates and the contribution from portfolio changes, Strategic Review sales increased by 2% in 2021 compared to 2020.

The Strategic Review results also include intangible charges of £1m in 2021 compared to £3m in 2020. Other net gains and losses in 2021 primarily relate to the disposals of PIHE and the K-12 Sistemas business in Brazil.

Penguin Random House

In April 2020, the Group completed the sale of the remaining 25% interest in Penguin Random House to Bertelsmann, generating net proceeds of £531m and resulting in a pre-tax profit of £180m. Dividend income of £1m was recognized in 2020 pre-disposal.

Liquidity and capital resources

Cash flows and financing

For commentary on liquidity and capital resources for the year ended December 31, 2022 compared to the year ended December 31, 2021, please refer to the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Financial Review – cash flow and working capital” on page 24;
- “Financial Review – liquidity and capital resources” on page 24; and
- Contractual obligations are included within note 18 “Borrowings” on page 177, note 19 “Financial risk management” on page 180 and note 35 “Leases” on page 199 to 200 of the financial statements.

The Group does not have any off-balance sheet arrangements, as defined by the SEC for the purposes of the Form 20-F, that have or are reasonably likely to have a material current or future effect on the Group’s financial position or results of operations.

For commentary on liquidity and capital resources the year ended December 31, 2021 compared to the year ended December 31, 2020, please refer to the following sections of our Form 20-F for the year ended December 31, 2021, which was filed on March 30, 2022:

- “Cash flows and financing” on page 40;
- “Capital resources” on page 41;
- “Contractual obligations” on page 42;
- “Off-balance sheet arrangements” on page 43; and
- “Borrowings” on page 43.

Treasury policy

The Group’s treasury policy is described in note 19 of “Item 18. Financial Statements”. For a more detailed discussion of the Group’s borrowing and use of derivatives, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk”.

Related parties

There were no significant or unusual related party transactions in 2022, 2021 or 2020. Refer to note 36 to the consolidated financial statements on page 200 of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3.

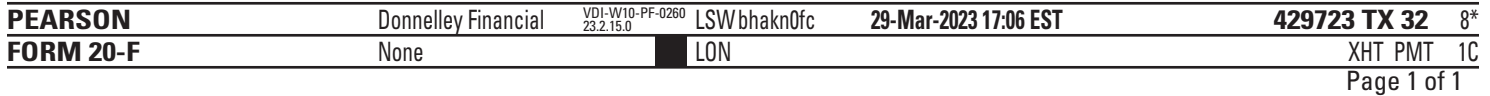
Accounting policies

For a description of the Group’s principal accounting policies used refer to note 1 to the consolidated financial statements on pages 140 to 147 of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and senior management

The Group is managed by a Board of Directors, including a Chief Executive who reports to the Board and manages through an Executive Committee. The Group refers to the Board of Directors, the Chair of the Board of



- “Board of directors” on pages 56 to 58; and
- “Pearson Executive Management (PEM)” on pages 60 to 61.

- “Directors Remuneration Report” on pages 88 to 119; and
- Note 36 “Related party transactions” of the financial statements on page 200.

- “Nomination & Governance Committee Report” on pages 74 to 77;
- “Reputation & Responsibility Committee Report” on pages 78 to 79;
- “Audit Committee Report” on pages 80 to 87; and
- “Directors’ Remuneration Report” on pages 88 to 119.



Employees

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 5 “Employee Information” of the financial statements on page 159, which shows the average number of persons employed in each of the Group’s geographical areas.

Through its subsidiaries, the Group has entered into collective bargaining agreements with employees in various locations. The Group's management has no reason to believe that it would not be able to renegotiate any such agreements on satisfactory terms. The Group encourages employees to contribute actively to the business in the context of their particular job roles and believes that the relations with its employees are generally good.

Share Ownership

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Directors Remuneration Report” on pages 88 to 119; and
- Note 26 “Share based payments” of the financial statements on page 190.

Disclosure of a registrant's action to recover erroneously awarded compensation

Not applicable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major shareholders

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- “Additional disclosures” on pages 120-124.

Related party transactions

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 12 “Investments in joint ventures and associates” of the financial statements on page 170; and
- Note 36 “Related party transactions” of the financial statements on page 200.

Interests of experts and counsel

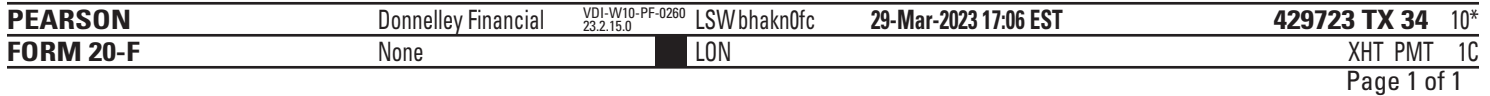
Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated financial statements and other financial information

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Consolidated financial statements on pages 134 to 200.



See “Item 4. Information on the Company — Legal Proceedings” for information with respect to legal proceedings to which the Group may be subject from time to time.

Other than those events described in note 37 in the consolidated financial statements on page 200 of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3, and seasonal fluctuations in borrowings, there has been no significant change to the Group's financial condition or results of operations since December 31, 2022. The Group's borrowings fluctuate by season due to the effect of the school year on working capital requirements. Assuming no acquisitions or disposals, the maximum level of net debt normally occurs in the third quarter, and the minimum level of net debt normally occurs in December.

The principal trading market for the Group's ordinary shares is the London Stock Exchange which trade under the symbol "PSO". Its ordinary shares also trade in the United States in the form of ADSs evidenced by ADRs under a sponsored ADR facility with The Bank of New York Mellon, as depositary. The Group established this facility in March 1995 and most recently amended it in August 2014 in connection with its New York Stock Exchange listing. Each ADS represents one ordinary share.

ITEM 10. ADDITIONAL INFORMATION

The Group summarizes below the material provisions of its articles of association, as amended (the *Articles of Association*), which have been filed as an exhibit to its annual report on Form 20-F for the year ended December 31, 2022. The summary below is qualified entirely by reference to the Articles of Association. In conformity with the the UK Companies Act 2006 (the Act), the Group has multiple business objectives and purposes and is authorized to do such things as the Board may consider fit to further its interests or incidental or conducive to the attainment of its objectives and purposes.

The Group's business shall be managed by the Board of Directors and the Board may exercise all such of its powers as are not required by law or by the Articles of Association or by any directions given by the company by special resolution, to be exercised in a general meeting.

For the purposes of section 175 of the Act, the Board may authorize any matter proposed to it which would, if not so authorized, involve a breach of duty by a Director under that section, including, without limitation, any matter which relates to a situation in which a Director has, or can have, an interest which conflicts, or possibly may conflict, with the interests of the company. Any such authorization will be effective only if:

- (a) any requirement as to quorum at the meeting at which the matter is considered is met without counting the Director in question or any other interested Director; and
- (b) the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

The Board may (whether at the time of the giving of the authorization or subsequently) make any such authorization subject to any limits or conditions it expressly imposes but such authorization is otherwise given to the fullest extent permitted. The Board may vary or terminate any such authorization at any time.

Provided that he or she has disclosed to the Board the nature and extent of his or her interest (or else that the Director is not aware of the interest or not aware of the transaction or arrangement in question, or else that the interest cannot be reasonably regarded to give rise to a conflict of interest), a Director notwithstanding his or her office:

- (a) may be a party to, or otherwise interested in, any transaction or arrangement with the company or in which the company is otherwise (directly or indirectly) interested;
- (b) may act by himself or herself or his or her firm in a professional capacity for the company (otherwise than as auditor) and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a Director;
- (c) may be a Director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, any body corporate in which the company is otherwise (directly or indirectly) interested.

A Director shall not, by reason of his or her office, be accountable to the company for any remuneration or other benefit which he or she derives from any office or employment or from any transaction or arrangement or from any interest in any body corporate:

- (a) the acceptance, entry into or existence of which has been approved by the Board (subject, in any such case, to any limits or conditions to which such approval was subject); or
- (b) which he or she is permitted to hold or enter into by virtue of paragraph (a), (b) or (c) above;

nor shall the receipt of any such remuneration or other benefit constitute a breach of his or her duty under section 176 of the Act.

A Director shall be under no duty to the company with respect to any information which he or she obtains or has obtained otherwise than as a Director of the company and in respect of which he or she owes a duty of confidentiality to another person. However, to the extent that his or her relationship with that other person gives rise to a conflict of interest or possible conflict of interest, the preceding sentence only applies if the existence of such relationship has been approved by the Board. In such circumstances, the Director shall not be in breach of the general duties he or she owes to the company by virtue of sections 171 to 177 of the Act because he or she fails:

- (a) to disclose any such information to the Board or to any Director or other officer or employee of the company; and/or
- (b) to use or apply any such information in performing his or her duties as a Director of the company.

Where the existence of a Director’s relationship with another person has been approved by the Board and his or her relationship with that person gives rise to a conflict of interest or possible conflict of interest, the Director shall not be in breach of the general duties he or she owes to the company by virtue of sections 171 to 177 of the Act because he or she:

- (a) absents himself or herself from meetings of the Board at which any matter relating to the conflict of interest or possible conflict of interest will or may be discussed or from the discussion of any such matter at a meeting or otherwise; and/or
- (b) makes arrangements not to receive documents and information relating to any matter which gives rise to the conflict of interest or possible conflict of interest sent or supplied by the company and/or for such documents and information to be received and read by a professional adviser, for so long as he or she reasonably believes such conflict of interest or possible conflict of interest subsists.

Except as stated below, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he or she has an interest which is, to his or her knowledge, a material interest, otherwise than by virtue of his or her interests in shares or debentures or other securities of or otherwise in or through the company. A Director shall not be counted in the quorum at a meeting of the Board in relation to any resolution on which he or she is debarred from voting.

Notwithstanding the foregoing, a Director will be entitled to vote, and be counted in the quorum, on any resolution concerning any of the following matters:

- the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or her or by any other person at the request of or for the benefit of the company or any of its subsidiaries;
- the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the company or any of its subsidiaries for which he himself or she herself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- any proposal relating to the company or any of its subsidiary undertakings where it is offering securities in which offer a Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which a Director is to participate;
- any proposal relating to another company in which he or she and any persons connected with him or her do not to his or her knowledge hold an interest in shares (as that term is used in sections 820 to 825 of the Act) representing one per cent or more of either any class of the equity share capital, or the voting rights, in such company;
- any proposal relating to an arrangement for the benefit of the employees of the company or any of its subsidiary undertakings which does not award him or her any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
- any proposal concerning insurance that the company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons, including Directors.

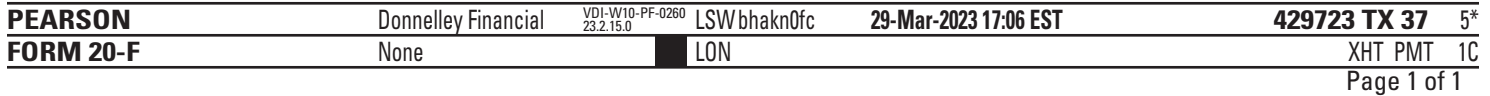
Where proposals are under consideration concerning the appointment of two or more Directors to offices or employment with us or any company in which the Group is interested, these proposals may be divided and considered separately and each of these Directors, if not prohibited from voting under the provisions of the eighth paragraph before this one, will be entitled to vote and be counted in the quorum with respect to each resolution except that concerning his or her own appointment.

Retirement and re-appointment of directors

At every annual general meeting, all the Directors at the date of the notice convening the annual general meeting shall retire from office. A retiring Director shall, if willing to act, be eligible for re-appointment. If he or she is not re-appointed, he or she shall retain office until the meeting appoints someone in his or her place, or if it does not do so, until of the end of the meeting, or until the end of the adjourned meeting if the meeting is adjourned.

Where a Director has been reappointed after notice of the annual general meeting has been given, that Director shall retire at the next annual general meeting of which notice is first given after his or her appointment as Director.

If there is an insufficient number of appointed or re-appointed Directors at any of the company’s annual general meetings thus rendering the Board inquorate, all Directors shall be automatically re-appointed only for the purposes of filling vacancies and convening general meetings of the company and to perform such duties as are appropriate to maintain the company as a going concern and to enable it to comply with its legal and



Borrowing powers

The Board of Directors may exercise all powers to borrow money and to mortgage or charge the Group's undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any of its or any third party's debts, liabilities or obligations. The Board of Directors must restrict the borrowings in order to secure that the aggregate amount of undischarged monies borrowed by the Group (and any of its subsidiaries), but excluding any intra-group debts, shall not at any time (without the previous sanction of the company in the form of an ordinary resolution) exceed a sum equal to twice the aggregate of the adjusted capital and reserves.

Other provisions relating to Directors

Under the Articles of Association, Directors are paid out of the Group's funds for their services as it may from time to time determine by ordinary resolution and, in the case of non-executive Directors, up to an aggregate of £1,000,000 per year or such other amounts as resolved by the shareholders at a general meeting. Any Director who is not an Executive Director and who performs special services which in the opinion of the Board are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of additional fee, salary, commission or otherwise as the Board may determine in accordance with the Group's remuneration policy. Under the Articles of Association, Directors currently are not required to hold any share qualification. However, the remuneration policy mandates a shareholding guideline for executive Directors which they are expected to build towards over a specified period.

General meetings

Pursuant to the Act, the company must hold an AGM (within six months beginning with the day following its accounting reference date) at a place and time determined by the Board. The following matters are usually considered at an AGM:

- approval of final dividends;
- consideration of the company's annual accounts together with associated reports of the Board of Directors and auditors;
- appointment or reappointment of Directors;
- appointment or reappointment of the auditors, and authorization for the Audit Committee to determine and fix the remuneration of the auditors, and
- renewal, limitation, extension, variation or grant of any authority to the Board in relation to the allotment and repurchase of securities.

The Board may call a general meeting whenever it thinks fit. If at any time there are not within the United Kingdom sufficient Directors capable of acting to form a quorum, any Director or any two members may convene a general meeting in the same manner as nearly as possible as that in which meetings may be convened by the Board.

No business shall be dealt with at any general meeting unless a quorum is present when the meeting proceeds to business. Three members present in person or by proxy and entitled to vote shall be a quorum for all purposes. A corporation being a member shall be deemed to be personally present if represented by its duly authorized representative.

If a quorum for a meeting convened at the request of shareholders is not present within fifteen minutes of the appointed time (or if during a meeting such a quorum ceases to be present), the meeting will be dissolved. In any other case, the general meeting will be adjourned to such time and with such means of attendance and participation as the chair of the meeting may determine. If at that rescheduled meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting, the shareholders present in person or by proxy will be a quorum. The chair or, in his or her absence, the deputy chair or any other Director nominated by the Board, will preside as chair at every general meeting. If no Director is present at the general meeting or no Director consents to act as chair, the shareholders present shall elect one of their number to be chair of the meeting.

The Board may resolve to enable persons entitled to attend and participate in a general meeting to do so by simultaneous attendance and participation by means of electronic facility or facilities and determine the means, or all different means, of attendance and participation used in relation to a general meeting. The members present in person or by proxy by means of electronic facility or facilities shall be counted in the quorum for, and entitled to participate in the general meeting in question. That meeting shall be duly constituted and its proceedings valid if the chair of the meeting is satisfied that adequate facilities are available throughout the meeting to ensure that members attending the meeting by all means (including by means of electronic facility or facilities) are able to:

- (a) participate in the business for which the meeting has been convened;
- (b) hear all persons who speak at the meeting; and
- (c) be heard by all persons present at the meeting.

A member seeking to be present in person or by proxy at a general meeting by means of electronic facility or facilities is responsible for ensuring they have access to and can use the facility or facilities. The meeting shall be duly constituted and its proceedings valid notwithstanding the inability of the member to gain access to use the facility or facilities, or the loss of access to or use of the facility or facilities during the meeting.

Share Certificates

Every person whose name is entered as a member in the company’s Register of Members shall be entitled to one certificate in respect of each class of shares held (the law regarding this does not apply to stock exchange nominees). Subject to the terms of issue of the shares, certificates are issued following allotment or receipt of the relevant transfer by the Group’s registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom.

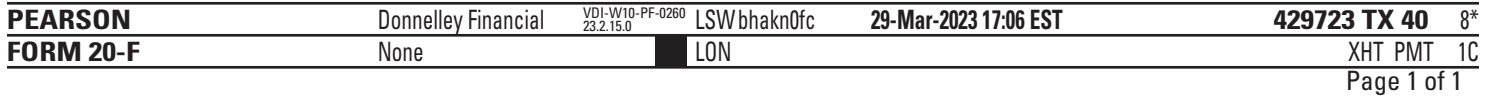
Share capital

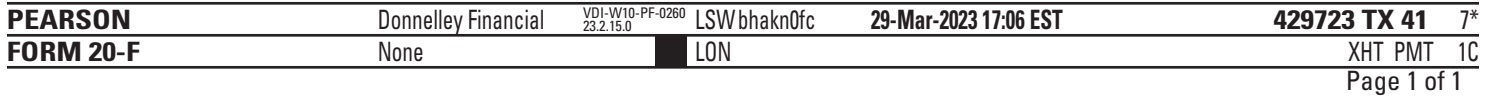
Any share may be issued with such preferred, deferred or other special rights or other restrictions as may be determined by way of a shareholders’ vote in general meeting. Subject to the Act, any shares may be issued which are to be redeemed or are liable to be redeemed at the option of the company or the shareholders.

There are no provisions in the Articles of Association which discriminate against any existing or prospective shareholder as a result of such shareholder owning a substantial number of shares.

Subject to the terms of the shares which have been issued, the Directors may from time to time make calls upon the shareholders in respect of any moneys unpaid on their shares, provided that (subject to the terms of the shares so issued) no call on any share shall be payable at less than fourteen clear days from the last call. The Directors may, if they see fit, receive from any shareholder willing to advance the same, all and any part of the moneys uncalled and unpaid upon any shares held by him or her.







Executive employment contracts

It is the Group's policy that it may terminate the Executive Directors' service agreements by giving no more than 12 months' notice. As an alternative, the Group may at its discretion pay in lieu of that notice. Payment-in-lieu of notice may be made in equal monthly installments from the date of termination to the end of any unexpired notice period. In the case of Executive Directors, payment-in-lieu of notice in installments may also be subject to mitigation and reduced taking into account earnings from alternative employment. For Executive Directors, pay in lieu of notice comprises 100% of the annual salary at the date of termination and the annual cost to the company of providing pension and all other benefits. The Group may, depending on the circumstances of the termination, determine that it will not pay the Director in lieu of notice and may instead terminate a Director's contract in breach and make a damages payment, taking into account as appropriate the Director's ability to mitigate their loss.

Exchange controls

There are no UK government laws, decrees, regulations or other legislation which restrict or which may affect the import or export of capital, including the availability of cash and cash equivalents for use by us or the remittance of dividends, interest or other payments to nonresident holders of the Group's securities, except as otherwise described under "— Tax Considerations" below.

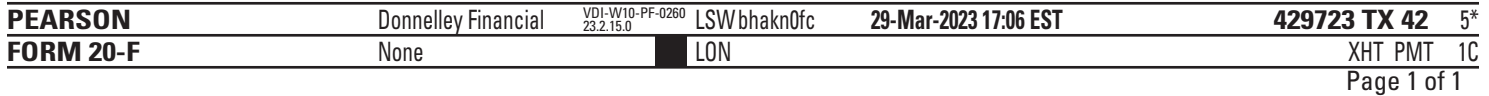
Tax considerations

The following is a discussion of the material US federal income tax considerations and UK tax considerations arising from the acquisition, ownership and disposition of ordinary shares and ADSs by a US holder. A US holder is:

- an individual citizen or resident of the US, or
- a corporation created or organized in or under the laws of the US or any of its political subdivisions, or
- an estate or trust the income of which is subject to US federal income taxation regardless of its source.

This discussion deals only with ordinary shares and ADSs that are held as capital assets by a US holder, and does not address tax considerations applicable to US holders that may be subject to special tax rules, such as:

- dealers or traders in securities or currencies,
- financial institutions or other US holders that treat income in respect of the ordinary shares or ADSs as financial services income,
- insurance companies,
- tax-exempt entities,
- persons acquiring shares or ADSs in connection with employment,
- US holders that hold the ordinary shares or ADSs as a part of a straddle or conversion transaction or other arrangement involving more than one position,
- US holders that own, or are deemed for US tax purposes to own, 10% or more of the total combined voting power of all classes of the Group's voting stock,



- For US federal income tax purposes, holders of ADSs will be treated as the owners of the ordinary shares represented by those ADSs. In practice, HM Revenue & Customs (HMRC) will also regard holders of ADSs as the beneficial owners of the ordinary shares represented by those ADSs, although case law has cast some doubt on this. The discussion below assumes that HMRC's position is followed.

In addition, the following discussion assumes that The Bank of New York Mellon will perform its obligations as depositary in accordance with the terms of the depositary agreement and any related agreements.

Because US and UK tax consequences may differ from one holder to the next, the discussion set out below does not purport to describe all of the tax considerations that may be relevant to you and your particular situation. Accordingly, you are advised to consult your own tax advisor as to the US federal, state and local, UK and other, including foreign, tax consequences of investing in the ordinary shares or ADSs. Except where otherwise indicated, the statements of US and UK tax law set out below are based on the laws, interpretations and tax authority practice in force or applicable as of February 28, 2022 and are subject to any changes occurring after that date, possibly with retroactive effect.

UK income taxation of distributions

The UK does not impose dividend withholding tax on dividends paid by the company.

A US holder that is not resident in the UK for UK tax purposes and does not carry on a trade, profession or vocation in the UK through a branch or agency (or in the case of a company a permanent establishment) to which the ordinary shares or ADSs are attributable will not generally be liable to pay UK tax on dividends paid by the company.

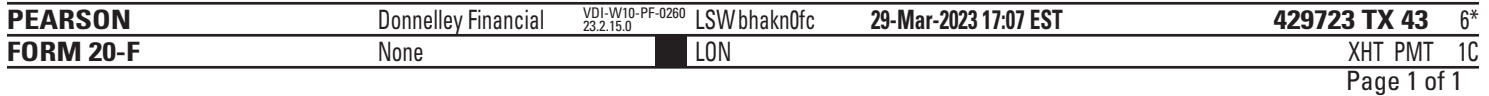
US income taxation of distributions

Distributions that the Group makes with respect to the ordinary shares or ADSs, other than distributions in liquidation and distributions in redemption of stock that are treated as exchanges, will be taxed to US holders as ordinary dividend income to the extent that the distributions do not exceed the Group's current and accumulated earnings and profits. The amount of any distribution will equal the amount of the cash distribution. Distributions, if any, in excess of the Group's current and accumulated earnings and profits will constitute a non-taxable return of capital to a US holder and will be applied against and reduce the US holder's tax basis in its ordinary shares or ADSs. To the extent that these distributions exceed the tax basis of the US holder in its ordinary shares or ADSs, the excess generally will be treated as capital gain.

Dividends that the Group pays will not be eligible for the dividends received deduction generally allowed to US corporations under Section 243 of the Code.

In the case of distributions in pounds sterling, the amount of the distributions generally will equal the US dollar value of the pounds sterling distributed, determined by reference to the spot currency exchange rate on the date of receipt of the distribution by the US holder in the case of shares or by The Bank of New York Mellon in the case of ADSs, regardless of whether the US holder reports income on a cash basis or an accrual basis. The US holder will realize separate foreign currency gain or loss only to the extent that this gain or loss arises on the actual disposition of pounds sterling received. For US holders claiming tax credits on a cash basis, taxes withheld from the distribution are translated into US dollars at the spot rate on the date of the distribution; for US holders claiming tax credits on an accrual basis, taxes withheld from the distribution are translated into US dollars at the average rate for the taxable year.

A distribution by the company to non-corporate shareholders will be taxed as net capital gain at a maximum rate of 20%, provided certain holding periods are met, to the extent such distribution is treated as a dividend



UK taxation of capital gains

A US holder who is an individual who has been resident for tax purposes in the UK but who ceases to be so resident or becomes regarded as resident outside the UK for the purposes of any double tax treaty (“Treaty Non-resident”) and continues to not be resident in the UK, or continues to be Treaty Non-resident, for a period of five years or less and who disposes of his ordinary shares or ADSs during that period may also be liable on his return to the UK to UK tax on capital gains, subject to any available exemption or relief, even though he or she is not resident in the UK, or is Treaty Non-resident, at the time of the disposal.

US income taxation of capital gains

Gain or loss realized by a US holder on the sale or exchange of ordinary shares or ADSs generally will be treated as US-source gain or loss for US foreign tax credit purposes.

Estate and gift tax

The current Estate and Gift Tax Convention (referred to in this paragraph as the “Convention”), between the US and the UK generally relieves from UK inheritance tax (the equivalent of US estate and gift tax) the transfer of ordinary shares or of ADSs where the transferor is domiciled in the US for the purposes of the Convention. This relief will not apply if the ordinary shares or ADSs are part of the business property of an individual’s permanent establishment in the UK or pertain to the fixed base in the UK of a person providing independent personal services. If no relief is given under the Convention, inheritance tax may be charged on death and also on the amount by which the value of an individual’s estate is reduced as a result of any transfer made by way of gift or other gratuitous or undervalue transfer, in general within seven years of death, and in certain other circumstances. In the unusual case where ordinary shares or ADSs are subject to both UK inheritance tax and US estate or gift tax, the Convention generally provides for tax paid in the UK to be credited against tax payable in the US or for tax paid in the US to be credited against tax payable in the UK based on priority rules set forth in the Convention.

Stamp duty

No stamp duty or stamp duty reserve tax (SDRT) will generally be payable in the UK on the purchase or transfer of an ADS, provided that the ADS, and any separate instrument or written agreement of transfer, remain at all times outside the UK and that the instrument or written agreement of transfer is not executed in the UK. Subject to the following paragraph, UK legislation does however provide for SDRT or (in the case of transfers) stamp duty to be chargeable at the rate of 1.5% of the amount or value of the consideration or, in some circumstances, the value of the ordinary shares (rounded up to the next multiple of £5 in the case of stamp duty),

where ordinary shares are issued or transferred to a person whose business is or includes issuing depositary receipts, or to a nominee or agent for such a person, or issued or transferred to a person whose business is or includes the provision of clearance services or to a nominee or agent for such a person.

Following certain EU litigation, HM Revenue & Customs (HMRC) accepted that it would no longer seek to apply the 1.5% SDRT charge when new shares are issued to a clearance service or depositary receipt system (or transferred into a clearance service or depositary receipt system, where such transfer is integral to the raising of capital by the company concerned) on the basis that the charge was not compatible with EU law. Following the UK’s departure from the EU, such pre-existing EU law rights, recognized in litigation, were preserved as a domestic law matter following the end of the implementation period on December 31, 2020 pursuant to provisions of the UK European Union (Withdrawal) Act 2018. HMRC’s view is that the 1.5% SDRT or stamp duty charge will continue to apply to transfers of shares into a clearance service or depositary receipt system, unless they are an integral part of an issue of share capital. In addition, on 22 September 2022 the UK government introduced to the House of Commons the Retained EU Law (Revocation and Reform) Bill which, if enacted without relevant amendment, would have the effect that such pre-existing EU law rights, recognized in litigation, would by default (that is, absent the exercise of a regulation-making power to restate or reproduce such rights in domestic law) cease to be recognized after 31 December 2023; and in that eventuality, such pre-existing EU law rights would cease to restrict the application of the rules providing for the 1.5% SDRT or stamp duty charge. The Bill passed its third reading in the House of Commons on 18 January 2023, and was introduced to the House of Lords on 19 January 2023. Specific professional advice should be sought before paying the 1.5% SDRT or stamp duty charge in any circumstances.

A transfer for value of the underlying ordinary shares will generally be subject to either stamp duty or SDRT, normally at the rate of 0.5% of the amount or value of the consideration (rounded up to the next multiple of £5 in the case of stamp duty). A transfer of ordinary shares from a nominee to its beneficial owner, including the transfer of underlying ordinary shares from the Depositary to an ADS holder, under which no beneficial interest passes will not be subject to stamp duty or SDRT.

Close company status

The Group believes that the close company provisions of the UK Corporation Tax Act 2010 do not apply to it.

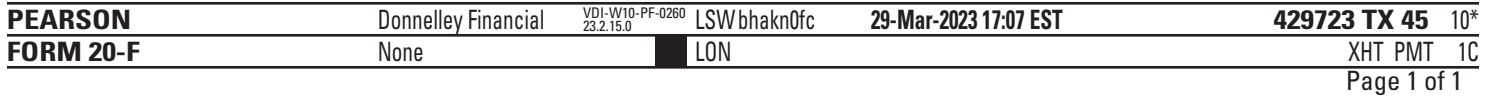
Documents on display

Copies of the Group’s Memorandum and Articles of Association are filed as exhibits to this Annual Report. We also file reports and other information with the SEC. These materials, including this Annual Report and the accompanying exhibits are available on the Investors page of the company’s website (pearsonplc.com). In addition, shareholders may request a copy of certain documents referred to in this Annual Report by writing to us at the following address: Pearson plc, c/o the Company Secretary, 80 Strand, London WC2R 0RL.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 19 “Financial risk management” of the financial statements on pages 178 to 180;
- Note 14 “Classification of financial instruments” of the financial statements on pages 172 to 173; and
- Note 16 “Derivative financial instruments and hedge accounting” of the financial statements on pages 174 to 176.



AMERICAN DEPOSITARY SHARES

The Group's ordinary shares trade in the form of ADSs evidenced by ADRs under a sponsored ADR facility with The Bank of New York Mellon, as depositary. Each ADS represents one ordinary share.

The following information on ADSs is filed as Exhibit 3.1 to this Form 20-F:

- Any procedure for voting the deposited securities;
- The procedure for collecting and distributing dividends;
- The sale or exercise of rights;
- The deposit or sale of securities resulting from dividends, splits or plans of reorganization;
- Amendment, extension or termination of the deposit arrangements;
- Any restrictions on the right to transfer or withdraw the underlying securities; and
- Any limitation on the depositary's liability.

The principal executive office of The Bank of New York Mellon is located at 240 Greenwich Street, New York, NY 10286.

Fees paid by ADR holders

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal, or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

The following table summarizes various fees currently charged by The Bank of New York Mellon:

Person depositing or withdrawing shares must pay to the depositary: \$ 5.00 (or less) per 100 ADSs (or portion of 100 ADSs) \$.05 (or less) per ADS A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs \$.05 (or less) per ADS per calendar year Registration of transfer fees Expenses of the depositary	For: • Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property • Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates • Any cash distribution to ADS registered holders • Distribution of securities by the depositary to ADS registered holders of deposited securities • Depositary services • Transfer and registration of shares on the share register to or from the name of the depositary or its agent when shares are deposited or withdrawn • Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Person depositing or withdrawing shares must pay to the depositary:

For:

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

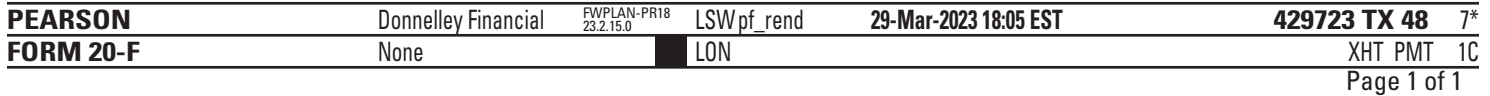
- Converting foreign currency to US dollars
- As necessary
- As necessary

Fees incurred in past annual period and fees to be paid in the future

The Depositary reimburses the company for certain expenses it incurs in relation to the ADS program. The Depositary also pays the standard out-of-pocket maintenance costs for the registered ADSs, which consist of the expenses for the mailing and printing of proxy materials, distributing dividend checks, electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It also reimburses the company for certain investor relationship programs or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depositary collects from investors. The company received \$50,000 as reimbursement from the depositary for 2022.



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During the period covered by this Annual Report on Form 20-F, the Group made some acquisitions and disposals, and in some cases, this impacted the control environment. In addition, as noted above, actions were taken to remediate the identified material weakness. Other than this, there have been no significant changes in our internal control over financial reporting during the year ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The members of the Board of Directors of Pearson plc have determined that Graeme Pitkethly is an audit committee financial expert within the meaning of the applicable rules and regulations of the SEC.

Pearson has adopted a code of ethics (the Pearson code of conduct) which applies to all employees including the chief executive officer and chief financial officer and other senior financial management. This code of ethics is available on the Group's website (www.pearson.com/corporate/code-of-conduct.html). The information on this website is not incorporated by reference into this report.

In line with best practice, the Group's relationship with Ernst & Young LLP (EY) is governed by its external auditor policy, which is reviewed and approved annually by the audit committee. The policy establishes procedures to ensure the auditors' independence is not compromised as well as defining those non-audit services that EY may or may not provide to Pearson. These allowable services are in accordance with relevant UK and US legislation.

The audit committee approves all audit and non-audit services provided by EY, unless clearly trivial. Where appropriate, services will be tendered prior to awarding this work to the auditor.

For details of the remuneration paid to the external auditors, which were EY for 2022 and PwC for 2021, see the information set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 4 “Operating expenses” of the financial statements on page 158.

No fees were incurred in relation to taxation, including tax compliance, tax advice and tax planning.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

Period	Total number of shares purchased	Average price paid per share	Total number of units purchased as part of publicly announced plans or programs	Approximate maximum value of shares that may yet be purchased under the plans or programs
April 1, 2022 – April 30, 2022	11,176,349	£ 7.77	9,885,524	£ 275m
May 1, 2022 – May 31 2022	4,518,993	£ 7.55	4,518,993	£ 241m
June 1, 2022 – June 30, 2022	7,203,444	£ 7.52	5,363,132	£ 201m
July 1, 2022 – July 31, 2022	2,897,074	£ 7.57	2,897,074	£ 179m
August 1, 2022 – August 31 2022	2,567,366	£ 8.75	2,567,366	£ 156m
September 1, 2022 – September 30, 2022	5,496,817	£ 8.91	5,496,817	£ 107m
October 1, 2022 – October 31, 2022	6,315,733	£ 9.03	6,315,733	£ 50m
November 1, 2022 – November 30, 2022	3,017,726	£ 9.72	3,017,726	£ 21m
December 1, 2022 – December 31, 2022	3,587,362	£ 9.46	2,205,695	n/a

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. During the year, all of the shares were bought back and cancelled at a cost of £353m. The nominal value of these shares, £10m, was transferred to the capital redemption reserve, and the remainder of the cost is recorded within retained earnings. In 2021, no shares were bought back.

All purchases were made in open-market transactions in London in accordance with applicable law. Pearson did not structure such purchases to fall within the safe harbor provisions of the U.S. SEC’s Rule 10b-18.

ITEM 16F.CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

The Board of Directors is responsible for proposing the external auditor for election by the shareholders, on recommendation from the Audit Committee of the Board of Directors. Under applicable auditor rotation rules, Pearson was required to change auditors from its previous auditor, PricewaterhouseCoopers LLP (PwC), no later than for the financial year 2024. In March 2021, Pearson initiated a tendering process, overseen by the Audit Committee, for appointment of Pearson plc’s auditor for the financial year 2022. PwC was not invited to tender given their tenure. Following a detailed review of the performance of each firm during the tender process, the Steering Committee, led by members of the Audit Committee, recommended Ernst & Young LLP (EY) as the preferred candidate. In accordance with statutory requirements, a report on the tender selection procedure and conclusions was prepared and validated by the Audit Committee. On June 9, 2021, the Audit Committee and subsequently the Board approved the recommendation to appoint EY and to dismiss PwC at the 2022 AGM following completion by PwC of its procedures on the financial statements of Pearson plc as of and for the year ended December 31, 2021 and the filing of the related Form 20-F, which was filed on March 30, 2022. On June 9, 2021, the Company announced the Board’s intention to propose to shareholders at the 2022 AGM that EY be appointed as the Company’s statutory auditor for the financial year ending 31 December 2022. EY were subsequently appointed as the Company’s statutory auditor at the 2022 AGM.

As previously reported in the Company’s Form 20-F for the year ended December 31, 2021, the reports of PwC on the financial statements for the fiscal years ended December 31, 2021 and 2020 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. During the fiscal years ended December 31, 2020 and 2019 and the subsequent period through to 30 March 2022 there were no disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements if not resolved to the satisfaction of PwC would have caused them to make reference thereto in their reports on the financial statements for such years.

During the fiscal years ended December 31, 2021 and 2020 and the subsequent period through the engagement of EY at the 2022 AGM, we did not consult EY regarding (a) the application of accounting principles to a specific completed or proposed transaction, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither was a written report or oral advice provided to the Company by EY that EY concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue, or (b) any matter that was the subject of a disagreement, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F (and the related instructions thereto) or a reportable event as set forth in Item 16F(a)(1)(v) of Form 20-F.

ITEM 16G.CORPORATE GOVERNANCE

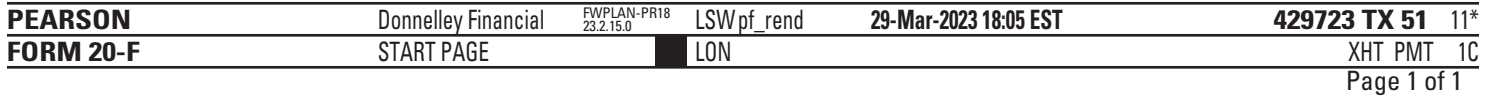
Pearson is listed on the New York Stock Exchange (“NYSE”). As a listed non-US issuer, the Group is required to comply with some of the NYSE’s corporate governance rules, and otherwise must disclose on its website any significant ways in which its corporate governance practices differ from those followed by US companies under the NYSE listing standards. At this time, the Company believes that it is in compliance in all material respects with all the NYSE rules except that the Nomination & Governance Committee is not composed entirely of independent directors as the Chair, who is not considered independent under NYSE rules, is a member of this committee in addition to independent directors.

ITEM 16H.MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I.DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

**ITEM 17. FINANCIAL STATEMENTS**

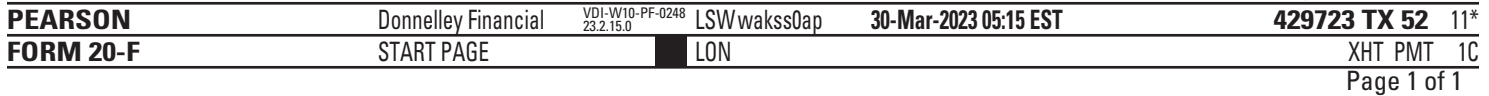
Not applicable.

ITEM 18. FINANCIAL STATEMENTS

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Consolidated Income Statement for the years ended December 31, 2022, 2021 and 2020 on page 134;
- Consolidated Statement of Comprehensive Income for the years ended December 31, 2022, 2021 and 2020 on page 135;
- Consolidated Balance Sheet as at December 31, 2022 and 2021 on pages 136 to 137;
- Consolidated Statement of Changes in Equity for the years ended December 31, 2022, 2021 and 2020 on page 138;
- Consolidated Cash Flow Statement for the years ended December 31, 2022, 2021 and 2020 on page 139; and
- Notes to the Consolidated Financial Statements on pages 140 to 200.

In 2022, an error was identified related to the Group’s accounting for certain investments in unlisted securities. Investments that should have been accounted for at fair value through profit and loss were previously accounted for at fair value through other comprehensive income. Having assessed both the quantitative and qualitative factors, management determined that the error did not have a material impact on its previously issued consolidated financial statements. The Group has corrected its accounting for these investments in the current year and the comparative financial statement line items and related disclosures have also been revised to reflect the change in accounting treatment. All impacted primary statements and related notes have been revised. See note 1b to the Consolidated Financial Statements in the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3, for further details about the impact of the revision.



To the Shareholders and the Board of Directors of Pearson plc

We have audited Pearson plc's (the 'Group's') internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Group as at December 31, 2022, and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended December 31, 2022, and the related notes of the Group and our report dated March 31, 2023 expressed an unqualified opinion thereon.

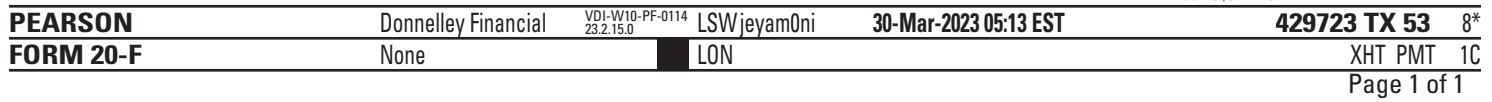
The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

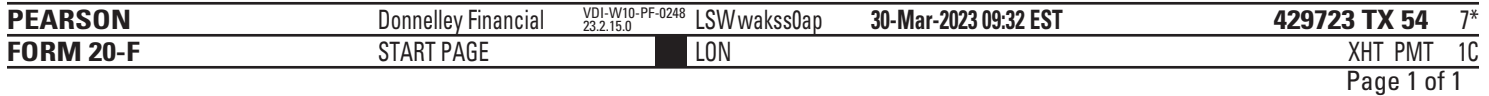
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that



controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
London, United Kingdom
March 31, 2023



To the Shareholders and the Board of Directors of Pearson plc

We have audited the accompanying consolidated balance sheet of Pearson plc (the Company) as of December 31, 2022 and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended December 31, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 31, 2023 expressed an unqualified opinion thereon.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Description of the Matter As described in Note 30 to the consolidated financial statements, the Company acquired Credly and Mondly during 2022 for total consideration of £285 million. The fair value determination of the acquired technology intangible assets required management to make estimates and significant assumptions regarding discount rates, revenue growth rates, and profit margins. In addition, the fair value determination of the acquired Credly customer relationships included customer churn rate assumptions in the future cash flows. The technology intangible assets and customer relationships were valued using an income-based approach. These assumptions are forward-looking and could be affected by future market and economic conditions.

Auditing management’s accounting for the acquisitions was complex due to the significant estimation uncertainty in the Company’s determination of the fair value of the acquired Credly customer relationships and technology intangible assets and Mondly technology intangible assets, which in aggregate were assigned a fair value of £99 million. The significant estimation uncertainty was primarily due to the sensitivity of the underlying revenue growth rates, profitability and discount rates used in valuing the technology intangible assets and the additional customer churn rates for valuing the customer relationships assets.

How We Addressed
the Matter in Our
Audit

To test the estimated fair value of the intangible assets described above, our audit procedures included, among others, assessing the fair value methodology used by the Company and evaluating the significant assumptions therein. For example, we involved valuation specialists to assist with our evaluation of the methodologies used by the Company. The valuation specialists also assisted with our evaluation of the discount rates, by comparing them to their independently calculated rates. For the technology intangible assets, we compared the revenue growth rates and profitability to historical performance of both the Company and the acquiree, underlying contractual terms, and peer companies. We performed a similar analysis of customer churn rates, for purposes of assessing the valuation of the customer relationships. In addition, we tested the completeness and accuracy of the underlying data used by the Company in its analyses.

Uncertain tax position for EU State Aid case

Description of the
Matter

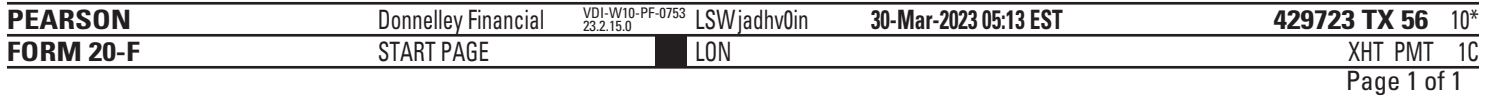
As described in Notes 7 and 34 to the consolidated financial statements, the Company has recorded a provision related to the uncertain tax position for the EU State Aid case. As of December 31, 2022 the total exposure in relation to the EU State Aid case is calculated to be £105 million (excluding interest) and at December 31, 2022, management estimates the expected value of the provision to be £63 million, which has been provided for in 2022, through a reduction in the related non-current asset. The Company uses significant judgement in assessing the timing of and need for the recognition of the provision, including potential outcomes related to the exposure, following the dismissal of the first appeal by the EU General Court in 2022. The Company used the expected value approach to assess the wide range of possible outcomes.

Auditing management’s measurement of this uncertain tax position involved complex analysis and auditor judgement because management’s estimated range of possible outcomes related to the exposure is complex, requires a high degree of judgement and is based on interpretations of tax laws and legal rulings.

How We Addressed
the Matter in Our
Audit

To test the EU State Aid case uncertain tax position, our audit procedures included, among others, assessing the application of the expected value approach methodology used by the Company in evaluating the range of possible outcomes. We involved tax professionals with specialized knowledge in state aid matters to assist with our evaluation of the Company’s assessment of the range of possible outcomes related to the exposure. These tax professionals were also involved to assist in our evaluation of the methodology used by the Company considering the degree of uncertainty. Additionally, we evaluated the potential outcomes included in the Company’s calculation and the probabilities assigned to each outcome compared to other companies with state aid and state aid related legal rulings. We also inspected correspondence to the Company from both the tax authorities and the Company’s external legal counsel. In addition, we tested the completeness and accuracy of the underlying data used to estimate the amount of the provision recorded.

/s/ Ernst & Young LLP
We have served as the Company’s auditor since 2022.
London, United Kingdom
March 31, 2023



To the Board of Directors and Shareholders of Pearson plc

Opinion on the Financial Statements

We have audited the consolidated balance sheet of Pearson plc and its subsidiaries (the “Group”) as of 31 December 2021 and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the two years in the period ended 31 December 2021, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2021 and the results of its operations and its cash flows for each of the two years in the period ended 31 December 2021 in accordance with (i) International Financial Reporting Standards as issued by the International Accounting Standards Board and (ii) UK-adopted International Accounting Standards.

Basis for Opinion

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP
London, United Kingdom

30 March 2022, except for the effects of the revision discussed in note 1b and the change in composition of reportable segments discussed in note 2 to the consolidated financial statements, as to which the date is 31 March 2023

We served as the Group's auditor from 1996 to 2022.

ITEM 19.EXHIBITS

1.1	Articles of Association of Pearson plc.φ
2.1	Trust Deed dated May 6, 2015 between Pearson Funding Five plc, as the Issuer, Pearson plc, Guarantor, and The Law Debenture Trust Corporation P.L.C, as trustee.λ
2.2	Trust Deed dated June 4, 2020 between Pearson Funding plc, as the Issuer, Pearson plc, Guarantor, and The Law Debenture Trust Corporation P.L.C, as trustee.η
3.1	Description of securities of Pearson plc.
8.1	List of Significant Subsidiaries.
12.1	Certification of Chief Executive Officer.
12.2	Certification of Chief Financial Officer.
13.1	Certification of Chief Executive Officer.
13.2	Certification of Chief Financial Officer.
15.1	Consent of Ernst & Young LLP.
15.2	Consent of PricewaterhouseCoopers LLP.
15.3	Pearson Annual Report and Accounts 2022.*
101	Inline Interactive Data File
101.INS	Inline XBRL Instance Document — The instance document does not appear in the Interactive Date File because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the inline XBRL document).

φ

Incorporated by reference from the Form 20-F of Pearson plc for the year ended December 31, 2021 and filed March 30, 2022.

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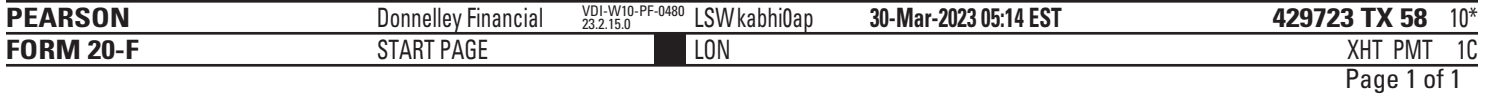
Incorporated by reference from the Form 20-F of Pearson plc for the year ended December 31, 2015 and filed March 23, 2016.

η

Incorporated by reference from the Form 20-F of Pearson plc for the year ended December 31, 2020 and filed April 1, 2021.

*

Certain of the information included within Exhibit 15.3, which is provided pursuant to Rule 12b-23(a)(3) of the Securities Exchange Act of 1934, as amended, is incorporated by reference in this Form 20-F, as specified elsewhere in this Form 20-F. With the exception of the items and pages so specified, the Pearson Annual Report and Accounts 2022 is not deemed to be filed as part of this Form 20-F.

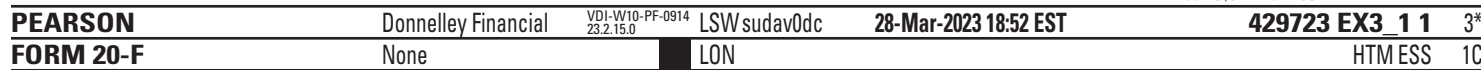


The registrant hereby certifies that it meets the requirements for filing a Form 20-F and that it has caused and authorized the undersigned for sign this annual report on its behalf.

/s/ Sally Johnson

Sally Johnson
Chief Financial Officer

Date: March 31, 2023



The following description sets forth certain material terms and provisions of the securities of Pearson plc (“Pearson”, the “Company”, “we”, “us”, and “our”) that are registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Act”).

Our securities include (a) ordinary shares of par value £0.25 each, and (b) American Depositary Shares (the “ADSs”), each representing one ordinary share, nominal value £0.25 per ordinary share. Our ordinary shares are listed on the London Stock Exchange and are registered under the Act, not for trading, but only in connection with the listing of the ADSs, which are listed on the New York Stock Exchange and are held by The Bank of New York Mellon as depositary.

The following is a description of the rights of the holders of our ordinary shares as specified in our Articles of Association (“Articles”), as amended, which have been filed as an exhibit to our annual report on Form 20-F of which this Exhibit 3.1 is a part. The following description of our ordinary shares is a summary and does not purport to be complete.

Every holder of our ordinary shares present in person or by proxy at a meeting of shareholders, as defined in our Articles, has one vote on a vote taken by a show of hands. On a poll, every holder of our ordinary shares who is present in person or by proxy has one vote for every ordinary share of which he or she is the holder. Voting at any meeting of shareholders is usually on a poll rather than by show of hands. Voting on a poll is more transparent and equitable because it includes the votes of all shareholders, including those cast by proxies, rather than just the votes of those shareholders who attend the meeting. A poll may be also demanded by:

- the chair of the meeting;
- at least three shareholders present in person or by proxy and entitled to vote;
- any shareholder or shareholders present in person or by proxy representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting (excluding any voting rights attached to any shares held as treasury shares); or
- any shareholder or shareholders present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which the aggregate sum paid up is equal to not less than one-tenth of the total sum paid up on all shares conferring that right (excluding any shares conferring a right to vote on the resolution which are held as treasury shares).

Holders of our ordinary shares are entitled to receive dividends out of our profits that are available by law for distribution, as we may declare by ordinary resolution, subject to the terms of issue thereof. However, no dividends may be declared in excess of an amount recommended by the board of directors (the “board”). The board may pay interim dividends on the shares of any class as it deems fit. It may invest or otherwise use all dividends left unclaimed for six months after having been declared for its benefit, until claimed. Any dividend, or any amount treated as an unclaimed dividend pursuant to the company’s Articles, or any other monies payable in respect of a share, shall be forfeited and revert to, and cease to remain owing by, the company if either the dividend, amount or monies has or have remained unclaimed for a period of eight years after having been declared and the Board so resolves, or the share in respect of which the dividend, amount or other monies is or are payable is sold pursuant to the company’s Articles, whichever is the first to occur.

Our board may, with the sanction of an ordinary resolution of the shareholders, offer any holders of our ordinary shares the right to elect to receive ordinary shares credited as fully paid, in whole or in part, instead of cash in respect of such dividend.



Our board may deduct from any dividend payable to any shareholder all sums of money (if any) presently payable by that shareholder to us on account of calls or otherwise in relation to its shares.

Liquidation rights

In the event of our liquidation, after payment of all liabilities, our remaining assets would be used to repay the holders of our ordinary shares the amount they paid for their ordinary shares. Any balance would be divided among the holders of our ordinary shares in proportion to the nominal amount of the ordinary shares held by them.

Other provisions of the Articles of Association

Whenever our capital is divided into different classes of shares, the special rights attached to any class may, unless otherwise provided by the terms of the issue of the shares of that class, be varied or abrogated, either with the written consent of the holders of three-fourths of the issued shares of the class (excluding any issued as treasury shares) or with the sanction of a special resolution passed at a separate meeting of these holders. In the event that a shareholder or other person appearing to the board to be interested in ordinary shares fails to comply with a notice requiring him or her to provide information with respect to their interest in voting shares pursuant to section 793 of the Companies Act 2006, the board may serve that shareholder with a notice of default. After service of a default notice, that shareholder shall not be entitled to attend or vote at any general meeting or at a separate meeting of holders of a class of shares or on a poll until he or she has complied in full with our information request.

If the shares described in the default notice represent at least one-fourth of 1% in nominal value of our issued ordinary shares (excluding any shares of that class held as treasury shares), then the default notice may additionally direct that in respect of those shares:

- we will not pay dividends (or issue shares in lieu of dividends); and
- we will not register transfers of shares unless: (A) the shareholder is not in default as regards supplying the information requested and the transfer, when presented for registration, is in such form as the board may require to the effect that after due and careful inquiry, the shareholder is satisfied that no person in default is interested in any of the ordinary shares which are being transferred; (B) the transfer is an approved transfer as defined in the our Articles; or (C) registration of the transfer is required by the Regulations.

No provision of the Articles expressly governs the ordinary share ownership threshold above which shareholder ownership must be disclosed. Under the Disclosure and Transparency Rules of the Financial Conduct Authority, any person who acquires, either alone or, in specified circumstances, with others an interest in our voting share capital equal to or in excess of 3% comes under an obligation to disclose prescribed particulars to us in respect of those ordinary shares. A disclosure obligation also arises where a person's notifiable interests fall below 3%, or where, at or above 3%, the percentage of our voting share capital in which a person has a notifiable interest increases or decreases by 1% or more.

Limitations affecting holders of ordinary shares or ADSs

Under English law and Articles, persons who are neither UK residents nor UK nationals may freely hold, vote and transfer ordinary shares in the same manner as UK residents or nationals. With respect to the items discussed above, applicable UK law is not materially different from applicable US law.

American Depositary Shares

Our ADSs are deposited pursuant to the Second Amended and Restated Deposit Agreement dated August 15, 2014, among Pearson, The Bank of New York Mellon as depositary (the “Depositary”, owners and holders of ADSs the “Deposit Agreement” and our ADSs deposited with the Depositary, the “Deposited Securities”).

ADSs are represented by American Depositary Receipts (“ADRs”) delivered by the Depositary under the terms of the Deposit Agreement. We established this facility in March 1995 and most recently amended it in August 2014. Each ADS represents one ordinary share. The following is a description of the rights of the owners and holders of the ADSs (the “Owners”) and the material provisions of the Deposit Agreement. For complete information, you should read the Deposit Agreement, the form of which has been filed with the SEC as an exhibit to the post-effective Amendment No. 1 to Form F-6 filed on August 1, 2014.

Voting Rights

Owners may instruct the Depository to vote the ordinary shares underlying the ADSs only if we ask the Depository to ask for the Owners instructions. Otherwise, Owners will not be able to exercise their right to vote unless they withdraw the ordinary shares. However, Owners may not know about the meeting long enough in advance to withdraw their ordinary shares.

If we ask for instructions from an Owner, the Depository will notify that Owner of the upcoming vote and arrange to deliver our voting materials to them. The materials will describe the matters to be voted on and explain how the Owner, on a certain date, may instruct the Depository to vote the ordinary shares or other deposited securities underlying the ADSs as the Owner directs. For instructions to be valid, the Depository must receive them on or before the date specified. The Depository will try, as far as practical, subject to English law and the provisions of our Articles, to vote or to have its agents vote the ordinary shares or other deposited securities as the Owner instructs. The Depository will only vote or attempt to vote as the Owner instructs. However, if the Depository does not receive voting instructions, it will give a proxy to vote that Owner’s ordinary shares to our designated representative.

We cannot assure that Owners will receive the voting materials in time to ensure that they can instruct the Depository to vote. In addition, the Depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that Owners may not be able to exercise their right to vote and there may be nothing Owners can do if that Owner’s ordinary shares are not voted as the they requested.

Payment of Taxes

Owners are responsible for any taxes or other governmental charges payable on their ADSs or on the deposited securities underlying their ADSs. The Depository may refuse to transfer any Owners or allow that Owner to withdraw the deposited securities underlying those ADSs until such taxes or other charges are paid. It may apply payments owed to Owners or sell deposited securities underlying ADSs to pay any taxes owed and the Owners will remain liable for any deficiency. If the Depository sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to the Owner any proceeds, or send to the Owner any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations And Mergers

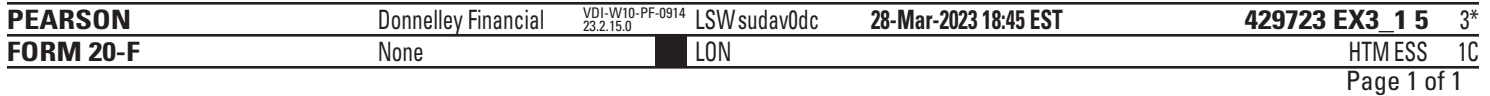
If we change the nominal or par value of our ordinary shares; reclassify, split-up or consolidate any of the deposited securities; distribute securities on the ordinary shares that are not distributed to Owners; or recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action, then:

- the cash, ordinary shares or other securities received by the Depository will become deposited securities and each ADS will automatically represent its equal share of the new deposited securities; and
- the Depository may, and will if we request, distribute some or all of the cash, ordinary shares or other securities it received and may also issue new ADSs or ask Owners to surrender outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

Amendment and Termination

We may agree with the Depository to amend the Deposit Agreement and the ADSs for any reason without Owners consent. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or registration fees, cable, telex or facsimile or email transmission costs, delivery costs or other such expenses, or prejudices an important right of Owners, it will only become effective 30 days after the Depository notifies the Owners of the amendment. At the time an amendment becomes effective, Owners are considered, by continuing to hold ADSs, to agree to the amendment and to be bound by the ADSs, and the Deposit Agreement will be amended.

The Depository will terminate the agreement if we ask them to do so. The Depository may also terminate the Deposit Agreement if it has informed us that it would like to resign and we have not appointed a new depositary bank within 90 days. In both cases, the Depository must notify Owners at least 30 days before termination.



At any time after the expiration of four months from the date of termination, the Depository may sell any remaining deposited securities by public or private sale. After that, the Depository will hold the proceeds of the sale, as well as any other cash it is holding under the Deposit Agreement, for the pro rata benefit of the Owners that have not surrendered their ADSs. It will have no liability for interest. The Depository's only obligation will be to account for the proceeds of the sale and other cash. After termination, our only obligation will be with respect to indemnification and to pay certain amounts to the Depository.

The Deposit Agreement expressly limits our obligations and the obligations of the Depository, and it limits our liability and the liability of the Depository. We and the Depository:

- are only obligated to take the actions specified in the Deposit Agreement without negligence or bad faith,
- are not liable if either is prevented or delayed by law or circumstances beyond our control from performing our obligations under the Deposit Agreement,
- are not liable if either exercises discretion permitted under the Deposit Agreement,
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the Deposit Agreement on the Owner's behalf or on behalf of any other party, and
- may rely upon any documents they believe in good faith to be genuine and to have been signed or presented by the proper party.

Requirements for Depositary Actions

Before the Depository will issue or register transfer of an ADS, make a distribution on an ADS, or make a withdrawal of ordinary shares, the Depository may require:

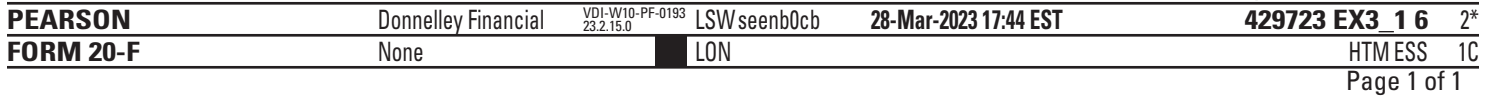
- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any ordinary shares or other deposited securities,
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary, and
- compliance with regulations it may establish, from time to time, consistent with the Deposit Agreement, including presentation of transfer documents.

The Depository may refuse to deliver, transfer, or register transfers of ADSs generally when the books of the Depository or we are closed, or at any time if the Depository or we think it advisable to do so.

Owners have the right to cancel their ADSs and withdraw the underlying ordinary shares at any time except:

- when temporary delays arise because the Depository or we have closed transfer books or the deposit of ordinary shares in connection with voting at a shareholders' meeting, or paying a dividend on the ordinary shares,
- when an Owner who seeks to withdraw ordinary shares owes money to pay fees, taxes and similar charges, or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities.

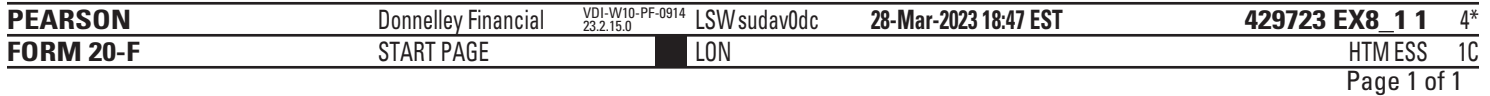
This right of withdrawal may not be limited by any other provision of the Deposit Agreement.



In specified circumstances, subject to the provisions of the Deposit Agreement, the Depository may issue ADSs before deposit of the underlying ordinary shares. This is called a pre-release of the ADSs. The Depository also may deliver ordinary shares upon cancellation of pre-released ADSs even if the ADSs are canceled before the pre-release transaction has been closed. A pre-release is closed as soon as the underlying ordinary shares are delivered to the Depository. The Depository may receive ADSs instead of ordinary shares to close a pre-release. The Depository may pre-release ADSs only under the following conditions:

- before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the Depository in writing that it or its customer owns the ordinary shares or ADSs to be deposited,
- the pre-release must be fully collateralized with cash or other collateral that the Depository considers appropriate, and
- the Depository must be able to close out the pre-release on not more than five business days' notice.

In addition, the Depository will limit the number of ADSs that may be outstanding at any time as a result of prerelease, although the Depository may disregard the limit from time to time, if, in its judgment, it is appropriate to do so.



Addison-Wesley Longman, Inc.	United States
Addison-Wesley Educational Publishers Inc.	United States
AEL (S) PTE Limited	Singapore
Aldwych Finance Limited	United Kingdom
ATI Professional Development LLC	United States
ATI Studios A.P.P.S. SRL	Romania
Atkey Finance Limited	Ireland
Axis Finance Inc.	United States
Camsaw, Inc.	United States
CAMSAWUSA, Inc.	United States
Centro Cultural Americano Franquias e Comércio Ltda.	Brazil
Century Consultants Ltd.	United States
Certiport China Co Ltd	China
Certiport China Holding, LLC	United States
Certiport, Inc.	United States
Clutch Learning, Inc.	United States
Cogmed Systems AB	Sweden
Connections Academy of Florida, LLC	United States
Connections Academy of Iowa, LLC	United States
Connections Academy of Maine, LLC	United States
Connections Academy of Maryland, LLC	United States
Connections Academy of Nevada, LLC	United States
Connections Academy of New Mexico, LLC	United States
Connections Academy of Oregon, LLC	United States
Connections Academy of Pennsylvania LLC	United States
Connections Academy of Tennessee, LLC	United States
Connections Academy of Texas LLC	United States
Connections Education LLC	United States
Connections Education of Florida, LLC	United States
Connections Education, Inc.	United States
Credly, Inc.	United States
Dominie Press, Inc.	United States
Dorian Finance Limited	Ireland
EBNT Canada Holdings ULC	Canada
EBNT Holdings Limited	Canada
EBNT USA Holdings Inc.	United States
eCollege.com	United States
Edexcel Limited	United Kingdom
Education Development International Plc	United Kingdom
Education Resources (Cyprus) Limited	Cyprus
Educational Management Group, Inc.	United States
Educational Publishers LLP	United Kingdom
Embanet ULC	Canada
Embanet-Compass Knowledge Group Inc.	United States
English Language Learning and Instruction System, Inc.	United States



Faethm Holdings Pty. Limited	Australia
Faethm IP Pty. Limited	Australia
Faethm Ltd	United Kingdom
Faethm Pty. Limited	Australia
Faethm USA LLC	United States
Falstaff Holdco Inc.	United States
Falstaff Inc.	United States
FBH, Inc.	United States
GED Domains LLC	United States
GED Testing Service LLC	United States
George (Shanghai) Commercial Information Consulting Co., Ltd	China
Globe Fearon Inc.	United States
Heinemann Educational Botswana (Publishers) Proprietary Limited	Botswana
IndiaCan Education Private Limited	India
Integral 7, Inc.	United States
Intellipro, Inc.	United States
Knowledge Analysis Technologies, LLC	United States
LCCIEB Training Consultancy., Ltd	China
LessonLab, Inc.	United States
Lignum Oil Company	United States
Lion SG Pte. Ltd.	Singapore
Longman (Malawi) Limited	Malawi
Longman Group(Overseas Holdings)Limited	United Kingdom
Longman Indochina Acquisition, L.L.C.	United States
Longman Tanzania Limited	Tanzania, the United Republic of
Longman Zambia Educational Publishers Limited	Zambia
Longman Zimbabwe (Private) Ltd	Zimbabwe
Longmaned Ecuador S.A.	Ecuador
Lumerit Education, LLC	United States
Major123 Limited	United Kingdom
MeasureUp of Delaware, LLC	United States
Modern Curriculum Inc.	United States
Multi Treinamento e Editora Ltda	Brazil
MZ Development, Inc.	United States
National Computer Systems Japan Co. Ltd	Japan
Navvy Education, LLC	United States
NCS Information Technology Services (Beijing) Co Ltd	China
NCS Pearson Pty Ltd	Australia
NCS Pearson Puerto Rico, Inc.	Puerto Rico
NCS Pearson, Inc.	United States
Opinion Interactive LLC	United States
Ordinate Corporation	United States
Pearson (Beijing) Management Consulting Co., Ltd.	China
Pearson America LLC	United States
Pearson Amsterdam B.V.	Netherlands
Pearson Australia Finance Unlimited	United Kingdom

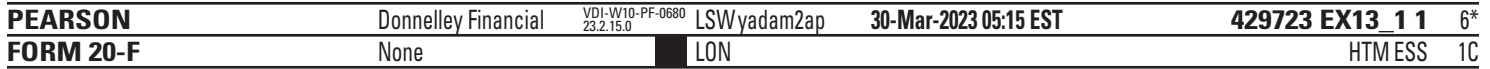


Pearson Australia Group Pty Ltd	Australia
Pearson Australia Holdings Pty Ltd	Australia
Pearson Benelux B.V.	Netherlands
Pearson Books Limited	United Kingdom
Pearson Brazil Finance Limited	United Kingdom
Pearson Business Services Inc.	United States
Pearson Canada Assessment Inc.	Canada
Pearson Canada Finance Unlimited	United Kingdom
Pearson Canada Holdings Inc.	Canada
Pearson Canada Inc.	Canada
Pearson Central Europe Spółka z ograniczoną odpowiedzialnością	Poland
Pearson College Limited	United Kingdom
Pearson DBC Holdings Inc.	United States
Pearson Desarrollo y Capacitación Profesional Chile Limitada	Chile
Pearson Deutschland GmbH	Germany
Pearson Digital Learning Puerto Rico, Inc.	Puerto Rico
Pearson Dollar Finance plc	United Kingdom
Pearson Dollar Finance Two Limited	United Kingdom
Pearson Educacion de Chile Limitada	Chile
Pearson Educación de Colombia S.A.S.	Colombia
Pearson Educación de México, S.A. de C.V.	Mexico
Pearson Educacion de Panama SA	Panama
Pearson Educacion de Peru S.A.	Peru
Pearson Educacion SA	Spain
Pearson Education (Singapore) Pte Ltd	Singapore
Pearson Education Achievement Solutions (RF) (Pty) Ltd	South Africa
Pearson Education Africa (Pty) Ltd	South Africa
Pearson Education Asia Limited	Hong Kong
Pearson Education Botswana (Proprietary) Limited	Botswana
Pearson Education do Brasil Ltda	Brazil
Pearson Education Hellas SA	Greece
Pearson Education Holdings Limited	United Kingdom
Pearson Education Indochina Limited	Thailand
Pearson Education Investments Limited	United Kingdom
Pearson Education Korea Limited	Korea (the Republic of)
Pearson Education Limited	United Kingdom
Pearson Education Namibia (Pty) Limited	Namibia
Pearson Education Publishing Limited	Nigeria
Pearson Education Resources Italia S.R.L.	Italy
Pearson Education S.A.	Uruguay
Pearson Education SA	Argentina
Pearson Education South Africa (Pty) Ltd	South Africa
Pearson Education South Asia Pte. Ltd.	Singapore
Pearson Education Taiwan Ltd	Taiwan (Province of China)
Pearson Education, Inc.	United States
Pearson Educational Measurement Canada, Inc.	Canada

Pearson Educational Publishers, LLC	United States
Pearson Egitim Cozumleri Ticaret Limited Sirketi	Turkey
Pearson Falstaff (Holdings) Inc.	United States
Pearson Falstaff Holdco LLC	United States
Pearson France	France
Pearson Funding Four Limited	United Kingdom
Pearson Funding plc	United Kingdom
Pearson Holdings Inc.	United States
Pearson Holdings Southern Africa (Pty) Ltd	South Africa
Pearson Hungary LLC	Hungary
Pearson India Education Services Private Limited	India
Pearson International Finance Limited	United Kingdom
Pearson Investment Holdings, Inc.	United States
Pearson Israel (P.I.) Ltd	Israel
Pearson Japan KK	Japan
Pearson Lanka (Private) Limited	Sri Lanka
Pearson Lanka Support Services (Private) Limited	Sri Lanka
Pearson Lesotho (Pty) Ltd	Lesotho
Pearson Loan Finance No. 3 Limited	United Kingdom
Pearson Loan Finance No. 4 Limited	United Kingdom
Pearson Loan Finance No.5 Limited	United Kingdom
Pearson Loan Finance No.6 Limited	United Kingdom
Pearson Loan Finance Unlimited	United Kingdom
Pearson Longman Uganda Limited	Uganda
Pearson Malaysia Sdn. Bhd.	Malaysia
Pearson Management Services Limited	United Kingdom
Pearson Management Services Philippines Inc.	Philippines
Pearson Maryland, Inc.	United States
Pearson Mocambique, Limitada	Mozambique
Pearson Netherlands B.V.	Netherlands
Pearson Netherlands Holdings B.V.	Netherlands
Pearson Nominees Limited	United Kingdom
Pearson Online Tutoring LLC	United States
Pearson Overseas Holdings Limited	United Kingdom
Pearson PEM P.R., Inc.	Puerto Rico
Pearson Pension Nominees Limited	United Kingdom
Pearson Pension Property Fund Limited	United Kingdom
Pearson Pension Trustee Limited	United Kingdom
Pearson Pension Trustee Services Limited	United Kingdom
Pearson Phoenix Pty Ltd	Australia
Pearson Professional Assessments Limited	United Kingdom
Pearson Real Estate Holdings Inc.	United States
Pearson Real Estate Holdings Limited	United Kingdom
Pearson Schweiz AG	Switzerland
Pearson Services Limited	United Kingdom
Pearson Shared Services Limited	United Kingdom
Pearson Strand Finance Limited	United Kingdom



Pearson Strand Limited	United Kingdom
Pearson Sweden AB	Sweden
Pearson VUE Europe B.V.	Netherlands
Pearson VUE Philippines, Inc.	Philippines
Penguin Capital, LLC	United States
PN Holdings Inc.	United States
ProctorCam, Inc.	United States
PT Efficient English Services	Indonesia
PVNT Limited	United Kingdom
Reading Property Holdings LLC	United States
Rebus Planning Associates, Inc.	United States
Reston Publishing Co., Inc.	United States
Rycade Capital Corporation	United States
Shanghai AWL Education Software Ltd	China
Silver Burdett Ginn Inc.	United States
Skylight Training and Publishing Inc.	United States
Smarthinking, Inc.	United States
Sound Holdings Inc.	United States
Sparrow.Phoenix Pty Ltd	Australia
Spear Insurance Company Limited	Bermuda
The Waite Group, Inc.	United States
TQ Catalis Limited	United Kingdom
TQ Clapham Limited	United Kingdom
TQ Education and Training Limited	United Kingdom
TQ Education and Training Limited [Saudi]	Saudi Arabia
TQ Global Limited	United Kingdom
TQ Group Limited	United Kingdom
TQ Holdings Limited	United Kingdom
Vue Testing Services Israel Ltd	Israel
Vue Testing Services Korea Limited	Korea (the Republic of)
Williams Education GmbH	Germany



**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of Pearson plc (the “Company”) for the fiscal year ending December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Andy Bird, Chief Executive Officer of the Company, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2023

/s/ Andy Bird

Andy Bird
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Pearson plc (the “Company”) for the fiscal year ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sally Johnson, Chief Financial Officer of the Company, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1.

The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2.

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2023

/s/ Sally Johnson

Sally Johnson

Chief Financial Officer

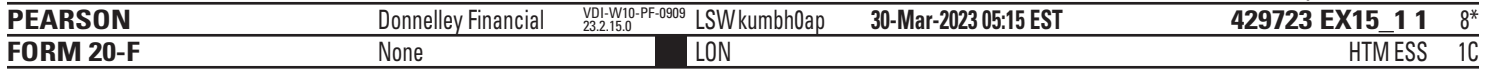


Exhibit 15.1

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-173182) pertaining to The Pearson PLC Employee Stock Purchase Plan, The Pearson Annual Bonus Share Matching Plan and The Pearson Long Term Incentive Plan, and
2. Registration Statement (Form S-8 No. 333-251210) pertaining to The Pearson plc Employee Stock Purchase Plan, The Pearson Long Term Incentive Plan (2011), The Pearson Long Term Incentive Plan (2020), and The Pearson Management Incentive Plan;

of our reports dated March 31, 2023, with respect to the consolidated financial statements of Pearson plc and the effectiveness of internal control over financial reporting of Pearson plc included in this Annual Report (Form 20-F) of Pearson plc for the year ended December 31, 2022.

/s/ Ernst & Young LLP
London, United Kingdom
March 31, 2023

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-173182 and 333-251210) of Pearson plc of our report dated 30 March 2022, except for the effects of the revision discussed in note 1b and the change in composition of reportable segments discussed in note 2 to the consolidated financial statements, as to which the date is 31 March 2023, relating to the financial statements, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers LLP
London, United Kingdom
March 31, 2023



A focused strategy
for a lifetime of
learning

Annual report and accounts 2022

We are the world’s leading learning company



Strategic report

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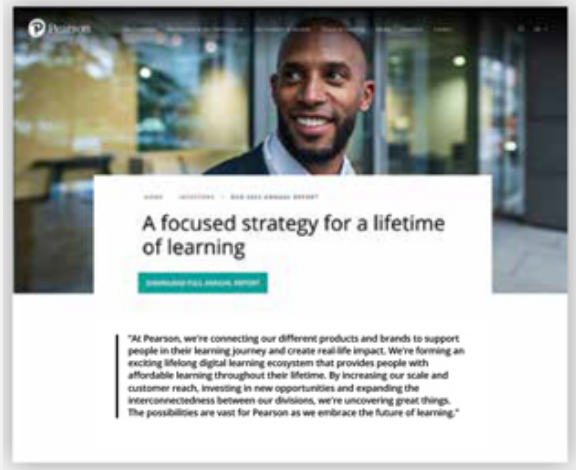
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The strategic report, up to and including page 52, was approved for issue by the Board on 15 March 2023 and signed on its behalf by:

Sally Johnson
Chief Financial Officer



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



<https://plc.pearson.com/en-GB/investors/2022-annual-report-accounts>



■ ■ We have a focused strategy for a lifetime of learning



Andy Bird, Chief Executive

“At Pearson, we’re connecting our different products and brands to support people in their learning journey and create real-life impact. We’re forming an exciting lifelong digital learning ecosystem that provides people with affordable learning throughout their lifetime. By increasing our scale and customer reach, investing in new opportunities and expanding the interconnectedness between our divisions, we’re uncovering great things. The possibilities are vast for Pearson as we embrace the future of learning.”





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At a glance

Our
purpose
is to add
life to a
lifetime of
learning.

Because learning isn't
just what we do – it's
who we are.

Our vision

We want everyone
to realise the life
they imagine
through learning.

Our mission

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

Our values

Our **values** begin with 'we' because
they **apply to all of us**. They help guide
how we show up every day for our
customers, each other, and the
communities we serve.

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.



"We've
redefined
our
purpose to
meet this
moment in our
world where
learning is becoming
more fluid and
exists inside and
outside of formal
education."

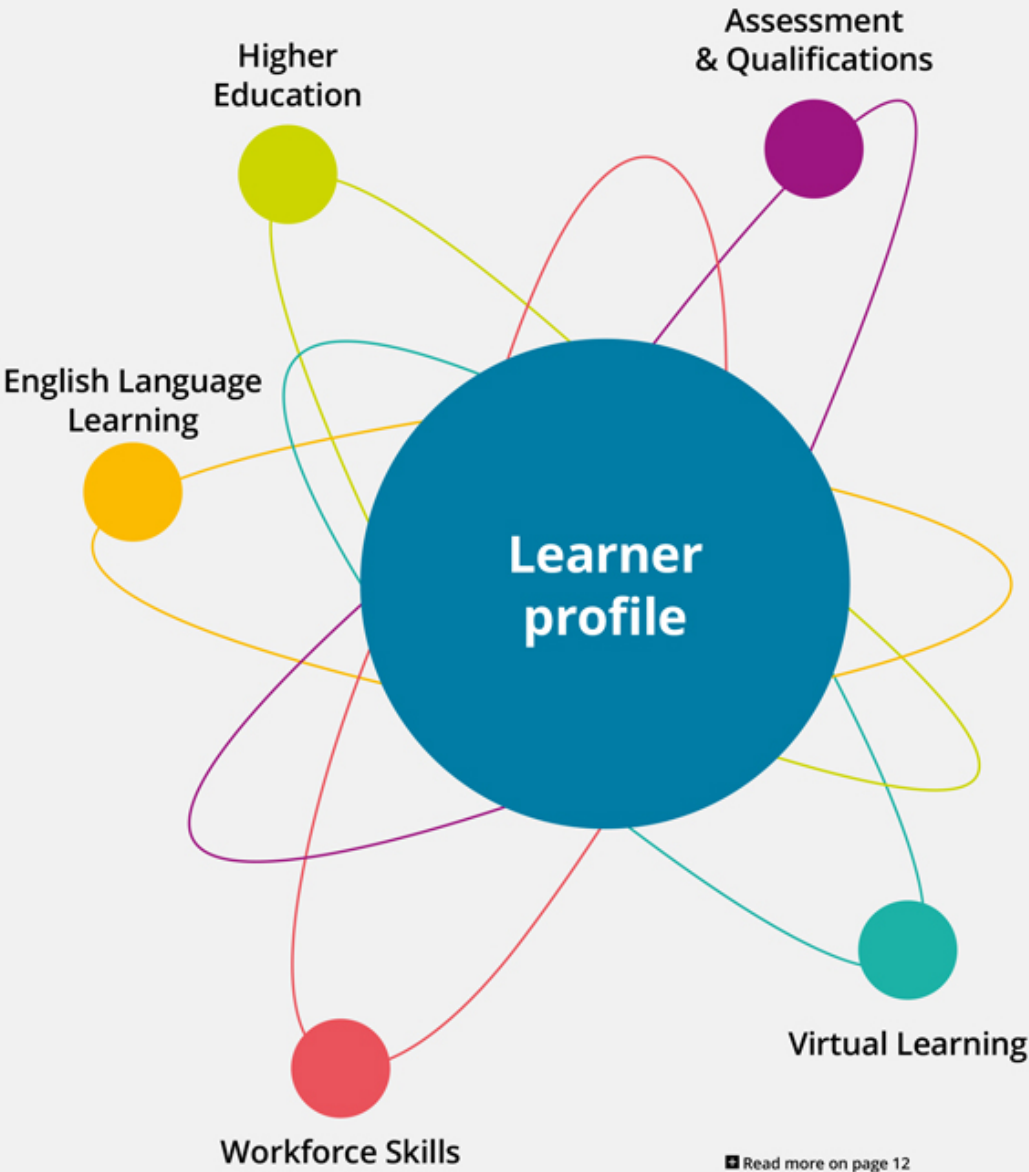


Lynne Frank, Chief Marketing
Officer and Co-President,
Direct-to-Consumer

Our strategy

Our strategy is to create trusted relationships with consumers throughout their lifelong learning journeys. We want to empower them to realise their goals and potential, by developing their skills across multiple stages of their learning lifetime, encompassing not only formal primary, secondary and higher education, but also, increasingly, the world of work.

Our strategy places consumers at the heart of everything we do, and we are integrating our products to create a learning ecosystem that reaches our consumers across all their life stages.



At a glance *continued*

Our interconnected divisions

Assessment & Qualifications

We provide the assessments, qualifications, certifications and licences that enable people to demonstrate their knowledge, skills and aptitude across a lifetime of learning – from school to professional careers. We play an integral role in a host of technology certifications, in areas such as cloud computing and cyber security, that power growth and innovation across the global economy. We deliver numerous medical certification and licensing examinations around the world, giving governments and the public the assurance that their providers have met the standards for care. Exam delivery volumes in the Information Technology sector increased by 12% from 2021 to 2022.

Our growth will be fuelled by our unrivalled breadth of offering and global scale across both physical and digital assessment, combined with the growing market need for accreditation and certification in the professional market, more effective formative and summative assessment in the school market, and increased demand and spend across the education landscape in mental health and wellbeing.

Higher Education

We provide around 18 million higher education students every year with vibrant digital content, assessments and enriching experiences, leading to positive learning outcomes. We provide a significant entry point for a lifetime of learning in the Pearson ecosystem. We intend to remain the Higher Education content market leader by deepening our relationships with students beyond instructor and faculty required course materials. By enhancing product features and investments into Pearson+, we enable students to succeed in achieving their goals across disciplines and academic paths. We will drive growth through increasing market share and recapture of the secondary market, particularly through enhancements to our suite of digital products including Pearson+, MyLabs, Mastering and Revel. In addition, we will invest in growth in the large international higher education market and capitalise on increased demand in Inclusive Access.

2022 Revenue



2022 Highlights

- Pearson VUE test volumes grew 16% to 19.4m with particularly strong growth in the IT and healthcare segments. VUE also won major contracts across its portfolio and expanded its presence in the US federal market.
- Announced the intention to acquire Personnel Decisions Research Institutes (PDRI) which has significant expertise in providing assessment solutions to the US federal government, one of the largest employers in the US with more than 4 million employees.
- Clinical Assessment had a strong performance due to good government funding and continued focus on health and wellbeing.
- UK and International Qualifications 2022 revenue was driven by the return to full testing and growth in qualifications and assessment contracts internationally.
- US Student Assessment had strong revenue growth with a full testing cycle in 2022 and new contract wins.

Read more on pages 8 and 22

- Inclusive Access sales to not-for-profit institutions was up 9% in 2022, with the total number of institutions increasing to 1,040, due to the attractive price point and immediate 'day one' access for students.
- A three-fold increase compared to prior year Fall semester in Pearson+ paid subscriptions, expanding our reach through US college bookstores:
 - Pearson+ paid subscriptions compared to prior year Fall semester up 205% to 406k (2021: 133k)
 - Pearson+ registered users compared to prior year Fall semester increased 3% to 2.83m (2021: 2.75m)
- Launched Pearson+ Channels (with 18 study channels) in Autumn 2022 to help students understand complex concepts and prepare for exams in the toughest college courses, whether they are using a Pearson eTextbook or not. This increases the total addressable market for Pearson+.

Read more on pages 15 and 22

Virtual Learning We offer highly effective online learning for every age and stage of education. Our users can learn where, when, and how they learn best, in a way that is tailored to their needs and propels them forward in their lives and careers. Our vision in Virtual Schools is to provide a holistic, academic, and innovative learning experience to our students, while being a trusted best-in-class partner for our schools and families. We will grow by continuing to focus on the core learning experience, including individualised learning and curriculum transformation, while innovating and adapting to both industry and market changes to stay ahead of the competition. Our career readiness solutions will fuel growth by providing pathways for students beyond high school, be it in the job market or further study. We will also capitalise on increased awareness and openness to virtual learning and the demand for alternative education mediums driven by parents' new hybrid and remote working schedules. Our Online Program Management (OPM) business is currently under strategic review.	English Language Learning There are 1.4 billion English language learners across the globe. We have the courseware and assessments to help them achieve their goals, including digital and blended English solutions for educational institutions and the flagship Pearson Test of English, in over 150 countries. Our vision is to become the world's leading destination for committed learners to build and prove their proficiency in English. We are growing through creating an interconnected suite of personalised products across direct to consumer, institutional, enterprise language learning and assessments, and online language learning through Mondly. This will allow us to expand our addressable market, increase market penetration, and create more repeatable, personal relationships with language learners, capturing more of their lifetime spend. We are also capitalising on a consistent market need for English proficiency in global employment and education, a growing demand for online language learning, and renewed global mobility.	Workforce Skills We're building a world where everyone is prepared for the future of work and people are recognised for what they know and what they can do. Our newly launched talent investment platform uses workforce analysis and assessment to realise untapped potential, mobilise talent, and help enterprises and individuals close the workforce skills gap, helping everyone find the right work for them. We will grow by connecting consumers, enterprises, recruiters, and learning partners to a marketplace for verified skills. We can also capitalise on employers' increasing need to reskill and develop their workforce to protect against shifts in both growing and shrinking markets and in response to the high speed of economic and technology change. We need to respond to and enable the accelerating convergence between previously disconnected parts of the HR technology market, particularly Learning and Development, Recruitment, and Talent Management.
		
- Increased retention rates and Net Promoter Score, now +67, for Virtual Schools, which will drive enrolment growth. - Opened our first virtual school in Virginia focusing on grades 6-10 students, expanding to grades K-10 in 2023. - Helped enact new legislation in Missouri, facilitating easier access to publicly funded virtual learning, leading to a doubling of our virtual school enrolments within that State. Read more on page 22	- Pearson Test of English (PTE) test volumes up 90% and underlying revenue up 72%, particularly driven by border reopenings and gaining market share in India, where investment in our agent network and successful market campaigns have helped to drive growth. - Completed the acquisition of Mondly and entered the Online Self-Study language learning space. See our Strategy in Action for more detail on how Mondly is helping us to grow. - Transformed our institutional business through initiatives such as Pearson English Connected Learning, which creates personalised, connected solutions including courseware, assessment and certification to fast-track learning. - Enhanced our user experience to ensure that our courseware is the most engaging and effective on the market, leveraging our partnerships with major corporations including Disney and the BBC. Read more on pages 14 and 22	- Acquired Credly, a leading digital credentials business, giving us a strong foothold and user base in the workplace credentials space. - Developed our talent investment platform which provides accurate, real-time access to employee skills. - Integrated Faethm and Credly into the Workforce Skills division, creating single enterprise go-to-market and product teams. - We launched Skills Accelerator, a suite of peer-supported, project-based learning courses that help people complete business-critical projects while developing future skills. Read more on pages 14 and 22

2022 highlights

A year of strategic and operational progress



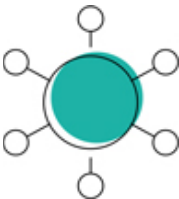
Achieved underlying sales growth of

5%

and adjusted operating profit growth of

11%

on an underlying basis, ahead of expectations



Acquired Mondly and Credly to support the **growth strategy** across the Pearson ecosystem

Read more on page 13



Announced **£120m** of cost efficiencies, accelerating our improved margin expectation to 2023 from 2025

“The role Pearson VUE plays helping professionals get certified is a critical element of delivering our enterprise learning strategy.”



Art Valentine,
President – Assessment & Qualifications

Launched our **people strategy** with a focus on engagement and high-performance

Read more on page 31

Launched **18** study channels on Pearson+

Read more on page 15

Enterprise Learning reaching

c.2000

enterprise clients across Workforce Skills and Pearson VUE

Completed the **disposal** of our international local courseware publishing businesses

Read more on page 13

Chair’s note

“ I believe we are well-positioned to continue to grow profitably and to deliver long-term success, creating value for all our stakeholders.

Omid Kordestani, Chair



2022 dividend growth

5%

Return on capital in 2022

8.7%

“What drew me to this fantastic company was the incredible opportunity to be globally consequential and the important role we can play in improving society through lifelong learning.”

Chair’s note *continued*

Overview

I’m delighted to be writing my first letter to you as Chair of Pearson. It’s a privilege to join Pearson at this exciting time. What drew me to this fantastic company was the incredible opportunity to be globally consequential and the important role we can play in improving society through lifelong learning. We have a tremendous opportunity to capitalise on this, benefiting all our stakeholders, particularly with the significant potential in digital learning. It is also exciting to see that we are delivering particularly on enterprise learning, in ways we never have before, as the workplace becomes the new heart of many people’s learning journey.

2022 has been a year of strategic and operational development as we continue to create a digital learning ecosystem, fit for the future of learning. We have made considerable progress in executing our direct to consumer, lifelong learning strategy as we reshape our portfolio for profitable growth, adding capabilities and increasing interconnectivity between divisions.

Financial and operational highlights

We delivered a strong performance in 2022 with sales increasing on an underlying basis by 5% and our adjusted operating profit margin increased from 11% to 12%. This resulted in our adjusted operating profit increasing to £456m.

We have also made good strategic and operational progress as we build further lifelong learning potential. We’ve been disciplined in right sizing the company to our strategic direction. We have taken bold actions to make Pearson a more efficient, focused company and through this we will accelerate our improved margin expectations to 2023 from 2025.

We have also retained a strong balance sheet and liquidity position that will enable us to continue to invest in our comprehensive growth strategy.

As a result of the strong performance in 2022, the Board recommends a final dividend of 14.9 pence per share. The final dividend will be paid on 5 May 2023 to shareholders on the register on 24 March 2023.

Environmental, social and governance

Pearson has a clear purpose adding life to a lifetime of learning that links naturally to our potential to make a significant positive impact on our society and our planet. Our products and services enable more engaging and stimulating learning experiences. They are accessible to more people, and with a smaller carbon footprint. We continue to make good progress against our ambitious climate targets, and we recognise the role that top talent plays in driving our long-term growth. This year, we also launched a people strategy focused on employee engagement as a driver of performance. We also ensure that we continue to operate as a responsible business and will always act in the best interests of our customers.

Our people make Pearson’s success

Our people are fundamental to our success and strong performance. I would like to take this opportunity to thank everybody for their commitment. I appreciate their incredible work, operational discipline, and focus over 2022. We cannot underestimate how this difficult environment has affected our people, I’m very proud of them all. Taking care of our employees, and ensuring we keep our positive culture is vital. Their efforts have, and will, continue to underpin the company’s performance as we take advantage of the significant growth opportunities ahead.

I also want to thank all our customers for their continued support. We will continue to provide them with engaging ways of learning that reflect today’s world, as we look to deliver the needs of both employers and employees.

Strategy in action

Making a difference for global IT enterprises

IT enterprises continue to face significant challenges. As cloud adoption, AI advancements, and cyber security threats generate highly specialised jobs, the demand for tech skills is present throughout the global economy. At the same time, global talent needs abound, and consumer and inclusivity expectations continue to surge.

Pearson VUE, part of our Assessment & Qualifications business, helps the world’s leading IT organisations address the persistent skills gap and shortage of qualified talent by providing the learning opportunities and credentials essential to keep pace with the ever-increasing advances in technology.

- AWS chose Pearson VUE as its exclusive assessment provider to certify AWS Cloud knowledge and skills. Now the tech giant can provide their global IT professionals with more convenient testing options and the best experience possible.
- With (ISC)², a leading provider of cyber security credentials, we deliver credentialing assessments that certify the professionals who work tirelessly to provide a safer, more secure cyber world for individuals and organisations around the globe.
- Through our partnership with Microsoft, we helped the Austin Lighthouse - Travis Association for the Blind make IT certification exams more accessible to people with disabilities, preparing and enabling them to join the tech workforce.



Pearson has an opportunity to educate the world and be a good citizen, as a business that acts responsibly and sets the right tone.



Leading for the future

We have a strong performance culture at Pearson, with a high level of execution and operational excellence. We also have a wonderfully diverse Board in terms of both experience and backgrounds. Ensuring we continue to have a diverse set of views and perspectives at Board and leadership level is key to our success. We need different types of leadership and operational talent to execute against our strategy. We will keep monitoring this as Pearson continues to transform so we have the right skill sets for our future, as well as managing succession planning for any upcoming departures.

On the Board, we will miss Linda Lorimer, who steps down at Pearson's upcoming Annual General Meeting (AGM) after serving nearly ten years on the Board. Linda has been an amazing force throughout her tenure, most recently as Chair of our Reputation & Responsibility Committee.

At the executive level, we saw new leaders join the leadership team with Marykay Wells being elevated internally to Chief Information Officer. Marykay is working with the Board and leadership team to build a technology strategy that supports a coordinated, cross functional approach to data, content delivery, and product development. Sulaekha (Sue) Kolloru Barger also joined us to become our new Chief Strategy Officer. Since joining, Sue has been focused on driving strategic planning across the company and charting the course for future growth.

Engagement is fundamental

As a Board and leadership team, it is critical we engage frequently with all our stakeholders. We want to ensure that our strategy is clear, that the way we're operating is well understood, and to identify any gaps in our approach. This enables a constructive and positive relationship and helps us understand the views and perspectives of our stakeholders. It also ensures our team is focused on the right approaches, policies, and activities.

This year, we undertook a comprehensive review of Pearson's executive remuneration framework, with the proposed new Directors' remuneration policy detailed on page 112. The Remuneration Committee and the Board have spent significant time rigorously reviewing the policy and its implementation to ensure it remains fit for purpose. This review considered Pearson's renewed strategy, the recent strong performance of the business, and the views and expectations of our shareholders, their advisers, and other stakeholders. I believe the proposed policy is the best way to continue to drive a strong pay for performance culture. It also responds to the needs of the global talent market for digital innovators, whilst remaining mindful of the UK governance environment and the views of our shareholders.

Confident in our potential

In March, the company announced that the Board had received and rejected, in total, three unsolicited, preliminary, and highly conditional takeover approaches from investment firm Apollo. Under Sidney Taurel as Chair, the Board considered the right response for Pearson and our shareholders. While the Board deliberated the approaches with all due focus and attention, our confidence in the strategy that Andy and the leadership team are pursuing led us to unanimously vote against the approaches. We believe they all significantly undervalued the company and its future prospects. I would like to thank our shareholders for their support for the Board's position.

Outlook

We start 2023 in a challenging macro environment, but we have a clear focus on execution. I have every confidence in our ability to deliver as we continue to transform because:

- 1. The company is confident of its strategy.
- 2. We have a strong executive team that has been established to execute on that strategy, and
- 3. The company will be very disciplined in measuring how to achieve success and to deliver results for shareholders.

Pearson has an opportunity to educate the world and be a good citizen, as a business that acts responsibly and sets the right tone. We take our duties seriously and drive a level of execution that brings us closer to our promise of lifelong Learning: our 'North Star'. I believe we are well positioned to continue to grow profitably and to deliver long-term success, creating value for all our stakeholders.

Omid Kordestani
Chair

Chief Executive’s review

“ Another year of significant strategic, operational and financial progress.

Andy Bird, Chief Executive



Underlying sales growth in 2022

5%

Underlying adjusted operating profit growth in 2022

11%

“Over the last year, a new Pearson has emerged -streamlined, interconnected, and more agile. This new Pearson is expanding our market opportunities, driving value for our stakeholders and making a positive impact on our world.”

Dear shareholders,

I am pleased to report to you on another year of significant strategic, operational, and financial progress, one that has strengthened our foundations for a future of increasing sustainable growth.

Over the last year, a new Pearson has emerged - streamlined, interconnected, and more agile. This new Pearson is expanding our market opportunities, driving value for our stakeholders, and making a positive impact on our world.

Our 2022 financial results demonstrate the strong momentum we've been building. For a second consecutive year, our financial performance was ahead of our expectations, with underlying sales growing by 5% and underlying adjusted operating profits increasing by 11% to £456m. This reflects excellent progress across the Group, driven by our strategic initiatives.

Delivering on our strategy

Our strategy focuses on a lifetime of learning and building a company that is digital-first, puts the consumer at its heart, and delivers high quality learning products at scale. A major focus this year has been enhancing the interconnectivity between our divisions, making more parts of Pearson more relevant to each other while driving financial and operational benefits. Because of this, our business model is moving from standalone products and services to connected learning applications, centered around our trusted relationships with consumers.

At the start of 2022, I identified four clear priorities for Pearson:

- Deliver sales and profit growth
- Increase our focus on execution, quality, and trust
- Embed customer and consumer insights across the company
- Scale and grow Pearson+

We delivered on those priorities and much more, including significantly evolving our overall proposition and our go-to-market strategies. Critically, we remain on track to deliver approximately £120m of cost efficiencies in 2023, accelerating our improved margin expectations to 2023 from 2025. We reshaped our portfolio with the acquisitions of Credly and Mondly, and announced the intention to acquire Personnel Decisions Research Institutes (PDRI), to drive growth. In addition, we completed the sale of our international courseware local publishing businesses and initiated the strategic review of our Online Programme Management (OPM) business. We saw strong growth in Pearson+ paid subscribers, launched the new Pearson+ Channels feature, and integrated Mondly into the service. As we do all of this, we are growing our universe of consumer relationships. In 2022, our products and services impacted the lives of around 160 million global users.

A future focused on a lifetime of learning

While we continue to work with the full spectrum of learning institutions, the workplace is now the heart of many people's learning journey. Enterprise learning has long been foundational to our business but 2022 saw us scale that in new ways. Credly added about 70,000 new users each week, for the past 12 months, a strong signal of the need for individual upskilling. We now have more than 2000 enterprise learning clients. This part of our business is, and will continue to be, the subject of strategic investment. We have been hard at work developing our new Workforce Skills talent investment platform, a combination of Credly and Faethm capabilities that aims to help enterprises solve their talent planning, upskilling, and recruiting challenges. As it goes to market in 2023 and beyond, this new product has the potential to greatly accelerate the growth of our Workforce Skills division. In addition, we continue to expand our Pearson VUE offerings, and we are capitalising on the demand for English learning as a gateway to employment.



Beyond our workforce offerings, the progress of Pearson+ continues to point to an exciting future. In the calendar year 2022, our first full year in the market, Pearson+ had c.600,000 paid subscribers and 4.8 million registered users. We now have more than 1,800 e-textbook titles in Pearson+ and we have introduced 18 study Channels to provide students with supplemental video and learning content. In the Fall of 2022, students viewed nearly 2 million minutes of Channels video content and utilised 1 million practice problems-impressive engagement activity. Between new content, the integration of Mondly, and broadened distribution through college bookstores, we continue to expand our total addressable market and prove the product market fit of Pearson+. We still see Pearson+ as the springboard for our Higher Education business and our bigger ambitions across a lifetime of learning. In our broader Higher Education business, we're making excellent progress building the tools to return that division to top line growth. This effort centres on going to market more effectively and ensuring we have engaging products that faculty and students love to use.

As we've demonstrated throughout the year, the cross over between our businesses is accelerating, which is creating synergies and forming the foundations of our digital learning ecosystem. We are at a critical moment where we can combine our capabilities to benefit a vast number of people. We believe there is enormous power in an ecosystem that brings our products together, with a consumer profile at its heart. As we move into 2023 and beyond, you will see us push further into a business model that connects consumer led learning into one Pearson experience.

Looking forward with confidence

As we turn this concept into reality, we continue to work hard every day to deliver what consumers demand: vibrant, impactful, frictionless learning solutions that will help them progress in their lives. As we deepen relationships with our consumers, they can move with ease between our products as their learning needs evolve. That creates lifetime value for learners, for Pearson, and for all our stakeholders.

We are delivering on what we have promised to our stakeholders, and we will continue to do that. The level of activity around the business is unprecedented. But it is also focused and better executed, resulting in better delivery of our strategic goals. I'd like to take this opportunity to thank each and every Pearson employee for their unwavering dedication to our purpose and our strategy. Led by their drive, determination, and unparalleled expertise, we are in a strong position to capture the opportunities in front of us.

Andy Bird
Chief Executive

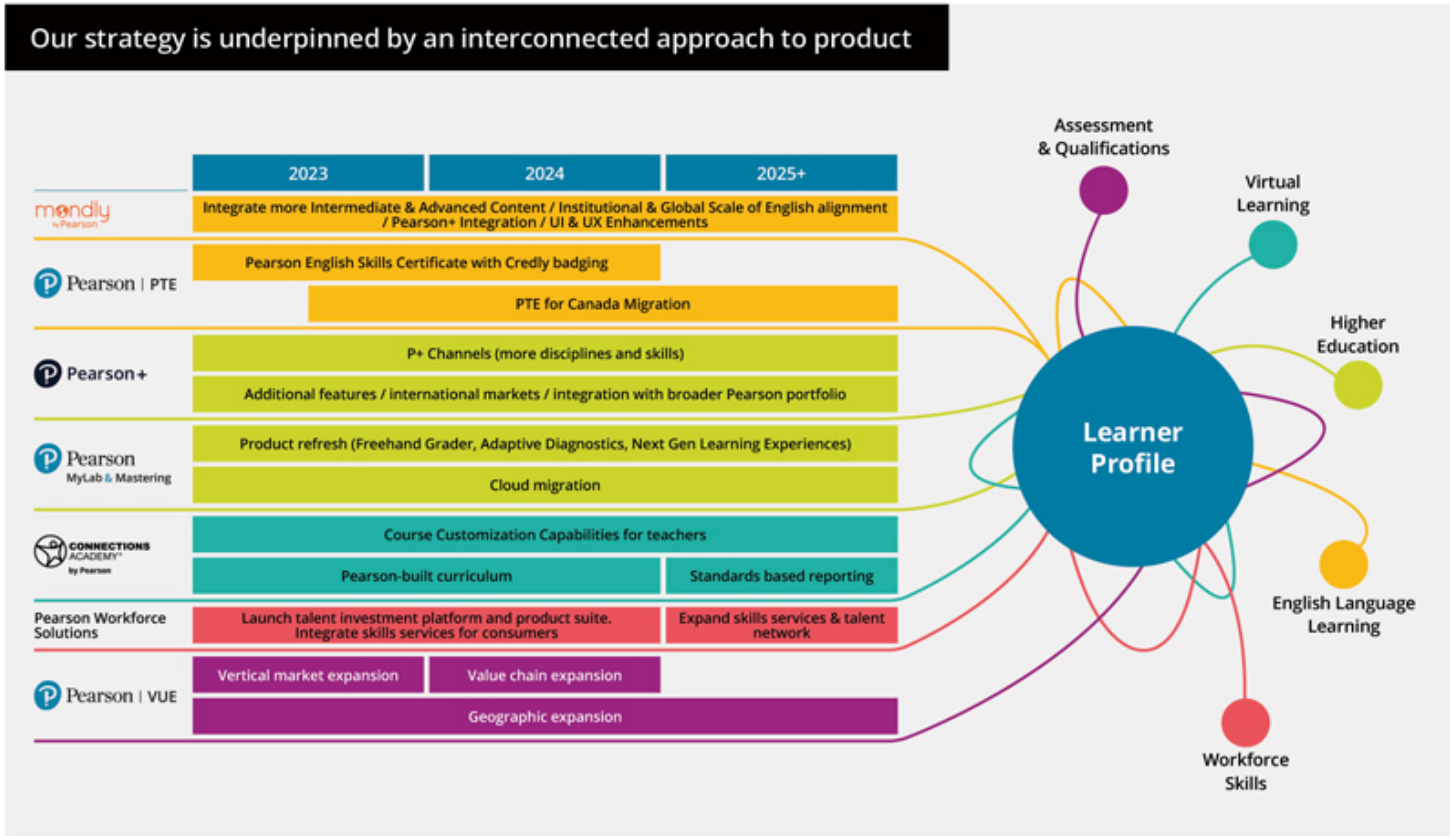
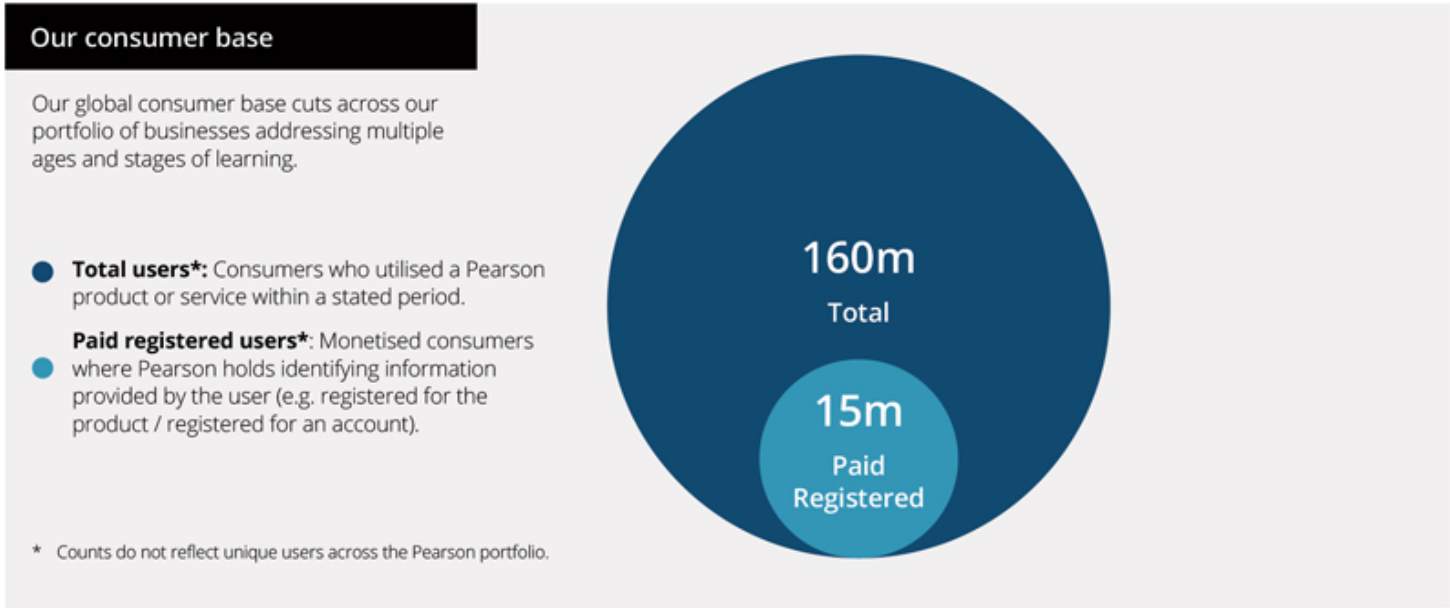
Our strategy

An integrated strategy

In 2022, our products and services reached more than 160 million users around the world.

Our strategy is to grow both by increasing our scale and customer reach. We are deepening our investment in opportunities across our divisions, and are expanding the interconnectedness between our divisions, to uncover and capitalise on further potential. We are confident that there are vast possibilities to expand our reach by linking our different learning capabilities into one experience as we move from standalone to connected learning applications.

We have a well-diversified global consumer base, coming from direct individual customers and institutional, enterprise and government relationships. Of our 160 million users, 15 million are registered with us. It is incumbent upon us to make every interaction with our consumers more meaningful by building relationships. We aim to provide all our audiences with the ability to move between our products as their learning needs evolve.



We are driving successful change through targeted investment, acquisitions, and disposals.



Sulaekha (Sue) Kolloru Barger, Chief Strategy Officer

Strategic progress in 2022

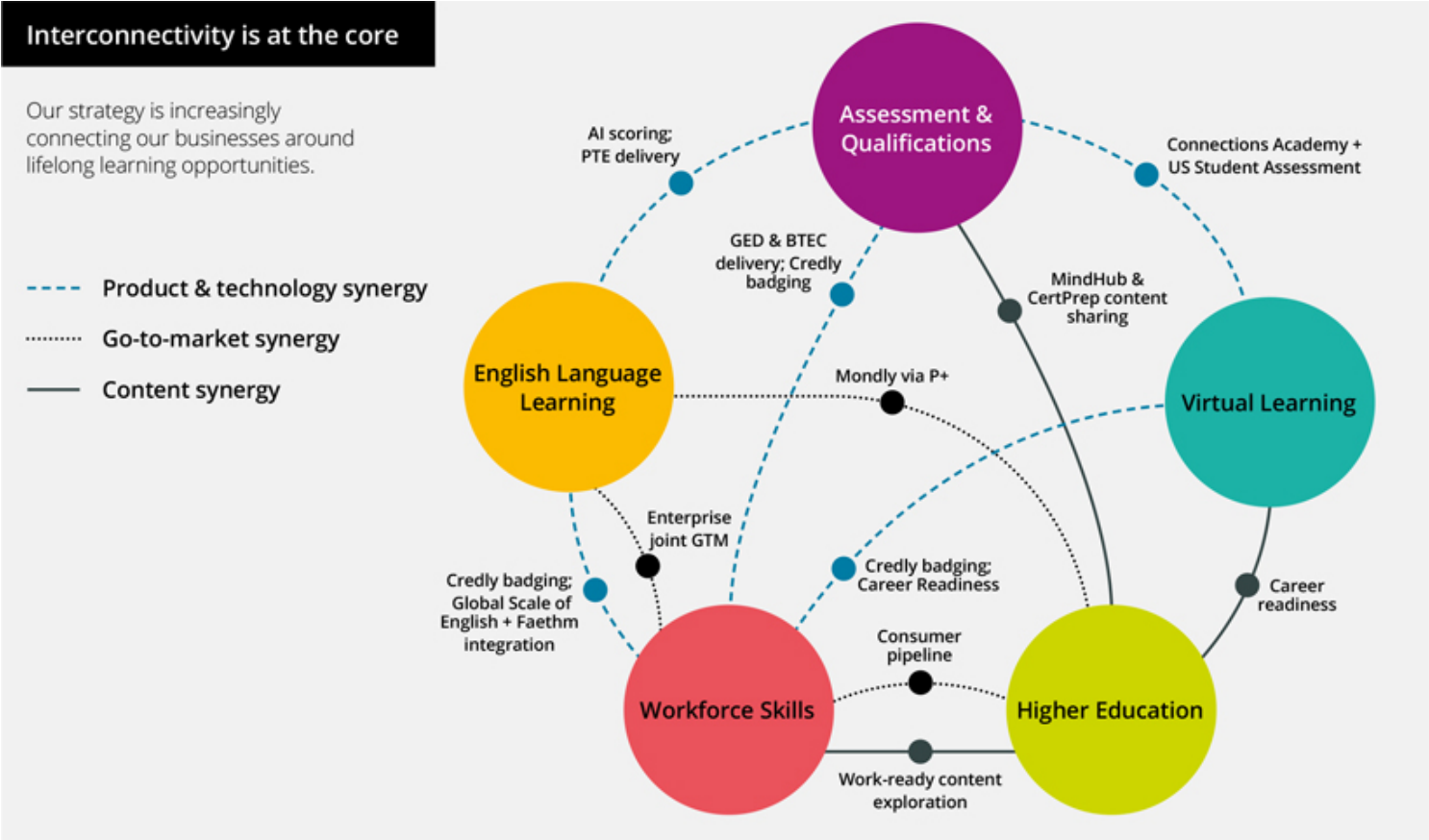
Pearson has evolved from a matrixed holding company to the focused end-to-end learning company we are today, as we integrate our businesses and products to form a lifelong digital learning ecosystem. As we better understand our consumers, we are embedding our insights to unlock synergies, build relationships and provide more relevant and inspiring products.

We are reshaping our product portfolio to meet increasing demand from consumers. Their needs are evolving to place a higher importance on skills and continuous learning, and they are consequently turning to their employers for support in upskilling and reskilling to ensure their relevancy in a dynamic workplace. More employers are investing in talent and we are working with them to provide the training and upskilling for their employees to help them progress.

Our 2022 results are evidence that our strategy is delivering results for our consumers and shareholders alike. We made good progress in 2022 both strategically and operationally, which is reflected in our strong financial performance: underlying sales growth was up 5% and underlying adjusted operating profit up 11%. Our new operating model has enabled us to identify approximately £120m of efficiencies in 2022, which we will deliver in 2023 and beyond. In turn, this will help us deliver our improved mid-teens margin target in 2023 - two years earlier than expected.

Our strong progress in the face of macroeconomic headwinds demonstrates the benefits of our well-diversified business, coupled with the fundamental lifelong need to learn.

- We are driving successful change by regularly reviewing and refining our portfolio through:**
- Significant organic investment, bringing new capabilities**
- We have invested in new capabilities for Pearson+, including Channels functionality.
 - Expanded the reach of our VUE remote proctoring solution to include an in-country China solution
 - Workforce Skills launched Skills Accelerator, a suite of peer-supported, project-based learning courses that help people complete business-critical projects while developing future skills
 - Developed our MondlyWORKS capabilities and go-to-market approach to grow our presence in the enterprise language learning market.
 - Virtual Learning began building an enhanced career readiness solution for K-12 students expected to launch later in 2023
- Acquisitions to bolster our capabilities and enter new markets**
- Recent acquisitions include Credly (Workforce Skills), Mondly (English Language Learning), Navy (Assessment & Qualifications), and ClutchPrep (Higher Education), and we have signed an agreement to acquire PDRI (Assessment & Qualifications).
- Strategic disposals to refine our portfolio**
- We completed the strategic review of our international courseware local publishing business, resulting in successful exits of our Europe, French Canadian, South Africa and Hong Kong local K12 publishing businesses.



Our strategy *continued*

Strategy in action

Enterprise / Workforce Skills

Our opportunity

Our ambition is to enable a world where people and organisations can achieve their full potential in the new skills economy. We believe that is no longer just about what you’ve done, but what you can do. Our objective is to provide solutions that help employees thrive and empower employers to maximise the value of their most important asset: their people.

The £200bn global Workforce Skills market is comprised of several different sub-markets including employee learning and development, talent management, and pre-hire recruitment services. This market is in the midst of widespread disruption, driven by seismic change in the workplace. The World Economic Forum estimates that over 1 billion people will need reskilling by 2030.

Organisations are struggling to navigate this change because they lack a comprehensive understanding of the skills their employees have, or the skills they need, to achieve their commercial goals. And without this understanding, their investments into current learning and development services are not delivering the results that they should be.

Progress so far

We have built integrated product and engineering teams, re-engineered our product portfolio and tech stack, developed a new product roadmap, launched new products, created a single global sales team and built a state-of-the-art global marketing and sales tech stack.

We have reshaped our Workforce Skills portfolio to serve an expanding remit, building on Pearson’s existing strong foundation with Enterprise consumers (c.16% of Group sales). To focus on the needs of our different customer segments, we have organised our

Workforce Skills division into two parts: Vocational Qualifications and Workforce Solutions.

Vocational Qualifications offers high quality vocational qualifications that allow learners to build the knowledge, skills and behaviours they need for career success. Whether it’s a Higher National Diploma in Computing, a BTEC in Health and Social Care, or training as part of the TQ Construction Academy, these provide the skills and qualifications that our economy needs now and in the future.

Workforce Solutions is our enterprise and consumer-focused business. It brings together our two recent acquisitions – Credly and Faethm – with our existing portfolio of products and capabilities in GED, Talentlens and Accelerated Pathways. We have moved quickly this year to restructure and integrate these businesses into a single global entity. Workforce Solutions’ portfolio of services has been specifically designed to meet the needs of enterprises and institutional customers, but with a core focus on the needs of the individual consumers upon which the success of any organisation depends.

Throughout 2022, we continued to grow our revenue, including our SaaS subscriptions, expanding our customer base by 133%, and accelerating our reach by adding 4.7m new users to our Credly platform.

We firmly fit into Pearson’s wider strategy, with products that can interconnect with others across the Pearson ecosystem, supporting and accelerating Pearson’s lifelong learning ambition.

For example, we have a library of certified preparation content and courses for IT professionals in Professional Learning and Development which is relevant for learners in the workplace. English is the globally recognised language of business, so we have added English to Faethm’s skills framework, as well as offering Credly badges for Pearson’s range of English assessment products.

English Language Learning

Our opportunity

We operate in a c.£6 billion addressable market, which integrates three key market segments:

1. Institutional English Language Learning: an addressable market of approximately £3 billion. We offer digital and blended courseware solutions to academic institutions, private language schools and enterprises across the globe.
2. Online self-study language learning, an addressable market of c.£2 billion with double-digit growth, which we have entered through our acquisition of Mondly.
3. High Stakes Assessments: an addressable market of c.£900 million. Our flagship product PTE is a verified, secure certification of English proficiency for international migrants and students.

A substantial element of our Institutional business is in K-12, which is generally government funded and backed, making it stable in a variety of macro-economic environments. For PTE, we believe that there will be a strong desire for people to invest in their education and to study in our key destination markets. We aim to acquire more new and existing language learners, and capture more of their lifetime spend on language learning, through cross-selling English Language Learning solutions. We are dedicated to growing the business through improving customer experience, which has already been successful in 2022, with a 24% increase in underlying revenue and 33% increase in underlying profit, and with the potential to gain further share over the next few years.

- a. Our institutional business plays an important strategic role. It provides the potential to form relationships with millions of institutional learners as well as corporate learners, and it lends invaluable reputation and credibility in the language space to our entire product portfolio. It is also a large lead-generator for our suite of assessment products and Mondly, both of which are complementary products that enhance the student experience.
- b. Mondly gives us more opportunities to reach more committed learners: a foothold in the fast-growing direct to consumer online language learning market, and the MondlyWORKS platform for enterprise language learning.
- c. PTE and Mondly give us more direct relationships with consumers, which is strategically important to the division and our ability to cross-sell within Pearson.

Progress so far

In 2022, we developed the Pearson English Skills Certificate, a new mid-stakes English exam which will complement the PTE to capture more of the English assessments market, and which will launch in 2023. We prioritised aligning Pearson products to the Global Scale of English (GSE), our proprietary scale that allows more granular understanding of English ability, furthermore, working to align Workforce Skills’ Faethm product, laying the ground for future collaboration. Finally, in addition to finding ways to use our institutional content to bolster Mondly material, particularly in the intermediate and advanced levels, we integrated Mondly with Pearson+, welcoming over 10,000 new users through this route.

This allows consumers to prove their language proficiency to employers. The connection between students and work is an obvious collaboration point with Pearson+ and there are fantastic opportunities to connect our services with Pearson VUE, to maximise the value that Pearson can bring to our enterprise customers and consumers.

“The growing skills gap is putting enormous pressure on the labour market, making verified credentials more essential than ever.”



Mike Howells, President, Workforce Skills

Spotlight on Credly

- Credly is an end-to-end solution for organisations to issue and manage digital credentials
- It adds an established, well-known credentialing service to our workforce analytics, learning & assessment capabilities
- It has a network of 3,000 certification and badge issuers
- It generates 70,000 new users every week
- It has issued more than 50 million credentials

“Mondly gives us an exciting foothold in direct to consumer English learning and expands our reach and scale in the language learning market.”



Giovanni Giovannelli, President, English Language Learning

Spotlight on Mondly

- Global language learning app
- 100m+ downloads
- 446k paid subscriptions
- Highly-rated app both on mobile and VR
- 41 languages offered, with more than 1,300 possible language pairs (learners can learn a target language from any other language)

Pearson+

Our opportunity

We are a leader in the Higher Education courseware market, with millions of students enrolled in courses using Pearson eTextbooks. We want to leverage this market dynamic in two phases:

1. Shift eTextbook consumption for students directly to Pearson+, and improve monetisation
2. Engage and retain students with relevant and valuable services beyond eTextbooks, and maximise consumer lifetime value

Pearson+ is currently monetised through paid access to eTextbooks by students where faculty adopt Pearson content in their courses. Our existing Higher Education business provides a large, efficient customer acquisition funnel for Pearson+. Additional content beyond eTextbooks, such as Pearson+ Channels, will encourage further use of the application. Over time, Pearson+ users can be further monetised through cross-selling other relevant Pearson products and services.

Progress so far

In 2022, we started to scale users and expand product features. During the fall back-to-school period, we launched Pearson+ Channels to engage students with supplemental study content. This feature offers short-form videos and practice to help students understand complex concepts and prepare for exams in the toughest college courses, whether they are using a Pearson eTextbook or not. We now offer nearly 20 channels, with thousands of learning videos and practice problems to help students succeed in their courses.

“Adding curated video and tutorials to Pearson+ delivers on our promise to bring vibrant learning experiences to even more people.”



Tim Bozik, Chief Product Officer

Our business model

Creating value

Our foundations

Committed people and partners

From our brilliant and dedicated employees to our fantastic authors, we are the home for the best talent. We have a broad range of partners across our business who we expect to share our Pearson values. Our relationships with governments, customers, non-governmental organisations (NGOs) and other global organisations help us to increase our impact on consumers around the world.

R&D and product innovation

Our product team, with expertise in learning science, has a focus on learning outcomes. Through ongoing innovation and Research and Development (R&D) we are committed to creating learning products which offer a great user experience and that demonstrate measurable learning progress.

Financial assets

Our shareholders entrust us with their capital in order to invest on their behalf for the long term.

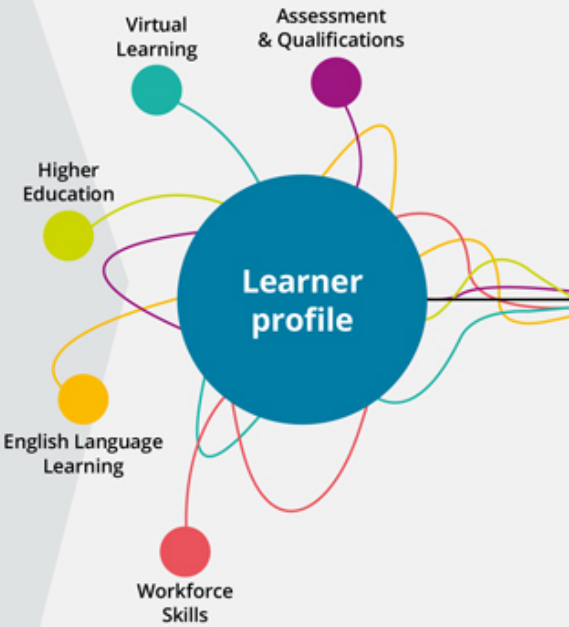
Our physical footprint

Our products and services are available in most countries and territories around the world and are focusing on simplifying our property portfolio to enable digital and flexible ways of working.

Data and insight

As we move to a direct to consumer business we are able to know our customers better – and serve them more effectively – through the effective and responsible use of data. We are also building out our capabilities in data analytics and AI through acquisitions including Faethm, which enable us to use data insights to help identify skills gaps and provide compelling solutions to workforce challenges.

An integrated business to support customers through their learning journey



See overleaf for examples of how our businesses support customers through their learner journeys

Strong market fundamentals

We are well placed to benefit from structural tailwinds in the global learning market including three big market opportunities:

1

Online and digital tools for schools and education

2

Solutions to evaluate and address workforce skills gaps

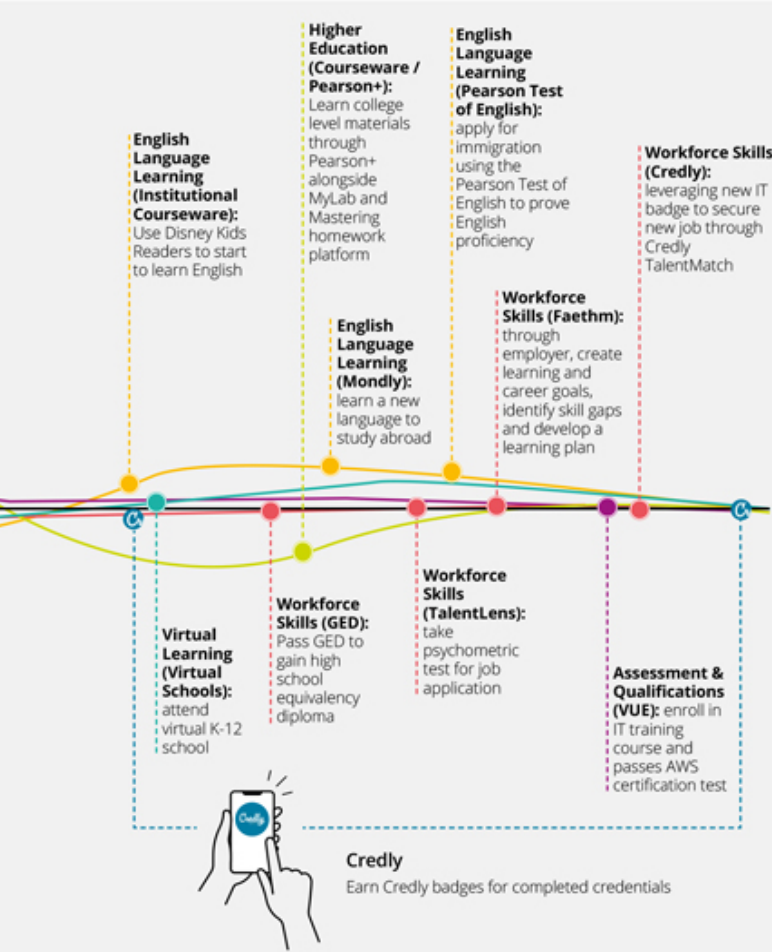
3

Academic and professional skills accreditation and certification

Direct-to-Consumer

Increasing Direct to Consumer products and services is an important initiative that spans all our divisions. For example, we are growing Pearson+, our digital learning service in Higher Education, alongside our acquisition of Direct to Consumer language learning platform Mondly. Both of these services will be an important customer acquisition tool underpinning our Direct-to-Consumer offerings across the Group.

Our Direct-to-Consumer strategy also means that our business model needs to evolve. We now go directly to consumers as well as through our existing models whereby we reach the consumer via an educational institution, employer or other partner.



How we create long-term stakeholder value

Consumers

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

Employees

We intend to maximise the value of Pearson's own human capital by giving our people opportunities to learn and verify new skills aimed toward professional growth and success.

Employers

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

Educators

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

Governments

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

Shareholders

We aim to provide long-term shareholder value creation.

Business partners

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

Communities

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



Partners and support functions

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

Sustainability

We have a roadmap to become net carbon zero and we continue to enhance our reporting structures according to TCFD, SASB and GRI principles (see pages 30-42 and pages 221-226). Our unique business model will enable us to reach our purpose at Pearson which is to add life to a lifetime of learning for people around the globe. Learning is one of the greatest drivers of human progress, so as we fulfil our purpose, we help transform lives, livelihoods, and societies.

Measuring progress

We measure our progress against five non-financial KPIs:

- Digital Growth
- Consumer Engagement
- Product Effectiveness
- Culture of Engagement and Inclusion
- Sustainability

Read more on pages 18-19

Key performance indicators

Monitoring progress

Non-financial measures

Digital Growth Objective: Drive digital revenue growth	Digital sales* Underlying Growth in group digital and digital-enabled sales +9% (2021: +9%) 22 Digital: 44% Digital-enabled: 35% Non-digital: 21% 21 Digital: 43% Digital-enabled: 31% Non-digital: 26% 20 Digital: 45% Digital-enabled: 28% Non-digital: 27% 19 Digital: 36% Digital-enabled: 30% Non-digital: 34% 18 Digital: 34% Digital-enabled: 28% Non-digital: 38%						
	Virtual Schools US enrolments	OPM student enrolments	OnVUE volumes	PTE volume	Higher Education US digital registrations		
	106k	270k	3.0m	827k	9.9m		
	(2021: 111k)	(2021: 275k)	(2021: 3.0m)	(2021: 436k)	(2021: 11.1ma)		
Consumer Engagement Objective: Create engaging and personalised consumer experiences	NPS for Connections Academy	NPS for PTE	Mondly paid subscriptions	Workforce Skills registered users ^c	Pearson+ registered users ^b		
	+67	+52	446K	4.7m	2.83m		
	(2021: +62)	(2021: +56)	(2021: n/a)	(2021: n/a)	(2021: 2.75m)		
Product Effectiveness Objective: Improve the effectiveness of our products to deliver better outcomes	PTE speed of score return	VUE Test volumes ^d	VUE partner retention ^e	Workforce Skills number of enterprise customers ^f	Workforce Skills enterprise customer net retention rate	Higher Education Product usage - text units	
	1.3 days	19.4m	99.9%	1,503	74%	4.8m	
	(2021: 1.2 days)	(2021: 16.8m)	(2021: 99%)	(2021 : 645)	(2021: n/a)	(2021: 5.4m)	
Culture of Engagement and Inclusion Objective: Build an inclusive culture and increase diverse representation	Employee Engagement Pearson uses the Gallup Q12[®] survey to measure engagement, annually 3.96 grand mean on a 5 point Likert scale (2021: n/a)		Investing in diverse talent The % of responses who agree or strongly agree to Gallup Q12[®] survey questions In the last six months, someone at work has talked to me about my progress 67% (2021: n/a) This last year, I have had opportunities at work to learn and grow 72% (2021: n/a)		Culture of inclusion index The grand mean of 3 Gallup Q12[®] survey questions — At work, I am treated with respect — My company is committed to building the strengths of each employee — If I raised a concern about ethics and integrity, I am confident my employer would do what is right 4.12 grand mean on a 5 point Likert scale (2021: n/a)		Increasing diverse talent % of people in leadership development and mentoring programmes who are diverse. 75% (2021: n/a) % of people in succession plans for leadership who are diverse Women People of Colour/BAME 52% 26% (2021: 72%) (2021: 24%)
Sustainability Strategy Objective: Achieve net zero carbon by 2030	Progress against achieving net zero carbon by 2030, as measured through percentage carbon reduction						
	Reduction in total tCO ₂ in 2022		Reduction in total tCO ₂ in 2021				
	33%		31%				
	vs 2018g		vs 2018g				

a. 2021 US digital registrations restated from 11.4m to 11.1m due to recategorising 0.3m of registrations from US to International.

b. Pearson+ registered users represents the number of unique user accounts added over an academic year.

c. Workforce Skills registered users represents the number of net new user accounts on a trailing 12-month basis and includes net new user accounts from Credly pre-acquisition.

d. VUE test volumes include GED tests.

e. VUE Partner retention is based on revenue mix.

f. Workforce Skills number of enterprise customers represent the number of customers at period end.

g. Net zero carbon figures have been restated in 2021 to reflect acquisitions, disposals and data improvements. The net zero carbon figures have been assured by an independent third-party, Corporate Citizenship.

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

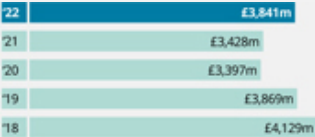
Please find further details on our Strategic KPIs here <https://plc.pearson.com>

See how this aligns strategy to management reward: pages 98 & 99

Financial measures

Sales^b

£3,841m



This is our revenue as reported in our income statement.

Adjusted operating profit^a

£456m



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

Net debt^a

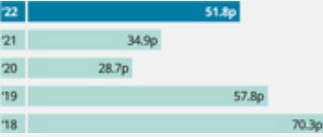
£557m



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

Adjusted earnings per share^a

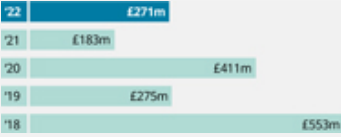
51.8p



A non-GAAP financial measure used to evaluate performance.

Operating profit^b

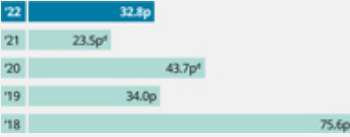
£271m



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

Basic earnings per share^b

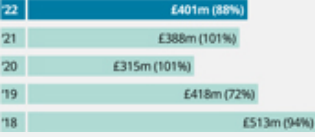
32.8p



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

Operating cash flow and cash conversion^a

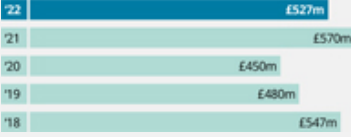
£401m (88%)



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

Net cash generated from operations^b

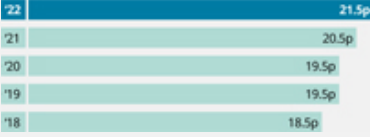
£527m



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

Dividend per share

21.5p



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

Total shareholder returns^c

57.16%



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

Return on Capital^a

8.7%



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

- a. See page 215 for an explanation of these alternative performance measures.
- b. Statutory measure.
- c. Source: Bloomberg.
- d. Comparative amounts have been restated, see note 1 of the financial statements for further details.

Note: See page 215 for full reconciliation of the alternative performance measures to the equivalent statutory measure.

See how this aligns strategy to management reward: pages 98 & 99

For more information on our KPI measures, including why and how we measure them, please refer to the glossary on our website.

Financial review

We saw continuing momentum in 2022, with 5% underlying sales growth and adjusted operating profit of £456 million.

Sally Johnson, Chief Financial Officer



Financial summary

Business performance					
£ millions	2022	2021	Headline growth	CER growth	Underlying growth
Sales	3,841	3,428	12%	3%	5%
Adjusted operating profit	456	385	18%	6%	11%
Operating cash flow	401	388			
Adjusted earnings per share	51.8p	34.9p			
Net debt	(557)	(350)			

Statutory results			
£ millions	2022	2021	Headline growth
Sales	3,841	3,428	12%
Operating profit	271	183	
Profit for the year	244	178*	
Cash generated from operations	527	570	
Basic earnings per share	32.8p	23.5p*	
Dividend per share	21.5p	20.5p	

Throughout this section: a) Growth rates are on an underlying basis unless otherwise stated. Underlying growth rates exclude currency movements and portfolio changes; b) The 'business performance' measures are non-GAAP measures, and reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section on pages 215-219; c) Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year.

* Comparative amounts have been restated, see note 1b to the financial statements for further details.

Financial expectations

Segment	2022 revenue (£m)	Margins 2022*	2023 expectations Revenue	2023 expectations Margins*	Underlying revenue 3-year CAGR 2022 to 2025	Margins 2025*
Assessment & Qualifications	1,444	18%	Low to mid-single digit	Increase	Low to mid-single digit	Increase
Virtual Learning	820	9%				
Virtual Schools	519		Mid-single digit decline	Increase	Low-single digit	Increase
OPM	301		----- Under strategic review -----			
Higher Education	898	10%	Low-single digit decline	Increase	Low to mid-single digit	Increase
English Language Learning	321	8%	High-single digit	Increase	High-single digit	Increase
Workforce Skills	204	(1)%	Double-digits	Improve	Greater than 20%	Increase
Strategic review	154	10%				
Group	3,841	12%	Excluding OPM and Strategic review: Low to mid-single digit	Mid-teens	Mid-single digit	Upper end of mid-teens

* Adjusted operating profit margins.

Operating results

Sales increased on a headline basis by £413m or 12% from £3,428m in 2021 to £3,841m in 2022 and adjusted operating profit increased by £71m or 18% from £385m in 2021 to £456m in 2022 (for a reconciliation of this measure see note 2 to the consolidated financial statements).

The headline basis simply compares the reported results for 2022 with those for 2021. We also present sales and profits on an underlying basis which exclude the effects of exchange, the effect of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Our portfolio change is calculated by excluding sales and profits made by businesses disposed in either 2021 or 2022 and by ensuring the contribution from acquisitions is comparable year on year. Portfolio changes mainly relate to the disposals of our international courseware local publishing businesses in Europe, French-speaking Canada, South Africa and Hong Kong in 2022, the sale of the Sistemas business in Brazil in 2021 and the acquisitions of Credly and Mondly in 2022 and of Faethm in 2021.

All figures in £ millions	2022	2021
Operating profit	271	183
Add back: Cost of major restructuring	150	214
Add back: Intangible charges	56	51
Add back: UK pension discretionary increases	3	–
Add back: Other net gains and losses	(24)	(63)
Adjusted operating profit	456	385

On an underlying basis, sales increased by 5% in 2022 compared to 2021 and adjusted operating profit increased by 11%. Currency movements increased sales by £296m and increased adjusted operating profit by £46m. Portfolio changes decreased sales by £37m and decreased adjusted operating profit by £13m. There were no new accounting standards adopted in 2022 that impacted sales or operating profits.

Adjusted operating profit includes the results from discontinued operations when relevant but excludes charges for intangible amortisation and impairment, acquisition related costs, gains and losses arising from disposals, the cost of major restructuring and one off-costs related to the UK pension scheme. A summary of these adjustments is included below and in more detail in note 2 to the consolidated financial statements.

In August 2022, the Group announced a major restructuring programme to run in 2022. The programme includes efficiencies in product and content, support costs, technology and corporate property.

The restructuring costs in 2022 of £150m mainly relate to staff redundancies and impairment of right-of-use property assets. In 2021, restructuring costs of £214m mainly related to the impairment of right-of-use property assets, the write-down of product development assets and staff redundancies. The 2022 charge includes the impact of updated assumptions related to the recoverability of right-of-use assets made in 2021.

Intangible amortisation charges in 2022 were £56m compared to a charge of £51m in 2021. This is due to increased amortisation from recent acquisitions partially offset by a reduction in amortisation from intangible assets at the end of their useful life and recent disposals.

UK pension discretionary increases in 2022 relate to one-off pension increases awarded to certain cohorts of pensioners in response to the cost of living crisis.

2023 outlook

We are confident of further group underlying sales growth of low to mid-single digit, excluding OPM and the strategic review businesses, with adjusted operating profit and tax in line with current market expectations¹. Our interest charge is expected to be c.£35m.

- Assessment & Qualifications revenue growth of low to mid-single digit with increased margins.
- In Virtual Learning, Virtual Schools revenue to decline by mid-single digit impacted by the COVID-19 cohort unwind in the 2022/23 academic year, as well as the loss of a major school. We expect margins to increase. We remain confident in the long-term performance of this division and will launch Career Academies aimed at supporting teenagers who wish to gain career education and experience. Four Career Academies will operate in the 2023-24 school year in four states and enrolment is underway. OPM continues to be under strategic review.
- Higher Education revenue to decline, by low-single digit, with increased margins.
- English Language Learning revenue growth of high-single digit with increased margins.
- Double-digits revenue growth in Workforce Skills, underpinned by our talent investment platform, with improved margins.

2025 ambition

We continue to expect the Group to achieve mid-single digit underlying revenue 3-year CAGR from 2022 to 2025 and for margins to be mid-teens in the near term, as we invest to drive growth, improving by 2025.

1. 2023 consensus on the Pearson website as at 28th November 2022; median adjusted operating profit of £585m at £:\$ 1.14, tax rate 24%.



Financial review *continued*

Other net gains and losses in 2022 relate to the gains on the disposal of our international courseware local publishing businesses in Europe, French-speaking Canada and Hong Kong and a gain arising on a decrease in the deferred consideration payable on prior year acquisitions, offset by a loss on disposal of our international courseware local publishing businesses in South Africa due to recycled currency translation adjustments and costs related to disposals and acquisitions. Other net gains and losses in 2021 largely related to the disposal of PIHE and the disposal of the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethm and the wind down of certain strategic review businesses.

The reported operating profit of £271m in 2022 compares to a profit of £183m in 2021. The increase in 2022 was driven by operating leverage on revenue growth, property cost savings and a lower restructuring charge, partially offset by inflation and a reduction in other net gains and losses from business acquisitions and disposals.

Divisional results

£ millions	2022	2021	Headline growth	CER Growth	Underlying growth
Sales					
Assessment & Qualifications	1,444	1,238±	17%	8%	8%
Virtual Learning	820	713	15%	4%	4%
Higher Education	898	849	6%	(4)%	(4)%
English Language Learning	321	238	35%	28%	24%
Workforce Skills	204	172	19%	16%	7%
Strategic review	154	218±	(29)%	(30)%	(16)%
Total	3,841	3,428	12%	3%	5%
Adjusted operating profit					
Assessment & Qualifications	258	219±	18%	6%	6%
Virtual Learning	70	32	119%	88%	88%
Higher Education	91	73	25%	12%	12%
English Language Learning	25	15	67%	47%	33%
Workforce Skills	(3)	27	(111)%	(104)%	(67)%
Strategic review	15	19±	(21)%	(26)%	0%
Total adjusted operating profit	456	385	18%	6%	11%

± Comparative amounts have been restated to reflect the move between operating segments.

Assessment & Qualifications

In Assessment & Qualifications, sales increased 8% on an underlying basis and 17% on a headline basis. Adjusted operating profit increased 6% in underlying terms due to operating leverage on revenue growth partially offset by inflation and 18% in headline terms due to this and currency movements.

Pearson VUE sales were flat in underlying terms with test volumes increasing 16% to 19.4m with particularly strong growth in the IT and healthcare segments, offset by the known headwind resulting from the DVSA contract change, as previously announced in 2021. Within VUE test volumes, we still capture the volume for all three DVSA regions, given we provide the central platform for test delivery. We retained all our major contracts that were up for renewal and increased our contract renewal rate to 99.9% across the business.

In US Student Assessment, sales increased 17% in underlying terms due to a combination of the commencement of new contracts, which were won in 2020 and 2021, a return of volumes with full state testing commencing post COVID-19, and the addition of new services to existing contracts.

In Clinical Assessment, sales increased 7% in underlying terms due to good government funding and continued focus on health and wellbeing.

In UK and International Qualifications, sales increased 16% in underlying terms as exams resumed following COVID-19.

Virtual Learning

In Virtual Learning, sales increased 4% on an underlying basis and 15% on a headline basis. Adjusted operating profit grew 88% in underlying terms due to operating leverage on revenue growth and efficiency improvements in Virtual Schools and OPM, more than offsetting the investment in our Virtual Schools' platform and teaching costs, and increased 119% in headline terms due to this and currency movements.

Virtual Schools sales were up 4%, driven by firm retention rates in the 2021/22 academic year and favourable revenue mix, partially offset by a 5% decline in enrolments for the 2022/23 academic year and lower district partnership renewals. We opened new full-time online partner schools in Colorado, Missouri and Virginia which partially offset the planned exits of partner schools in Washington, Colorado, Missouri and one of two schools in Tennessee. As at December 2022, this brings the 2022/2023 total number of partner schools to 46 in 31 states.

In OPM, sales were up 4% driven by enrolment growth in our UK and Australia programs, which were offset by an enrolment decline in our North America programs.

Higher Education

In Higher Education, sales declined 4% for the full year on an underlying basis and increased 6% on a headline basis due to currency movements. Adjusted operating profit increased 12% in underlying terms driven primarily by cost savings, partially offset by trading performance, and increased 25% in headline terms due to this and currency movements.

In the US, we saw a decline in enrolments and a loss of adoptions to non-mainstream publishers, including open educational resources, partially offset by improved pricing. There was continued momentum in Inclusive Access with 9% sales growth to not-for-profit institutions and the total number of institutions increasing to 1,040. Pearson+ performed well in the Fall semester with 2.83m registered users and 406k paid subscriptions, representing a threefold increase compared to the prior year Fall semester.

English Language Learning

In English Language Learning, sales were up 24% on an underlying basis and 35% on a headline basis. Adjusted operating profit increased by 33% in underlying terms due to increased revenue partially offset by increased investment and increased 67% in headline terms due to this and currency movements.

PTE volumes were up 90% driven by border re-openings, as well as market share gain in India. Within Institutional, there was strong growth in Latin America and the Middle East, offset by the impact of government reforms in China.

Workforce Skills

In Workforce Skills, sales were up 7% on an underlying and 19% on a headline basis. Adjusted operating profit declined by 67% in underlying terms due to investment in the business across Faethm, Credly and our talent investment platform and decreased 111% in headline terms due to this, currency movements and portfolio changes.

Revenue growth was driven by growth in BTEC and Apprenticeships, GED and TalentLens. The Vocational Qualifications business (previously known as the Performance business) grew by 5% in underlying terms. The Workforce Solutions business (previously known as the Transformation business) grew by 12% in underlying terms. Pearson has 1,503 enterprise clients in its Workforce Skills portfolio, up 133% on last year, with the acquisition of Credly underpinning this growth.





Other comprehensive income

Also included in other comprehensive income in 2022 is an actuarial gain of £54m in relation to the retirement benefit obligations of the Group. The gain arises largely from a decrease in liabilities driven by higher discount rates and changes to demographic assumptions, partially offset by losses on associated matching assets and experience losses. The actuarial gain in 2022 of £54m compares to an actuarial gain in 2021 of £149m.

In 2022, a loss of £5m (2021: £4m gain) was recycled from the currency translation reserve to the income statement in relation to businesses disposed.

Our operating cash flow measure is an adjusted measure used to align cash flows with our adjusted profit measures. Operating cash inflow increased on a headline basis by £13m from £388m in 2021 to £401m in 2022. The increase is largely explained by the drop-through of increased operating profits offset by unfavourable working capital movements driven by the timing of the disposals of the international courseware local publishing businesses and an increase in capitalised product development.

In 2022, there was an overall £394m decrease in cash and cash equivalents compared to a decrease of £176m in 2021. The decrease in 2022 is primarily due to payments for acquisitions of subsidiaries of £228m, repayments of borrowings of £171m, dividends paid of £157m, share buyback programme of £353m, other own share purchases of £37m, tax paid of £109m, capital expenditure of £147m, and repayments of lease liabilities of £93m. These were offset by the cash inflow from operations of £527m and proceeds from disposals of businesses and investments of £350m.

* Comparative amounts have been restated, see note 1b to the financial statements for further details.

Liquidity and capital resources

The Group's net debt increased from £350m at the end of 2021 to £557m at the end of 2022. The increase is largely due to the £350m share buyback programme and dividend payments, partially offset by strong operating cash flow and net proceeds from M&A activity.

In May 2022, the Group repaid the remaining \$117m (£95m) of its 2022 US dollar bond upon maturity. In December 2022, the Group repaid the remaining \$94m (£76m) of its 2023 US dollar bond. In May 2021, the Group repaid the remaining €195m (£167m) of its €500m Euro 1.85% notes.

At 31 December 2022, the Group had approximately £1.4bn in total liquidity immediately available from cash and its Revolving Credit Facility maturing February 2026. In assessing the Group's liquidity and viability, the Board analysed a variety of downside scenarios including impacts from macro economic factors and other risks. Even under a severe downside case where declines in profitability compared to 2022 are modelled in 2023 and 2024, the Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment even before modelling the mitigating effect of actions that management would take in the event that these downside risks were to crystallise. In all scenarios it is assumed that the Revolving Credit Facility is available.

At 31 December 2022, the Group was rated BBB- (stable outlook) with Fitch and Baa3 (stable outlook) with Moody's.

Net debt

Post-retirement benefits

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

The charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £66m in 2022 (2021: £58m), of which a charge of £75m (2021: £62m) was reported in operating profit and income of £9m (2021: £4m) was reported in other net finance costs. In 2022, a charge of £3m (2021: nil) related to one-off discretionary pension increases has been excluded from adjusted operating profit.

The overall surplus on UK Group pension plans of £537m at the end of 2021 has increased to a surplus of £573m at the end of 2022. The increase has arisen principally due to the actuarial gain noted above in the other comprehensive income section. In total, our worldwide net position in respect of pensions and other post-retirement benefits increased from a net asset of £471m at the end of 2021 to a net asset of £520m at the end of 2022.

Businesses acquired

In January 2022, the Group acquired 100% of the share capital in Credly Inc (Credly), having previously held a 19.9% interest in the company. Total consideration for the acquisition was £149m comprising upfront cash consideration of £107m, Pearson's existing interest valued at £31m and £11m of deferred consideration. The deferred consideration is payable in 2 years.

Additional contingent amounts are also payable in 2024 if certain revenue and non-financial targets are met, and dependent on continuing employment, and therefore these additional amounts will be expensed over the period and are not treated as consideration. Net assets acquired of £44m were recognised on the Group's balance sheet including £49m of acquired intangible assets. Goodwill of £105m was also recognised in relation to the acquisition.

In April 2022, the Group acquired 100% of the share capital of ATI STUDIOS A.P.P.S S.R.L (Mondly). Total consideration for the acquisition was £135m comprising upfront cash consideration of £105m, and deferred consideration of £30m. The deferred consideration is payable over the next two years. In addition, a further \$29.6m (c£24m) of cash and \$10m (c£8m) in shares will be paid over the next four years, dependent on continuing employment, and therefore will be expensed over the period and are not treated as consideration. Net assets acquired of £38m were recognised on the Group's balance sheet including £50m of acquired intangible assets. Goodwill of £97m was also recognised in relation to the acquisition.

In 2022, the Group also made two smaller acquisitions for total consideration of £11m. In December 2022, the Group announced that it had signed a deal to acquire 100% of Personnel Decisions Research Institutes, LLC, the transaction has not yet completed.

The cash outflow in 2022 relating to acquisitions of subsidiaries was £228m. In addition, there was a cash outflow relating to the acquisition of associates of £5m and investments of £12m.

In September 2021, the Group completed the acquisition of 100% of the share capital of Faethm Holdings Pty Limited ("Faethm"), having already held 9% of the share capital previously. Total consideration for the acquisition was £65m comprising cash consideration of £49m, £6m related to the Group's existing interest in Faethm and £10m of contingent consideration. Net assets acquired of £27m were recognised on the Group's balance sheet including £21m of acquired intangible assets. Goodwill of £38m was also recognised in relation to the acquisition. Contingent consideration amounts have been settled during 2022 resulting in the recognition of an £8m gain in the income statement within other net gains and losses.

In 2021, the Group also made two smaller acquisitions for total consideration of £11m and acquired interests in two associates, Smashcut and Academy of Pop, for total consideration of £17m.

The cash outflow in 2021 relating to acquisitions of subsidiaries was £55m. In addition, there was a cash outflow relating to the acquisition of associates of £10m and investments of £4m.

Businesses disposed

In March 2021, the Group announced that it was launching a strategic review of its international courseware local publishing businesses. In 2022, the Group disposed of its interests in the Canadian educational publisher (ERPI), Pearson Italia S.p.A, Stark Verlag GmbH, Austin Education (Hong Kong) Limited, Pearson South Africa (Pty) Ltd and various other South African companies. Total cash proceeds received was £287m resulting in a pre-tax gain on disposal of £42m. All entities disposed of were previously in the Strategic Review segment. £5m of losses arose from other immaterial disposals and costs related to the wind-down of certain businesses. None of the disposed businesses meet the criteria to be presented as discontinued operations.

In February 2021, the Group completed the sale of its interests in PIHE in South Africa resulting in a pre-tax loss of £5m. In October 2021, the Group completed the sale of its K12 Sistemas business in Brazil resulting in a pre-tax gain of £84m.

The cash inflow in 2022 relating to the disposal of businesses was £333m mainly relating to the disposals described above and the receipt of deferred proceeds from the US K12 Courseware sale in 2019.

In 2021, the cash inflow from disposals of £83m mainly related to the disposal of the K12 Sistemas business and the receipt of deferred proceeds from the US K12 Courseware sale in 2019.

In addition, proceeds of £17m (2021: £48m) were received in relation to the disposal of investments.

Dividends

The dividend accounted for in our 2022 financial statements totalling £156m represents the final dividend in respect of 2021 (14.2p) and the interim dividend for 2022 (6.6p). We are proposing a final dividend for 2022 of 14.9p bringing the total paid and payable in respect of 2022 to 21.5p.

This final 2022 dividend which was approved by the Board in March 2023, is subject to approval at the forthcoming AGM. For 2022, the dividend is covered 2.4 times by adjusted earnings.

Share buyback

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme commenced on 4 April 2022 and completed in December 2022. Approximately 42.3m shares have been bought back and cancelled at a cash cost of £353m. The nominal value of the cancelled shares of £10m has been transferred to the capital redemption reserve.

Climate change

The Group has assessed the impacts of climate change on the Group's financial statements. The assessment did not identify any material impact on the Group's significant judgements or estimates, the recoverability of the Group's assets at 31 December 2022 or the assessment of going concern for the period to June 2024.

Post balance sheet events

In February 2023, the Group renegotiated its revolving credit facility, reducing the maximum facility to \$1bn.

Pearson holds investments in unlisted securities with a value at 22 December 2022 of £133m. Some of the businesses relevant to this investment, bank with Silicon Valley Bank which collapsed in early March 2023. Given the US Government has announced that it will guarantee all deposits held at Silicon Valley Bank, any subsequent risk to the valuation of these investments is considered by management to be low, but possible.

Conclusion

We delivered a strong financial performance, despite the challenges arising from economic and geopolitical uncertainty, and have identified margin improvements that bring our profitability target of mid-teens margins forward by two years. My colleagues across finance have helped the business successfully respond to opportunities and challenges that have arisen, through appropriate financial control, critical insights and value creation. I would like to thank them for their hard work and commitment throughout the year.

“Given these strong results, and our confidence in the outlook for the Group, the Board are proposing a 5% increase in the full year dividend to 21.5p.”



Sally Johnson
Chief Financial Officer

Stakeholder engagement

Learning from our stakeholders

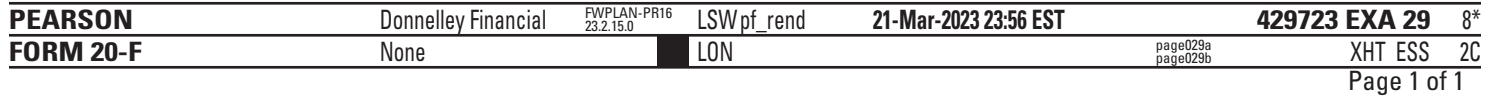
Learning is at a pivotal moment, where it is becoming more fluid and exists inside and outside of formal education. Our purpose – to add life to a lifetime of learning – sits at the heart of everything we do. Our digital-first strategy aims to meet these evolving needs of learners at multiple points in their lives.

Our ability to succeed depends, in part, on how we engage with and mobilise a diverse group of stakeholders - consumers, employees, shareholders, educators, employers, business partners, and governments.

This year, we have continued our many partnerships with stakeholders to respond to the needs of our audiences as they move through different life stages, helping to transform lives, livelihoods, and societies, while making a positive impact on our business.

 Consumers		
Why we engage	How we engage	Outcomes
Our products and services are designed for real-life impact. Consumer engagement helps us to understand their needs and evolve our products to create that impact.	As more people use digital learning products such as Pearson+ and Mondly we can listen to and learn from consumers, informing our innovation and driving better lifelong learning. For example, we know from our 4.8 million Pearson+ Channels registered users that they have engaged in nearly 2 million minutes of video content and 1 million practice problems. Groups including our Pearson Campus Ambassadors allow us to engage directly with college students about their needs and preferences. Feedback from users of Mondly is helping us refine and improve our AR/VR offering, which ranks highly among Oculus users. Across the company, custom consumer research and insight studies are also playing a greater role in understanding the attitudes of today's consumer and how people consume learning content, use digital products, and purchase learning materials.	Understanding how and why our consumers use our products leads to the development of features that make them more engaging and user friendly. As we study the engagement data in Pearson+, we continue to increase our understanding of consumer behaviour and preferences. This is allowing us further evolve Pearson+, exploring new types of content, enhancing features such as Pearson+ Channels, and tailoring other offerings like the student friendly marketing partnerships that launched in 2022. In Mondly, understanding the barriers that consumers face during language learning, particularly the difficulty in accessing in person tutors, led us to pilot a new conversational AI platform to help support learners practice needs. Our consumer-focused products, such as Mondly have features and content that meet the needs of today's consumer for affordable, accessible, and direct to consumer learning.

 Educational institutions and educators		
Why we engage	How we engage	Outcomes
Educators are a cornerstone of our business and our partners in content creation. Their feedback helps us improve the teaching and learning experience.	In our US Higher Education business, our Faculty Advisor group feeds back on the needs of educators and students. They also act as ambassadors for our products with existing and potential customers, carrying out regular campus visits and webinars. Our authors, often educators themselves, are increasingly active in reviewing our digital products and product features, such as the development of Pearson+ and Channels. In the UK, after a difficult experience with BTEC results, we have made a particular effort this year to seek input from educators about how we should improve the process for awarding BTECs.	Our work with educators provides us with unique insights that reflect experiences of both teachers and students. In many cases, feedback from educators leads to concrete change that informs our products and services. This is the case for BTECs, where we are changing specific elements of our awarding process to ensure a smoother experience for students and educators.



Outcomes

The IT and healthcare sectors continue to perform well for Pearson VUE. On a more personal level, we are seeing breakthroughs such as 177 Amazon employees who earned their GED with Pearson, proving that the impact of learning is important, no matter the scale.

Outcomes

We are evolving our results presentations to make them more interactive and engaging, with heightened use of video, photography, and social assets.

Stakeholder engagement *continued*

Government and regulators		
Why we engage	How we engage	Outcomes
Governments around the world are charged with implementing policies to expand learning opportunities so their citizens can achieve life goals. As the world's leading learning company, we use our experience and expertise on issues related to all facets of education, to inform political and educational leaders.	The economic and employment environment in many countries featuring labour shortages, and a rapidly evolving workforce, has spurred policymakers to develop wide-scale programmes to attract, train and upskill workers. By engaging with policymakers, we work to ensure that learners of all ages have access to high-quality educational opportunities, leading to better prospects for individuals, as well as improved economic outcomes for society.	Given governments' need of support, we engaged with governors across the US, outlining data on future skills needs, learning loss, and success of online learning in their regions, to inform policy decisions on areas of focus in education, skills, language training, and recruitment. Outside the US and UK, many more countries and students want access to technical education certifications, English language courses and proficiency. In 2022, we engaged with UK and US embassies in Central and South America and Asia to support countries' efforts in this area.
Employees		
Why we engage	How we engage	Outcomes
Pearson's people are its greatest asset. Our success as a business and our ability to make a positive impact are highly dependent upon our colleagues. Our managers play a pivotal role in driving engagement throughout Pearson, and we are empowering them with new tools and training to support them and their teams.	In 2022, we launched a new employee engagement survey to better understand our employees' needs and to benchmark ourselves globally. We also launched a new digital employee experience platform to improve communication across Pearson. We communicate regularly with our managers and leaders through interactive forums and newsletters and hold global town halls and virtual meet-ups available to all colleagues. Our employee engagement network meets regularly with Non-Executive Directors. To read more about the Board's engagement with employees, see the Governance report on page 53.	Our people actively engage in feeding back, and in 2022, 72% of colleagues participated in our new engagement survey. An average 2,000-3,000 colleagues join our global town halls live, and more than 34,000 users have already accessed our new digital employee experience platform. We know that employee engagement fuels performance and has a direct impact on customer loyalty, productivity, profitability, and their wellbeing. We're using our engagement survey results as a baseline to measure engagement at a local level, and to drive change in the areas that matter most to our people.
Business partners and institutions		
Why we engage	How we engage	Outcomes
Our suppliers, channel partners, venture partners, and authors play a vital role in helping us execute our business and product strategies, bringing specialised services and expertise to accelerate our work.	Supplier diversity and responsible procurement are key priorities for the company. This year we added two new supplier portals that provide access to over 1 million diverse accredited suppliers. In Assessment & Qualifications, our mentor-protege programme is designed to help small and minority owned suppliers grow their business inside and outside of Pearson. Pearson provides additional support to enhance their professional development and business growth, so they can improve their competitive position across the marketplace. This helps Pearson improve the diversity of our suppliers and promotes responsible and sustainable procurement practices. Additionally, we continue to add business partners who contribute to the diversity of our workforce. In 2022, those new partners included People of Colour in Tech, a recruitment platform that connects under-represented groups with tech jobs and the Hispanic Association on Corporate Responsibility, which works to advance the inclusion of Hispanics in corporate America.	Our work with outside partners is one way we're building a culture that values diversity, environmental stewardship, and social impact, alongside business growth. We have made a public commitment to support diverse accredited suppliers and have grown our 2022 spend in this area. We are also working towards sourcing 100% of our paper ethically.

Communities		
Why we engage	How we engage	Outcomes
We strive to make a positive and meaningful impact in the communities in which we operate. Learning opportunities and outcomes are closely linked to the prosperity of local communities and inclusive global development. Our global communities are interested in widening access to education through innovation, and the steps we are taking to have a positive impact on society and the environment.	In addition to maintaining relationships with key organisations, we participate in multi-stakeholder initiatives to promote lifelong learning opportunities for all and ensure the lasting protection of our planet. Our global volunteering policy enables all our people to take up to five paid volunteer days off to donate their time to what matters most to them and their local communities.	Learning and acquiring new skills are some of the greatest drivers of positive social mobility. The biggest impact we have on society is by delivering our products and services such as Connections Academy, Accelerated Pathways, GED, and BTECs to name a few. This year, we also responded to the crisis in Ukraine, with Pearson and our employees committing over £1.25 million in humanitarian support and providing additional help to Ukrainians and others affected to continue their education during this conflict. More detail on page 38 on how we invest with purpose.

Directors’ duties statement

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

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

In this annual report, we provide examples of how the Directors promote the success of Pearson while taking into account the consequences of decisions in the long-term, building relationships with stakeholders (including our 8 key stakeholder groups, as mentioned previously), and ensuring that business is conducted ethically and responsibly.

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

- Learning from our stakeholders (pages 26-29), which outlines:
 - how we serve and engage with each of our 8 key stakeholder groups, listen to their key concerns and provide our responses
 - how we have adapted our business to meet their needs
 - how we have had regard to the need to foster the company’s business relationships with each of the stakeholder groups
- Understanding our stakeholders (pages 67-68), which summarises:
 - how Directors have engaged with employees and shareholders, and had regard to their interests

- Sustainability (pages 30-42), which describes:
 - Initiatives through which we strive to enable more engaging learning experiences, that are accessible to more people, and with a smaller carbon footprint
 - Our commitment to creating a culture that prioritises human rights, our employees, DE&I, and socially responsible sourcing
 - How we align with widely accepted ESG reporting frameworks including GRI, SASB and TCFD. For further details on TCFD reporting, please see page 39

A continued understanding of the key issues affecting stakeholders is an integral part of the Board’s decision-making process. The insights that the Board gains through its engagement mechanisms form an important part of the context for all the Board’s discussions and decision-making processes. For an insight into how the Board has considered the interests of various stakeholders in its decision-making, and what matters the Directors considered when trying to align and mitigate opposing views, please see our case study on the acquisition of Mondly on page 69.

Section 172 of the Companies Act

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

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

Sustainability

Driving sustainability

Our ESG framework

Our purpose

Add life to a lifetime of learning

Our sustainable business pillars

1



Driving learning for everyone with our products

Achieved through:

- consumer engagement*
- product effectiveness*
- digital growth*
- responsible and sustainable content
- affordability and access

2022 progress

- Pearson+ expanded registered users, extending digital content offering, reach, and accessibility.
- Mondly integrated into Pearson+, offering expanded access to digital language learning.
- In Higher Education, we are now Global Certified Accessible™. We provide 'born accessible' digital learning (eBook) options to expand access to learning content and materials.
- 70% of content partners are now trained in editorial guidelines released for Pearson's authors, reviewers, and editors to ensure meaningful, diverse representation in content.

[Read more on page 32](#)

2



Empowering our people to make a difference

Achieved through:

- culture of engagement and inclusion*

2022 progress

- Launched our people strategy with a focus on engagement and high-performance.
- Invested in learning: upskilled and reskilled Managers to drive engagement and high performance, leveraged new acquisitions like Credly to certify employee skills, developed leaders via McKinsey accelerator programmes, coaching, and Board mentoring opportunities.
- Focused on building a culture of inclusion and increasingly diverse representation. Employees acquired diversity, equity and inclusion knowledge and skills via our inclusive learning experience, and diverse participants in our leadership development and mentoring programs.

[Read more on page 33](#)

3



Leading responsibly for a better planet

Achieved through:

- reducing our environmental impact*
- investing with purpose
- cyber security and data management

2022 progress

- In 2022, we launched a new Privacy Centre for consumers which will be linked to all our products and a newly developed universal preferences centre.
- We have reduced our scope 1, 2 and 3 GHG Emissions by 33% against our 2018 baseline.
- In 2022, we have spent £46.7m with diverse-accredited suppliers, certified and non-certified. We have provided access to two diverse supplier portals: WEConnect and Supplier.io. The databases combined provide access to over 2 million diverse-accredited suppliers.

[Read more on page 36](#)

Robust governance, a strong culture and effective policies

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

The Sustainable Development Goals (SDGs) linked to our ESG framework:

4
QUALITY
EDUCATION

8
DECENT WORK AND
ECONOMIC GROWTH

10
REDUCED
INEQUALITIES

30 Pearson plc Annual report and accounts 2022

Why sustainability matters to Pearson

Learning is a powerful enabler and a driver of progress. Our goal is to help learners gain the knowledge and skills they need to advance and thrive sustainably and responsibly in our rapidly changing world. By diagnosing skills gaps, helping people learn and verifying qualifications, we aim to help mobilise talent that is well equipped to build a greener, more responsible economy.

Our ESG framework

In 2021, we introduced three pillars to our ESG framework, driving learning for everyone, empowering our people and leading responsibly. These represent the areas where Pearson can make the biggest positive impact and where we believe our main responsibilities lie towards society and the environment. Underpinning our three pillars is Pearson's robust corporate governance, strong culture and a range of effective policies to ensure we achieve our ambitions.

Our non-financial KPIs, see page 18, have a natural fit with these pillars and are a key measurement of our progress. They are included in both our corporate and sustainable business strategies and will evolve in line with the business. The Board reviews our non-financial KPIs regularly, and these are also linked to remuneration. More information on Directors' remuneration reporting (DRR) requirements can be found on page 88, and a link to our remuneration policy can be found in our non-financial and sustainability statement below.

During 2022, we updated our materiality assessment, see: <https://plc.pearson.com/en-GB/purpose/our-esg-reporting>, which confirmed that the views of our external stakeholders and our key priority areas are well aligned. The findings highlighted the importance of assessing and developing the skills of our learners and colleagues, protecting our users' data, and our role in driving positive change through climate change education.

Driving learning for everyone with our products

The natural alignment between our business strategy and the positive impact we make through driving learning for everyone is a key strength for Pearson. It is hugely motivational and reflected in the selection of three of our non-financial KPIs: digital growth, consumer engagement and product effectiveness. All three are interlinked in driving the business and are key enablers in helping more learners, learn more. As we increasingly connect our products to offer a lifelong learning ecosystem, we will strengthen our ability to track and evidence the social impact achieved by our products and services. We therefore, foresee our metrics evolving over time.

We are excited to see the opportunities that arise for all our stakeholders through digital growth and the intelligent application of technology to learning. These dynamics will enable us to deliver inclusive, vibrant, and engaging products for all types of learners, throughout their lives. Digitisation broadens access to our products, enables more relevant, up-to-date content (e.g., on the green economy and social issues) and helps develop deeper engagement with learners, see page 32.

Empowering our people to make a difference

In 2021 we appointed a new Chief Human Resources Officer, who is spearheading our refreshed people strategy. It has three core areas: employee engagement, investing in talent, as well as driving diversity, equity and inclusion, all of which are reflected in our non-financial KPIs. We are using our own learning products to develop skills throughout our workforce and in turn, this will maximise our people's contribution to Pearson's success, and accelerate innovation.

Not only is our people's learning and development experience a valuable showcase for the business, but it can also support employee engagement and retention, develop a performance and purpose-led culture of adding life to a lifetime of learning, and ultimately drive Pearson's own growth, see page 33.

“Our goal is to help learners gain the knowledge and skills they need to advance and thrive sustainably and responsibly in our rapidly changing world.”



Cinthia Nespoli,
Chief Legal Officer and Executive Leader for Sustainability

Leading responsibly for a better planet

We are also focused on driving positive change through leading responsibly, while limiting our own impact on the world's scarce resources. Our carbon footprint is relatively light, and reflects our business model, but as responsible leaders we recognise that we have a significant duty to reduce our carbon impact as much as possible.

We have carbon reduction commitments in place and are implementing actions to achieve our net zero carbon goals. The increased digitisation of our products reduces our environmental footprint, and we are also factoring suppliers' carbon reporting maturity into our sourcing decisions. This ensures we work with partners who are aligned to our Net Zero commitments to further reduce our overall impact.

Additionally, data privacy and security are becoming more important for all our stakeholders, and this is a key priority for Pearson as part of our digitisation and evolution to a more consumer-facing business.

A strong governance structure

Pearson has a strong governance structure that underpins our sustainability strategy. It is imperative we continue to evolve how we govern sustainability matters, to ensure our structures remain fit for purpose in this fast-moving landscape.

In 2022, we reviewed and adjusted the remit of the Reputation & Responsibility Committee (RRC) to strengthen its focus on ESG topics. Pearson's other Board Committees work alongside the RRC on several ESG topics as shown below, and we introduced cross-Committee membership by amalgamating the Remuneration & Reputation Committees specifically to ensure that there was a good link between incentives and ESG. Read more about our governance approach on page 53.

As a standing board committee, the RRC meets at least three times per year, and discusses a wide range of topics, including:

- product efficacy
- people and culture
- reputational risks including data
- employee engagement
- ESG materiality review
- progress with Pearson's climate transition plans
- ESG remuneration metrics

The RRC circulates its conclusions and minutes to the Board, and the Chair is responsible for ensuring action points are followed up. In 2022, the RRC validated Pearson's materiality review, and received a reporting update in alignment with the evolving regulatory landscape. Priorities for 2023 include the publication of Pearson's climate transition plan, in addition to the launch of various activities to empower our people to make a difference through behavioural learning opportunities and skill-based volunteering. For more information please see pages 78-79.

Sustainability continued



Driving learning for everyone with our products

How our products create a more sustainable world

Our success as a company is dependent upon the success of our products in enabling people to develop and learn new skills, realising their potential through a lifetime of learning. At Pearson, we are leveraging our business strategy and innovation capabilities to increase access to education around the world, engage more directly with consumers and augment our positive impact on society.

Digital product growth and the intelligent application of technology have significant positive benefits across both environmental and social impact areas. Group digital and digital-enabled sales in 2022 grew by 9% (2021: 9%).

From a content perspective, Pearson is harnessing the growing demand for sustainability-led products and developed new courses and content in 2022 to address this opportunity. We have also made good progress in embedding accessibility in our product design and development processes, alongside continually strengthening our actions on editorially responsible content.

The evolution of learning

Our digital and direct-to-consumer products enable us to deliver more inclusive, vibrant, and engaging products for all types of learners, throughout their lives.

Pearson+ had a successful first year since it launched in 2021 and has reduced costs for users considerably, when compared to buying stand-alone textbooks. With its new ‘Channels’ feature it enhances the learning experience of all learners, offering thousands of tutor videos and practice questions bringing life to learning. Pearson+ is also partnering with organisations that share our values such as Headspace, together offering consumers affordable mental wellness content at a discounted student rate.

We also want to empower learners by giving them the control and the flexibility to fit learning into their lives. The recent acquisition of Mondly is another example of how we are investing in personalised learning. The integration of Mondly into Pearson+ brings the world of language learning to Pearson+ users at just a click of a button.

Responsible and sustainable content

We have a clear role to play in creating content, products and services that help solve the major environmental and societal issues of our time. These will encompass formal primary, secondary and higher education, but also, the world of work, to meet increasing demand from consumers who are upskilling while employed to improve their capabilities and opportunities for both themselves and their employers.

For example, we have developed online sustainability courses for the Smith School of Enterprise and the Environment, University of Oxford, in partnership with Pearson. Both courses, The Future of Sustainable Business: Enterprise and the Environment course, and the Law and Sustainability: Tackling Global Environmental Challenges course are eight-week courses that certify participants upon completion. Through these courses we have already equipped 232 learners with fundamental skills in sustainability, leadership and systems thinking. During 2023, we aim to expand our reach, and are exploring a bespoke implementation of these courses internally.

Our new project-based experiential learning platform, Pearson’s Skills Accelerator is another great example. Starting in 2023, we will see enterprise customers offered three courses focusing on tackling climate change, peace-building and conflict prevention. These courses, developed in partnership with the One Young World, through our Workforce Skills division, will help future leaders gain the knowledge and the know-how to solve business-critical challenges, leading to outcomes that accelerate the impact to build a fair and sustainable world.

In Pearson Edexcel, we are using our position as an awarding body to co-create a new Design Education Curriculum for UK schools that will centre on themes such as design thinking, systems thinking, creativity and innovation. This new curriculum will require all state schools to teach towards a to-be-designed set of qualifications that will support the move to circularity in design and technology, and empower learners to make more sustainable choices.

We have also launched **Embedding Sustainability: A Support Guide for BTEC Nationals**. This guide will support the delivery of BTEC National qualifications and will help schools and colleges to meet their own sustainability targets. In addition, we have developed an internal sustainability competency framework, which aims to inspire more content teams and authors, and lays out what learners need to know to bring about a more sustainable future.

Accessibility in our product and content development

We strive to incorporate accessible thinking into everything we do, from ensuring accessibility is woven into our culture and training, to innovating and using technology to design and deliver our products.

We have made good progress in building accessibility throughout our product development process, including in the early stages of planning and design. Our learning design principles (LDPs) are a portfolio of learning science research summaries, paired with design recommendations intended to include everyone. Over the past year, we have refreshed our LDPs to include a specific section on how to ensure an equitable application of our design recommendations. These updated LDPs will be part of our product designs from 2023.

In our Higher Education Division, we are now Global Certified Accessible™. We provide ‘born accessible’ digital learning (eBook) options for students with disabilities, which are designed so all learners, no matter their ability, have the same access to learning content and materials. Accessibility training is a requirement for key employees, who also complete courses in disability fundamentals, basic web and document accessibility, and disability etiquette. We have built processes and systems to ensure that we are delivering compliant tools and content to both learners and instructors.

Our Global Content and Editorial Policy (GCEP) suite is a range of tools and guidance to support our employees and business partners as we improve our content standards. It includes content guidelines on the representation and inclusion of disability, gender, ethnicity and race and LGBT+ communities in our content, among other guidance and tools. In 2022, approximately 70% of our identified content business partners received an orientation to the GCEP training, representing over 6,000 businesses and freelancers. We provided mandatory training to over 11,000 colleagues across the globe who are involved with our content. During 2023, we will develop additional online and live training and embed our maturity model and health assessment, which will allow us to track and monitor the implementation and impact of our content standards initiatives on our business.



Empowering our people to make a difference

Pearson’s people are our greatest asset. As we transition to a digitally led, consumer-facing company, our success, and our ability to make a positive impact on the world, is highly dependent upon our colleagues. Our goal is to be a world-class place to work. We want to offer an inclusive, high-performing environment, where everyone can leverage their strengths. This is crucial to our people’s engagement, growth, and sense of belonging, and to our future success.

Following our Chief Human Resources Officer’s appointment in 2021, we have refreshed our people strategy, with three focus areas:

- 1. **Employee engagement:** Driving better employee engagement and high performance.
- 2. **Investing in talent:** Providing continuous learning, growth, and progress for our people.
- 3. **Diversity, equity, and inclusion:** Driving a culture of belonging and aiming for increasingly diverse representation throughout the company.

Our non-financial KPIs measure how well we are delivering on our people strategy. We also track a wide range of internal outcomes and metrics to understand our people progress and we further supplement these quantitative metrics with qualitative insights from our people.

The metrics update for 2023 can be found with our financial and non-financial KPIs on pages 18-19.

Prioritising employee engagement throughout Pearson

Following the launch of our new purpose, vision, mission, and values in Q1, we brought them to life for employees via a campaign inspiring them to imagine a future of work built on a foundation of engagement as a performance advantage. The goal was to leverage the strengths of all our employees to deliver on our purpose and drive company growth.

We launched a company-wide focus on engagement and high performance as part of our refreshed people strategy, with a new global employee engagement survey, increased manager upskilling and a new digital employee experience platform. Our new survey includes 12 core engagement questions from our survey partner Gallup. It also includes questions on inclusion and coaching, which are key areas of focus for us. Gallup’s approach to engagement is backed by rigorous science, linked to integral performance outcomes, and actionable at the local level. The approach is simple, has been proven to work and provides access to global benchmarks to measure progress. It is encouraging to see a significantly higher number of respondents for our 2022 survey than Pulse surveys run in previous years, and a Gallup GrandMean result of 3.96 on a 5-point scale.

The results tell us where we are now and where we can improve. Our highest-ranking questions, compared to Gallup’s database, were: “My manager, or someone at work, seems to care about me,” and: “My co-workers are committed to doing quality work.” This is a great position from which to start our conversations with one another, as it shows our people care for each other’s experiences and are committed to doing great work together. Our opportunities to improve include clarifying roles and demonstrating recognition, and we also need to ensure we continue to emphasise the importance of having regular performance conversations.

Manager development to support engagement

As our managers play a pivotal role in employee engagement, in 2022, we had a key focus on building employee engagement via manager upskilling and reskilling. For example, for new-to-role managers we developed a programme called iManage Foundations, a 6-month learning experience focused on developing foundational management and leadership skills across four critical skill areas. We are pleased to report that 286 colleagues enrolled. Across the four modules delivered, 80% of respondents who provided feedback said they had learned at least one new skill and on average 86% said they would apply the skills in their daily work.

In parallel with investing in new managers, we are also investing in upskilling and reskilling for all existing managers. From Q4 2022, all managers were given access to Pearson’s Managers Corner Academy. This online resource includes solutions to support managers with employee engagement, performance, and development, including access to a suite of resources aligned to the questions in the engagement survey available via Gallup Access.

Our employee resource groups (ERGs) are voluntary, employee-led groups whose aim is to foster a diverse, inclusive and equitable workplace culture for Pearson employees. They continue to support leadership to champion inclusive efforts and promote collaboration and a community between all Pearson employees. We have restructured our nine ERGs to better align with our DE&I strategy, address the needs of our community, and contribute to progress throughout the organisation.

Pearson’s employee engagement network is the key feedback mechanism between the Board and the workforce, enabling the Board to hear directly from employees and creating additional insight on how to enhance employee satisfaction and engagement levels. In 2023, we’ll evolve our approach to ensure an even wider range of employee voices are heard, and to provide even more varied opportunities for engagement with our Board members.

During 2022, we launched a new digital employee experience platform to focus on and improve communication across all levels of the organisation. We communicate regularly with our managers and leaders through both interactive forums and newsletters, along with global town halls and virtual meet-ups available to all employees.

Investing in talent

As we transform to a digitally-led, direct-to-consumer model, we are purposefully evolving our organisational makeup and investing in talent to drive our ongoing success. We are hiring people with digital skills, upskilling and reskilling people to support their learning, growth, and progress, while also taking action to retain our current colleagues. Each of these investments is critical to fuel our organisational evolution and ongoing business transformation.



Sustainability continued

Turnover

Our Group staff turnover was 33% (22% voluntary/11% involuntary). This was in line with expectations and comparable to 2021. There were two areas of high voluntary turnover. The first area was in our retail model businesses (Pearson VUE), which makes up 34% of voluntary exits. VUE roles are more transient and have an expected higher turnover rate.

The second area was geographical: Sri Lanka and the Philippines where we saw a higher than corporate average increase in voluntary exits in 2022. Roles in these locations are typically front-line operational and technical specialists managing scalable, repeatable transactions. The increased turnover reflects the demand for talent in outsourced service locations. We are mitigating risks in this regard by reviewing rewards and benefits in these locations and looking to diversify the geographic locations of these roles.

Acquisition of skills

We are evolving our suite of learning and career development solutions to fuel skills development, and we are focused on upskilling and reskilling all our people to develop talents needed for the future of work and to provide them with more opportunities for continuous learning and growth.

In 2022, we sold the majority of our K-12 publishing business in international markets, and made two significant acquisitions in Credly and Mondly. This activity accelerated the acquisition of key underlying skills in our employees, including: digital content development (multimedia production, application management services and content development); technology (software development, software quality and cloud hosting services); and in digital sales and marketing (channel and special market sales).

In the UK and US, where 73% of our workforce is based, we are developing additional pathways into Pearson, especially in these areas of high demand. As of 31 December 2022, our Pearson Campus Ambassadors programme in Higher Education now has 146 ambassadors, our internship programmes currently have 100 interns, and we have 160 apprentices across the company. All participants acquire professional skills by working side-by-side with experts, and can apply for permanent jobs within Pearson.

Reskilling and upskilling

We value upskilling highly and during 2022 we used Faethm's proprietary AI to continue to refine our capabilities framework to drive enterprise-wide transformation through capability building and develop the skills needed for the future of work. The framework currently spans business and leadership skills, with technical skills to be added in 2023. Employees use the capabilities framework to plan their own learning journeys to help them upskill and reskill, learn, and grow as individuals.

In parallel with our investments in manager upskilling and reskilling, we are evolving our solutions for all our people to upskill and, in 2022, expanded our flagship global Learning at Work Week to a monthly series. Each month, we focus on a priority skill from the capabilities framework, with a programme of live and on-demand, video-based micro-learning. Last year, we covered engagement, consumer culture and empathy, and inclusion. We feature live sessions with external experts, Pearson authors, Pearson leaders as teachers, and we curate learning pathways and provide team guides to support self-directed learning.

In 2022, we also gave our people free access to more commercial learning opportunities, including our direct-to-consumer apps Pearson+ and Mondly, and via our pilot of digital credentials powered by Credly. These joint offerings include Pearson eTextbooks via VitalSource, Golden Personality Profiler, Accelerated Pathways and Apprenticeships.

If our US-based people wish to continue formal education, we will reimburse tuition costs for up to 18 credit hours if their education programme is related to a job or skills needed within Pearson. Tuition costs are reimbursed after pupils successfully complete a course with a grade C or better, or equivalent mark.

In our 2022 employee engagement survey, 72% agreed or strongly agreed they had had access to opportunities to learn and grow over the past six months. We also asked our people what job-related skills they wanted to develop, and we are using the findings to drive our pipeline, e.g. for the 2023 Learning at Work series.

Building an inclusive culture with increasingly diverse representation

Transforming learning starts with transforming ourselves, which is why much of our work in diversity, equity and inclusion (DE&I) is focused on what we can do within Pearson. From how we select candidates to how we help them grow, our goal is to add more vibrant and enriching experiences at more moments for more people at Pearson, so we can do the same for more people on the world.

Our DE&I approach has four parts: recruitment and promotion; retention; inclusive culture and social impact. In each part, we have planned outcomes over a set time frame. Each division and corporate function has developed plans for the four parts that reflect its DE&I ambitions and to operationalise our organisational goals. Our non-financial KPIs, see page 18, will also help us to build an inclusive culture and increase diverse representation

We lead from the top. Our business leaders and CEO champion the link between DE&I and business performance and have made inclusion a personal priority. Since becoming CEO, Andy Bird has increased both gender and ethnicity representation on the executive leadership team. We have increased female representation by 32% (38% to 50%) with ethnicity remaining the same year-on-year. At Board level, female and diverse representation remains at 50% female, including our CFO, and ethnic diversity (US/UK only) has increased from 20% to 30%. Further detail on our Diversity figures can be found in the ESG performance section pages 224-226, in accordance with FCA listing rules and both the Parker and the Hampton-Alexander reviews.

The percentage of diverse employees in leadership roles, featuring in succession planning and participating in leadership development and mentoring programmes are key measures of our DE&I targets. In 2022, we exceeded our targets for diverse representation in leadership development programmes and met our succession plan objectives, with 52% women and 26% people of colour across our succession plans (target 50% women: 20% people of colour). Evolving a pipeline of talent takes time, but we are excited to see the upcoming team of colleagues participating in Board mentoring, executive coaching, the McKinsey Management Accelerator programme and executive leadership programmes.

Our data shows females make up 59% of our workforce, but we want to achieve parity of female representation at VP-and-above levels. We are currently at 43%. We also want to increase diverse representation at all career levels. Pearson is in line with the UK national average for employing under-represented people of colour – 18%, but in the US, we are below the national average with Pearson at 32%. We will continue to invest in increasing recruitment of people of colour at all career levels, and of women at senior levels, by providing specific upskilling for managers on inclusive hiring practices and Inclusive Partnerships by working specifically with organisations such as People of Color in Tech, and Historically Black Colleges and Universities (HBCU) Connect.

Also, we give full and fair consideration to all applicants and support the continued employment of disabled persons, having regard to their aptitudes and abilities, and making reasonable adjustments to address individual needs. Recruitment, promotion, and training are conducted on the basis of merit, against objective criteria that avoid discrimination. We are also proud that 'Disability: IN' (<https://disabilityin.org/what-we-do/disability-equality-index/2022/companies>) recognised Pearson as a Best Place to Work on its 2022 Disability Equality Index.



Sustainability continued



Leading responsibly for a better planet

As one of the world’s most prominent learning companies, Pearson has a duty to lead responsibly in all areas of its business and operations. Our stakeholders rely on us to provide excellent products, created with the utmost integrity to millions of individual learners, educational institutions, governments and enterprises around the world, whilst also looking after our own 20,400 employees to the highest possible standards see page 33.

As Pearson’s business becomes more digital and consumer-facing, we are prioritising the safety and security of our customers’ personal data, evolving our processes and governance to address this significant duty of care. We must also use our position to educate people with editorially responsible, sustainable content (see page 32), through products created and delivered with an ever-decreasing environmental footprint. Our ambitious carbon reduction targets reflect our commitment to minimise Pearson’s impact on the planet as much as possible.

In 2022, Pearson made progress against several sustainability priorities, which are summarised below and include data privacy, cyber security, customer safeguarding, carbon emission reductions and responsible supply chain management and sourcing. We also continued to contribute to local communities around the world through our ‘investing with purpose’ initiatives, and we proudly matched our employees’ contributions to several charities in support of the victims of the Ukrainian conflict.

Customer data and safeguarding

Data privacy and cyber security

Pearson holds personal data on individuals worldwide, including schoolchildren, teachers and learners in the workforce. We are committed to the highest standards of data management and these will naturally evolve with our business as we continue our digital transformation.

Pearson’s Executive team has overall responsibility for data privacy and security. Our reporting and risk management structure feeds upwards from individual businesses to Board level.

In 2022, we built on our seven data security and privacy principles introduced in 2021 and established clearer lines of accountability and better reporting. This enables senior management executives and divisional privacy owners to have greater visibility over managing data privacy and security risks. Our clear system of escalation gives them awareness and oversight of key areas and activities. We also provide all colleagues with training on our updated and strengthened data privacy and cyber security principles and processes. More detail on the role our Board Committees play in data privacy and cyber security, and their focus areas in 2022, is on page 82.

In 2022, several operational initiatives contributed to our strengthened processes in data privacy and cyber security:

- we increased transparency around what happens to an individual’s data and their choices. This helps us develop our digital products with the confidence that customers can easily exercise control over the use of their personal information. In 2022, we launched a new Privacy Centre for consumers, linked to all our products to a newly developed universal preferences centre.
- we also strengthened our internal resources to help drive a culture of data privacy at Pearson. Senior leaders in each of our divisions and corporate functions have been appointed as Privacy Owners. They are accountable for, and direct the activities of, designated Privacy Leads who are responsible for implementing Pearson’s global privacy programme on a day-to-day basis, and all of those involved in this effort have been trained on how to deliver on their responsibilities under that framework.
- as the risk of cyber security breaches continues to grow, we stepped up our engagement programmes with divisional leads on the potential risks from digitalisation to ensure awareness and preparedness. Several parts of our business are already certified to international standards for information security, such as ISO 27001. More detail on our approach to cyber security risk management, including our lines of defence, is in the Principal risks on pages 45-50.

Safeguarding our customers against online harms

Our safeguarding programme is undergoing rapid change, driven both internally by new product development and externally by changes in technology and legislation. The protection of our learners against online harms is particularly important to Pearson as the company continues its transition from traditional ‘bricks and mortar’ schools and colleges to a more digital, direct to consumer model, such as that delivered through our online schools, tutoring and Pearson+ products. To ensure that our systems and processes support a positive user experience, while reducing the risk of online harms, we have:

- strengthened our data collection regarding safeguarding incidents.
- established a set of 10 safeguarding standards, including around social media, live-streaming and user-generated content.
- implemented a process for business lines to assess themselves.
- progressed our ‘Safety by Design’ programme to engage with product teams to ensure safety against online harms and compliance with standards like the UK Age-Appropriate Design Code is embedded in our products.

Our journey to net zero

Pearson began its decarbonisation journey many years ago, and is transitioning from one of the world's largest print publishers to becoming a digital-first organisation. In 2018, we set ambitious carbon targets to reflect this transformation opportunity. In addition to our approved commitment under the Science Based Targets initiative to reduce scope 1, 2 and 3 emissions by 50% by 2030 against a 2018 baseline, we have committed to becoming net zero by 2030, a goal which is one of our Group non-financial KPIs.

We continue to make steady progress in reducing our carbon emissions and at the end of 2022 they had reduced by 33% compared to the 2018 baseline. In 2022, we reduced carbon emissions by 3.3% compared to 2021, through actions such as continuing to shift from print to digital products and rationalising our property footprint. These reductions were achieved despite a bounce back in operations following the pandemic and associated increased emissions in energy, travel and transport of goods.

We present our carbon footprint and progress against our target in two separate tables in this report:

- Our carbon footprint in the TCFD Report see page 39.
- Our ESG performance table, global emissions see page 223.

Carbon reduction and our net zero roadmap

During 2022, we conducted a detailed forecast of Pearson's emissions to 2030 and 2050. This confirmed that, based upon the current business digitalisation strategy, global decarbonisation trends and specific operational actions, Pearson is on track to reduce its scope 1, 2 and 3 emissions by 50% against the 2018 baseline. More than 90% of our carbon emissions are scope 3, of which c.70% are from purchased goods and services, such as paper and IT services. Our net zero action plan identifies the key programmes of work and timescales needed to reach our net zero goal, focused on our supply chain, operations and governance. Our full action plan can be viewed at: <https://plc.pearson.com/en-GB/purpose/our-esg-reporting>.

Building sustainable supply chains

Paper and printing actions

Pearson's shift from physical books to digital media continues to accelerate. During 2022, we purchased 24,187 tonnes of paper (2021: 29,056) and we expect the amount to continue to reduce over the years as more of our products move online.

Nonetheless, we are reorganising our print supply chain to drive efficiencies and are shifting to printing on demand and better forecasting to reduce our inventory of print products. We are also rationalising our paper suppliers to significantly increase our use of responsibly sourced paper from the Forestry Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) schemes, which both work for the protection of forests and biodiversity, alongside recognised national schemes such as the Sustainable Forestry Initiative (SFI). This year, FSC certified paper accounted for 33% of our paper consumption; in addition to 20% PEFC certified paper, and 9% SFI certified.

Supplier engagement actions

It is paramount that we engage with our suppliers to help deliver further change and reduction in our scope 3 emissions. Working in partnership with other corporates, we are understanding the decarbonisation plans of our top 50 suppliers, who account for over 20% of our total emissions. Many of our suppliers have their own ambitious environmental plans and climate reduction targets. In 2023, we will develop tailored engagement plans for those suppliers that need support to drive change, and from 2024, we will integrate environmental criteria into supplier selection.

Key actions with our suppliers

- Business partners follow our Code of Conduct and Responsible Procurement Policy, and comply with national environmental laws and regulations.
- Our net zero strategy goes hand in hand with ethically sourcing materials, and ultimately protecting biodiversity. Our paper and print suppliers are integrated to the Book Chain Project platform, which monitors and tracks actions to protect biodiversity. It analyses the origins of tree fibres to ensure no paper is coming from protected species, and it also tracks the content of chemicals and components in printed materials. Finally, the platform enables us to ensure that international environmental, human rights and safety regulations are followed.
- We aim to increase diverse representation of suppliers and spend with underrepresented business owners. In 2022, we spent £46.7 million with diverse-accredited suppliers, representing approx. 2% of total spend. We have provided our purchasing teams with access to two diverse supplier portals: WEConnect and Supplier.io. The databases, taken together, provide access to over 2 million diverse-accredited suppliers.
- For the first time in 2022, we asked our key suppliers to participate in an EcoVadis sustainability assessment (or equivalent). We reviewed performance across environmental and human rights areas to ensure that they align to Pearson's standards. Our key suppliers performed well, with an average score of 57.3/100 (average supplier's score of 44.9/100). We engaged poorly performing suppliers to implement corrective actions, and they will be reassessed. Our educational environmental material is available to help them progress.
- Our own sustainability performance was assessed by EcoVadis, and we scored in the top 11% of our industry, earning a Silver medal. We also received a B score across our CDP (formerly the Carbon Disclosure Project) responses, which includes the areas of climate, forest and water.
- We mapped the emissions of our top 50 suppliers assessed by a third party, as described below.

Driving operational change

Operational actions

Carbon emissions awareness and environmental considerations are progressively being embedded into most aspects of Pearson's operations. Seeking to align our business and investments with low carbon, we have provided carbon data at divisional level, to enable decision-making by senior executives with oversight of internal P&Ls. We are also integrating key environmental criteria such as Greenhouse Gases (GHGs) emissions into our product design and development processes. This will help us analyse the carbon footprint (including scope 3) of our digital products as our portfolio continues its transition from print to online.

Employee awareness and engagement actions

Achieving our climate goals will naturally require engagement throughout Pearson. The executive team's commitment to our climate agenda has been a key enabler for the implementation of our plan going forward. But equally, employee engagement is critical to the success of any sustainability programme. See page 33 to see how during 2023 we aim to integrate sustainability into learning and development activities in our people strategy.



Task Force on Climate-related Financial Disclosures

Summary

Our commitment to operate our business more sustainably is demonstrated by our ambitious target to reduce our absolute scope 1, 2 and 3 carbon emissions by 50% by 2030 (validated by the Science Based Targets initiative) using a 2018 baseline, and our goal to be net zero by 2030, with investments in carbon removal solutions.

Below we set out our climate-related financial disclosures compliant with the four Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and 11 recommended disclosures in the 2017 report ‘Recommendations of the Task Force on Climate-related Financial Disclosures’, together with its subsequent annex and implementation guidelines.

We assess climate change risk as an integral part of our risk management process, and in 2022, we updated our assessment of the financial impact of climate risks and opportunities under multiple future climate change scenarios. This identified a number of physical and transitional risks as described below, however none of the risks identified were material or required further action beyond what the management teams are already planning. We concluded that while climate change was not a principal risk for Pearson for the year ending 31 December 2022, the climate transition continues to be an emerging risk due to its intensifying importance to all stakeholders.

In making this assessment, we considered the actions needed to achieve our commitment to net zero by 2030, as well as the strategic and financial impact of potential physical and transition risks. We concluded that these did not have a material impact on the carrying value of any assets and liabilities as at 31 December 2022, as we explain in further detail in note 1d. to the financial statements. During 2022, we also strengthened our governance of climate change, introducing a central steering committee and working groups to manage and execute our climate plans and actions.

To advance our net zero action plan, please see: <https://plc.pearson.com/en-GB/purpose/our-esg-reporting>. Our key priorities for 2023 are to drive further change within our supplier network, fully plan our emissions reduction strategies, and embed the cost of carbon into business planning decisions. We will also continue to develop climate-related opportunities such as new content and products that educate and inform Pearson’s employees and customers on the threats and challenges from climate change. In 2024, we will also publish a standalone climate transition plan in alignment with the UK Transition Plan Taskforce.

Governance

The Board continues to have ultimate oversight of Pearson’s climate change strategy and achievement of our targets. Sustainability forms part of the company’s strategic non-financial KPIs, see page 18. The Board reviews progress against these targets six times per year. Daily responsibility is delegated to the Board’s Reputation & Responsibility Committee (RRC). Members of the RRC include the Group Chief Executive and three Non-Executives Directors. Our Chief Legal Officer (the executive leader responsible for the development, monitoring and execution of Pearson’s sustainability strategy) is a regular attendee. Reductions in Pearson’s carbon footprint contribute to the annual incentive plan for all eligible employees within the organisation, as detailed on page 88.

The RRC meets three times a year to develop plans for delivering and embedding the sustainability strategy across the Group (including the climate strategy), monitor and track progress against plans, support Group leadership and functions on sustainability-related matters, and discuss recommendations for the Board. Had any significant actions arisen as a result of our assessment of the climate risks, these actions would have been taken for discussion and approval to the RRC.

During the year, we established additional management committees to communicate progress against climate-related issues and implement our climate transition plans as follows:

- A steering group (meeting quarterly and including our Chief Financial Officer, Chief Legal Officer and Head of Procurement) which oversees our overall carbon reduction plan and objectives. The outcomes of the committee are subsequently shared with Executive Management.
- Working groups (meeting monthly) which oversee our key drivers of carbon reductions both at a central and individual business level, and ensure actions and change are being implemented successfully.

The sustainability team regularly reports on the work of these committees into the RRC. For examples of topics the RRC discussed during 2022 and what decisions were made, please see the governance section of this report on page 53.

Risk Management

Our organisational risk management process provides a framework for identification and analysis of, and response to, various forms of risk, including emerging regulatory requirements related to climate change. It establishes tolerances for risk and creates processes intended to mitigate, monitor and manage risks within these thresholds. Climate-change-related risks are reviewed as part of the full-year review of the Group’s risk profile.

Climate change does not represent a principal risk for Pearson, but we have identified the climate transition as an emerging risk. Emerging risks are those which we believe are well mitigated in the short term, but may represent a future opportunity or threat. The relative significance of climate-related risks in relation to other risks can be found on pages 40-41 of the risk management report.

During 2022, the results of the latest scenario analysis, conducted by specialist consultancy, ERM, and described below, were discussed at the steering group and the RRC, and shared with the Pearson executive management team for inclusion in its long-term strategic planning.

Strategy

Pearson’s shift from physical publishing to digital media continues to shape our environmental footprint. During our baseline year (2018), our physical book value chain was the largest contributor to our carbon emissions. Since then, the key elements of book production (paper, printing and distribution) have declined sharply and accounted for only 19% of our carbon footprint in 2022; we expect this trend to continue. This year, we have reduced our emissions by 33% against our 2018 baseline, while our products and services reached more than 160 million users around the world.



Sustainability continued

For a description of how we are driving learning for everyone with our products please see page 32 of this report.

Amid this digital transformation, we commissioned the specialist consultancy ERM to undertake a climate risk assessment to identify and quantify the potential impacts of climate change risks and opportunities on our businesses, strategy and financial planning. The analysis ran across multiple time periods up to 2050, to help us assess the speed of impact on our business model of various scenarios, and to reflect the critical future dates for reducing carbon emissions.

The physical risk of Pearson's business was assessed using both the RCP 2.6 scenario (low GHG emissions that keep the world below 2 °C warming by 2100, aligned to current commitments under the Paris Climate Agreement), and the RCP 7 scenario (high GHG emissions with average warming greater than 3 °C by 2100). Six physical assets were assessed for exposure to material physical risk. These were chosen because they represent a sample of assets providing a range of critical Pearson services that, if disrupted, could result in delivery failures caused or aggravated by climate physical risks. Each physical hazard was mapped on a materiality matrix and changes in materiality from 2022 present day to 2050 were projected.

The analysis concluded that Pearson's business is moderately vulnerable to climate change from physical risks in the medium and long term. The main areas of exposure are climate-change-driven extreme heat and water scarcity which may affect the operations of cloud-based data centres that play a central role in our business strategy. Some of Pearson's physical locations, such as testing centres, are also moderately vulnerable to wildfires or flooding that could impact normal business operations. However, we have business contingency plans, including insurance, in place to reduce our potential financial exposure to such impacts.

The transition risk of Pearson's business was also assessed, using four scenarios from the IEA's World Energy Outlook 2021, (WEO-2021). The analysis concluded that Pearson is minimally vulnerable to transition risk in the 2030 time frame, but risk increases for longer time horizons across all risk categories. The main transition risks include the reputational risk associated with the use of carbon offsets, and the increasing cost of carbon and ethically sourced paper.

All of the above risks are largely mitigated by the opportunities also identified in the analysis. They include the further digitisation of our business, developing climate-related educational content and services, and adopting more ambitious reduction plans as discussed in pages 36-38 of this report.

Climate-related risks and opportunities

Risks/Opportunities	Scale of Risk/ Opportunity*	Pearson actions
Physical risks		
Facility or data centre damage due to flooding and hurricanes	Time frame – short Likelihood – possible Magnitude of impact - low	- Shifting services to alternative locations or servers - Employees working from home (although this would cause an increase in office-based risk) - Insurance cover
Wildfire interruptions to in-person testing	Time frame – medium Likelihood – likely Magnitude of impact – low	- Shifting tests to alternative locations - Rescheduling tests - Moving to digital on-screen assessments - Insurance cover
Water scarcity: may affect Pearson globally, but Pearson's consumption levels are small overall	Time frame – medium Likelihood – likely Magnitude of impact – low	- Property updates - Consumption levels remaining minimal
Increased paper cost due to adverse weather events	Time frame – long Likelihood – likely Magnitude of impact – low	- Short-term pricing changes reflected in operational and strategic plans - Medium-term digital product/services alternatives will be available
Transition risks		
Increased service charges, reflecting building efficiency standards in the US and EU	Time frame – short Likelihood – likely Magnitude of impact – low	- Fixed lease agreements in the short-term - Selection criteria well above building efficiency minimal requirements for newly leased properties - Property strategy including reduction of property area, leasing/ sub-leasing and service charging - Flexible working policy
Procurement costs of sustainably-certified paper	Time frame – medium Likelihood – likely Magnitude of impact – low	- Paper use reduction based on ongoing digitalisation strategy, and availability of digital alternatives - Improved product design and greater pricing pass-through
Increased EU ETS price burden	Time frame – medium Likelihood – possible Magnitude of impact – moderate**	- Digitalisation assumes a lower ETS exposure level - Product design and pricing pass-through from pulp and paper mills
Reputational risks tied to offsetting	Time frame - long Likelihood - likely Magnitude of impact - low	- Active plans to reduce the amount of carbon sequestration/ offsets required: https://plc.pearson.com/en-GB/purpose/our-esg-reporting. - Currently developing offsetting strategy centred around portfolio of high quality activities and projects that remove carbon from the atmosphere. - Effective communication plans of net zero progress and sequestration strategy



Opportunities	
Continuous decarbonisation of Pearson's products and operations through digitisation, energy efficiency, and flexible working policy	• Please refer to the Leading Responsibly section on pages 36-38 of this report
Increase in consumer demand for sustainability-related learning content	• Please refer to the Responsible and sustainable content section on page 32 of this report

Time frame

Short: within 5 years
Medium: between 5 – 10 years
Long: more than 10 years

Possible
Likely

Low: below £5m
Moderate: £5m - £20m
High: £20m or above

Time frames were selected in relation to our 2030 target date.

** Due to the nature of the risk, and the degree of external variables affecting the matter, it is difficult to meaningfully quantify the risk. However, if not managed effectively, costs associated with offsetting carbon emissions which cannot be fully reduced, may lead to decreased margins.

Metrics and targets

Our primary targets are to reduce our absolute scope 1, 2 and 3 carbon emissions by 50% by 2030 (validated by the Science Based Targets initiative) using a 2018 baseline; and our internal goal to be net zero by 2030. We have made good progress with our targets, achieving a 33% reduction in emissions since 2018. The Leading responsibly pillar on page 36 highlights the steps Pearson is taking to achieve our targets. Our full set of environmental data can be found in the ESG performance tables on pages 221-226, and categories of scope 3 emissions included in our targets are also detailed in our independent assurance statement, see <https://plc.pearson.com/en-US/purpose/our-esg-reporting>. Our emissions data can be summarised as follows:

Our emissions data

CO ₂ e	2021*	2022
scope 1	8,342	4,622
scope 2 (location-based)	22,801	29,034
scope 2 (market-based)	440	182
scope 3	370,853	362,473
total – location-based	401,995	396,128
total – market-based	379,634	367,276
intensity ratio – tCO₂e/sales Scopes 1,2 market-based and 3)	110.7	95.6

* Figures have been restated to reflect acquisitions, disposals and data improvements, assured by an independent third-party, Corporate Citizenship...

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Sustainability *continued*

Non-financial and sustainability statement

In accordance with Sections 414CA and 414CB of the Companies Act 2006, which outline requirements for non-financial reporting, the table below signposts to content in this strategic report, relevant to the management, performance and position of the company, and the impact of our activities in specific non-financial areas.

Non-financial matter and relevant sections of Annual Report	Page/Link Reference
Business model	Business model: Pages 16 & 17 Stakeholders: Pages 26 to 29 ESG-linked remuneration: Page 98
Environmental matters	Policies: Addressed in the pages below, with full policies for Pearson Plc available at: https://plc.pearson.com/en-GB/corporate-policies
Climate	Position and performance: Pages 30, 36-41
Resource use	Risks/opportunities: Pages 36-41 KPIs: Pages 18, 221-226
Social and community matters	Policies: Addressed in the pages below, with full policies for Pearson Plc available at: https://plc.pearson.com/en-GB/corporate-policies
Driving learning for everyone with our products	Position and performance: Pages 30-38
Social engagement	Risks/opportunities: Pages 30-38, 43-52 KPIs: Pages 18, 221-226
Employee matters	Policies: Addressed in the pages below, with full policies for Pearson Plc available at: https://plc.pearson.com/en-GB/corporate-policies
Employee engagement	Position and performance: Pages 30-38
Investing in talent	Risks/opportunities: Pages 30-38, 43-52
Diversity, equity and inclusion	KPIs: Pages 18, 221-226
Human rights matters	Policies: Addressed in the pages below, with full policies for Pearson Plc available at: https://plc.pearson.com/en-GB/corporate-policies
Customer welfare (data privacy, security, and safeguarding)	Position and performance: Pages 30-38
Empowering our people to make a difference	Risks/opportunities: Pages 30-38, 43-52, 82-83
Sustainable procurement	KPIs: Pages 18, 221-226
Anti-corruption and bribery matters	Policies: https://plc.pearson.com/en-GB/corporate-policies Position and performance: Page 82 Risks/opportunities: Pages 43-52, 82 KPIs: Page 226

Pearson has a wide range of policies that underpin our sustainability commitments, including:

- Pearson Code of Conduct
- Pearson Business Partners' Code of Conduct (Partner Code)
- Responsible Procurement Policy; and our Human Rights Statement
- Anti-Bribery and Corruption (ABC) Policy; Raising Concerns and Anti-Retaliation Policy
- Pearson's safeguarding principles (include data privacy/security)
- Global Content and Editorial Policy; Responsible Advertising Policy

The implementation of these policies are discussed throughout the report and in the prior sustainability section.

Risk

Risk management

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

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

Plc Board (oversight) — Responsible for the Group’s strategy — Approves the annual budget and long-range financial plans Audit Committee (oversight) — Provides oversight and assurance to the Board concerning the integrity of the company’s procedures for identifying, assessing, managing, and reporting on risk — Monitors and evaluates the Group’s compliance and risk management processes and control programmes — Approves the Group risk management framework — Approves internal audit plans	Determines risk appetite in line with Group strategy — Conducts targeted reviews on key risks Reputation & Responsibility Committee (oversight) — Considers the company’s impact on society and the communities in which Pearson operates, including ensuring that risk management processes are in place to manage relevant risks	
Executive leadership (assessment and mitigation) — Comprises the CEO, CFO, divisional presidents and functional heads (including finance, strategy, technology, direct to consumer, legal and HR) — Accountable for ensuring that risks are mitigated in line with risk appetite Responsible for the execution of the Group’s strategy — Responsible for reviewing and approving the principal risks, mitigation plans and controls		
Group risk function (support and report) — Prepares the risk management framework — Maintains the Group risk register and the list of principal risks — Reviews risks with divisions to assess and monitor risk exposures Prepares a consolidated risk view for the executive leadership — Provides oversight over Group risk management activity — Reports to the Audit Committee on risks		
Senior leadership (identify, assess and mitigate) — Senior leadership within each business unit is responsible for implementing risk mitigations and reporting on net risk — Risk committees within each division assess the principal risks and implement further sub-committees as appropriate for division-specific exposures Functional leaders are supported by technical specialists who are responsible for risks that require corporate oversight — Divisions are supported by expert risk management teams that provide operational support, guidance, policy and advice		
Risk management experts (mitigation and assurance) — Financial functions, compliance, controls, legal Personnel across the company are trained in risk management to identify, assess, mitigate and escalate risks.		The internal audit function (Assurance) The internal audit function is responsible for providing independent assurance to management and the Audit Committee on the design and effectiveness of internal controls, to mitigate strategic, financial, operational and compliance risks.

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



Risk oversight

The internal audit team provides independent assurance to the Audit Committee on the design and effectiveness of internal processes, to mitigate strategic, financial, operational and compliance risks. Internal audit plans are aligned to the principal risks but also consider other key risk areas and other assurances available. Plans are agreed in advance with the PEM team and the Audit Committee.

Growth in the Group's Virtual Learning offering is expected to come mainly from demand for virtual schools, driven by a strong national brand and significant scale.

Risk identification and monitoring

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

We define our principal risks as those which could have a significant and ongoing effect on the Group's valuation by reducing the demand for or profitability of its products and services. Effective management of these risks is essential to executing our strategy, achieving sustainable shareholder value, maintaining our reputation, and ensuring good governance. However, they do not comprise all the risks associated with our business, and are not set out in priority order. Additional risks not known to management, or currently deemed to be less material, may also have an adverse effect on our business.

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

The Board of Directors has undertaken a robust assessment of the current risks facing Pearson, in accordance with Provision 28 of the 2018 UK Corporate Governance Code. This assessment identified the following principal risks, as well as a number of emerging risks and risks which while more modest could have a significant near-term impact. For each of our principal risks, the tables below identifies:

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

Accreditation risk

Description	Termination of accreditation due to policy changes or failure to maintain the accreditation of our courses and assessments by states, countries, and professional associations, reducing their eligibility for funding or attractiveness to learners.
Movement and outlook	The risk is at a moderate to high level, due to a desire to reduce and/or reform standardised testing in the UK, Australia and US, as well as increased global political risk. The outlook is for the risk to remain at a similar level for the foreseeable future.
Management actions	- Continue to evolve and enhance security, data and governance standards to ensure the Group meets the required standards to be an accredited provider. - Complementary acquisitions to support movement into formative assessment. - Continue to grow full-service offering, including online proctoring. This helps to ensure the Group has products and services that can cater for customers many needs, especially in the global assessment market.
Link to strategy	Ensuring we can participate in satisfying the growing need for accreditation and certification.
Risk tolerance	Low – Pearson seeks to operate in stable, well-regulated markets with known requirements to be accredited, and then has a low tolerance for taking risks which may jeopardise that accreditation.
Examples of risks	Political and regulatory
Risk contagion	Accreditation risks are likely to have a financial impact but have limited risk of contagion.
Risk velocity	If there were to be major long-term changes in regulation, it is likely that these would occur over a multi-year period.

Capability risk

Description	Inability to meet our contractual obligations or to transform as required by our strategy due to infrastructure or organisational challenges.
Movement and outlook	This risk remains at a moderately high level, due to the execution risk associated with delivering the Group's strategy and high competition for talent, especially in the technology space. Key initiatives during 2023 include the launch of a new integrated product in workforce, realisation of synergies with our Mondly language learning offering, and the further development of functionality and content on Pearson+. The risk is expected to remain at a similar elevated level for the next 12 months as key new requirements of the strategy are implemented.
Management actions	- Risk ratings are applied to each system and plans put in place to maintain system uptime, and recovery plans are in place in the event of downtime to allow customers to maintain as much functionality as possible or to get back online as soon as possible. - Each division conducts ongoing reviews of its key systems and implements updates and remedies where necessary. - Regular patching, activity, employee training and security measures such as multi-factor authentication help to ensure the stability and security of key Group systems. - The divisional structure allows decisions to be made by those closest to each market, to speed innovation and responsiveness. - The Group tracks employee engagement and has a significant focus on employee learning and development to help retain key talent. Senior management has undertaken leadership capability assessments and changes have been made to enhance capability, including new hires and development training. - Acquisitions such as Credly and Mondly have been made to build the Group's capability in key strategic areas, such as Workforce Skills and direct-to-consumer language learning.
Link to strategy	Capability relates to the three priorities to unlock growth: — Consumer-focused and data-led approach — Portfolio and organisational structure — Talent and culture
Risk tolerance	Medium – the Group aims to ensure it has the capability to deliver strategic objectives, requiring strong coordination and planning, but without stifling innovation.
Examples of risks	Business transformation and change Talent IT resilience
Risk contagion	Failures in capability could result in increased reputation and responsibility risk and failures to meet customer expectations.
Risk velocity	Failures of capability could impact within a six-month period.



Content and channel risk

Description	Failure to select content and delivery channels to conveniently deliver anticipated learning, resulting in loss of sales.
Movement and outlook	The risk remains at a moderate level. This is due to the increasing commoditisation of content, requiring continuing development of both content and the method of delivery to be able to provide differentiated products and services. The risk is expected to remain at a moderate level for the next 12 months, given the ongoing proliferation of methods for learners to choose for their learning and, the funding still available for educational technology businesses.
Management actions	1. Increasing use of interactivity and multi-channel content, particularly on Pearson+, including by offering podcast content and videos (Pearson+ Channels). 2. Continuing focus on efficacy to ensure that Pearson products and services help the learner achieve better outcomes. 3. Actions to reduce piracy and to manage and enforce intellectual property rights. 4. Investment in acquisitions offering new methods for testing or delivering content.
Link to strategy	Managing content and channel risk helps achieve our offering of high-quality, affordable products which lead to better access and outcomes.
Risk tolerance	Medium – This is a strategic risk and Pearson should be rewarded for successfully developing and delivering products and services that consumers value. Some risk is accepted to ensure the consumer remains at the centre of what we do.
Examples of risks	— Intellectual property protection — Method of delivery — Balance of content creation and content purchased
Risk contagion	Failure to deliver high-quality and engaging products and services may have an impact on reputation and responsibility risks and on meeting customer expectations.
Risk velocity	Due to longer-term contracts or the time required for instructors, or consumers themselves, to learn how to use the new products and services, the impact of changes would have some short-term impact, but is more likely to be fully felt over the longer-term.

Customer expectations

Description	Rising end-user expectations increase the need to offer differentiated value propositions, risking margin pressure to meet these expectations and potential loss of sales if not successful.
Movement and outlook	The risk is still at a moderate level, with an expectation from consumers of an increasingly high-quality and engaging user experience. The outlook is similar for the next 12 months, with expectations rising in line with other industries.
Management actions	Consumer activity is reviewed via a network of Campus Ambassadors, as well as learner surveys, net promoter scores and external reports. Sales teams regularly meet with faculty members, and content and editorial surveys are completed. The group's direct to consumer offerings of Mondly and Pearson+ provide valuable insights about usage to help keep pace with changing customer expectations. Our service businesses conduct regular reviews with customers to ensure that their expectations are well understood and met and where gaps arise, steps are taken to address these concerns.
Link to strategy	Focus on direct to consumer will help to successfully meet customer expectations. Direct-to-consumer underpins our five business divisions.
Risk tolerance	Medium – This is a strategic risk and Pearson should be rewarded for successfully developing and delivering products and services that consumers value. Some risk is accepted to ensure the consumer remains at the centre of what we do.
Examples of risks	— Customer experience — Data architecture and usage — Accessibility
Risk contagion	Failure to produce products and services meeting customer expectations could also impact reputation and responsibility risks.
Risk velocity	Typically, one to three years, as long-term contracts run off.

Risk continued

Portfolio change

Description	Failure to effectively execute desired or required portfolio changes to promote scale or capability and increase focus on key divisional and geographic markets, due to either execution failures or inability to secure transactions at appropriate valuations.
Movement and outlook	The risk has increased in the last 12 months as the Group has made key strategic acquisitions such as Faethm, Mondly and Credly, which have been integrated within the company, and with the forthcoming acquisition of PDRl due to complete in H1 2023. The risk is expected to remain high in the next 12 months as these transactions are executed and the integration of recent acquisitions continues.
Management actions	1. Investment plans included in strategic plans, aligning requirements with divisional structure. 2. An experienced Corporate Finance team to execute transactions, supported by a dedicated post-deal Operations team who oversee the integration and ensure that the required value is achieved. 3. Pearson Ventures allows Pearson to take stakes in early funding rounds supporting growth through innovation stages that could potentially be leveraged for the wider Group.
Link to strategy	Portfolio and organisational structure to unlock growth.
Risk tolerance	Medium – The Group seeks to balance carefully the opportunity to achieve growth through increasing capability and/or scale with the execution risk of portfolio change.
Examples of risks	— Identification of requirements — Achieving value on acquisitions/disposals — Integration of acquisitions
Risk contagion	Failures in managing portfolio change could impact capability and the ability to meet customer expectations.
Risk velocity	The speed of achieving the full benefits of an acquisition will vary depending on the size and scope of the acquisition, but typically from six months for a simple small acquisition to two years for a larger complex transaction.

Reputation & responsibility

Description	The risk of serious reputational harm through failure to meet obligations to key stakeholders. These include legal and regulatory requirements, the possibility of serious unethical behaviour and serious breaches of customer trust.
Movement and outlook	The Group's aim is to operate in a highly reputable and responsible manner and so we intend to maintain strong mitigations to reputation and responsibility risks. However, numerous threats exist including from those who seek to do harm to the Group or to its customers, including nation-state actors, organised criminal rings, and ransomware attackers, so constant vigilance is required. The risk is considered to be at a moderate to high level, increased since the last year end due to the general increased proliferation of cyber security and data privacy events and the businesses increasing online presence as well as the complexity of navigating different regional regulatory environments. The Group has continued to implement and follow proposals made by the company's advisers in relation to a 2018 cyber security incident in connection with its AIMSweb 1.0 software, which resulted in a settlement with the US Securities and Exchange Commission (SEC), including an obligation to pay a civil penalty of \$1 million agreed on 16 August 2021.
Management actions	- Dedicated risk management teams throughout the organisation monitor and respond to key risks. These teams provide regular updates to senior management and report to the Reputation & Responsibility Committee or Audit Committee as relevant. - All staff are required to undertake training on educational policy, how to identify cyber threats and data privacy, amongst other topics. - The Group makes significant investments to ensure high levels of IT resilience and to ensure it has tools in place to repel cyber threats and safeguard customer information. - Cyber security and data privacy are topics which are always reviewed as part of the divisional risk deep dive exercises undertaken and reported to the Audit Committee. This work highlights any issues which have arisen and the relative vulnerability of platforms and software. - Strong financial controls are in place which are monitored by the controls steering committee and compliance teams as well as local management. - Reviews are undertaken after incidents and significant near misses to allow lessons to be learned and any remedial actions put in place. Internal Audit are asked to provide assurance around remediation actions for key risks in a timely manner.
Link to strategy	Our reputation and commitment to behaving responsibly underpin our strategy to be a trusted partner for consumers, businesses and educators.
Risk tolerance	Low – the Group seeks to be a highly trusted consumer learning brand. Any significant failures could negatively affect our relationship with consumers today and in the future.
Examples of risks	— Compliance with laws and regulations — Cyber security — Data privacy — Safeguarding — Test failure — Use of third parties
Risk contagion	Significant failures in this area could increase Pearson's capability and accreditation risks and weaken our position in the competitive marketplace.
Risk velocity	Reputational risks could impact within a six-month period.

Risk continued

Changes in and accountability for principal risks

For each of our principal risks (shown in bold), the table below lists the accountable senior executive(s) for each sub-risk. Changes in accountability since 2021 are marked in the table:

Risks	Accountability	Change since 2021
Accreditation risk		
Political and regulatory	Chief Legal Officer and Divisional Presidents	No
Capability risk		
Business resilience	Chief Legal Officer and Divisional Presidents	Yes
Business transformation and change	Divisional Presidents and Chief Executive Officer	No
IT resilience	Divisional Presidents and Chief Information Officer	No
Safety and corporate security	Chief Legal Officer and Divisional Presidents	Yes
Talent	Divisional Presidents and Chief Human Resources Officer	No
Competitive marketplace risk		
Consumer learning preferences	Divisional Presidents	No
Market pricing	Divisional Presidents	No
Product differentiation	Divisional Presidents	No
Substitutes	Divisional Presidents	No
Content and channel risk		
Effective method of delivery (podcast, video, test, in-person, online)	Divisional Presidents	No
Intellectual property protection	Chief Legal Officer and Divisional Presidents	No
Products and services – effective investment in own and third-party content	Divisional Presidents	No
Balance of content creation vs content purchased	Divisional Presidents	No
Customer expectations risk		
Customer experience	Divisional Presidents	No
Accessibility	Divisional Presidents	No
Customer experience	Divisional Presidents and Chief Legal Officer	No
Data architecture and usage	Chief Data Officer and Divisional Presidents	No
Portfolio change risk		
Achieving value on acquisitions/disposals	Chief Financial Officer and Chief Strategy Officer	No
Identification of requirements	Chief Executive Officer, Chief Financial Officer and Chief Strategy Officer	No
Integration of acquisitions	Chief Financial Officer	No
Reputation and responsibility risk		
Compliance with laws and regulations	Chief Legal Officer and Divisional Presidents	No
Cyber security	Chief Information Officer	No
Safeguarding	Chief Legal Officer and Divisional Presidents	Yes
Test failure	Assessment & Qualifications, English Language Learning and Workforce Skills Divisional Presidents	No
Data privacy	Chief Legal Officer and Divisional Presidents	No
Use of third parties	Chief Financial Officer and Divisional Presidents	No

Significant near-term and emerging risks

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

Risks	Description	Accountability	Classification and change since 2021
Climate transition	Costs associated with offsetting carbon emissions which cannot be fully reduced may lead to decreased margins. Expectations around climate change commitments and measurements change on a regular basis.	Chief Legal Officer and Divisional Presidents	Emerging risk. No change.
COVID-19	The risk of future long-term COVID-19-related lockdowns affecting multiple Pearson major markets appears to be subsiding. These markets appear to have high levels of acquired immunity and the political desire for lockdowns has reduced. Consequently, while the risk remains it is seen as having less potential to have a significant impact.	Chief Executive Officer	Significant near-term risk. No change.
Inflation	High global inflation risks increasing the cost of production for Pearson, which the Group may not be able to fully pass on.	Chief Financial Officer and Divisional Presidents	Emerging risk. No change.
Recession	Recession in global markets could put pressure on school, enterprise and consumer budgets, reducing demand for our products and services. This has particular potential to negatively impact our English Language Learning and Workforce Skills divisions, unless disruption in the labour market encourages more people to retrain. Our Higher Education division has historically been counter-cyclical due to the link between unemployment and learning needs, although it is not known whether this will be the case in the future. Our Assessment & Qualifications and Virtual Learning divisions typically benefit from long-term contracts, often with state funding, and so are less likely to be affected in the short term.	Chief Executive Officer	New emerging risk.
Supply chain	Disruption at ports globally and challenges for suppliers may lead to business interruption if not fully planned for and mitigated.	Chief Financial Officer and Divisional Presidents	Emerging risk. No change.
Tax	The outcome of State Aid decisions and a potential risk in Brazil could lead to significant one-off costs or benefits in the near-term.	Chief Financial Officer	Significant near-term risk. No change.
War in Ukraine	This has resulted in sanctions being imposed on Russia by numerous countries, and as a result the Group closed it's Russian operations during 2022. Pearson's operations in Ukraine are small and so any related disruption would be expected to have an immaterial impact on Group sales, profits and cash. However, an escalation of the conflict could lead to a material risk if extended beyond those countries.	Chief Executive Officer	Emerging risk. No change.



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Board composition, succession and evaluation

As a Board, we pride ourselves on the diverse backgrounds, perspectives and skill sets of our Directors, whose range of expertise includes digital and direct to consumer strategy and business models, sustainability, education and workforce learning, and leadership of global, complex organisations through periods of transformation and disruption, as well as, of course, financial acumen. I am excited to contribute my own leadership experience from Twitter, Google and other tech businesses. You can read more about the Board’s skills and experience on page 75.

New appointments during 2021 and 2022 significantly enhanced the diversity of our Board, as you can see on page 59. We will continue to monitor the Board’s composition to ensure we maintain the range of skillsets and perspectives needed to support the company’s strategy and complement our succession planning.

I would like to take this opportunity to thank my predecessor Sidney Taurel, who led Pearson with distinction for six years, steering its restructuring and digital transformation. Under his tenure, Pearson became a more streamlined, agile and interconnected company, and he leaves us with a strong strategy and a balance sheet primed for growth.

Likewise, on behalf of all Directors I extend our gratitude to Linda Lorimer, who reached nine years with the Board in 2022 but, as explained last year, has stayed on until the 2023 AGM to support a smooth handover to our new Board members. As Chair of the Reputation & Responsibility Committee and a member of the Audit Committee, Linda has been a resounding voice of wisdom and independent judgement, supported by her insight from 40 years serving in higher education. We send Linda our very best wishes for the future. I am delighted that Annette Thomas has agreed to succeed Linda as Chair of the Reputation & Responsibility Committee.

Esther Lee joined the Board as a Non-Executive Director in early 2022, bringing significant experience through executive leadership roles with global consumer-facing brands. Already, she has made a strong contribution to the Board and as a member of our Remuneration and Nomination & Governance Committees. Both Esther and I greatly benefited from the induction processes organised for us upon joining Pearson, which are described further on page 70.

The Board is fully engaged in planning for future retirements, and closely monitors the evolution of skill sets needed to drive the company forward. More detail about the Board’s succession planning can be found in the Nomination & Governance Committee report on pages 74-77.

I was pleased to lead the annual Board evaluation process in 2022, which is described on pages 71-73. This provided a wonderful opportunity for me to obtain an overall picture of the Board’s dynamics and views. We have a robust governance approach that will be the bedrock of delivering our strategy. At a time of pivotal strategic development for the company, I have worked with the Board to assess Board and Committee cadence, to empower the Committee Chairs to drive their agendas and to support the Board’s opportunities to engage in rich strategy discussions, while also ensuring a focus on operational excellence.

As part of this, we have reviewed the remit of each Committee and how we collaborate on organisation-wide topics, such as culture and sustainability – more detail on the Board and Committees’ collaboration on ESG oversight is set out on page 66, as part of our explanation of how the Board is kept informed on relevant matters.

Conclusion

I hope this report explains clearly to you how Pearson is run and how we align governance and our Board agenda with our strategic direction. Shareholders are always welcome to put their questions or feedback to us, either via our website (www.pearsonplc.com) or at our AGM. Once again this year, shareholders will be able to join us and vote at our AGM either in person or virtually. Details will be included in the forthcoming AGM notice.

It only remains for me to thank our shareholders for their continued support and interest in this fantastic company. It has been a privilege to step into the role of Chair and I look forward to maintaining our stakeholders’ confidence as we seek to capture Pearson’s enormous growth potential as a lifelong digital partner for learners everywhere.

Omid Kordestani

Chair

Compliance with the UK Corporate Governance Code

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

The Board believes that during 2022 the company was in full compliance with all applicable principles and provisions of the Code, save that, as described last year, Pearson is not fully compliant with Provision 36 of the Code on the basis that the shares awarded under the Chief Executive’s co-investment award made in 2020 are subject to a post-vesting holding period until 31 December 2023, rather than the total vesting and holding period of five years or more required by the Code. Further detail is provided in the Directors’ remuneration report.

Board of Directors

Leading the way

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

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

Key to Committees

- A

 Audit
- NG

 Nomination & Governance
- RR

 Reputation & Responsibility
- R

 Remuneration
- Committee Chair

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

NG



Omid Kordestani

Chair
Aged 59

RR



Andy Bird, CBE

Chief Executive
Aged 59



Sally Johnson

Chief Financial Officer
Aged 49

Appointment

First appointed to the Board 1 March 2022 Chair since 29 April 2022	First appointed to the Board 1 May 2020 Chief Executive Officer since 19 October 2020	Chief Financial Officer since 24 April 2020

Skills and experience

Omid is an international businessman who serves on the boards of Klarna Bank AB and Klarna Holding AB and is a Council Member for Balderton Capital. He was Executive Chair of Twitter, Inc. between October 2015 and May 2020, and a Board Member until October 2022. From August 2014 to August 2015, Omid served as Senior Vice President and Chief Business Officer at Google and previously from May 1999 to April 2009 as Senior Vice President of Global Sales and Business Development. From 1995 to 1999, Omid served as Vice President of Business Development at Netscape Communications Corporation. Prior to joining Netscape Communications Corporation, Omid held positions in business development, product management and marketing at The 3DO Company, Go Corporation and Hewlett-Packard Company.	Andy has a long and distinguished career spanning over 35 years in the media industry, and he is an accomplished, strategic leader of global consumer content businesses. Most recently, he spent 14 years working for The Walt Disney Company, joining the business as President of Walt Disney International in 2004 before being appointed Chair in 2008. He held this role for a decade, during which time he transformed the organisation into a digital-first, direct to consumer business, focused on serving the diverse needs of customers around the world. In addition, Andy worked to establish the iconic brand in China, through the creation of Disney English, teaching English language to local families through immersive learning experiences. Prior to Disney, Andy worked in a number of senior positions at AOL Time Warner, and spent the earlier part of his career at Piccadilly Radio, Virgin Broadcasting Company, BSB Music Channel, Big & Good Productions, and Unique Broadcasting.	Sally joined Pearson in 2000 and has held various finance and operations roles across the business, both at a corporate level and within the divisions, including The Penguin Group. She brings to the Board extensive commercial and strategic finance experience as well as expertise in transformation, treasury, tax, risk management, business and financial operations, investor relations and mergers and acquisitions. She has held various senior-level roles across the business, most recently as Deputy CFO of Pearson. Sally is a member of the Institute of Chartered Accountants in England and Wales and trained at PricewaterhouseCoopers. She was also a Trustee for the Pearson Pension Plan from 2012 to 2018.

R

NG



Sherry Coutu, CBE

Non-Executive Director
Aged 59

R

NG



Esther Lee

Non-Executive Director
Aged 64

RR

A



Linda Lorimer

Non-Executive Director
Aged 70

A

RR



Graeme Pitkethly

Non-Executive Director
Aged 56

Appointment

Non-Executive Director since 1 May 2019	Non-Executive Director since 1 February 2022	Non-Executive Director since 1 July 2013	Non-Executive Director since 1 May 2019

Skills and experience

Sherry is a seasoned non-executive director with extensive plc experience in the financial services, technology, and education sectors where she has held numerous senior leadership positions, including Chair, Senior Independent Director, and Chief Executive Officer. Prior to her portfolio career, Sherry founded several technology companies and invested in 70 companies and five venture capital firms. Presently, Sherry serves as the Chair of Workfinder, a technology start-up specialising in AI-based recruitment services, and Raspberry Pi, a computer company. Sherry's previous non-executive director experience includes the London Stock Exchange Group plc, DCMS, Zoopla plc, and RM plc. She has also served on the Advisory Boards of LinkedIn, the National Gallery, the Royal Society, and NESTA.	Esther brings significant experience to the Pearson Board through her prior executive leadership roles in developing customer strategies to drive growth, global marketing and branding; driving digital transformation; and building high-performance teams. She has a long track record of senior leadership roles working for global consumer-facing brands. Most recently, she served as Executive Vice President – Global Chief Marketing Officer at MetLife Inc. Previously, Esther served as Senior Vice President – Brand Marketing, Advertising and Sponsorships for AT&T, and she has served as CEO of North America and President of Global Brands for Euro RSCG Worldwide. Prior to that, she served for five years as Global Chief Creative Officer for The Coca-Cola Company. Esther is a Board member at The Clorox Company where she chairs the Nomination & Governance Committee. Current notable commitments The Clorox Company (Non-Executive Director)	Linda is currently a Senior Advisor at the Boston Consulting Group and has spent almost 40 years serving higher education. She retired from Yale in 2016 after 34 years at the university where she served in an array of senior positions, including Vice President for Global and Strategic Initiatives. She oversaw the development of Yale's online education division and the expansion of Yale's international programmes and centres. During her tenure, she was responsible for many administrative services, ranging from Yale's public communications and alumni relations to sustainability, human resources, and the university press. She also served on the boards of several public companies, including as Presiding Director of the McGraw-Hill companies. Linda is a member of the Board of Yale New Haven Hospital, where she chairs the Nomination & Governance committee. She also remains on several consequential advisory committees at Yale University.	Graeme is the Chief Financial Officer and a Board member of Unilever. He joined Unilever in 2002 and, prior to his appointment as the CFO, was responsible for its UK and Ireland business. He also held a number of senior financial and commercial roles within Unilever and spent the earlier part of his career in senior corporate finance roles in the telecommunications industry. Graeme served as Vice President of Financial Planning and Vice President of Corporate Development at FLAG Telecom and started his career at PricewaterhouseCoopers. Graeme is a Vice Chair of the Task Force on Climate-Related Financial Disclosures, a Member of the Strathclyde University Centre for Sustainable Development and is a Chartered Accountant. Current notable commitments Unilever plc (Chief Financial Officer)

Board of Directors *continued*



Tim Score

Deputy Chair and Senior Independent Director
Aged 62



Annette Thomas

Non-Executive Director
Aged 57



Lincoln Wallen

Non-Executive Director
Aged 62

Appointment

Non-Executive Director since 1 January 2015
Senior Independent Director since 30 April 2021
Deputy Chair since 29 April 2022

Non-Executive Director since 1 October 2021

Non-Executive Director since 1 January 2016

Skills and experience

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

Current notable commitments

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

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

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

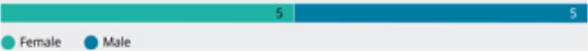
Lincoln has extensive experience in the technology and media industries, and is currently CTO of Improbable, a technology start-up supplying next-generation cloud hosting and networking services to the video game industry. Lincoln was CEO of DWA Nova, a software-as-a-service company spun out of DreamWorks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

Current notable commitments

Improbable (Chief Technology Officer)

Board composition

Gender



Nationality



Ethnicity¹



Tenure



This data reflects Directors in office as at 31 December 2022. To learn more about Board diversity, please see page 76. For diversity data in the format prescribed by LR 9.8.6R(10), please see page 225.

1. Ethnicity categories are based on the UK’s Office for National Statistics classification.

Independence of Directors

All of the Non-Executive Directors who served during 2022 were considered by the Board to be independent for the purposes of the UK Corporate Governance Code (the Code). The Board reviews the independence of each of the Non-Executive Directors annually. This includes reviewing their external appointments and any potential conflicts of interest, as well as assessing their individual circumstances in order to ensure that there are no relationships or matters likely to affect their judgement. In addition to this review, each of the Non-Executive Directors is asked to provide confirmation of their independence on an annual basis (as defined by the Sarbanes-Oxley Act, the New York Stock Exchange (NYSE) listing rules and the Code).

In January 2024, Mr Score will reach nine years’ service on the Pearson Board. Upon or in anticipation of attainment of nine years’ service by any Non-Executive Director, the Board undertakes an assessment to satisfy itself as to the continuing independence of that Director. The Nomination & Governance Committee gave particular consideration to Mr Score’s independence in March 2023 ahead of proposing to shareholders that he be re-appointed for a further year at the forthcoming Annual General Meeting, recognising that he will reach nine years’ service during the coming year, if re-elected. In doing so, the Committee assessed the degree of objective judgement and constructive challenge demonstrated by Mr Score, and confirmed that his skills, experience and knowledge contribute to productive Board discussions. Accordingly, the Board is satisfied that Mr Score remains independent, and that he continues to provide constructive challenge and hold management to account.

In accordance with the Code, Omid Kordestani was considered to be independent upon his appointment as Chair on 29 April 2022.

As originally described in the 2022 Notice of AGM, Linda Lorimer will be retiring from the Board at the 2023 AGM and will not be seeking re-election. In 2022, the Committee assessed Ms Lorimer’s independence, having regard to, among other factors, the Financial Reporting Council’s Guidance on Board Effectiveness, and concluded that Ms Lorimer remained independent. In assessment of her own independence, undertaken in February 2023 to address the requirements of the NYSE, Sarbanes-Oxley Act, and the Code, Ms Lorimer did not declare any matters which may cause her independence to be questioned.

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

Pearson Executive Management (PEM)

Key

- Internal appointment
- External appointment



Tom ap Simon

President – Higher Education and Virtual Learning
Aged 44



Ali Bebo

Chief Human Resources Officer
Aged 54



Tim Bozik

Interim Chief Product Officer and Co-President, Direct to Consumer
Aged 61



Lynne Frank

Chief Marketing Officer and Co-President, Direct to Consumer
Aged 56



Gio Giovannelli

President – English Language Learning
Aged 50

Appointment

Joined Pearson 1 December 2004	Joined Pearson 13 December 2021	Joined Pearson 18 May 1998	Joined Pearson 16 November 2020	Joined Pearson 1 February 2014
Appointed to the PEM 1 April 2021	Appointed to the PEM 13 December 2021	Appointed to the PEM 23 May 2013	Appointed to the PEM 16 November 2020	Appointed to the PEM 1 April 2016

Skills and experience

Tom has 19 years of international business and finance experience. At Pearson, he has led the Virtual Schools business, worked in finance for the emerging markets businesses and led M&A activity in the US. Previously, he worked in investment banking at RW Baird. Tom holds an MA in Economics and Politics from the University of Edinburgh.	Ali is a senior executive with over 25 years of experience building culture for transformative business performance across multiple industries. Prior to joining Pearson, she was an officer and CHRO for Hologic, Inc., a global medical technology company. Prior to Hologic, she held various HR leadership roles with the specialty retail company, ANN INC. Ali earned her BA in Political Science from the University of California, Los Angeles.	Tim has more than 30 years of extensive leadership experience in higher education products and the business of delivering them at Pearson. Tim earned a Bachelor's Degree from the University of Notre Dame and currently serves on the Board of Directors for the Association of American Publishers.	Lynne has over 25 years of experience in the media industry. Previously, she has worked in companies such as WarnerMedia, ESPN/Disney and Turner Broadcasting. Lynne holds a degree in economics and business, and a certificate in corporate board governance from the University of California, Los Angeles (UCLA).	Gio has over 25 years of international business experience, including four CEO roles in Brazil. Previous board roles include BOVESPA-listed Natura and CVC Viagens. Gio graduated from Bocconi University, holds an Economics PhD and is an OPM graduate of Harvard Business School.

PEM Composition

Gender



Ethnicity¹



These figures reflect the executive team excluding the Company Secretary. The Chief Executive and Chief Financial Officer have been excluded and are counted in the Board metrics on page 59. For diversity data in the format prescribed by LR 9.8.6R(10), please see page 225.

1. Ethnicity categories are based on the UK's Office for National Statistics classification.



Mike Howells

President – Workforce Skills
Aged 46



Sulaekha 'Sue' Kolloru Barger

Chief Strategy Officer
Aged 47



Cinthia Nespoli

Chief Legal Officer
Aged 42



Art Valentine

President – Assessment & Qualifications
Aged 58



Marykay Wells

Chief Information Officer
Aged 60

Appointment

Joined Pearson 1 December 2020	Joined Pearson 16 May 2022	Joined Pearson 1 February 2014	Joined Pearson 23 January 2006	Joined Pearson 14 July 2014
Appointed to the PEM 1 December 2020	Appointed to the PEM 16 May 2022	Appointed to the PEM 21 May 2020	Appointed to the PEM 1 February 2022	Appointed to the PEM 16 March 2022

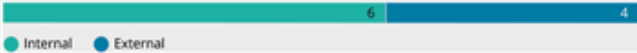
Skills and experience

Mike has more than 20 years of international business experience. Previously, he has worked in the British diplomatic network and the UK Foreign, Commonwealth and Development Office. Mike holds a Master's degree in International Law from the University of Nottingham and an Anthropology degree from University College London.	Sue has more than 20 years of global strategy and corporate experience. Previously, she held engineering roles at technology companies. Sue holds an MBA from The Wharton School at the University of Pennsylvania and a BSc in electrical engineering from the University of Ottawa in Canada. She has served on several non-profit boards and councils focused on diversity and STEM.	Cinthia has over 19 years of international legal and compliance experience. Previously, she held leadership roles in legal and compliance at multinational companies. Cinthia was admitted to the Brazilian bar in 2004 and earned her law degree from Pontificia Universidade Católica de Campinas as well as a post-graduate degree in tax law from Pontificia Universidade Católica de São Paulo.	Art has more than 30 years of leadership experience in assessments, testing, and technology. Prior to his 16 years at Pearson serving as a senior leader of Pearson VUE and as Managing Director of Pearson Clinical Assessment, Art worked at Promissor, which was acquired by Pearson in 2006. Art earned his MS in Mathematical Science/Computer Science from the University of North Carolina Chapel Hill.	Marykay has over 30 years of strategic planning and large, global technology transformation experience. Prior to joining Pearson, Marykay had CIO roles at Nortel, Tekelec (acquired by Oracle) and Extreme Networks. Marykay holds a BS degree in Computer Information Science from Clarkson University and is a member of the organising committee for the Accenture Women's Summit, Salesforce Advisory Board, Google Leadership Advisory, and a member of the Gartner Research Board.

Nationality



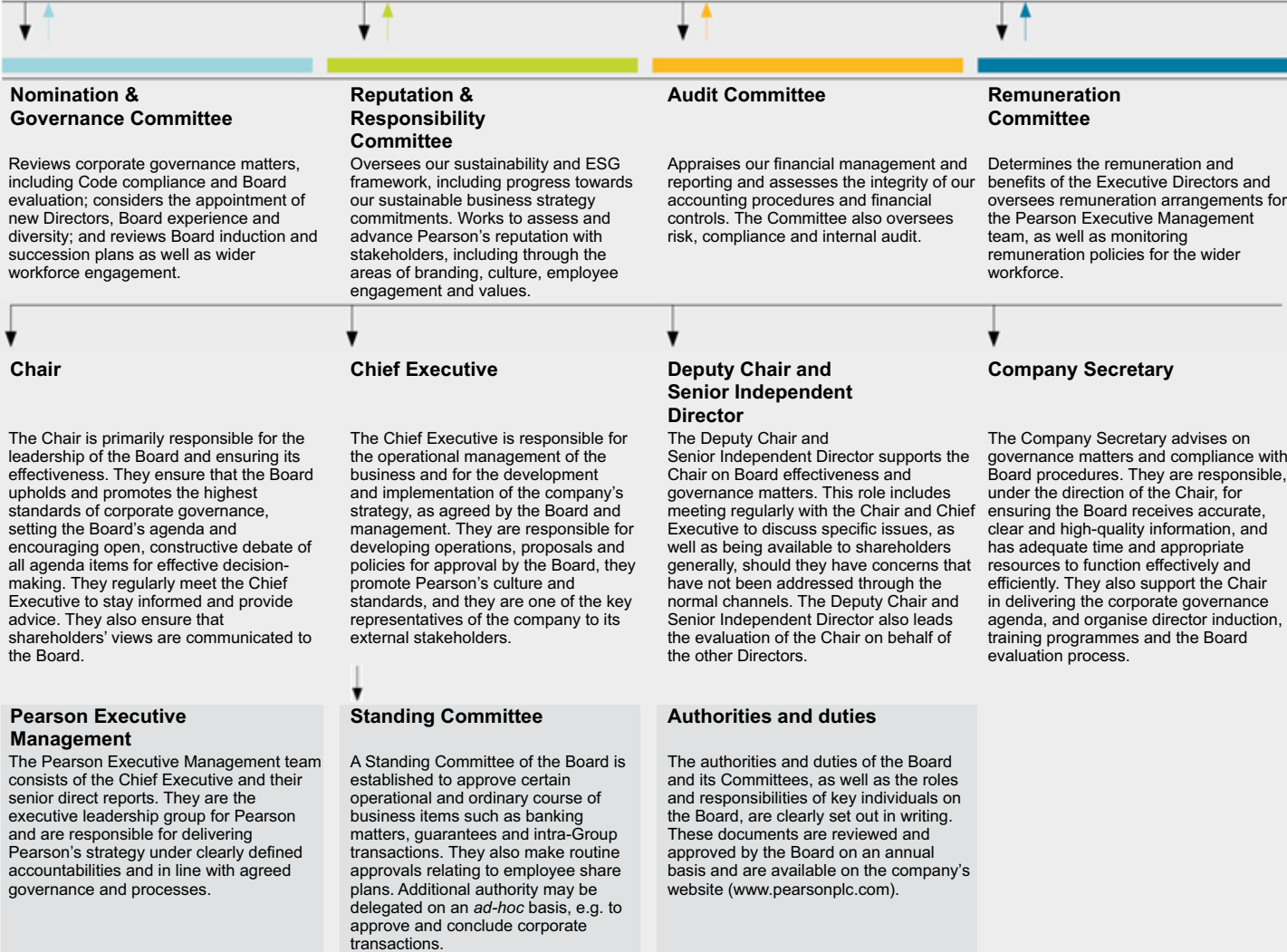
External/Internal Appointment



Division of responsibilities

The Board

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



Board activities

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

The role and business of the Board

- The key responsibilities of the Board include:
- overall leadership of the company and setting the company’s values and standards, including monitoring culture and diversity, equity and inclusion (DE&I) initiatives
 - reviewing and determining the company’s strategy, including in relation to environmental, social and governance (ESG) matters, in consultation with management, assessing performance against the strategy and overseeing management’s execution of it
 - supervising major changes to the company’s corporate, capital, management and control structures
 - approval of all transactions or financial commitments in excess of the authority limits delegated to the Chief Executive and other executive management — assessment of management performance, Board and executive succession planning and talent pipeline
 - effective engagement with key stakeholders

Strategic planning and decision-making

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

The Board and Committees receive timely, regular and necessary financial, management and other information to discharge their duties. Comprehensive papers are circulated to Board and Committee members approximately one week in advance of each meeting. The Board receives a regular performance dashboard and key milestones report, together with updates from the Chief Executive and Chief Financial Officer. In addition to meeting papers, a library of current and historical corporate information is made available to Directors to support the Board’s decision-making process. For items that require significant consideration and review in advance of a decision, such as the portfolio changes during 2022 in support of company strategy, the Board’s discussions can take place over a number of sessions.

Board meeting focus during 2022

Strategy	Performance	Leadership & people	Governance & risk	Shareholder engagement
— Ongoing digital transformation	— 2021 preliminary results and annual report and accounts	— Talent review, pipeline development and succession planning	— Legal and regulatory governance compliance	— Investor relations strategy, updates, and share price performance
— Direct to consumer strategy	— 2022 operating plan performance, including interim results and trading updates	— Culture	— Data privacy and cyber security matters	— Shareholder issues and voting
— Pearson+ performance	— Regular dashboard and milestone reports	— DE&I initiatives	— Board and Committees’ effectiveness evaluation	— AGM and related shareholder interactions
— Implementation of Group strategy	— Continuing review of forecasts	— Employee Engagement Network engagement and feedback	— Regular review and annual confirmation of conflicts of interest	— Feedback from Board member meetings with shareholders
— Oversight of Four-Year Strategic Plan and approval of 2023 annual operating plan	— Final and interim dividend proposals	— Employee survey assessments	— Approval of Committees’ terms of reference	— Major shareholders and share register analysis
— M&A pipeline and post-acquisition reviews, as well as consideration, approval and regular updates of major transactions		— Purpose, vision, mission and values	— Approval of division of responsibilities between Chair, Deputy Chair and Senior Independent Director, and Chief Executive	
— Enterprise and ecosystem strategic update		— Workforce learning and development	— Risk management report	
— Data strategy				



The Directors recognise their duties towards the shareholders and other stakeholders as set out in Section 172 of the Companies Act 2006, and a continued understanding of the key issues affecting stakeholders is an integral part of the Board's decision-making process. You can read more on pages 67-69 about how the Board engages with stakeholders and takes their views into account when making decisions.

The Board receives regular updates on portfolio and corporate finance activities throughout the year, including regular updates on live transactions (disposals, acquisitions and corporate joint venture activity) and outputs of periodic portfolio reviews. These updates can take the form of presenting key summaries of information in Board packs, or oral updates on key matters. These discussions are typically led by executive and divisional management, supported by the Corporate Development team and, where necessary, external advisers. Subsequently, once portfolio transactions have closed, the Board is also kept informed of the integration or transition progress, including post-acquisition reviews conducted to assess transaction success and any learnings to be taken for future projects. In 2022, such portfolio updates included the significant acquisitions of Credly, and Mondly (which you can read more about on page 69) and, subject to closing, PDRI, as well as a review of potential pipeline opportunities and the disposal, across several transactions, of our international courseware local publishing businesses.

The Board held six scheduled meetings in 2022, with discussions and debates focusing on the ongoing implementation and execution of the strategy, as well as other key strategic issues facing the company. Major items covered by the Board in 2022 are shown in the table on page 63. In addition to its scheduled meetings, the Board convenes as necessary to consider matters of a time-sensitive nature. In 2022, the Board also met on a number of additional occasions to consider the unsolicited approaches by Apollo Global Management. The Board welcomed the opportunity in 2022 to return to a fuller schedule of in-person meetings but, following its experiences during the pandemic, also continued to operate effectively in a virtual environment where needed.

Reflecting on the level and quality of engagement by the Board in 2022, the Board is satisfied that each Director contributed to Board discussions and demonstrated sufficient commitment to be able to meet their responsibilities. As shown in the table below, each of the Non-Executive Directors attended all scheduled Board meetings during 2022. In addition, the Nomination & Governance Committee confirmed in its annual assessment that each Director demonstrates the requisite level of commitment and contribution in accordance with Principle H and Provision 18 of the Code.

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

Individuals' attendance at Board and Committee meetings is considered as part of the formal review of their performance. There was a high level of attendance by the Directors at Board and Committee meetings in 2022, as shown in the table to the right and in the Committee reports that follow.

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

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

When making new appointments in 2022, the Board considered other demands on Directors' time. Esther Lee's existing commitment as Non-Executive Director and Chair of the Nomination & Governance Committee at The Clorox Company, a NYSE-listed manufacturing company with a global portfolio, was considered as part of her appointment process. The Board agreed that Esther's existing commitment would not have a negative impact on her ability to contribute to Pearson.

Omid Kordestani's existing commitments were considered as part of his appointment process. The Board was of the opinion that Omid's additional notable commitment as a Board Member of Twitter, Inc. was acceptable as there were no conflicts perceived, and that his existing commitments would not prevent Omid from giving the time and attention that his role as the Chair of the Pearson Board would require.

The Board believes that the experience gained by Directors through their other commitments brings valuable perspectives to the Pearson Board.

1. Omid Kordestani joined the Board as a Non-Executive Director on 1 March 2022 and became the Chair on 29 April 2022.
2. Sidney Taurel resigned from the Board on 29 April 2022.
3. Esther Lee joined the Board on 1 February 2022.



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

Read more about how we empower our people to make a difference on page 33.

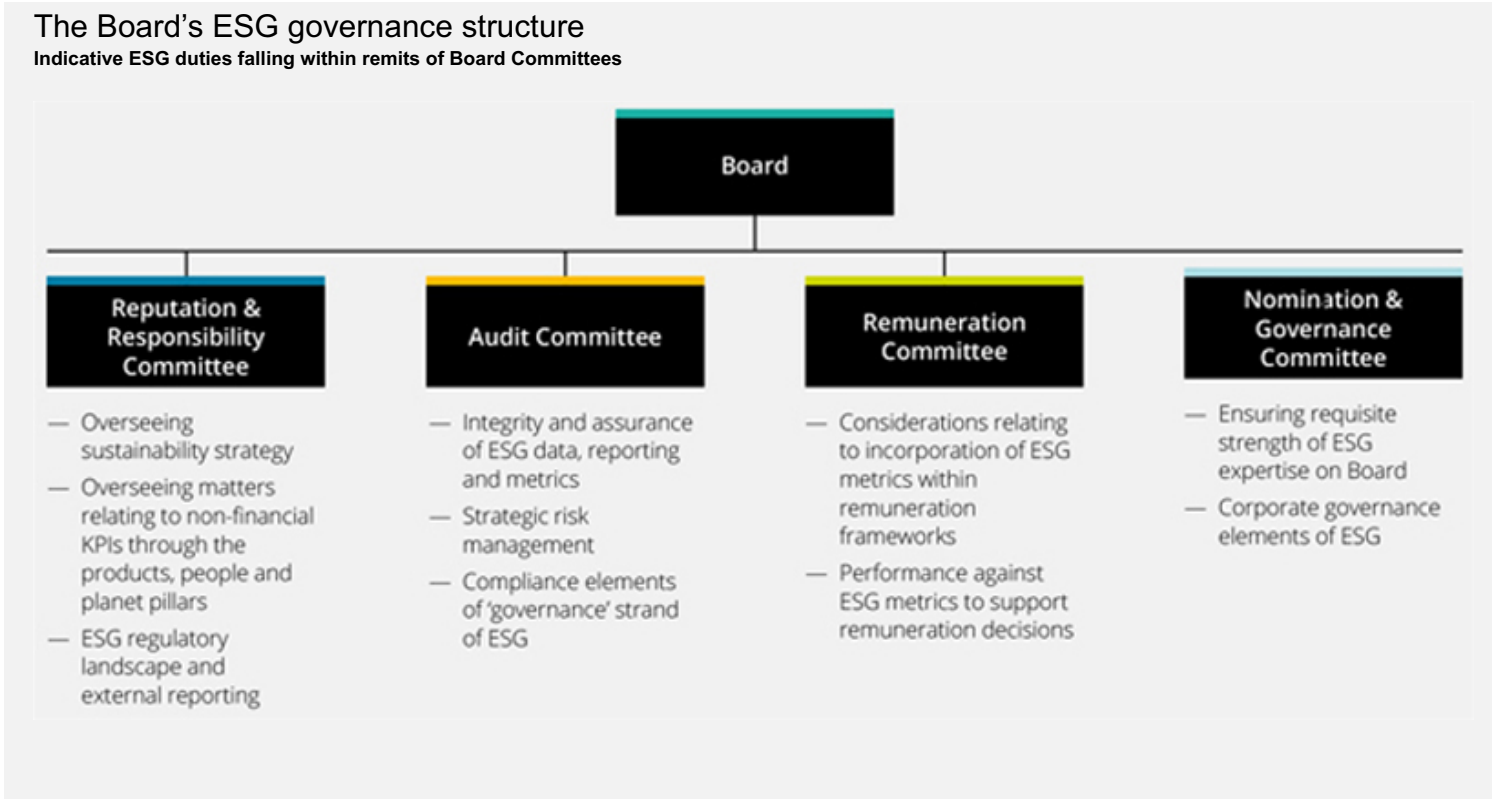
The Board has a strong interest in all areas relating to Pearson's talent and culture, and may choose to spend additional time considering the cultural indicators shown in the table, and others, over and above the input provided by our Committees.

How the Board is kept informed *continued*

Sustainability

Pearson has a strong governance structure through which the Board and its Committees monitor and oversee the company's ESG framework.

The company's ESG framework includes three pillars: driving learning for everyone with our products, empowering our people to make a difference, and leading responsibly for a better planet. These pillars represent the areas where Pearson can make the biggest positive impact and where our responsibilities lie towards society and the environment.





Understanding our stakeholders *continued*

Employees

The Reputation & Responsibility Committee leads on employee engagement and its evolution on behalf of the Board. The Board recognises that our employees are one of our most important assets and are integral to our business and is committed to strengthening their voice. Examples of how the Board engaged with employees in 2022 to ensure that they are listened to, supported and rewarded, are illustrated below.

Employee Engagement Network

Our Employee Engagement Network (EEN) acted as a feedback mechanism, enabling the Board to hear directly from employees. Representing the voice of our employees, the EEN consisted of a selected group of active listeners, good communicators, and solid employee ambassadors across the company and in key geographies. These individuals included diverse genders, ethnicity groups, geographies, ages and tenures.

In 2022, the EEN welcomed Annette Thomas as a regular attendee alongside Sherry Coutu, increasing Non-Executive Director participation in the EEN.

Between November 2021 and December 2022, our second cohort of EEN members held five meetings focused on innovation, systems and processes, reward and recognition, structure and change, and cross-collaboration. Each meeting was structured to ensure that any views or feedback on key topics raised by employees could be passed on to the Board in advance, allowing each Director to review employee input ahead of Board meetings and consider it in their decision-making. Following EEN meetings, the Board received an update on any discussions that had taken place, such as the network's collective feedback and several themes that arose as part of their discussion about reward and recognition.

The Board was also supportive of executive management receiving regular feedback from the network. In many cases, this feedback helped reaffirm the case for action in areas that were already being improved, such as the simplification of staff onboarding and user experience of internal systems. With the support of the network, approval escalation for many routine requests has been removed, reducing an administrative barrier for employees and their managers.

Looking ahead, the Board believes there is an opportunity to evolve its approach to employee engagement to ensure we continue to be inclusive, authentic and representative of our diverse employee base. The Board has endorsed a wider programme of engagement activities with employees to be rolled out in 2023, which will complement existing executive employee engagement and expand opportunities for direct engagement by Non-Executive Directors. This programme will include in-person, structured listening sessions, as well as informal site visits at Pearson locations and virtual events.

Town halls

Throughout 2022, the Chief Executive, Chief Financial Officer and the executive management team held town hall meetings, which Pearson employees were invited to attend. These discussions took place at significant points in the year, such as following key financial results announcements.

Surveys

In 2022, we launched a new approach to engagement, including our new Pearson engagement survey. We partnered with Gallup and used their Q12 survey questions and supporting resources. We collected actionable feedback at the manager level and benchmarked ourselves against 12 item areas proven to power engagement. We heard from over 14,000 employees - an increase in the overall response rate compared to previous engagement surveys. The Reputation and Responsibility Committee received a detailed update on the survey results, including additional insights on the culture of inclusion, coaching effectiveness, and upskilling, which were also discussed at Board level. Further information on the outcomes of the Pearson engagement survey is on page 33.



Our Board’s decision-making in action

Acquisition of Mondly

This case study on our acquisition of Mondly, which was announced in April 2022, illustrates how the Directors considered the various aspects of their statutory duties in making the decisions related to the acquisition and its implications for stakeholders. This case study should be read in conjunction with the Directors’ duties statement on page 29.

Mondly offers consumers high-quality learning in English and 40 other languages through its app, website, and its virtual reality and augmented reality products. It delivers language courses for personal and professional learning in a combination of more than 1,300 language pairs alongside enterprise solutions and an award-winning app that helps children learn languages.

Mondly was Pearson’s first major acquisition in the English Language Learning (ELL) division since the implementation of the new divisional structure, and is integral to its growth plans. The Board paid particular attention in its decision-making to assessing the strategic rationale, integration plans, and synergies to ensure these were robust, clear and achievable. The Board was of the view that Mondly’s technological capability and user experience, combined with the growing direct to consumer language learning market, could provide an engine for future growth of the ELL division based on a successful platform that was well-regarded in the market and had begun to scale while maintaining profitability.

Alongside these considerations, the modularised, application-based nature of Mondly’s products had the potential to integrate with Pearson+. The Board understood that Mondly represented a potential avenue to link together ELL’s assessment capability and world-class content through a new channel, as well as noting potential synergies across the portfolio, such as offering the opportunity to bundle language learning with upskilling and reskilling products through Pearson’s Workforce Skills division. The Board was positive about how these potential synergies could play an important role in Pearson’s continued commitment to serve the lifelong learning needs of people around the world.

When considering this acquisition, the Board received detailed updates from management (with input from specialists within the business and external advisers) setting out the strategic rationale, anticipated commercial synergies, due diligence findings, valuation and returns analysis, stakeholder considerations, structuring considerations, risks and detailed post-acquisition integration plans.

The Board noted how the broader Pearson organisation could support Mondly in optimising its content for Pearson’s target audience of lifelong learners. This was balanced against key risks, such as the difficulty of profitably scaling a direct to consumer proposition and the cultural and operational challenges of post-acquisition integration. Overall, the Board considered Mondly to be an attractive acquisition opportunity, underpinned by its management, the skills and transformational potential of the Mondly team, and strong market fundamentals.

Throughout the decision-making process, the Board considered how the acquisition could accelerate the company’s strategy and how the expertise acquired as a result of the acquisition would benefit Pearson stakeholders, all while ensuring that the acquisition was financially viable. The Board was mindful that this acquisition could promote sustainable economic growth and inclusively support learners in their language learning journey. In its decision-making, the Board considered Pearson’s key stakeholders in the following ways.



Consumers

Our strong direct to consumer ambitions put consumers at the heart of our strategic decisions. Mondly’s mission is to build bridges between people and cultures by making language learning fun and easy through technological innovation. The ambition to bring people together sits at the core of Mondly’s work. Furthermore, it strengthens Pearson’s commitment to its purpose of adding life to a lifetime of learning, offering learners new experiences and powerful ways to immerse them in a new language, including, in the long term, through its AR and VR capabilities. As part of its decision-making, the Board noted the broader appeal of developing transferable skills, including foreign language fluency, which can boost employability and success in life.

Communities

Mondly presented the opportunity to reach learners of all languages across the world by providing a go-to solution for both adults and children. In the Board’s view, Pearson could play an important role in upscaling content by leveraging its existing capabilities, excellent content, and network of customers and consumers to enhance the Mondly offering. This could benefit learners at all stages of their language learning journey - from beginner to advanced - using different features to make learning fun, engaging and accessible for users from a wide spectrum of socioeconomic circumstances and backgrounds globally.

Employees

Pearson and Mondly’s communications and HR teams worked closely to form an acquisition communications plan for employees and customers. For example, Pearson employees heard directly from the Chief Executive about how Mondly aligned with the company’s strategy, particularly in the ELL space.

The Board viewed people and talent integration as crucial for this acquisition, noting that it was imperative to retain Mondly employees, and to maintain their customer-centric approach. In particular, the Board considered various initiatives to retain the skill set of Mondly employees, acknowledging that some of Pearson’s existing employee base might need to pivot their skill set and approach to support the speed and growth of Mondly and to develop into a multi language learning business.

Considering the relatively small size of its team, the Directors were also aware of minimising the strain of integration on Mondly. They were keen to ensure appropriate acquisition speed and to prepare for a multiyear gradual and disciplined approach to reach full integration of Mondly into Pearson, while also remaining mindful of Mondly’s obligations once part of the Pearson group.

Employers

MondlyWORKS, the language learning solution for businesses offered by Mondly, provided the opportunity for Pearson to strengthen Mondly’s appeal by leveraging existing content and assessment solutions. The Directors also noted that Mondly’s solutions would be a strong addition to Pearson’s existing language learning products for corporate customers. The Board considered MondlyWORKS to be capable of offering commercial synergy opportunities that would benefit employers through sophisticated language learning content.

Shareholders

In considering the acquisition, the Board paid particular attention to, among other factors, commercial and revenue synergies, integration and employee retention costs, the potential financial returns on investment and the risks involved, the structure of the transaction, and whether the commercial terms of the acquisition were in the interests of shareholders as a whole. The Directors agreed that the acquisition had the potential to be transformative for the ELL division and could gradually strengthen Pearson’s offering in the Workforce Skills area and Pearson+, highlighting the already strong returns profile of Mondly.

Directors’ induction

On joining the Board, each Director completes a bespoke induction programme that is guided by the Chair or Deputy Chair and Senior Independent Director, supported by the Company Secretary, and overseen by the Nomination & Governance Committee. Every programme builds on the particular skill set, attributes, and background of the joining Director, their interests in Board or Committee roles, and the company's recommendations.

In addition to background information on the company, every induction covers a range of topics including Board procedures, recent operational performance and strategic direction of the company, purpose and values, key areas of the business, as well as Directors' duties and responsibilities. The Directors also cover various governance-related issues and their legal obligations, including procedures for dealing in Pearson shares.

Each induction typically includes a series of meetings with the members of the Board, the executive management team, external advisers and brokers, and other senior management. Directors receive a walk-through of the business from senior executives and a briefing on Pearson's investor relations programme. A newly appointed Director will have met some, if not all, fellow Board members as part of the original search and appointment process, but additional meetings may nevertheless occur with the same Board members as part of a rich and thorough induction.

Inductions for Esther Lee and Omid Kordestani

Esther Lee joined the Board on 1 February 2022 and Omid Kordestani joined as a Non-Executive Director on 1 March 2022, subsequently becoming the Chair on 29 April 2022. As part of their onboarding programmes, Esther and Omid received comprehensive and engaging induction programmes that included a series of meetings, beginning before their joining the Board and running for several consecutive weeks.

In addition to meeting the Chair, Chief Executive and Chief Financial Officer, Esther and Omid met with each of the executive management team members, key representatives of our corporate functions, and brokers. Both induction programmes also included one-to-one meetings with each of their fellow Non-Executive Directors and a comprehensive introduction to the activities of each of the Board's Committees, including their objectives and priorities. Esther and Omid also held meetings with the company's legal advisers to discuss directors' duties, corporate governance and external reporting, among other topics.

Following the initial phases of her induction, Esther was keen to understand in greater detail our Workforce Skills division and reviewed its competitive landscape, acquisition strategy, market dynamics, and how each of these areas was linked to the strategic plan. The Nomination & Governance and Remuneration Committees, her planned contribution to which she discussed with their respective Chairs, were of particular importance to Esther. A meeting with the company's external consultants on reward matters was subsequently arranged for Esther to learn more about the Remuneration Committee's priority areas and the UK market landscape.

As Chair Designate, Omid held regular meetings with the Chair, Deputy Chair Designate and Senior Independent Director, as well as the Chief Executive. Having met the executive management team in person and following his introductory meetings with the company's advisers, Omid was also invited to join the meetings of each of the Board's Committees. The table below illustrates the purpose of some of the meetings that formed part of Omid's induction programme.

“I welcomed the opportunity to get to know other Directors in advance of my joining the Board and to subsequently meet the executive management. From governance matters to divisional deep-dives, my induction programme included everything necessary to understand the dynamics of the Board and how to effectively contribute to its discussions as a Non-Executive Director.”



Esther Lee
Appointed to the Board on 1 February 2022

Induction programme participants	Meeting purpose
Chair, Deputy Chair Designate and Senior Independent Director	Introductory meetings to cover the company's governance structure, the Board's priority areas and ways of working, meeting cadence, and ongoing matters considered by the Board.
Chairs and members of the Board's Committees	Overview of the responsibilities and composition of the Board's Committees, their governance, regular attendees and advisers.
Executive Directors; Divisional Presidents	Overview of the strategic priorities of the company and each division, key performance indicators, financial performance and projections, and competitive landscape.
Heads of Corporate Functions	Introductions with leadership team members, covering an overview of their business area(s), subject matter expertise, organisational structure, company culture and values.
Company Secretary; legal advisers	Induction planning, governance framework, Board and Committee matters, duties and responsibilities of a company director, the company's policies and procedures, and other legal and regulatory considerations.

Directors’ training

All Directors receive training on topics of importance for the company. Following takeover approaches to the company from Apollo Global Management, the Directors received additional training on the application of The City Code on Takeovers and Mergers as well as their responsibilities under the Market Abuse Regulation.

Board evaluation

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

Following an externally led review in 2020 and an internally facilitated review in 2021, led by the Senior Independent Director, the 2022 evaluation would normally have been questionnaire-based. However, given the recent appointment of Omid Kordestani as Chair in April 2022, it was felt that it would be beneficial for a further internally facilitated evaluation to be conducted during 2022, which Mr Kordestani agreed to lead.

Typical three-yearly evaluation cycle

Year	Methodology	Last undertaken
1	Questionnaire, tailored to specific needs of the business	2018
2	Internally facilitated interviews, to be led by the Chair, Senior Independent Director and/or Company Secretary as appropriate	2019, 2021, 2022
3	In-depth evaluation, externally facilitated	2020

Approach and methodology

The 2022 evaluation was carried out by Omid Kordestani, Chair, through a series of one-to-one conversations with each Director and anchored in a set of questions shared with Directors in advance. The one-to-ones were conducted in a 'free-format' style, to allow organic discussions and to provide ample opportunity for Directors to raise matters of importance.

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

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

The Nomination & Governance Committee reviewed the findings from the evaluation together with the full Board at its meeting in December 2022. The Committee will develop an action plan to address areas for improvement and will monitor progress during the year.

In reporting back to the Board, the Chair noted that conversations with Board members were positive, there was much consistency in the feedback provided by individual Directors, and there was unanimous agreement that the Board operates effectively.

Board evaluation process

- The format of the review was agreed by the Chair and Deputy Chair & Senior Independent Director (including in the latter's capacity as Chair of the Nomination & Governance Committee).
- The scope of the review was finalised by the Chair with support from the Company Secretary.
- The Chair interviewed each of the Directors on a confidential and unattributable basis.
- The output of the evaluation was captured in a report to the Board in December 2022, with the Board then discussing the points raised by the review.
- Progress on the findings of the evaluation will be monitored by the Nomination & Governance Committee throughout 2023.

Key findings included:

- Directors are highly motivated and there is a strong diversity of talent on the Board, with the Board as a whole considered to be knowledgeable, respectful and fully engaged.
- Board members have relevant skills and experience, albeit the Board recognised the importance of paying particular attention to its composition and skill sets in light of expected departures during 2023 and 2024 as certain Directors reach the end of their tenure and as the company's strategy continues to evolve. The Board acknowledged the strength and variety of contributions made by all, including its longest serving Directors.
- Board meetings and discussions are considered to be insightful, with valuable and constructive conversations. The Board is appreciative of the continued efforts by management to deliver focused, succinct meeting papers and materials.
- The Board recognised the progress that had been made on strategy, led by the Chief Executive and the refreshed executive team, including the new Chief Strategy Officer. The Board is appreciative of the in-depth conversations that have taken place on Pearson's strategy and vision, with the important next step being to focus on execution.
- The Board appreciates both the openness and transparency of the Chief Executive and the access to, and engagement with, the executive management team.
- The Board is supportive of the evolution of the company towards a more performance-oriented culture and looks forward to updates from the Chief Human Resources Officer in this regard.
- The Board recognised the work led by the Chief Legal Officer and her team in respect of Pearson's sustainability strategies, with guidance and oversight from the Reputation & Responsibility Committee.

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

Board evaluation *continued*

The main areas identified by the Board for particular focus during 2023 were:

- Continued focus on execution of strategy, including clarity on how the Board can best monitor and measure the execution plan while maintaining its distance from operational matters. In particular, the Board identified the importance of ensuring accountability for execution in the next phase of the company’s transformation.
- Continued sharing of customer and marketplace insights with the Board, which is seen as particularly important at this time as Pearson evolves on multiple fronts.
- Ongoing focus on succession planning and talent review, both at Board and executive level as well as more broadly, to ensure Pearson has both the right skill set to deliver on its strategic vision and a strong pipeline of talent to allow continued execution in the future.
- A desire to identify and focus on the elements of sustainability that are particularly relevant and critical for Pearson’s success.
- As Pearson continues to grow in the direct to consumer space, an ongoing focus on the importance of the risks inherent in the technology, cyber and online spaces, including information security, safeguarding and reputation.
- Following a period of significant acquisition activity, a desire for the Board to focus on post-acquisition integration and evaluation of the performance of acquired businesses.
- Ongoing development of the Board’s roadmap for market visits and deep dives to ensure this is aligned with Pearson’s aspirations and international footprint.

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

Individual evaluation

In addition to the evaluation of the Board as a whole, Executive Directors are evaluated each year on their overall performance against goals agreed by the Board, and in respect of strategic measures under the company’s annual incentive plan. These goals are linked to the key financial and strategic objectives of the company. Progress against each of these metrics is reviewed by the Board on a regular basis, as part of a dashboard of KPIs.

Following his appointment as Chair, Mr Kordestani intends to lead a formal individual evaluation of each Non-Executive Director every other year, similar to the practice adopted by the previous Chair, Sidney Taurel, and he encourages open channels of communication with Directors on an ongoing basis. In the Board’s opinion, these ongoing lines of communication, combined with a Group-wide culture which allows and encourages feedback at any time, provide the most effective means for evaluation. In assessing the contribution of each Non-Executive Director, the Chair, with the support of the Nomination & Governance Committee, has confirmed that each continues to make a significant contribution to the business and deliberations of the Board. The Non-Executive Directors, led by the Deputy Chair & Senior Independent Director, Tim Score, also conduct an annual review of the Chair’s performance, with Mr Score providing feedback from this review to the Chair.

Committee evaluation

All Committees undertake an annual evaluation process to review their performance and effectiveness. For 2022, the Committee evaluation process was facilitated internally by the Secretary of each Committee through use of a tailored questionnaire, except for the Nomination & Governance Committee, the evaluation of which formed part of the broader Board evaluation process. The findings from the Committee evaluation process were considered at the next applicable meeting. Read more in the Committee reports on the pages that follow.

Progress on findings of previous evaluation

A number of actions were taken during the year in response to findings from the 2021 Board evaluation process, as set out below. The Board has confirmed that these items were addressed to its satisfaction, with recommendations having been put into practice or a clear action plan identified for each to be taken forward in 2023.

Finding or focus area	Response or action taken
Continued focus on execution of strategy in each of Pearson’s five divisions, including clarity on how the divisions work together and continued optimisation of the more established businesses.	The Board has considered divisional execution plans as part of its strategy discussions throughout the past year. Inter-divisional synergies also continued to be assessed and discussed, including as part of considering acquisition opportunities. Optimisation of established businesses was also a consideration in the Board’s strategic execution discussions: e.g. the agreement to acquire PDRI, announced in December 2022 and subject to completion in 2023, which augments Pearson’s offering to enterprises and US federal job seekers. Additionally, the Audit Committee has discussed key strategic risks with the Presidents of each of Pearson’s five divisions over the past year as part of a suite of strategic risk deep dives. Read more about the work of the Audit Committee on page 80.
Continued discussions on portfolio, investment prioritisation, capital allocation and other corporate finance matters, in support of delivery of the strategy.	The Board discussed these topics on a regular basis, with input from divisional leadership and Pearson’s strategy and corporate development teams, resulting in a number of changes to the portfolio as described elsewhere in this report, including Pearson’s acquisition of Mondly (read more about this acquisition on page 69). The Board also determined to undertake a £350m share buyback programme to return capital to shareholders, which was completed in December 2022 (see page 120).
Involvement in the selection of KPIs, with the Board having visibility of supporting data to allow evaluation of relevant metrics.	Strategic KPIs were agreed by the Board in early 2022 and incorporated into the Board’s regular milestone and dashboard report to allow ongoing oversight and evaluation. The Board has subsequently discussed with management the metrics and definitions underpinning certain KPIs and the ways in which these are communicated to stakeholders.
Continued sharing of customer insights with the Board to aid understanding of the quality of product, content and services.	Customer feedback was shared with the Board as part of briefing sessions on developments to the Pearson+ offering. Customer and competitor insights remain an area of particular interest for the Board in 2023. The Reputation & Responsibility Committee also considered the sentiment of different consumer audiences towards the Pearson brand.

Finding or focus area	Response or action taken
Ongoing focus on succession planning and talent management, at both senior levels and more broadly, to ensure Pearson has the right skill set to execute its strategy.	Ali Bebo was appointed as Chief Human Resources Officer in late 2021 and worked with management throughout 2022 in relation to the organisational design, particularly at senior levels, and talent management. This was discussed in detail by the Board at its meeting in December 2022. New appointments at both Board and Executive level in 2022, as described elsewhere in this report, have brought valuable additional skills and experience to the company's leadership team. Read more about the Executive Management team on page 60.
Refinement of long-range planning in light of the new strategy and business structure.	Following the appointment of new Chief Strategy Officer, Sulaekha (Sue) Kolloru Barger, in May 2022, the Board has continued its oversight of substantial strategic planning and initiatives. In particular, work has been undertaken to refine Pearson's strategic planning cadence in alignment with the annual budget cycle.
Ensure work to refresh the risk management framework continues, particularly given the increasing importance of information security, data management and privacy, and cyber risks.	Divisional strategic risk deep dives at the Audit Committee have been well received by Directors and are proving beneficial for management in developing new ways of thinking about risk. Cyber and data-related risks continue to be key topics arising across the work of the Audit Committee, and the addition of the Chief Information Officer as a regular Audit Committee meeting attendee will enhance oversight and monitoring of these areas. Read more about our approach to risk on page 43 and the work of the Audit Committee on page 80.
Continue to evolve ways of monitoring the culture and behaviours throughout the organisation, as well as overseeing the implementation of Pearson's new purpose, mission, vision and values.	The Board recognises the progress made by the Chief Human Resources Officer in helping to drive a company-wide focus on engagement and development of a performance culture. This has included a new approach to measuring employee engagement, relaunch of a Learning at Work programme, and the successful roll-out of Pearson's new purpose, mission, vision and values. The Reputation & Responsibility Committee will lead oversight of culture and employee engagement following revisions to its terms of reference in late 2022, further aiding the Board's oversight of these matters. The Board is mindful that it is particularly important to pay close attention to culture and engagement throughout the year, particularly following a period of strategic and operational transformation. It will, therefore, be attentive to these matters in 2023. Read more about culture and employee engagement on pages 65-68.



Nomination & Governance Committee report



Principal Committee responsibilities

Appointments

Identifying and nominating candidates for Board vacancies.

Balance

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

Succession

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

Governance

Reviewing and overseeing Pearson's corporate governance framework, Board evaluation and training plans, and the Board Diversity Policy.

Terms of reference

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

Committee members and attendance

Attendance by Directors at scheduled Nomination & Governance Committee meetings throughout 2022:

Committee members	Meetings attended
Sherry Coutu	3/3
Omid Kordestani ¹	2/2
Esther Lee ²	2/2
Tim Score	3/3
Sidney Taurel ³	1/1
Annette Thomas	3/3

1. Mr Kordestani was appointed to the Committee on 1 April 2022.
2. Ms Lee was appointed to the Committee on 1 April 2022.
3. Mr Taurel resigned from the Board and the Committee on 29 April 2022.

Role and composition of the Committee

I am pleased to present my first report as Chair of the Nomination & Governance Committee, having been appointed to the position in April 2022 following the retirement of Sidney Taurel, Board Chair. I offer my thanks to Sidney for his substantial contributions to the Committee's work, most particularly in ensuring we have a strong and diverse Board in place to lead our company.

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

The Committee currently has five members including me as Chair, with Omid Kordestani and Esther Lee having joined the Committee following their appointments to the Board in early 2022. The Chief Executive and other senior management, including the Chief Human Resources Officer, attend Committee meetings by invitation.

As Committee Chair, I am available to engage with any shareholders who would like to discuss the work of the Committee and look forward to taking any shareholder questions at our forthcoming AGM in April 2023.

Board succession planning, skills and expertise

A key element of the Committee's remit is to lead the process for Board appointments in line with appropriate succession plans. The company has contingency plans in place for the temporary absence of the Chief Executive for health or other reasons. The matter of Chief Executive succession is a regular item for discussion and review by the Board on an annual basis. Succession planning for the Board as a whole is considered at least annually by the full Board, and on an ongoing basis by the Committee.

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

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

Having regard to the upcoming retirement of Ms Lorimer from the Board at the 2023 AGM, as well as looking further ahead to anticipated Board retirements over the next two to three years, the Committee agreed to commence a Non-Executive Director search process in the latter part of 2022. In preparing for this search, the Committee agreed that it was particularly interested to identify candidates who would collectively bring a combination of skills and expertise in the following areas:

- operating experience with subscription and/or enterprise SaaS business models, at a scale and complexity commensurate to Pearson
- experience developing innovative digital products and/or driving digital business transformation
- an active senior finance leader, with a deep understanding of public company governance standards, ideally from a UK listed or global business
- capacity to serve on the Audit Committee.

Skills matrix

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

Category

1. Accounting and finance

2. Data and cyber security governance

3. Digital and technology

4. Disruption management, including: Talent leadership through change, Marketing and data insights, New business models and innovation

5. Direct to consumer business models (including consumer brand and marketing)

6. Education and public sector

7. Global markets

8. People/general talent focus, including workforce learning

9. Policy and government relations

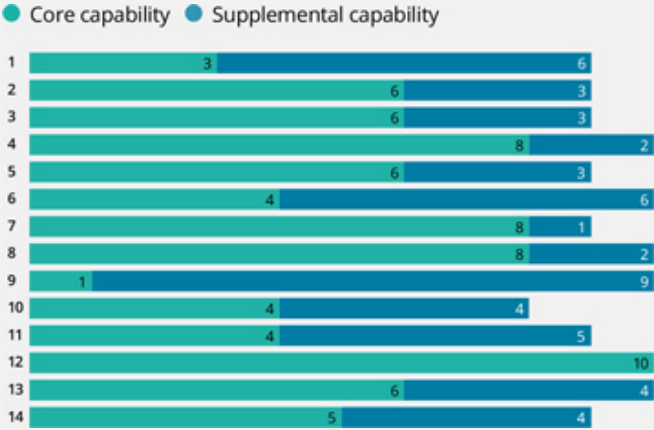
10. Prior CEO experience, particularly of multinational businesses

11. Remuneration

12. Scale and complexity

13. Sustainability

14. UK plc governance



Taking into account the agreed person specification, the Committee has engaged Spencer Stuart to undertake a search process for new Non-Executive Directors. In line with the objectives of the Board’s Diversity Policy, the Committee has asked Spencer Stuart to ensure that the list of candidates reflects diversity of gender, ethnicity, geography and age as well as diversity in its broadest sense. You can read more about the Board Diversity Policy and diversity across Pearson on page 76. In addition to the Non-Executive Director search process, Spencer Stuart also undertakes broader executive search activity for the Group and is a signatory to the Voluntary Code of Conduct for Executive Search Firms. Spencer Stuart has no connection with Pearson or members of the Board beyond its expertise in board and executive search.

Executive succession planning

Succession planning for key positions at executive management level is primarily overseen by the full Board, with support provided by the Committee in respect of particular initiatives. The executive team has a key role to play in our strategic planning process, in the ongoing development of our talent pipeline and in fostering the culture and values required to continue to deliver on our strategy. In December 2022, the Board held a discussion on talent, including a succession planning session focused on the executive pipeline from which the future leaders of Pearson were likely to emerge, both at Pearson Executive Management level and for other key roles. A diverse pipeline of ‘ready now’ and ‘ready later’ emerging talent has been identified, and plans are in place to accelerate these individuals’ development and path to succession where possible. These measures include inviting individuals to participate in Board and Committee meetings, mentoring by Non-Executive Directors, and encouraging and enabling individuals to take on external non-executive roles in order to increase their exposure to new areas of business. The company also has targeted development programmes for high-potential talent and mentorship programmes for diverse leaders, as well as development programmes for junior and middle management.

Other areas of focus during 2022

The Committee oversees the company’s compliance with the UK Corporate Governance Code and reviews a status tracker to enable it to consider the appropriateness and maturity of various elements of our governance framework and to monitor any areas of qualified or non-compliance. Learn more about Pearson’s compliance with the Code on page 55.

Other areas of focus for the Committee during the year included: oversight of composition of the Board’s Committees, assessment of the independence of Linda Lorimer prior to making a recommendation for her re-election at the 2022 AGM (recognising her length of service on the Board), and the annual review of the contribution of each Director to the Board. As Committee Chair and Deputy Chair of the Board, I also paid particular attention to the onboarding and induction of Omid Kordestani as the new Board Chair. You can read more about the induction process for both Omid Kordestani and the recently appointed Non-Executive Director Esther Lee on page 70.

Committee evaluation

The Committee undertakes an annual evaluation process to review its performance and effectiveness. For 2022, feedback relating to the Committee was sought from Directors as part of the wider Board evaluation led by the Board Chair. Topics covered included the effectiveness and dynamics of the Committee, oversight of key areas within the Committee’s remit, the quality of papers and meeting discussions, and the relationships between the Committee and management.

The findings of the effectiveness review process for 2022 indicated that the Committee is considered to be working well with appropriate agendas, papers produced to a good standard and high-quality discussions.

Committee aims for 2023

The Committee’s priorities for the coming year will be to lead and conclude the current Non-Executive Director search process, and to oversee the planned externally-facilitated Board evaluation process. Additionally, together with our colleagues on the Audit Committee, we will monitor any proposals by the regulator to revise the UK Corporate Governance Code in light of the UK Government’s response to the consultation on Restoring Trust in Audit and Corporate Governance, and will oversee management’s response to this.

Tim Score

Chair of Nomination & Governance Committee



Nomination & Governance Committee report *continued*

Diversity across Pearson

We have been on an intentional journey to redefine what diversity, equity, and inclusion (DE&I) mean at Pearson and to take action. We have reshaped our policies, practices, and principles around DE&I and created a long-term strategy focusing on recruitment and promotion, retention, inclusive culture, and social impact.

Our ambition is to be an inclusive and high performing place to work where everyone can leverage their unique strengths. That's why our updated people strategy has DE&I as one of our three pillars with the aim of creating a culture of belonging and increasing diverse representation throughout the company. As part of our new Pearson engagement survey, we have a culture of inclusion index to benchmark and measure against three principles: employees are treated with respect, managers value employees for their strengths, and our leaders do what is right.

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

Together, our goal is to drive the transformation of learning, making it more diverse, equitable, and inclusive. It is a continuous combination of intentional bottom-up and top-down leadership across all levels of the company to foster a culture where everyone feels a sense of belonging.

Board diversity

We believe that Board diversity makes us a better and more sustainable business, contributing to high performance, enhanced commercial results, and an inclusive leadership culture. Research indicates that high-performing boards provide an increase in competitive advantage and wider perspectives, while the needs for greater inclusion and diversity continue to influence global trends.

We are determined that, as a Board, we must be representative of our employee base and wider society, including the countries in which we operate. The Board embraces the Code's underlying principles with regard to Board balance and diversity, including in respect of ethnicity, gender and age. The objectives set out in the Board's Diversity Policy and our progress towards these are shown in the table on page 77.

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

In light of the changes put forward by the Financial Conduct Authority (FCA), the Nomination & Governance Committee has updated the objectives that support the Board Diversity and Inclusion Policy, and which underpin Pearson's commitment to creating a more equitable and inclusive company. The current objectives are set out below:

- at least 40% female directors
- at least two directors from an ethnic minority background
- at least one of the Chair, Chief Executive, Deputy Chair and Senior Independent Director or CFO is a woman

We have also expanded our objectives to confirm that the Board will consider its own diversity, and that of its Committees, as part of the annual effectiveness review processes. Further, the Board will explore expanding its diversity considerations to include characteristics such as sexual orientation, disability and socio-economic background.

The Nomination & Governance Committee has confirmed that it will adopt a principles-based approach to diversity on the Board's Committees. It is recognised that it is not necessarily practical to set meaningful metrics or targets for diverse membership of Committees due to the notably smaller membership of each of the Committees compared to the size of the Board. Accordingly, our principles-based approach endorses the importance of bringing diverse perspectives to all areas of Board and Committees' work. As an example of this principles-based approach in practice, as part of its regular Committee succession planning activity, the Nomination & Governance Committee considers the gender and ethnic balance on each Committee when assessing its composition and future needs.

As at 31 December 2022, 50% of Directors were women (2021: 50%), exceeding the target of 40% women's representation by the end of 2025, as recommended by the FTSE Women Leaders Review. We are also satisfied that, ahead of the target implementation date, we are compliant with the new FCA requirements stating that boards should have at least one woman in the Chair, Chief Executive, Senior Independent Director or Chief Financial Officer role, and that at least one member of the Board should be from an ethnic minority background, among other targets. The FCA requirements are applicable to Pearson with effect from the financial year which began on 1 January 2023.

One of the topics the Board considered during its evaluation process conducted in 2022, was the effectiveness of the organisation and dynamics of the Board, including in respect of diversity. The results and feedback provided by the evaluation indicated that the Directors believe the Board's diversity is strong. The Board recognised the increasing importance of DE&I and acknowledged the progress being made. It noted that wider forms of diversity, such as sexual orientation, disability, age, and socio-economic background, would be considered when making new appointment decisions.

Diversity and talent at executive level

Five members of our executive team of 10, excluding the Chief Executive and Chief Financial Officer who are counted in the Board's metric, are women (50% as opposed to 37.5% in 2021). Including the Chief Executive and Chief Financial Officer, this ratio stays at 50% (six women out of 12 members) (2021: 40%). As of 31 December 2022, the senior management team (as specified by the UK Corporate Governance Code), i.e. the executive management team and their direct reports, including the Company Secretary, contained 53 women, representing 50% of that group (2021: 49%). For diversity data in the format prescribed by LR 9.8.6R(10), please see page 225.

All leadership and mentoring programmes aim to have 50% of their candidates from diverse backgrounds. The Nomination & Governance Committee received updates on two internal mentoring schemes that it supports. The first scheme pairs a high-potential leader (typically at Senior Vice President level) with a Non-Executive Director. The second scheme involves members of the executive management team sponsoring a small group of individuals at management level, identified through our talent review process as potential successors of senior management.

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Board diversity objectives

The Nomination & Governance Committee monitors the progress on the company's DE&I framework, governance and measurement models, and priority areas. As part of this, the Nomination & Governance Committee reviewed and updated the objectives which underpin the Board Diversity Policy. The objectives in place during 2022 and Pearson's performance against them are set out below, together with an indication of the amendments (highlighted) to the objectives that have been approved in response to the FCA requirements:

Objectives	Progress
We will strive to achieve and maintain a Board composition of: — at least 40% Directors are women — at least two Directors from an ethnic minority background — at least one of the Chair, Chief Executive, Deputy Chair and Senior Independent Director or CFO is a woman	As at 31 December 2022: ✔ 50% Directors were women ✔ The Board included three Directors from an ethnic minority background ✔ One of the Chair, Chief Executive, Deputy Chair and Senior Independent Director or CFO is a woman
All Board appointments will be made on merit, in the context of the skills and relevant experience that are needed for the Board to oversee Pearson's strategic development and that reflect the global nature of our business.	✔ Our Non-Executive Director search process considers a wide range of candidates, including from diverse backgrounds, all of whom were evaluated on the basis of merit. Our most recent search processes resulted in the appointment of Esther Lee and Omid Kordestani, whom the Board believe possess the requisite skills and experience for their roles.
The Board will continue to incorporate a focus on a diverse pipeline in its succession and appointment planning, including to prioritise the use of search firms which adhere to the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) when seeking to make Board-level appointments.	✔ The Committee actively includes diversity in its search criteria for Board appointments, and proactively encourages engaged search firms to include candidates from a range of diverse backgrounds in its candidate lists. Spencer Stuart assist Pearson with search activities, including for the external element of the Non-Executive Director search processes. Spencer Stuart is a signatory to the Voluntary Code.
The Board will continue to adopt best practice, as appropriate, in response to the Parker Review, FTSE Women Leaders Review, FRC Board Director Effectiveness Review, and Financial Conduct Authority requirements.	✔ The Board is cognisant of the recommendations of the FTSE Women Leaders Review, which has succeeded the Hampton-Alexander Review, and the findings of the FRC Board Diversity and Effectiveness report. The Committee also reflected the new FCA requirements in respect of gender and ethnic diversity in its review of the Board Diversity Policy.
The Board will consider its composition and diversity, and that of its Committees , as part of its consideration of effectiveness in the Board evaluation review process. The Board will also explore expansion of these considerations to cover ethnicity, sexual orientation, disability and socio-economic background characteristics.	✔ These matters were considered in the 2022 evaluation process. Read more on page 71.
Where appropriate, we will assist with the development and support of initiatives that promote all forms of DE&I in the Board, Pearson Executive Management team and other senior management.	✔ Six mentees at the Senior Vice President (SVP) level were mentored by six Non-Executive Directors in 2022. 67% of SVP participants were female and/or persons of colour (target at 50%).
We will review and report on our progress in line with the policy and our objectives in the annual report, including providing details of initiatives to promote DE&I in the Board, Pearson Executive Management team and other senior management.	✔ Objectives that accompany the Board's Diversity Policy have been updated. The Committee continues to monitor developments on DE&I in the external landscape.
We will continue to make key DE&I information about the Board, senior management and our wider employee population available in the annual report, and aim for ongoing transparency in this area in line with best practice.	✔ This information is included in the annual report. Read more about DE&I matters in the wider employee population on page 34.

Key

✔ Target achieved

✘ Target not met

New objective for 2023

Reputation & Responsibility Committee report



Linda Lorimer - Committee Chair

Principal Committee responsibilities

- Stakeholders:** Monitoring reputational issues that could significantly affect Pearson's reputation with stakeholders, including consumers, employees, shareholders, educational institutions and educators, employers, governments and regulators, communities and business partners.
- Sustainability and non-financial KPIs:** Overseeing Pearson's sustainability strategy including: targets and public commitments; regulatory landscape, reporting and ratings; ESG due diligence in our supply chains and business partnerships; matters relating to the non-financial KPIs linked to the three pillars of the ESG Framework.
- Culture and employee engagement:** Overseeing Pearson's approach to employee engagement. Monitoring the company's culture, which stresses diversity and high performance.
- Communications and regulatory matters:** Overseeing Pearson's communications, strategies, policies and plans related to reputational issues and the people, processes and policies that are in place to manage them.
- Branding:** Oversight of how the company's brands are managed and promoted to ensure that their value and the company's reputation are maintained and enhanced.
- Risk:** Pearson's approach to the reputation aspects of the risk register and ensuring that clear roles have been assigned for the management of these.

Terms of reference

The Committee has written terms of reference that clearly set out its authority and duties. These are reviewed annually and can be found in the Governance section of our website (www.pearsonplc.com).

Committee members and attendance

Attendance by Directors at scheduled Reputation & Responsibility Committee meetings throughout 2022:

Committee members	Meetings attended
Andy Bird	3/3
Linda Lorimer	3/3
Graeme Pitkethly	3/3
Annette Thomas	3/3
Lincoln Wallen	3/3

Reputation & Responsibility Committee role

The Committee works to assess and advance Pearson's reputation across the range of its stakeholders and to maximise the company's positive impact on society and the communities in which we work and serve.

We are the main governance body for sustainability at Pearson, providing important oversight of our environmental, social and governance (ESG) framework; this includes climate change considerations. As part of this role, we promote and oversee Pearson's sustainable business strategy and assess progress against its commitments. We also monitor branding, culture and values, and provide ongoing oversight and scrutiny across all reputational matters.

The full Board is kept abreast of the Committee's work through reports I make following each of our sessions. These reports include highlighting any areas of concern and offering specific recommendations for the Board's action.

In 2022, we led a comprehensive review of the Board's governance framework for ESG matters, and made the following recommendations for enhancing the Directors' collective oversight of ESG matters, all of which were approved by the Board:

- the Audit Committee will assume responsibility for assurance and integrity of ESG data and metrics
- the Remuneration Committee will formally incorporate ESG considerations in remuneration frameworks and decisions
- employee engagement will be formally added to this Committee's remit, alongside culture. We have invited the Chief Human Resources Officer to be a regular attendee at our meetings as a resource on the important topics of employee engagement and culture.

We also conducted a thorough review of our own terms of reference. The Committee's principal responsibilities, as revised, are summarised to the left of this page and you can read more about our overall Board framework for ESG governance on page 66.

As Committee Chair, I am available at any time to engage with any shareholders who would like to discuss the work of the Committee, and particularly look forward to taking any shareholder questions at our forthcoming AGM in April 2023.

It has been my privilege to serve as Chair of the Committee since 2016, most notably to have had the opportunity to contribute to Pearson's sustainable business strategy as it has matured and to the development of our ESG framework. I am delighted that the Board has chosen Annette Thomas to be my successor as Chair; Annette has shown a real passion for the work of our Committee and has both experience and expertise in the remit of the Committee.

Committee composition and attendees

The Committee currently has five members, including me as Chair. The members bring a range of expertise across the key areas of the Committee's remit, including sustainability, stakeholder management, people and talent, and policy and government relations.

In addition, we benefit from the regular attendance of senior executives whose work is central to the remit of the Committee. These include the Chief Legal Officer, who is the executive leader responsible for the development, monitoring and execution of Pearson's sustainability strategy; the Chief Marketing Officer and Co-President of Direct to Consumer; the Chief Human Resources Officer; SVP – Investor Relations; and SVP – Corporate Communications.

Sustainability activities in 2022

Throughout the year, the Committee paid particular attention to the continued evolution of our sustainability strategy, including how it aligns to our greatest areas of opportunity and challenge as a business, and how to communicate its tenets to all our stakeholders in a clear and impactful way.



As described in greater detail in our Sustainability report starting on page 30, our ESG framework comprises three pillars that align with the interests of stakeholders, and where we can make the biggest positive impact:

- Driving learning for everyone with our products
- Empowering our people to make a difference
- Leading responsibly for a better planet

These areas are also materially influential in helping Pearson succeed as a business. The pillars have a clear, natural fit to our non-financial KPIs, reflecting the common goal of alignment between our corporate and sustainability strategy. The sustainability strategy is supported by Pearson's robust corporate governance, strong corporate culture and a range of effective policies to ensure we achieve our ambitions.

The Committee receives regular updates from management on progress against specific elements of the sustainability strategy. Over the past year, key activities of the Committee in relation to our three sustainable business pillars included the following:

Driving learning for everyone with our product

In the course of the year, we had reviews of product efficacy and learning design; we undertook our annual safeguarding review, which included our growing attention to digital products and services; and we assessed the company's consumer brand equity study.

At each meeting, the Committee receives a report on recent incidents and issues that could have an impact on the company's reputation, including those relating to our products. We consider Pearson's responses to coverage on social media and in traditional media, including paying particular attention to our protocols for responding to questions about our content, the integrity with which we handle such situations, and any lessons learned. In response to these reports, the Committee provided input about addressing the specific incidents at hand, and made recommendations about how the company can be responding to the general issues raised.

Empowering our people to make a difference

In the course of the year, the Committee asked the Chief Human Resources Officer to lead a session devoted to talent, performance and engagement. We also reviewed new plans for the evolution of our overall approach to employee engagement and continued our practice of an annual review of health and safety across the company.

Leading responsibly for a better planet

In the past year, the Committee monitored progress in respect of climate transition plans, including receiving an update on Pearson's decarbonisation journey. As part of this, we provided recommendations to management on how to approach reduction in Pearson's scope 1, 2 and 3 emissions, with reference to the maturity of climate performance in our supply chain

Given world events, the Committee received an update on the status of Pearson's business operations in Ukraine, Russia and Belarus.

ESG governance and policies

Our three sustainable business pillars are underpinned by robust governance, a strong culture and effective policies. In this regard, during the year:

- we reviewed an ESG materiality assessment which confirmed that the views of our external stakeholders align well with our internal ambitions. With input from management and external advisers, we noted improvement opportunities for our core business areas to enhance their impact on Pearson's sustainability ambitions
- we revised the Board's ESG governance framework, as noted on page 66
- we received an update about how the company will be reporting its ESG progress to external regulatory bodies, including the approach for our narrative, non-financial KPI reporting and external data verification, where we work closely with our colleagues on the Audit Committee. We also noted how management plans to evolve our reporting in line with regulatory changes

- we reviewed the annual Modern Slavery Statement with management prior to recommending that the Board approve the statement for publication.

Other areas of focus during 2022

In addition to the work relating to the three sustainable business pillars, we spent time considering a broader range of matters relating to Pearson's reputation and key stakeholders, including the following:

- with the help of colleagues and external advisers, the Committee conducted a horizon scanning exercise to identify key reputational risks and trends facing Pearson such as critical race theory, social issues and increased scrutiny of branded content platforms. This exercise, which we intend to conduct periodically, helps to ensure that the Committee and our Board is alert to external factors that may impact our business
- we reviewed a new framework to guide the company about when it will ordinarily make public statements concerning societal events. Factors that are part of this decision framework include whether the event could have a material impact directly on our business or people and whether the issue is aligned or misaligned with Pearson's purpose and values
- after the US midterm elections and the change in the leadership in the UK, we received a government relations update, which is a periodic topic for the Committee's agenda.

Committee evaluation

The Committee undertakes an annual evaluation to review its performance and effectiveness. For our evaluation in 2022, Committee members and other key contributors to the Committee were invited to provide their views by way of a tailored questionnaire.

Topics covered included the effectiveness and dynamics of the Committee, oversight of key areas within the Committee's remit, the quality of papers and meeting discussions, and the relationships between the Committee and management.

The Committee considered the findings from this process at its November 2022 meeting and concluded that:

- the Committee is working well with appropriate agendas, papers produced to a good standard, and high-quality discussions
- some refreshing of the Committee's remit was warranted to specify explicitly that employee engagement and the company's culture are part of the Committee's remit as well as expanded responsibility for ESG and sustainability. This feedback guided the revisions to the terms of reference review undertaken towards the end of the year
- it may be beneficial to provide greater exposure for the Committee to a range of external viewpoints and advice. In direct response to this suggestion, the Committee welcomed external advisers to its ESG deep dive session, where external perspectives were provided on Pearson's ESG materiality assessment and ambitions.

The matters identified during the previous year's evaluation process have been addressed to the Committee's satisfaction during the year, as described elsewhere in this report.

Committee aims for 2023

Our priorities for the coming year include the publication of Pearson's climate transition plan and the launch of various activities to empower our people to make a difference through learning opportunities and skill-based volunteering. We will continue to oversee Pearson's ESG framework including progress under each of our three sustainable business pillars, as well as overseeing the newly refreshed approach to employee engagement and culture.

Linda Lorimer

Chair of Reputation & Responsibility Committee

Audit Committee report



Graeme Pitkethly - Committee Chair

Principal Committee responsibilities

Financial reporting

The quality and integrity of Pearson’s financial reporting and statements and related disclosures, including significant reporting judgements.

Policy

Group financial policies, including accounting policies and practices.

External audit

External audit, including the appointment, qualification, independence and effectiveness of the external auditor.

Internal audit, risk and internal control

Risk management systems and the internal control environment, including oversight of the work and effectiveness of the internal audit function.

Compliance and governance

Legal and regulatory requirements in relation to financial reporting and accounting matters, and oversight of compliance programmes and investigations.

Terms of reference

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

Committee members and attendance

Attendance by Directors at scheduled Audit Committee meetings throughout 2022:

Committee members	Meetings attended
Linda Lorimer	4/4
Graeme Pitkethly ¹	3/4
Tim Score	4/4
Lincoln Wallen	4/4

1. Mr Pitkethly was unable to attend one meeting prior to becoming Committee Chair due to a pre-existing commitment. He reviewed the papers and provided his perspectives to the Committee Chair outside the meeting.

Audit Committee role and composition

I am pleased to present my first report as Chair of the Audit Committee following my appointment to the role on 1 August 2022.

My predecessor in the role, Tim Score, remains a valued member of the Committee and I offer my thanks to Tim for his considerable contributions as Committee Chair.

The Committee has been established by the Board primarily for the purpose of overseeing the accounting, financial reporting, internal control and risk management processes of the company and the external audit of the financial statements of the company. As a Committee, we are responsible for assisting the Board’s oversight of the quality and integrity of the company’s external financial reporting and statements, and the company’s accounting policies and practices.

Pearson’s Vice President – Internal Audit has a dual reporting line to the Chief Financial Officer and to me, and both she and the external auditors have direct access to the Committee to raise any matters of concern and to report on the results of work directed by the Committee. As Audit Committee Chair, I ensure that the full Board is kept abreast of the business of the Committee in a timely manner, including highlighting any areas of concern or specific recommendations. I also work closely with the CFO and senior financial, risk, legal and internal audit personnel outside the formal meeting schedule to ensure robust oversight and challenge in relation to financial control, compliance, investigations and risk management.

As Committee Chair, I am available to engage with any shareholders who would like to discuss the work of the Committee, and look forward to taking any shareholder questions at our forthcoming AGM in April 2023.

Audit Committee meetings and activities

An important area of focus for the Committee throughout 2022 was the transition of Pearson’s external audit from PricewaterhouseCoopers LLP (PwC) to Ernst & Young LLP (EY), who were selected following a competitive tender process in 2021. The transition process and first audit by EY have necessitated considerable efforts by all involved, and I would like to acknowledge the commitment demonstrated by all Pearson colleagues throughout the financial year who have supported the audit process. You can read more about how the Committee has monitored the transition to EY on page 84.

Other prominent themes in the Committee’s work throughout 2022 included:

- important areas such as data privacy, cyber security and business and technology resilience. In addition to continuing to increase in importance at a macro level, these are key factors in the success of Pearson’s digital and consumer-focused strategy
- a strong focus on risk, supported by a new programme of business-focused deep dives led by the Divisional Presidents
- oversight of accounting treatment relating to portfolio changes, including the strategic review of Pearson’s international courseware local publishing businesses
- continued oversight of Pearson’s key judgements and key areas of estimation as described in the financial statements.

At every meeting, the Committee also considered reports on the activities of the internal audit and compliance functions, including the results of internal audits, project assurance reviews and fraud and whistleblowing reports. The Committee also monitored the company’s financial reporting procedures, discussed the finance and IT controls environment, reviewed the services provided by the external auditors and considered any significant legal claims and regulatory issues in the context of their impact on financial reporting, each on a regular basis. You can view the key activities of the Committee and read more about our work in these areas on the pages that follow.

Additional meeting attendees

The Chief Financial Officer, Deputy Chief Financial Officer, Chief Legal Officer, Chief Information Officer, other executives and senior managers from across the business also attended meetings during the year, either as regular invitees of the Committee or to discuss particular items of business.



This direct contact with key leadership augments the Committee's understanding of the issues facing the business as well as helping to develop Pearson's talent pipeline through facilitation of Board-level engagement opportunities for those leaders and managers. The Committee also meets regularly in private with the external auditors and with the Vice President – Internal Audit.

In addition to the Committee's formal meeting schedule, I meet as needed with the external auditors, Chief Financial Officer, Deputy Chief Financial Officer, Chief Legal Officer, Chief Compliance Officer and Senior Vice President – Treasury, Risk and Insurance in order to keep abreast of all relevant matters within the Committee's remit.

Audit Committee training and knowledge sharing

The Committee receives technical updates at each meeting, including on matters such as accounting standards and the audit and governance landscape, and members are able to request specific or personal training as appropriate. In particular, we remain attentive to developments at a legislative and regulatory level, including the proposals announced in May 2022 by the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) in response to the consultation on 'Restoring trust in audit and corporate governance'.

The Committee's focus areas for 2023 will include:

- Following up on continuing improvements in the external audit process, as discussed further on page 84.
- Monitoring progress of the UK Government's proposals on audit and corporate governance reform, any impacts on the company's processes and practices, and consideration of management's response.
- Monitoring emerging developments in non-financial reporting, including proposals from the ISSB, EU and SEC.
- Continuing our attention to technology and cyber risk, through an increased frequency of cyber security deep dives and the addition of the Chief Information Officer as a standing attendee at all Committee meetings.

Committee evaluation

The Committee undertakes an annual evaluation process to review its performance and effectiveness. For 2022, the Committee evaluation process was conducted by way of a tailored questionnaire. The process sought views on an anonymous basis from Committee members and other key contributors to the Committee, including the lead external audit partner, the Chief Financial Officer, Deputy Chief Financial Officer, the Chief Legal Officer, the Vice President – Internal Audit, and senior financial, risk and compliance management.

Topics covered in the evaluation included the effectiveness and dynamics of the Committee, the Committee's oversight of key areas within its remit, the quality of papers and meeting discussions, and the relationships between the Committee and management. The Committee considered the findings from the evaluation at its November 2022 meeting, including the following key points:

- The Committee is considered by Directors and other contributors to be working well with appropriate agendas, papers produced to a good standard and high-quality discussions.
- Respondents welcomed the addition of divisional risk deep dives to the Committee's work plan and noted the importance of dedicating sufficient time to the overview of risk and associated remediation actions.
- Respondents recognised that it is important for all parts of the Group's assurance framework to remain attuned to the changing risk profile of the company, including data and cyber risk. It remains important for the Committee to ensure that it continues to have appropriate levels of support and expertise to assess and manage these areas.
- Given the quantum of Pearson's business in the US, there was a suggestion that at least one meeting per cycle be US-based to allow the Committee in-person access to US management and other stakeholders. We expect to be able to reintroduce this

element to the Committee's annual schedule following the relaxation of COVID-19 related travel restrictions.

- Responses highlighted the Committee's role in encouraging collaboration and alignment between the central corporate risk assessment and compliance functions and the work of internal audit.

Actions taken following the previous year's evaluation

Based on the recommendations from the previous year's evaluation, the Committee took the following actions in 2022:

- We assumed responsibility in our terms of reference for matters relating to assurance of ESG metrics. During the year, the Committee considered and approved Pearson's policy on greenhouse gas emissions re-baselining and restatement. This policy has established guidelines for the recalculation of the base year, as well as restatements, for scope 1, 2 and 3 emissions in the event of significant changes to Pearson's portfolio.
- Recognising the importance of technology and cyber-related matters to Pearson's business and strategy, we invited the Chief Information Officer to become a standing attendee at the Committee's meetings. Previously, the Chief Information Officer was invited to attend for specific agenda items. This strengthens the oversight that the Committee has of technology matters and enables timely engagement with the responsible executive whenever technology-related topics arise in our discussions.

Fair, balanced and understandable reporting

We are mindful of the Code's Principle N relating to fair, balanced and understandable reporting, and we build sufficient time into our annual report timetable to ensure that the full Board receives sufficient opportunity to review, consider and comment on the report as it progresses. Learn more about fair, balanced and understandable reporting on page 123

Financial reporting and policies

In February 2023, the Committee considered the 2022 preliminary results announcement and annual report and accounts, including the financial statements, strategic report and Directors' report. The significant issues considered by the Committee relating to the 2022 financial statements are set out on pages 86-87.

Correspondence with Financial Reporting Council

In October 2022, Pearson received a letter from the Financial Reporting Council (FRC) confirming that it had completed a limited scope review of the company's 2021 annual report in connection with their thematic review of deferred tax asset disclosures. There were no questions or queries to which the FRC required a formal written response. Two matters were raised regarding possible improvements to our existing disclosures. These have been addressed in the 2022 annual report where material and relevant.

The FRC's role is to consider compliance with reporting standards and is not to verify the information provided. Therefore, given the scope and inherent limitations of their review, which does not benefit from any detailed knowledge of the Group, it would not be appropriate to infer any assurance from their review that our 2021 Annual Report and Accounts are correct in all material respects.

Risk assessment, assurance and integrity

A key role of the Committee is to provide oversight and assurance to the Board with regard to the integrity of the company's procedures for the identification, assessment, management and reporting of risk. In fulfilling its remit, the Committee remains mindful that effective risk management is essential to executing Pearson's strategy, achieving sustainable shareholder value, protecting the brand and ensuring good governance.

In 2022, the Committee had oversight of management's refreshed approach towards risk identification and monitoring. Pearson's risk management programme has evolved in line with the structure of the business, which is managed through five global operating divisions supported by enterprise-wide corporate functions.

Audit Committee report *continued*

Through a series of business-focused risk deep dives, the President of each operating division provides an overview of its risk register to the Committee at least annually and leads a session on the key risks facing their particular division. The process is supported by central risk team experts as required, providing the Committee with a clear and consistent framework within which to evaluate the strategic and business risks to the company, based upon the principal, emerging and significant near-term risk categories described on pages 45-51.

The Committee uses these deep dive sessions to understand the rigour of management's risk scanning and to challenge judgements being made in response to risks. The Committee has reviewed the refreshed risk management approach to ensure it is robust and proportionate, and continues to facilitate a culture of accountability and ownership among business leaders. The introduction of divisional risk deep dives has provided a valuable strategic lens to the risk management process that has been welcomed by the Committee and management alike.

During the year, the Committee also conducted a number of deep dives with selected enterprise-wide functions including data privacy, cyber security, tax, anti-bribery and corruption, and business resilience.

Data privacy, cyber security and technology resilience

Prudent management of data privacy, cyber security and Pearson's technology estate are fundamental to the company's success and to building and maintaining trust with our customers. The Committee oversees these matters on behalf of the Board from a risk and assurance perspective and monitors the maturity of Pearson's associated governance frameworks. It does this through annual deep dives, as well as through oversight of the risk-based internal audit programme, in which these topics are key areas of focus.

As part of the data privacy deep dive led by the Chief Privacy Officer, the Committee considered developments in the global regulatory landscape and trends in enforcement actions, focusing on the importance of transparency and controls around the use of personal information. These regulatory trends, combined with Pearson's direct to consumer strategy, mean that a compelling user experience is imperative. Accordingly, the Committee discussed the progress that had been made through the launch of a new public-facing privacy centre, which provides an effective and customer friendly approach to explaining how Pearson uses personal information. The Committee also considered the ongoing enhancements to Pearson's data privacy governance structure, including a newly implemented network of designated privacy owners, strengthening of the internal incident management framework, and continued focus on data retention programmes with a particular focus on customer products, platforms and services.

The Committee also considered the status of Pearson's cyber security programme, through a deep dive led by the Chief Information Officer and Chief Information Security Officer. This deep dive was set in the context of the challenges and threats prevalent in the dynamic global security landscape. As part of this, the Committee received a report on:

- Pearson's cyber risk profile, including the status and trend of top threats and response to these threats, with a particular focus on strategic products
- Management's key achievements and focus areas in 2022, which included: simplifying and updating information security policies to support Pearson's digital strategy; enhancement of identity management capabilities; development of role specific security training; implementation of supplier security risk management; and continued attention to best practices for cloud security
- Objectives for the continued enhancement of Pearson's cyber security infrastructure and governance frameworks, including the key achievements in 2022 and aims for the coming year
- Findings of the annual third party assessment of Pearson's cyber capability maturity, which continues to demonstrate year-on-year improvement.

Audit Committee meeting focus during 2022

Financial reporting	Policy	External audit	Internal audit, risk and internal control	Compliance and governance
— Accounting and technical updates — Impact of legal claims and regulatory issues on financial reporting — Fair, balanced and understandable reporting, going concern and viability statements including supporting analysis — 2021 annual report and accounts: preliminary announcement, financial statements and income statement — Review of interim results and trading updates — Form 20-F and related disclosures, including annual Sarbanes-Oxley Act Section 404 attestation of financial reporting internal controls — Significant issues reporting	— Accounting matters and Group accounting policies — Treasury Policy and reporting — Tax update — Greenhouse gas emissions - policy for re-baselining and restatement	— Oversight of external auditor transition and first-year audit by new auditor — Provision of non-audit services by external auditor - policy and regular reporting — Appointment of external auditors — Report on half-year procedures — Confirmation of auditor independence — 2022 external audit plan — Remuneration and engagement letter of external auditors — Review opinion on interim results — Review of the effectiveness of external auditors — EY feedback on internal controls over financial reporting — Receipt of external auditors' report on annual report, Form 20-F and year-end audit — EY feedback on internal controls over financial reporting	— Internal audit activity reports and review of key findings — 2022 internal audit plan including resourcing — Assessment of the effectiveness of internal audit function, internal control environment and risk management systems — Risk management including Group's principal and emerging risks — Strategic risk reviews led by Divisional Presidents — Group-wide risk deep dives on cyber security; data privacy; treasury and insurance; anti-bribery and corruption; and business resilience and crisis management — Controls Centre of Excellence updates, including 2022 work plan	— Fraud, whistleblowing reports and compliance investigations — Compliance with accounting and audit-related aspects of the UK Corporate Governance Code — Audit Committee and internal audit function terms of reference — Oversight of Group's schedule of delegated financial authority — Regulatory briefings, including proposals resulting from BEIS consultation on audit and corporate governance reform — Review of minutes of the Verification Committee's meetings

The Committee has a strong focus on Pearson’s cyber security maturity and will increase its scrutiny of this topic by conducting two deep dives each year from 2023. As mentioned elsewhere in this report, the Chief Information Officer now attends every Committee meeting, to ensure ongoing focus on matters of both cyber security and technology resilience, among others.

As indicated in last year’s annual report, the Committee also continued to monitor management’s implementation of the Board’s agreed action plan following a 2018 security incident affecting AIMSweb 1.0. The Committee has concluded that the key workstreams have been successfully delivered, with the agreed improvements now having been incorporated into standard company practices.

The Committee also holds a separate annual deep dive, led by the Chief Information Officer, focusing on Pearson’s technology resilience capabilities. In 2022, this session included updates on infrastructure enhancements, management of the end-of-life technology estate, product availability and incidents, and technology-specific talent risk.

Members

As at the date of this report, the Committee comprises four independent Non-Executive Directors, all of whom have financial and/or related business experience due to the senior positions they hold or have held in other listed or publicly traded companies and/or large organisations. The Committee possesses a good balance of skills and knowledge with competence and experience covering all aspects of the sectors in which Pearson operates and the company’s key markets. Each member is “financially literate” for the purposes of the NYSE listing standards.

Graeme Pitkethly, Chair of the Committee since August 2022, is the Committee’s designated financial expert within the meaning of the applicable rules and regulations of the SEC, having recent and relevant financial experience, and is a Chartered Accountant. Graeme is Chief Financial Officer for Unilever plc and serves as Vice-Chair of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). Graeme’s full biography is shown on page 57.

The qualifications and relevant experience of the other Committee members are detailed on pages 56 to 58. You can read more on page 59 about the process through which the Board assesses the independence of Non-Executive Directors.

Compliance, fraud and whistleblowing

The Chief Compliance Officer oversees compliance with our Code of Conduct and works with senior legal, HR and other relevant personnel to investigate any reported incidents, including ethical, corruption and fraud allegations. The Committee receives an update at each meeting on all significant investigations as well as reviewing data regarding matters raised through our whistleblowing reporting system. If applicable, any findings of the external auditors with respect to a particular matter are also considered as part of these discussions. The Committee may also meet in private if required with the Chief Compliance Officer. On behalf of the Board, the Committee considers an annual review of the effectiveness of the whistleblowing system including through benchmarking against peers and by monitoring progress against previous years’ findings. The Committee Chair’s regular reports to the Board include a review of investigations or whistleblowing matters of note.

The Pearson anti-bribery and corruption (ABC) and sanctions compliance programmes provide the framework to support our compliance with various regulations such as the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act. The Committee uses this framework to conduct a deep dive into the ABC and sanctions compliance programmes on an annual basis. In 2022, in addition to its regular review of investigations, the Committee noted the continued enhancements made to the overall compliance programme, including ongoing training for staff, development of a set of FAQs for employees to provide insight into the investigations process, and enhancements to the ways in which Pearson monitors third parties with which it does business.

The Committee also paid particular attention to the work of the sanctions team and wider business in response to the war in Ukraine.

Internal audit

The internal audit function is responsible for providing independent assurance to management and the Committee on the design and effectiveness of internal controls to mitigate strategic, financial, operational and compliance risks. The Vice President – Internal Audit reports jointly to the Chair of the Committee and the Chief Financial Officer and is responsible for the day-to-day operations of internal audit and execution of the annual audit plan.

The internal audit mandate is approved annually by the Committee. The audit plan and any changes thereto are also reviewed and approved by the Committee throughout the year, and the Committee is attentive to the resourcing of the internal audit function. The internal audit plan is aligned to Pearson’s greatest areas of risk, as identified by the organisational risk management process, and the Committee considers issues and risks arising from internal audits. Management action plans to improve internal controls and to mitigate risks are agreed with the business area after each audit. Internal audit has a robust process in place for the implementation of audit actions, which also includes review and testing of evidence to corroborate action implementation. Progress of management action plans is reported to the Committee at each meeting. Internal audit has a formal collaboration process in place with the external auditors to ensure efficient sharing of insights and outcomes. Opportunities for reliance by the external auditor on internal audit outcomes are limited due to strict rules set by the external regulator. Regular reports on the findings and emerging themes identified through internal audits are provided to executive management and, via the Committee, to the Board.

In 2022, internal audit carried out engagements across Pearson’s business units and corporate functions covering most of the principal risks. The audit plan changes throughout the year based on changes in Pearson’s risk profile. Key themes in 2022 related to information security and data privacy, cyber security, data architecture and usage, digital safeguarding and business resilience, as well as financial controls in international businesses.

Internal audit evaluation

At its November 2022 meeting, the Committee considered the findings of the review of the performance and effectiveness of Pearson’s internal audit function, a process which is undertaken annually. The 2022 review was conducted by distributing a questionnaire to the key stakeholders of the internal audit function – including Committee members, the lead external audit partner, members of the executive management team, and senior financial, legal and operational management.

The evaluation process sought views on an anonymised basis on the internal audit function’s work programme, resource levels, skills and expertise, and ways of working. Based on the findings of the 2022 review, the Committee is of the opinion that the quality, experience and expertise of the internal audit function is appropriate for the business. The Committee recognised the findings of the review which noted that the internal audit function continues to improve collaboration with other teams, including the corporate risk and compliance teams, and is supportive of the desire to bring a greater level of data-based insight to add context to the findings of internal audit’s work. The Committee will remain attentive to the use of co-sourcing arrangements to supplement the internal audit function’s resource, particularly to ensure appropriate coverage of specialist areas.

The Committee will ensure that an independent third-party assessment of the effectiveness and processes of the internal audit function is conducted at least once every five years, in line with the requirements of the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing. The most recent such assessment was undertaken in 2019.



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In early 2022, the Committee asked the outgoing auditor, PwC, to share its perspectives on outputs from the previous year’s evaluation process. The purpose of this was to support a smooth transition by enabling the Committee and EY to take forward the opportunities for improvement identified in the 2021 review.

The Committee will continue to review the performance of the external auditors on an annual basis and will consider their independence and objectivity and the quality of the external audit, taking account of all appropriate guidelines.

Naturally, given this was a year of transition, a number of opportunities for further improvement were identified through the effectiveness review. These primarily related to ways of working between the Pearson and EY teams. Following the conclusion of the 2022 audit, Pearson and EY, led by the Deputy Chief Financial Officer and lead audit partner respectively, will work together to develop an action plan in response to the recommendations. The Committee will oversee implementation of this plan throughout the coming year.

Compliance with the CMA Order

Pearson confirms that it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year ended 31 December 2022.

Review of the external audit

During the year, the Committee discussed the planning, conduct and conclusions of the external audit as it proceeded.

At its April and July 2022 meetings, the Committee discussed and approved the external audit plan and reviewed the key risks of misstatement of Pearson’s financial statements. The external auditors provided an update to the risk assessment at the November 2022 Committee meeting, following the acquisition and disposal transactions in the second half of the year. These risks were then confirmed as final at the conclusion of their audit of the financial statements in February 2023.

The table on pages 86-87 sets out the significant issues considered by the Committee together with details of how these items have been addressed. The Committee discussed these issues with the auditors throughout the audit year.

In November 2022, the Committee discussed with the auditors the status of their work, focusing in particular on internal controls and Sarbanes-Oxley testing.

As the auditors concluded their audit, they explained to the Committee:

- the work they had conducted over revenue, including over contracts in certain of the Group’s businesses in the US and UK that span the year end, where revenue is recognised using an estimated percentage of completion based on costs and judgements in relation to provisions for returns
- their work in evaluating management’s goodwill impairment exercise, on a value-in-use basis, including assessing assumptions around the cash-generating unit (CGU) reassessment, goodwill reallocation, operating cash flow forecasts, perpetuity growth rates and discount rates
- their work in assessing management’s judgements and assumptions regarding the impairment of its right-of-use assets and whether property assets should be classified as investment property
- their work conducted over the accounting treatment of certain unlisted securities and their procedures performed over the restatement of prior year comparative numbers and the associated control implications in relation to this matter
- their procedures performed to audit the material acquisitions and disposals completed in the year in addition to evaluating management’s judgement that the businesses under strategic review do not meet the IFRS 5 criteria to be held for sale at 31 December 2022

- the work performed over the nature and presentation of adjusting items, focusing on subjective judgements and the transparency with which related adjusted measures are presented, and in particular the exclusion of costs related to major restructuring programmes
- their work in assessing management’s judgements and assumptions regarding provisions for uncertain tax positions, in particular the provision made in relation to the EU state aid tax matter
- the results of their controls testing for Sarbanes-Oxley Act Section 404 reporting purposes and in support of their financial statements audit
- the results of their work over the company’s going concern and viability statement reports
- their work in relation to information provided by the entity (IPE) disclosures and other material internal control over financial reporting (ICFR) matters
- their work in relation to other matters which are not classified as key audit matters, but may give rise to additional disclosure requirements, such as pensions, restructuring and asset capitalisation
- the work performed over the carrying value of investments in subsidiaries for the Pearson plc parent company.

The auditors also reported to the Committee the unadjusted misstatements that they had found in the course of their work, which were immaterial, and the Committee confirmed that there were no material items remaining unadjusted in these financial statements.

Auditors’ independence

In line with best practice, our relationship with EY is governed by our policy on external auditors, which is typically reviewed and approved annually by the Committee. The policy establishes procedures to ensure that the auditors’ independence is not compromised, as well as defining those non-audit services that EY may or may not provide to Pearson. Any allowable services are in accordance with relevant UK and US legislation and auditor standards. The policy takes into account certain voluntary commitments by EY regarding independence and applies to all Pearson businesses globally, including associate companies.

The Committee approves all audit and non-audit services provided by EY. Our policy on the use of the external auditors for non-audit services complies with the FRC’s Revised Ethical Standard published in December 2019. The standard applies restrictions on certain non-audit services and applies a cap on the level of permitted non-audit services fees which can be billed in any year. The policy also reflects the restriction on the use of pre-approval in the 2016 FRC Guidance on Audit Committees and, accordingly, all non-audit services, irrespective of value, are required to be approved by the Committee. In particular, we expressly prohibit the provision of certain tax, HR and other services by the external auditor. We review non-audit services on a case-by-case basis, including reviewing the ongoing effectiveness and appropriateness of our policy.

The Committee receives regular reports summarising the amount of fees paid to the auditors. During 2022, Pearson spent a similar amount on non-audit fees when compared with 2021. For 2022, non-audit fees represented 1% of external audit fees (2% in 2021).

For all non-audit work in 2022, EY was selected only after consideration that it was best able to provide the services we required at a reasonable fee and within the terms of our policy on external auditors. Where EY is selected to provide audit-related services, we take into account its existing knowledge and experience of Pearson. Where appropriate, services were tendered prior to a decision being made as to whether to award work to the auditors.

Significant non-audit work performed by EY during 2022 included:

- half-year review of interim financial statements

A full statement of the fees for audit and non-audit services is provided in note 4 to the financial statements on page 158.

Graeme Pitkethly

Chair of Audit Committee

Audit Committee report continued

Significant issues considered by the Audit Committee

Issue	Action taken by Audit Committee	Outcome
Goodwill allocation and impairment reviews		
— Pearson carries significant goodwill and other intangible asset balances. As a result of business disposals and an associated change in organisation structure there has been a change in the determination of cash generating units and goodwill has been reallocated. There are significant estimates and assumptions used in the impairment review. Pearson has made significant impairments to goodwill across a variety of its businesses in past years.	— The Committee considered the impact of acquisitions, disposals and changes in organisation design on the determination of cash generating units and in particular the level at which goodwill is monitored. The Committee reviewed the reallocation of goodwill across the cash generating units including those disposed. — The Committee monitored the Group's plans and forecasts during the year to determine if there were impairment triggers. The Committee considered the results of the Group's goodwill impairment reviews which were undertaken in December and refreshed post year end. Key assumptions – including cash flows derived from strategic and operating plans, long-term growth rates and the weighted average cost of capital – were reviewed and challenged. The Committee considered the sensitivities to changes in assumptions and the adequacy of disclosures required by IAS 36 'Impairment of Assets' in relation to the Group's CGUs.	— The Committee is satisfied with the determination of cash generating units and the associated goodwill reallocation. — The Committee is satisfied with the annual impairment review with confirmation of sufficient headroom in each of the cash generating units. — The Committee is satisfied with the disclosures relating to goodwill.
Going concern and viability		
— The assessment of the Group's viability and the appropriateness of the going concern assumption.	— The Committee reviewed future budgets and cash flow forecasts to understand the Group's available liquidity and ability to continue as a going concern. The Committee reviewed and challenged the risks identified to the forecasts. The Committee reviewed the outcome of the severe but plausible scenario modelling and stress testing.	— The Committee is satisfied with the modelling process and the risks identified. In addition, the Committee is satisfied with the stress testing performed and the severe but plausible scenario modelling. The Committee noted that in all scenarios the Group had a high level of liquidity headroom and sufficient headroom against covenant requirements. — The Committee is satisfied with the assessment of the Group's viability and is satisfied that the Group is a going concern. — The Committee is satisfied with the disclosures related to going concern and viability.
Acquisitions and disposals		
— Pearson disposed of its interests in its international courseware local publishing businesses, disposing of assets in French speaking Canada, Italy, Germany, South Africa and Hong Kong. In addition, Pearson announced a strategic review of its Online Program Management business. — Pearson acquired Credly Inc, increasing its ownership from 19.9% to 100%. — Pearson acquired 100% of ATI STUDIOS A.P.P.S S.R.L (Mondly).	— The Committee reviewed the accounting for the disposal of the international courseware local publishing businesses with specific focus on consideration, net assets disposed and disposal costs. The Committee also reviewed tax assumptions relating to the disposal transactions. In addition, the Committee reviewed the judgement related to whether the results and cash flows of the disposed businesses should be classified and presented as discontinued operations by reference to the criteria set out in IFRS 5. — The Committee reviewed the status of the strategic review of the Online Program Management businesses and considered this against the IFRS 5 criteria to be classified as held for sale. — The Committee reviewed the accounting for the Credly and Mondly acquisitions with specific focus on the step acquisition accounting for Credly, consideration, net assets acquired including the valuation of intangibles and the recognition of goodwill. The Committee noted the use of third party valuation experts to value the acquired intangible assets.	— The Committee determined that disposal accounting for the international courseware local publishing businesses had been appropriately recorded. The Committee is satisfied with the judgement that the results and cash flows of the disposed businesses should not be classified and presented as discontinued operations and is also satisfied with the disclosures related to this item. — The Committee also agreed that the IFRS 5 criteria to be classified as held for sale in respect of the Online Program Management businesses had not been met as at 31 December 2022. — The Committee determined that the acquisition accounting for Credly and Mondly had been undertaken appropriately but notes that it remains provisional as at 31 December 2022.

Issue	Action taken by Audit Committee	Outcome
Revenue recognition		
— Pearson has a number of revenue streams where revenue recognition is complex. For some revenue streams significant judgements and estimates are required in order to determine the amount and timing of revenue recognition.	— The Committee regularly reviews and challenges revenue recognition practices and the underlying assumptions and estimates. In addition, the Committee has visibility of internal audit findings relating to revenue recognition controls and processes and routinely monitors the views of external auditors on revenue recognition issues.	— The Committee is satisfied that revenue is being recognised appropriately.
Property asset impairment reviews and classification		
— Pearson holds significant right-of-use assets in relation to leased properties. The property portfolio has been further simplified, significantly reducing the square footage required. The right-of-use assets have consequently been impaired. In addition, assumptions made in previous years regarding the ability to sublet have been revisited. There are significant estimates and assumptions used in the impairment review.	— The Committee monitored the Group's property strategy during the year to determine if there were impairment triggers. The Committee considered the results of the Group's property impairment reviews with specific focus on the 80 Strand and Hoboken properties. Key assumptions – including potential rental value, expected sublease durations and terms such as rent free periods – were reviewed and challenged. The Committee considered the adequacy of related disclosures. The Committee noted the input of third party property specialists in determining the key assumptions.	— The Committee is satisfied with the results of the property impairment reviews and the subsequent impairment charges recognised in the income statement.
— In light of the changes in use of Pearson's property assets from own use to sublet, the classification of property assets has been assessed resulting in recognition of certain assets as investment property in 2022.	— The Committee reviewed the assessment of the property assets against the criteria to be classified as investment property.	— The Committee is satisfied that the charges relate to a major restructuring programme and so meet the Group's criteria to be excluded from adjusted performance measures.
Tax		
— Pearson holds provisions in relation to uncertain tax positions.	— The Committee considered various developments during the year, including Pearson's ongoing response to the European Commission's decision that the UK's Finance Company Partial Exemption rules constituted state aid ('EU state aid'). The Committee noted that the EU General Court dismissed the UK Government's appeal in relation to the EU state aid matter and concur with management that a provision is now required for this item.	— The Committee is satisfied with Pearson's approach to managing the impact of tax legislation changes and agreed with the views of management regarding tax provisioning levels.
— In 2021, Pearson paid £105m (including interest) in relation to the EU state aid matter and at that time the amount was recognised as an asset as it was expected to be recovered in due course. In 2022, the EU General Court dismissed the appeal made by the UK Government in relation to this matter. As a result of the dismissal, Pearson have concluded that a provision is now required in relation to this issue.	— The Committee reviewed the release of the tax risk provisions resulting from the expiry of the statute of limitations, including the presentation of these items within adjusted and statutory earnings.	— The Committee is satisfied with Pearson's approach to the EU state aid matter including the provision made in relation to amounts paid in 2021 and ongoing disclosure about this matter.
— In 2022, Pearson have released tax risk provisions totalling £72m following the expiry of the statute of limitations for certain periods in the US.		— The Committee is satisfied with the release of US tax provisions and the presentation of the items within the income statement.
— Changes to, and the application of, tax legislation continues to be a complex and judgemental area.		
Investments in unlisted securities		
— Pearson holds investments in unlisted securities. Historically, all of these investments have been classified as fair value through other comprehensive income. On further review of limited life funds the classification for certain funds has been changed to fair value through profit and loss.	— The Committee considered the classification of certain limited life funds held by Pearson and agreed with the reclassification.	— The Committee agreed with the reclassification of certain unlisted securities.
— The change in classification represents an error in the prior year accounts and prior year comparative numbers have been restated.	— The Committee considered the need for restatement of prior year comparative numbers considering both quantitative and qualitative factors.	— The Committee agreed with the requirement to restate comparative figures based on quantitative size but reviewed and agreed with management's determination that the qualitative factors suggest this is not a material item to users of the accounts.
	— The Committee reviewed the disclosures relating to the restatement.	— The Committee is satisfied with the accounting treatment in the current year and the disclosures related to the restatement of comparative figures.
	— The Committee reviewed the control implications relating to this matter.	— The Committee were satisfied that the control deficiency has been remediated.

Directors’ remuneration report



Sherry Coutu - Committee Chair

Key messages from the Remuneration Committee

- During the year, the Committee undertook a comprehensive review of the Directors’ remuneration policy, which is due for its triennial renewal at the 2023 AGM. Following extensive consultation with shareholders, it was determined that a conventional UK incentive structure would be retained but with modifications to quantum and enhancement of key UK governance features.
- The Committee also reviewed the implementation of the Directors’ remuneration policy for 2023, in particular the performance framework, to ensure it appropriately supports delivering Pearson’s forward-looking strategy.
- The Committee spent significant time during the year considering the inclusion of strategic and ESG priorities in incentives and benefited from insights provided by Annette Thomas given her key role on Pearson’s Reputation & Responsibility Committee. We will introduce a new ESG metric into the LTIP and remove digital sales from the AIP.
- As Committee Chair, I engaged extensively with shareholders and their advisers throughout 2022, and all feedback received was considered by the Committee when finalising the Directors’ remuneration policy and its implementation for 2023.
- The Committee considered performance outcomes for 2022. The annual incentive outcome for Executive Directors is 76% of maximum reflecting strong financial and strategic progress delivered in 2022. The long-term incentive granted in 2020 will vest at 58% of maximum considering the profitable growth and shareholder value created over the three-year performance period.
- A thorough review was conducted ahead of the release of the second tranche of the co-investment award for the Chief Executive, considering performance underpins, broader company performance, and stakeholders’ experience and it was determined that this tranche should vest in full.
- The Committee remains focused on ensuring remuneration policies and practice for all Pearson’s colleagues are consistent with our need to attract and retain the right talent for our digital future, and are appropriately aligned to our forward-looking strategy, our purpose, and our mission, vision, and values.
- During the year, I engaged with colleagues on executive pay and wider reward matters through several channels, including the Employee Engagement Network.

Terms of reference

The Committee’s terms of reference are in line with the 2018 UK Corporate Governance Code and are available on the Governance page of our website at pearsonplc.com (a summary of the Committee’s responsibilities is on page 111).

Board Committee attendance

There were 7 scheduled meetings of the Remuneration Committee in 2022. Attendance by Directors was as follows:

Committee members	Meetings attended
Sherry Coutu CBE	7/7
Esther Lee ¹	6/6
Tim Score	7/7
Sidney Taurel ²	2/2
Annette Thomas ³	3/3

1. Esther Lee joined the Remuneration Committee on 1 April 2022.
2. Sidney Taurel stepped down from Pearson’s Board and the Remuneration Committee at the AGM on 29 April 2022.
3. Annette Thomas joined the Remuneration Committee on 1 August 2022.

Dear Shareholder

On behalf of the Board, I am pleased to present the 2022 Directors’ remuneration report, which includes our 2023 Directors’ remuneration policy.

Pearson completed 2022 ahead of original expectations. The Group delivered a robust financial performance, with underlying sales up 5% and an underlying increase in adjusted operating profit growth of 11% as well as being on-track to deliver significant cost efficiencies in 2023.

Pearson made strong strategic progress over the year, including reshaping the portfolio for growth, adding capabilities and increasing interconnectivity between divisions to unlock synergies and build further lifelong learning potential. The Company’s strong strategic, operational, and financial progress was reflected in the share price and value delivered to our shareholders. Pearson ended the year as one of the top performers in the FTSE 100, delivering a total shareholder return of over 50% in 2022.

The work undertaken by Andy Bird and his new executive team over the last two years has ensured robust digital foundations for the next stage of Pearson’s journey which will enable new digital products and services to be brought to market at pace. Going forward, Pearson intends to capitalise on the momentum to date and continue to accelerate the growth of the business through its connected commercial and consumer strategy.

Directors’ Remuneration Policy review

In line with the normal three-year cycle in the UK, Pearson’s Directors’ remuneration policy will be subject to shareholder vote at the 2023 AGM. In advance of this, the Committee has spent significant time rigorously reviewing the Directors’ remuneration policy and its implementation to ensure it remains fit for purpose as Pearson looks to the future. This review considered Pearson’s renewed strategy, the strong performance of the business, and the views and expectations of our shareholders, their advisers, and other stakeholders.

Andy Bird was appointed Chief Executive shortly after the approval of our existing Directors’ remuneration policy at the 2020 AGM. Under his leadership, Pearson attracted several new experienced individuals to lead the business and the whole organisation is energised and focused on executing our new strategy. Additionally, Pearson has moved from near the foot of the FTSE 100 to around 60th due to the significant increase in market cap during 2022.

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Directors' remuneration report *continued*

The digital sales metric which formed part of the strategic AIP measures in prior years will be removed for 2023. Considering the growth in digital and digitally-enabled sales over the last five years, and that this now accounts for around three quarters of total sales, the Committee, with input from key shareholders, determined that including both a sales metric and a digital sales metric within the AIP was no longer appropriate. The strategic element of the AIP will therefore focus solely on ESG measures for 2023, at the same weighting as in 2022 (10% of the total AIP).

For 2023, in response to the removal of digital sales, the weighting of the adjusted operating profit measure will be increased to 40% to further incentivise the drive for profitable growth. The Committee did consider whether to include an additional strategic measure in place of digital sales, for example, a measure related to consumer engagement or product effectiveness. It was however determined that further work was required to ensure a sufficiently robust metric which could be linked to incentives, although the current intention of the Committee is that such a metric will be incorporated in future years.

Overall, therefore, for 2023, the AIP will be based 40% on adjusted operating profit, 30% on sales, 20% on free cash flow and 10% on strategic ESG measures. In line with normal practice, the Committee will review its approach in advance of each financial year to ensure that the balance of performance measures remains appropriate and aligned to the financial and strategic priorities of the Group.

For the LTIP, the majority of the awards will continue to be based on adjusted EPS, relative TSR and a return measure, with these three measures equally weighted at 30% each. The introduction of the new ESG measure, as described above, accounts for the remaining 10%. It is however proposed that, from 2023, Return on Capital replace net ROIC as the return measure. Return on Capital is considered a more appropriate and simpler measure for the business in terms of measuring how efficiently returns are generated from our asset base and is more consistent with the approach taken by other companies in the market.

The Committee also carefully considered the peer group against which to measure relative TSR performance, reflecting on whether a bespoke peer group, international index or a sector-specific index should be used instead of or alongside the FTSE 100. Initially, it was determined that the FTSE 100 should be retained given its simplicity, the fact that Pearson is a constituent of the FTSE 100 and subject to similar market dynamics as other global UK-listed companies. Further, the Committee was mindful of the challenges of identifying either an appropriate bespoke peer group or a defined sector group or index which adequately reflects Pearson's business mix and UK-listing.

However, during the shareholder consultation exercise, it became clear that shareholders held a broad range of views in relation to the most appropriate TSR comparator group for Pearson. Whilst it was generally recognised there is no “perfect” comparator group, some preferred the simplicity of the FTSE 100 whilst others thought an international or sector-specific comparator group would more closely reflect Pearson’s strategic ambition. The Committee therefore re-visited its initial deliberations, and to balance the various perspectives, it has ultimately been determined that a hybrid approach will be taken – 50% of the TSR element will continue to be measured relative to the FTSE 100 while the other 50% will be measured relative to the S&P 500. For both the FTSE 100 and S&P 500, certain sectors – financial services, energy, basic materials, utilities and healthcare – will be excluded as companies within these sectors are subject to very different market forces to Pearson and are therefore not considered relevant comparators.

Target-setting for 2023

One of Pearson's remuneration principles, which apply across the whole organisation, centres on pay for performance, and this is actively considered by the Committee when determining targets. For 2023, in line with usual practice, a robust target-setting process has been followed considering Pearson's strategic plan as well as analyst consensus to reflect market expectations.

This year, the Committee also considered the increased opportunity levels under the Directors' remuneration policy to ensure that any pay-out will appropriately reflect the performance delivered and ultimately value created for our shareholders. For maximum pay-out, performance must be significantly in excess of current market guidance. Overall, the Committee believes that the 2023 LTIP targets are appropriately stretching in the context of the business and external environment and would only result in significant value delivered to management where there has been significant value created for shareholders and other stakeholders. See page 99 for full details of 2023 LTIP targets.

The Committee has a strong focus on pay for performance and a robust track record of setting stretching targets, as demonstrated by the targets set in recent years and subsequent incentive outcomes. The approach taken this year is no different.

Shareholder engagement

Over the last year, as part of the Directors' remuneration policy renewal, the Committee has engaged extensively with shareholders and shareholder representative bodies. I would personally like to take this opportunity to thank all those who took the time to engage with us and provided feedback on the executive remuneration approach at Pearson. As always, your feedback is invaluable.

Since the introduction of the one-off co-investment award, which was designed to secure the appointment of Andy Bird, a significant minority of shareholders have continued to vote against Pearson's remuneration resolutions, including the 2021 Directors' Remuneration Report at the 2022 AGM. The Committee is naturally disappointed with this outcome, but equally is committed to ensuring Pearson has an executive remuneration framework which allows it to be competitive.

When developing the new Directors' remuneration policy, the Committee took a phased approach to shareholder engagement, initially seeking the views of our major shareholders on the direction of travel, before building out more detailed proposals. These initial conversations with shareholders in June and July 2022 resulted in the Committee deciding to retain the existing incentive framework rather than pursue an alternative.

Overall, the Committee received feedback from, or directly engaged with, approximately 55% of Pearson's ownership as well as the key proxy advisors. We highly value the inputs and views of all shareholders and their advisors and have taken these into account when finalising our approach. It is worth highlighting, however, that throughout the engagement process we received a broad range of feedback, with the views of individual shareholders often differing, and as a result it is not necessarily always possible to meet the preferences of all shareholders.

In my conversations, there was a general understanding of the challenges faced by Pearson – the need, despite being a UK-listed company, to develop an executive remuneration framework which adequately acts as an attraction, retention and incentivisation tool for US talent given that North America is a key talent and growth market for Pearson, and critical to its future success. That said, the engagement exercise highlighted specific areas of concern for some shareholders, and reflective of this, the Committee has modified its proposals. This includes:

- **Introduction of annual bonus deferral.** In response to shareholder feedback, the Committee determined to introduce annual bonus deferral where an Executive Director has not yet met the relevant shareholding guideline. In such circumstances, it is proposed that an Executive Director would defer a third of any bonus earned into an award of Pearson shares for two years.
- **Increase in shareholding guidelines** in line with increased LTIP opportunity. Several shareholders noted that considering the proposed increase in LTIP opportunity they would expect a corresponding increase in shareholding guidelines, strengthening the alignment of Executive Director interests with those of shareholders. The Committee is therefore proposing that shareholding guidelines will increase to 450% of salary for the



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Chief Executive Officer and 300% of salary for the Chief Financial Officer, in line with the proposed annual LTIP award levels.

- **Reduction of LTIP threshold to 20% of maximum.** Our original proposal was to increase the LTIP percentage that pays out for threshold performance to 25% of maximum for all measures in line with market norms. However, combined with an increase in the maximum LTIP opportunity to 450% of salary, this resulted in a threshold vesting level in excess of 100% of salary. Mindful of the higher opportunity level, but in line with the original intention to align the threshold vesting percentage across all long-term metrics, the Committee is now proposing to reduce threshold vesting to 20% of maximum. This will mean that for threshold performance, LTIP vesting would be 90% of salary for the CEO as opposed to 112.5% of salary.
- **Re-balancing of LTIP measures.** Shareholders expressed a range of views in relation to long-term performance measures, particularly in relation to our original proposal to reduce the weighting of Return on Capital in favour of TSR and EPS. Mindful of this feedback and the focus on capital allocation as Pearson looks to grow for the future, the Committee determined that TSR, EPS and Return on Capital should be equally weighted within the LTIP.

Shareholder feedback also informed the Committee's decisions in relation to the TSR comparator group and Executive Director salary increases for 2023.

Pearson remains committed to a constructive and positive relationship with all its shareholders and their advisers and will continue to engage widely as appropriate going forward.

Incentive outcomes for 2022

2022 AIP and 2020 LTIP

The strong financial and strategic progress delivered in 2022 resulted in a formulaic AIP outcome for Executive Directors of 76% of maximum. Overall, the Committee was satisfied that the formulaic outcome was reflective of the performance achieved.

The LTIP granted in 2020 will vest in 2023 at 58% of maximum reflecting profitable growth and shareholder value created over the three-year performance period. Only the Chief Financial Officer participated in this award, and shares vesting will remain subject to a two-year holding period.

As disclosed in the 2020 Directors' Remuneration Report, mindful of the share price volatility at the time the 2020 LTIP was granted, the Committee exercised its discretion to use a five-day average share price to 1 March 2020 (573.72p) rather than the share price prior to the date of grant in May (459.80p). This resulted in approximately 55,000 fewer shares being granted to the Chief Financial Officer.

The Committee considered that the overall vesting outcome reflected the performance of the business over the three-year period, in particular the success of the new strategy, and therefore no further discretion was applied.

Second tranche of the Chief Executive's co-investment award

The second tranche of the one-off co-investment award granted to Andy Bird to secure his appointment vested following 31 December 2022. Vesting was subject to achievement of performance underpins linked to strategic progress and there being no significant ESG issues resulting in significant reputational damage. These underpins are intended to guard against payment for failure, ensuring the Committee can reduce vesting if in its opinion the performance of the business or the individual does not support this.

The Committee undertook a rigorous assessment of the relevant performance underpins as well as a holistic review of broader Pearson performance and the experience of all stakeholders.

In its assessment, the Committee followed the framework developed and disclosed in prior years. Overall, the Committee determined that the second tranche of the award would vest in full and full disclosure of the Committee's deliberations in this regard is on pages 103 and 104.

Shares vesting remain subject to a holding period until 31 December 2023. The final tranche of the award will vest following 31 December 2023 subject to the relevant performance underpins, which include an additional TSR underpin, and Andy Bird's continued employment at the vesting date.

Salaries for 2023

For 2023, salary levels for Executive Directors were considered in the context of general economic and market conditions, the level of increases made across the Company as a whole, and individual performance. In addition, the Committee recognised that Andy Bird had not had an increase in his salary since his appointment in 2020 and that, from an overall package perspective, his remuneration is significantly below US levels. Mindful of this, and the exceptional performance of the Company since his appointment, the Committee felt that it would have been warranted to increase Andy Bird's salary significantly, and consulted with shareholders on this basis.

However, cognisant of the current external environment, which over the last year has steadily become more challenging for our broader employee population who are more exposed to high levels of inflation and the associated cost-of-living pressures, and shareholder feedback and guidance in this area, the Committee determined that the salary increase for Andy Bird should be 3.5%, in line with the average salary increase awarded to the US workforce and below the average rate for the UK workforce and Pearson as a whole.

The salary for the Chief Financial Officer will be increased by 4% in line with the average increase for the UK workforce.

Remuneration across Pearson

Pearson's remuneration principles are consistent across the organisation and are designed to support Pearson's culture and to make Pearson an employer of choice and able to attract and retain talent to execute our digital-first strategy. Remuneration across the workforce is designed to reflect the role, skills and experience, and performance of any relevant individual as well as local market practice. Many of the features of our Directors' remuneration policy apply more broadly, for example, over half of all Pearson employees (c.11,200 employees) participated in an AIP during 2022 which was funded based on similar performance measures as used for Executive Directors.

Mindful of the energy crisis which has had a disproportionate impact on Pearson's lowest paid employees in the UK and elsewhere in Europe, Pearson made a one-off cost-of-living payment equal to £1,000 or €1,000 to these individuals at the end of 2022. As a global company, Pearson monitors the impact of external worldwide events on pay competitiveness and makes adjustment where appropriate to ensure employees are rewarded fairly for their contribution, for example, targeted pay solutions have been implemented in markets suffering from acute inflationary pressures such as Sri Lanka and Turkey.

The Committee receives regular updates on talent matters and wider workforce considerations and actively considers the approach to reward throughout the organisation when determining executive remuneration. In addition, the Committee closely reviews relevant pay ratios and pay gaps and supports efforts to make progress against these metrics. Last year, to ensure a more proactive approach and enable a two-way conversation, the Employee Engagement Network held a discussion on reward and incentives at Pearson. The EEN met to discuss how the annual bonus plan is funded and how we seek to achieve alignment between Executive Directors and the wider workforce through the use of consistent measures.

I would like to thank shareholders for their continued support at the 2023 AGM in relation to both our 2022 Directors' remuneration report and 2023 Directors' remuneration policy.

Sherry Coutu, CBE

Chair of Remuneration Committee

Directors’ remuneration report *continued*

Pearson’s Remuneration Framework At a Glance

Remuneration principles

Pearson’s remuneration principles govern pay for the whole organisation. We have developed remuneration arrangements for our Executive Directors with these principles in mind.

1 Aligned to longer-term strategy Reward is linked to achieving Pearson's longer-term strategy, growth, and sustainability	2 Pay for performance Remuneration framework and outcomes are aligned with performance	3 Market competitive Pay levels are market competitive, based on role, grade, and contribution, and ensure individuals are fairly rewarded in line with the market	4 Targeted differentiation We operate targeted differentiation of reward across our employees, linked to talent and performance management	5 Tailored Our approach to reward is tailored in certain circumstances to address a specific market/business need, and is consistent with our underlying reward philosophy	6 One part of the employee value proposition Remuneration is one part of our broader employee value proposition – and not the only reason to work for Pearson

Our Directors’ remuneration policy and its implementation supports our Company purpose of adding life to a lifetime of learning, our strategy and ultimately the delivery of long-term sustainable value for all stakeholders, including our shareholders.

In developing the forward-looking Directors’ remuneration policy, the Committee had due regard to the principles outlined within the UK Corporate Governance Code.

- Pearson’s remuneration principles, as set out above, **align with our culture** and position us as an employer of choice, so we can continue to attract and retain the right talent, and support our digital future. We recognise that remuneration is only one part of Pearson’s employee value proposition
- Our forward-looking executive remuneration framework is designed to be **simple**, with total remuneration made up of fixed and performance-linked elements, supporting different strategic objectives
- Our remuneration framework and outcomes are designed to be **aligned with performance**:
 - Selected performance measures for the AIP (Annual Incentive Plan) and LTIP (Long-Term Incentive Plan) are key to achieving the Group’s strategic objectives. The Committee reviews performance measures annually to ensure they incentivise appropriate management behaviours and goals
 - The Committee carries out a robust target-setting process each year, considering Pearson’s strategic plan, as well as analyst consensus to reflect market expectations. This results in stretching, yet achievable, AIP and LTIP targets
 - Maximum awards under the AIP and LTIP are capped and clearly disclosed in our Directors’ remuneration policy alongside **predictions** of how the Directors’ remuneration policy may apply in various performance scenarios

- When determining pay-outs, the Committee considers whether the outcome reflects overall company performance and the experience of stakeholders over the period, including shareholders and colleagues. If not, it has the discretion to adjust outcomes
- The Committee is **mindful of reputational and other risks** when implementing the forward-looking Directors’ remuneration policy and determining outcomes for Executive Directors and senior management. Pearson has safeguards in place, such as malus and clawback provisions and a two-year LTIP holding period, as well as robust shareholding guidelines, which extend post-employment.
- Before signing off the Directors’ remuneration report, the Committee reviews drafts and inputs to **clarify** our disclosures. In renewing the Directors’ remuneration policy this year, the Committee **engaged extensively with shareholders** to ensure they fully understood the rationale for change, and to give them the opportunity to feed into the decision-making process and inform final conclusions.

2023 Directors’ Remuneration Policy

The 2023 Directors’ remuneration policy will be subject to shareholder approval at the AGM to be held on 28 April 2023. This section outlines key changes to the Directors’ remuneration policy following the Remuneration Committee’s extensive review over the last year. The 2023 Directors’ remuneration policy is set out in full on pages 112 to 119.

Key changes to Directors’ remuneration policy

	Key features of the 2020 Directors’ remuneration policy	Outline of proposed changes for 2023
Salary	Base salaries reflect level, role, skills, experience, the competitive market and individual contribution. Base salaries are normally reviewed annually, with any increases normally in line with typical increases awarded to other Group employees.	No changes to policy
Allowances and benefits	Reflects the local competitive market and may include travel-related, health-related and risk-related benefits as well as any other benefits provided to the majority of employees. The Committee may introduce other benefits if it is considered appropriate to do so.	No changes to policy
Retirement benefits	Employees in the UK, including Executive Directors, are eligible to join the Money Purchase 2003 section of the Pearson Pension Plan. The Committee has discretion to put in place retirement benefit arrangements in line with local market practice. Executive Directors, who opt out of the pension, can receive a cash allowance of up to 16% of base salary, in line with the maximum company contribution as a percentage of salary that UK employees of a similar age are eligible to receive.	No changes to policy
Annual incentive	Maximum opportunity of 200% of base salary. Based on the achievement of annual business goals and strategic objectives, with financial metrics accounting for at least 75% of total opportunity. Normally no payout for threshold performance, with 50% payable for on-target performance. Discretion to adjust formulaic outcome where this does not reflect underlying performance. Awards paid fully in cash. Malus and clawback provisions apply.	Increase in maximum opportunity to 300% of base salary. For 2023, maximum opportunities are: — 300% for the Chief Executive — 200% for the Chief Financial Officer Increase in payout for threshold performance to 25% of maximum. Introduction of bonus deferral where shareholding guidelines have not been met.
Long-term incentive	Maximum opportunity of 350% of base salary. Based on achievement of targets for earnings per share, a return on measure and relative total shareholder return (weighted equally) over a three-year performance period. Discretion to adjust formulaic outcome where this does not reflect underlying performance. Awards are subject to a post-vesting holding period of two years. Malus and clawback provisions apply.	Increase in maximum opportunity to 450% of base salary. For 2023, maximum opportunities are: — 450% for the Chief Executive — 300% for the Chief Financial Officer Proportion of award that vests for threshold aligned at 20% across all performance measures. Introduction of ESG into the performance framework.
Shareholding guidelines	Current in-employment guidelines of: — 300% for the Chief Executive — 200% for the Chief Financial Officer Post-employment shareholding guidelines apply.	Increase in in-employment guidelines in line with increase LTIP opportunity: — 450% for the Chief Executive — 300% for the Chief Financial Officer

Directors’ remuneration report *continued*

Consideration of market data in assessing pay competitiveness at Pearson

In determining the 2023 Directors' remuneration policy proposals and their implementation, the Remuneration Committee considered remuneration levels at comparable companies both in the UK and US. The approach to market data was to consider multiple different reference points, including those described below, to provide a rounded view of overall positioning against the market. **The Committee has not sought to follow any specific market reference and is mindful that, whilst the primary talent market is likely to continue to be the US, Pearson is a UK-listed company and operates a UK market aligned remuneration framework.**

Market reference points

- Executive Director remuneration in UK-listed companies of a similar market capitalisation to Pearson, the FTSE 41 to 100. This comparator group recognises Pearson's London listing, the fact that Pearson is a member of the FTSE 100, and that UK investors and proxy agencies would likely consider competitiveness of remuneration levels at Pearson in this context primarily. Pearson is currently positioned c.60th in the FTSE 100 (based on a three-month average market capitalisation). Market data for the FTSE 100 as a whole was also considered as an additional reference point given Pearson's growth in 2022.
- Executive Director remuneration in US-listed companies of a broadly similar financial size and in a similar sector to Pearson. This comparator group included companies in the broadcasting, interactive media and software sector with similar revenue to Pearson. It considers what Executive Directors are paid in broadly similar US-listed companies, although it does not directly align to Pearson's talent market.
- Remuneration in US-listed companies more closely aligned to Pearson's talent market and strategic ambitions. This comparator group comprised US technology, communications, and consumer discretionary companies, in particular those that are at the forefront of transformative, innovative plays within technology and digital, based on the Nasdaq-100 Index. Recognising, however, that many of these companies were materially larger than Pearson in terms of financial size, rather than considering remuneration levels for the CEO role, the market data considered was for roles reporting into the CEO (primarily heads of business units or Chief Executives of subsidiary businesses) which is analogous to Andy Bird's previous executive role. This data was only considered in respect of the CEO role at Pearson.

The Committee is mindful of the views of many investors in relation to setting executive pay solely based on market data as well as views on using international peer groups. The Committee therefore wanted to take a balanced and thoughtful approach which incorporates the views of all key stakeholders.

Pay positioning

Overall, the intention of the Committee was to ensure a package for the Chief Executive which was competitive considering Pearson’s primary talent market. While it is acknowledged the proposed package for the Chief Executive is towards the top end of market practice from a UK perspective, it is within the broad range of pay received by executives below CEO level at relevant US-listed companies whom Pearson might look to approach for future Executive Director roles – total compensation for such roles typically ranged c.\$4m to c.\$11m at target. This is still well below that of CEOs at similarly sized US companies.

	Chief Executive Officer		Chief Financial Officer	
	UK positioning	US positioning	UK positioning	US positioning
Salary	Towards the top end of UK practice	Within US market competitive range for CEO roles	Within UK market competitive range	Within US market competitive range
Annual bonus opportunity	For CEO roles, the market data illustrated that annual bonus opportunity levels in the US were around double opportunity levels in the UK. The same picture is not however true for other executive roles, where annual bonus opportunity in the US is more closely aligned to, although still marginally higher than, UK levels.			
	Towards the top end of UK practice	Within US market competitive range	Within UK market competitive range	Within US market competitive range
LTIP opportunity	Long-term incentive opportunity is the key driver in the difference between UK and US remuneration levels. Opportunity levels in the US are many multiples of UK levels. For CEO roles in US-listed companies in a similar sector and of a similar financial size to Pearson, many receive long-term incentives with a target opportunity greater than 1000% of salary.			
	Towards the top end of UK practice	Substantially below US levels	Towards the top end of UK practice	Substantially below US levels

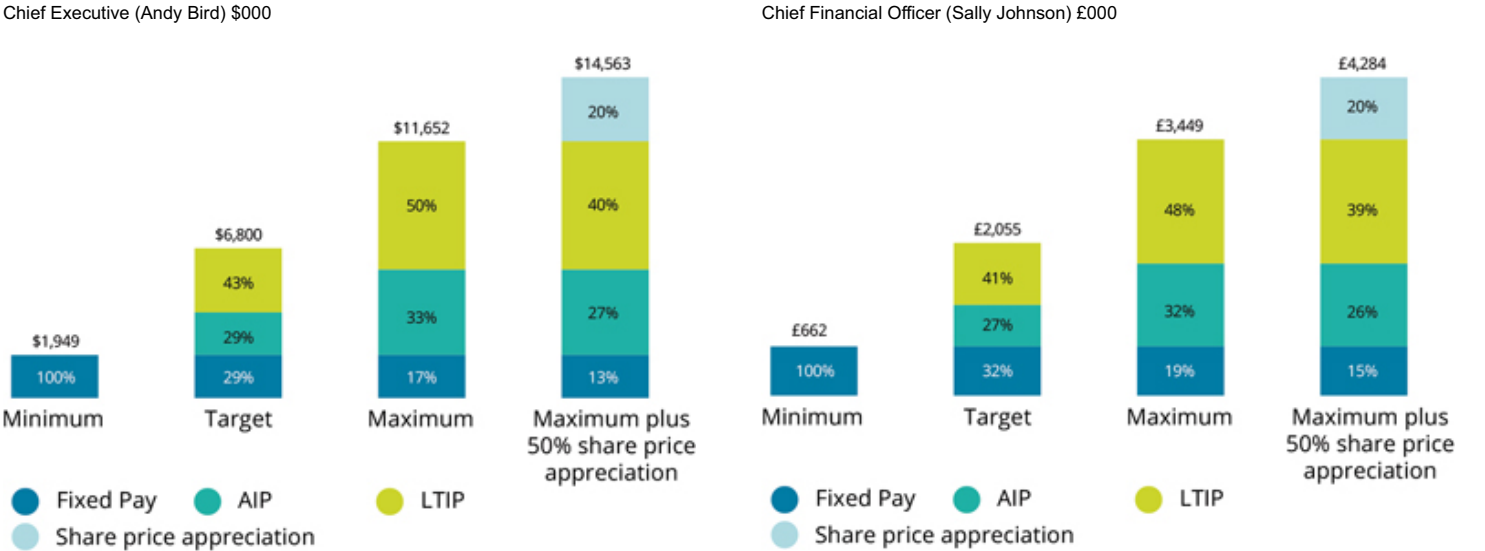
Conclusions

The market data highlighted the stark difference in pay practices between the UK and US, and the Remuneration Committee applied careful judgement when considering how remuneration at Pearson should be positioned taking into account the various reference points as well as the views of shareholders.

The Committee determined, with input from shareholders, that the incentive framework at Pearson for Executive Directors should continue to align to typical UK practice, and as such incentives remain fully performance-linked, which is not typically the case in the US market where often a significant proportion of the long-term equity award is delivered in restricted stock with no performance conditions and over shorter time horizons. In addition, annual bonus deferral and additional holding periods on LTIP awards are uncommon in the US market.

Overall, while it is acknowledged that the 2023 Directors’ remuneration policy proposals and their implementation position Pearson towards the top-end of the UK market, the Committee has not sought to match US quantum levels or market practice in terms of incentive design or the overall remuneration framework.

Illustrations of application of the 2023 Directors’ remuneration policy in different performance scenarios

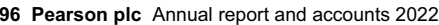




Alignment of performance framework to Pearson's strategy

Discretion framework

When determining performance outcomes, the Remuneration Committee has the ability to adjust payments up or down if it believes that the outcome does not reflect underlying financial or non-financial performance or if such other exceptional factors warrant doing so. In making this determination the Remuneration Committee applies the following framework.



Performance in 2022

A year of strategic and operational progress

Revenue	Adj. operating profit	Operating cash flow	Adjusted EPS	Net debt	Dividend per share
£3,841m	£456m	£401m	51.8p	£557m	21.5p
5% underlying adjusted growth on prior year	11% underlying adjusted growth on prior year	3% growth on prior year	48% growth on prior year	59% increase on prior year due to £350m share buy back	5% increase on prior year

Strategic highlights

— Significant organic investment, bringing new capabilities

— Acquisitions, including Mondly and Credly to support growth across the Pearson ecosystem

— Completion of the strategic disposal of Pearson’s International Courseware local publishing businesses

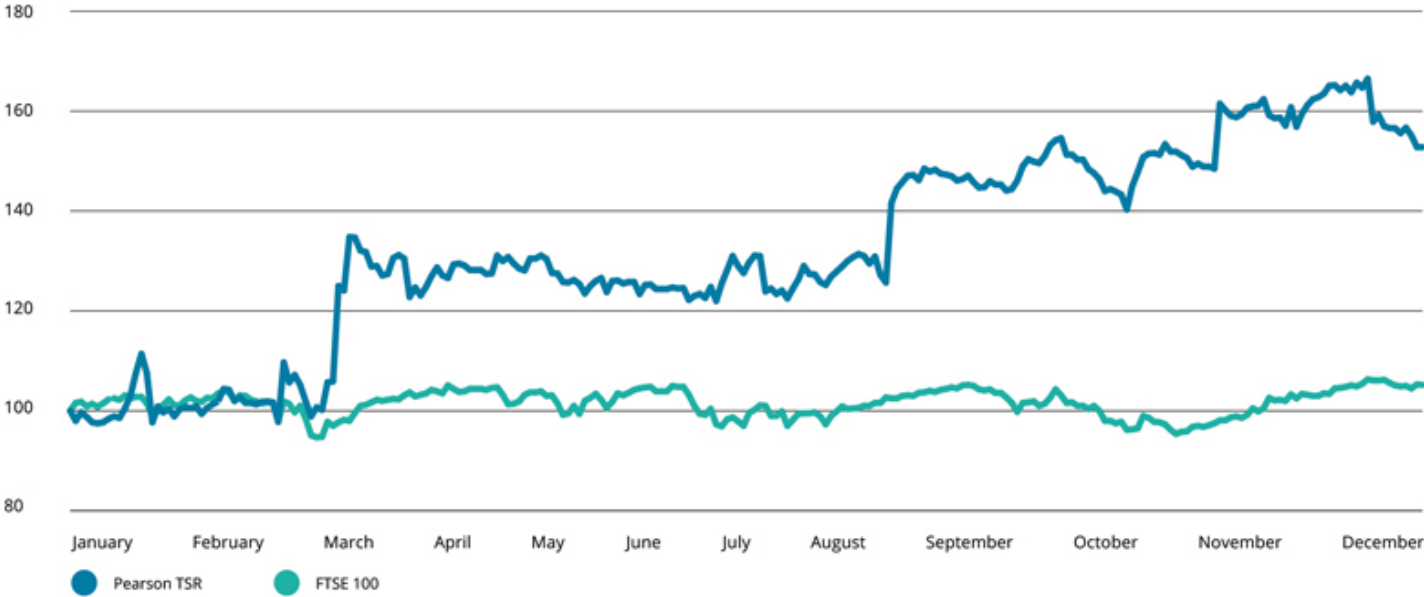
— Launch of 18 study channels on Pearson+

— Launch of new people strategy with a focus on engagement and high-performance

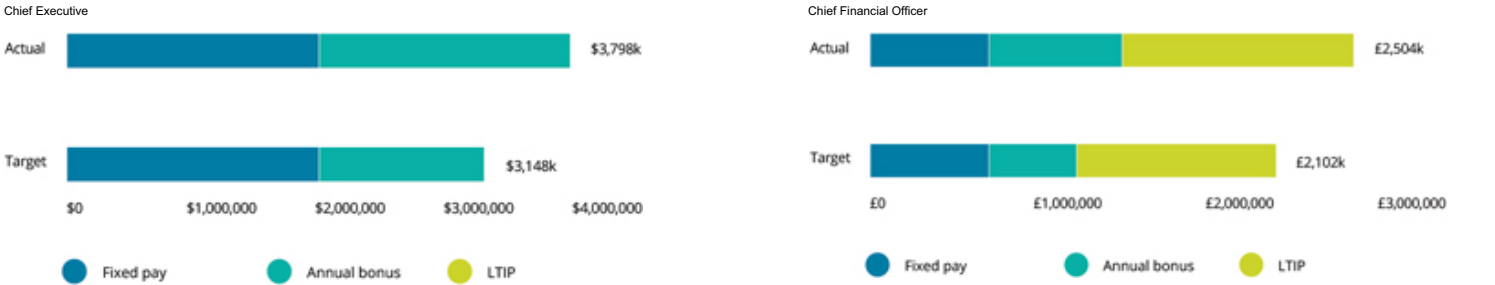
— Announcement of £120m of cost efficiencies, accelerating improved margin

Generation of significant returns for shareholders

Pearson TSR performance versus FTSE 100 over 2022



Executive remuneration outcomes for 2022



Note 1: Target assumes AIP and LTIP outcome at 50% of maximum.
Note 2: The vesting of the second tranche of the Chief Executive’s co-investment award is not included in the above illustration.

Directors’ remuneration report *continued*

Implementation of executive remuneration framework for 2023

Base salary	Andy Bird – \$1,293,750 (3.5% increase) Sally Johnson – £557,225 (4% increase) The salary increase for the Chief Executive is line with the average salary increase awarded to the US workforce and below the average level for the UK workforce. The salary increase for the Chief Financial Officer is in line with the increase for the UK workforce.																							
Allowances and benefits	No change for 2023. Executive Directors will continue to receive travel, health, and risk-related benefits. Andy Bird will also receive a contribution towards accommodation costs.																							
Retirement benefits	For 2023, both the Chief Executive and Chief Financial Officer will receive a cash allowance of 16% of salary in lieu of pension. This is aligned with the pension provision that UK employees of a similar age are eligible to receive. As described in relation to the Committee’s review of the remuneration policy for 2023, Pearson has retained a UK remuneration framework for Executive Directors which does not reflect US practice in terms of plan design or pay levels. It is therefore considered appropriate that a consistent UK approach is applied with regard to pensions for the CEO. For US employees below Board level, whilst pension arrangements are in line with local practice, Pearson adopts US pay practices more broadly – such as grants of restricted shares in addition to performance shares – which we do not for Executive Directors.																							
Annual incentive plan	Maximum opportunities of: — 300% of base salary for the Chief Executive — 200% of base salary for the Chief Financial Officer For 2023, the following balanced mix of financial and strategic measures will be used to determine any pay out, with a third of any bonus paid deferred into shares for two years if an Executive Director has not met their shareholding guideline. <table><tr><td>Adjusted operating profit</td><td>Sales</td><td>Free cash flow</td><td>Strategic measures</td></tr><tr><td>40%</td><td>30%</td><td>20%</td><td>10%</td></tr></table> Strategic targets are as follows: <table><tr><td></td><td>Weighting</td><td>Threshold</td><td>Target</td><td>Maximum</td></tr><tr><td>Invest in diverse pipeline and increase BIPOC/BAME representation at all manager levels</td><td>5%</td><td>2% increase in representation of BIPOC/BAME employees at Manager level and above + maintain overall gender parity as an underpin</td><td>5% increase in representation of BIPOC/BAME employees at Manager level and above</td><td>10% increase in representation of BIPOC/BAME employees at Manager level and above</td></tr><tr><td>Reduce carbon footprint – net annual reduction versus 2022 baseline as step towards 2030 goal</td><td>5%</td><td>1% reduction</td><td>2% reduction</td><td>5% reduction</td></tr></table> As in previous years, we will apply a financial underpin to the strategic measures. We will disclose financial targets in full retrospectively following the end of the performance period.	Adjusted operating profit	Sales	Free cash flow	Strategic measures	40%	30%	20%	10%		Weighting	Threshold	Target	Maximum	Invest in diverse pipeline and increase BIPOC/BAME representation at all manager levels	5%	2% increase in representation of BIPOC/BAME employees at Manager level and above + maintain overall gender parity as an underpin	5% increase in representation of BIPOC/BAME employees at Manager level and above	10% increase in representation of BIPOC/BAME employees at Manager level and above	Reduce carbon footprint – net annual reduction versus 2022 baseline as step towards 2030 goal	5%	1% reduction	2% reduction	5% reduction
Adjusted operating profit	Sales	Free cash flow	Strategic measures																					
40%	30%	20%	10%																					
	Weighting	Threshold	Target	Maximum																				
Invest in diverse pipeline and increase BIPOC/BAME representation at all manager levels	5%	2% increase in representation of BIPOC/BAME employees at Manager level and above + maintain overall gender parity as an underpin	5% increase in representation of BIPOC/BAME employees at Manager level and above	10% increase in representation of BIPOC/BAME employees at Manager level and above																				
Reduce carbon footprint – net annual reduction versus 2022 baseline as step towards 2030 goal	5%	1% reduction	2% reduction	5% reduction																				

Implementation of executive remuneration framework for 2023 continued

Long-Term Incentive Plan

Maximum opportunities for Executive Directors are:

— 450% of base salary for the Chief Executive

— 300% of base salary for the Chief Financial Officer

Performance measured over three years, with any shares vesting subject to an additional two-year holding period.

For 2023, performance measures and targets are as follows:

	% of total	Threshold	Stretch	Maximum	Payout at threshold	Payout at stretch	Payout at maximum
Adjusted EPS	30%	53.0p	63.0p	68.0p	20%	65%	100%
Return on Capital	30%	8.5%	10%	11.5%	20%	65%	100%
Relative TSR vs. FTSE 100 (excl. certain sectors)	15%	Median	-	Upper quartile	20%	-	100%
Relative TSR vs. S&P 500 (excl. certain sectors)	15%	Median	-	Upper quartile	20%	-	100%
ESG	10%	Improve gender representation at leadership levels overall vs 2022 (VP and above)	Achieve gender parity at leadership levels in aggregate (VP and above)	Achieve gender parity at all leadership levels (VP and above)	20%	65%	100%

Note 1: 2023 LTIP targets have been set at an USD:GBP exchange rate of 1.21.

Note 2: Companies within financial services, energy, basic materials, utilities and healthcare sectors will be excluded from both TSR groups.

Shareholding guidelines

Shareholding guidelines are:

— 450% of salary for the Chief Executive

— 300% of salary for the Chief Financial Officer

Directors’ remuneration report *continued*

Workforce remuneration at Pearson

The Committee takes seriously its responsibilities concerning the oversight of remuneration policies and practices for the wider organisation. Our remuneration principles are consistent for all our colleagues, and applied depending on business need, level, and geography.

The key difference in our executive remuneration, compared to the approach to remuneration across our workforce, is that remuneration for our Executive Directors is more heavily weighted towards variable pay and linked to the delivering of strategic objectives.

Approach to remuneration across Pearson

Base salary	Set considering economic factors, competitive market rates, roles, skills, experience, and individual performance	
Allowances and benefits	Reflect the local labour market in which colleagues are based.	
	All eligible colleagues (including Executive Directors) can participate in savings-related share acquisition programmes in the UK, US and the rest of the world, and these are not subject to any performance conditions	
Retirement benefits	Reflect local market practice.	
	Pearson colleagues in the UK may participate in the same underlying pension arrangements as the Executive Directors, subject to certain age bands and legacy arrangements	
Annual incentives	Around 11,200 colleagues participate in an Annual Incentive Plan, which is funded based on similar performance measures to the Executive Directors.	All colleagues
	Several other colleagues participate in alternative cash-based annual bonuses, such as sales incentive and commission plans, based on performance targets and profit-shares where required for legislative reasons	Over half of all Pearson employees participate in the annual incentive plan
Long-term incentives	Senior management participates in a long-term incentive arrangement, with both performance shares and restricted shares, recognising the markets in which we compete for talent. At other levels awards are typically made in restricted shares only.	All colleagues
	Approximately 800 colleagues participate in the annual long-term incentive plan grant, who are selected based on their role, performance, and potential; with other awards being made from time to time on an ad-hoc basis to certain roles based on market need.	Around 4% of all Pearson employees participate in a long-term incentive plan

During the year, the Committee received reports from the Chief Executive and Chief Human Resources Officer on pay and conditions across Pearson, and on the recruitment and retention experience. We took these into account when determining Executive remuneration. We have established channels in place to inform our colleagues and help them understand how executive remuneration and wider pay policies are aligned, although we continue to develop how best to engage with employees. Further detail on Pearson’s approach to employee engagement is provided on page 33.

Remuneration Committee Chair, Sherry Coutu, CBE is our designated workforce Non-Executive Director. She leads the Board’s engagement with colleagues, including attending meetings of the Employee Engagement Network (EEN). Annette Thomas, a member of both the Remuneration Committee and Reputation & Responsibility Committee, also attended meetings of the EEN throughout the year, increasing Non-Executive Director participation. Feedback received through the EEN is reported to the Board. Views and sentiment expressed by colleagues around matters relating to reward and culture are taken into consideration by the Remuneration Committee when determining pay for senior management. Last year, to ensure a more proactive approach and enable a two-way conversation, the EEN held a discussion on reward and incentives at Pearson. The EEN met to discuss how the annual bonus plan is funded and how Pearson seeks to achieve alignment between Executive Directors and the wider workforce through the use of consistent measures. See page 68 for more on how the Board engages with employees.

The Committee also considers Pearson’s gender pay gap and ethnicity pay gap in Great Britain. The Committee was pleased to note the improvement in Pearson’s gender pay gap for 2022, which decreased to 11% (from 13% in prior year), however acknowledged there was still progress to be made in terms of closing the gap. Pearson continues to review and update its policies and practices relating to the hiring, retention, and development of women, as well as other diverse talent groups, to ensure equal opportunities for all its people. This year, in line with the commitment as a signatory to the CBI Change the Race Ratio campaign, Pearson will voluntarily be publishing its ethnicity pay gap for Great Britain for the first time. Building an inclusive culture and increasing diverse representation is one of Pearson’s six strategic pillars, and reflective of the Company’s commitments in this area diversity targets have been included in both the AIP and LTIP for Executive Directors for 2023. Further details can be found within our fair pay report which will be published ahead of the AGM.



Certain parts of this report have been audited, as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended. Those tables subject to audit are marked with an asterisk.

Total aggregate emoluments for Executive and Non-Executive Directors were £10,738k in 2022. These emoluments are included within the total employee benefit expense (in Note 5 to the financial statements page 159).

The remuneration received by Executive Directors for the financial years ended 31 December 2022 and 31 December 2021 is set out below.

Overall, the Committee considers that the Remuneration Policy operated as intended during 2022.

		Andy Bird \$'000s		Sally Johnson £'000s
	2022	2021	2022	2021
Base salary	1,250	1,250	533	521
Allowances and benefits	448	373	16	16
Retirement benefits	200	200	64	58
Total fixed pay	1,898	1,823	613	595
Annual incentives	1,900	1,575	692	560
Long-term incentives	–	–	1,199	–
Co-investment award	4,684	3,708	–	–
Total variable pay	6,584	5,283	1,891	560
Total remuneration	8,482	7,106	2,504	1,155

Base salary

The base salary shown in the single figure table above reflects salary paid in the financial year as a Pearson Executive Director. Andy Bird is paid in USD, and Sally Johnson is paid in GBP.

The breakdown of benefits is as follows for 2022:

	Andy Bird \$000s	Sally Johnson £000s
Travel	–	14
Health	15	2
Risk-related	2	–
Accommodation	431	–

Travel benefits comprise car allowance and reimbursements of a taxable nature resulting from business travel and engagements. Health benefits comprise healthcare, health assessment and dental care. Risk-related benefits comprise of life and other insurance policies. Accommodation benefits for Andy Bird relate to a contribution towards the rental costs of an apartment in New York used for business purposes. This cost is capped at \$240,000 per year (\$20,000 per month) prior to any taxes due. The gross value for 2022 is higher due to a higher tax rate compared to 2021.

In addition to these allowances and benefits, Executive Directors may also participate in company benefit or policy arrangements that have no taxable value and/or are available to all other colleagues in the same location. Sally Johnson's life cover is arranged under an excepted policy on a similar basis to other employees who are affected by the lifetime allowance and have opted out of The Pearson Pension Plan.

Retirement benefits

Further detail on retirement benefits is on page 105.

Annual incentives

The 2022 AIP for the Executive Directors was based on a mix of financial (80% weighting) and strategic measures (20% weighting). The 2022 AIP resulted in a 76% of maximum payment for both Andy Bird and Sally Johnson. Bonus is calculated using salary at 31 December 2022, in line with how bonuses are calculated for all participants. More detail on performance metrics and performance against targets in 2022 is on page 102.

Long-term incentives

The 2020 LTIP award was subject to performance conditions assessed to 31 December 2022. Performance targets were partially met resulting in the award vesting at 58% of maximum. The 2020 LTIP award for Sally Johnson was granted on 1 May 2020, based on a share price of 573.7p (five-day average to 1 March 2020). The value of the 2020 LTIP included in the single-figure table is based on a three-month average share price to 31 December 2022 of 939.4p. The proportion of the 2020 LTIP attributable to share price growth is therefore £466,633 for Sally Johnson. The Remuneration Committee did not exercise discretion in respect of this share price appreciation. For further details see page 102.

Co-investment award

The second tranche of the one-off investment award, granted to Andy Bird to secure his appointment, was subject to performance underpins assessed to 31 December 2023. It was determined the second tranche of the award would vest in full. The value disclosed, which includes an additional amount equal to the value of dividends payable on the shares vesting, is calculated using the share price at the date of vesting (being 3 March 2023) of 893.5p and was converted using a USD:GBP exchange rate of 1.2371 (average exchange rate for 2022). The award was originally granted based on a share price of 590.2p, and so \$1,512k of the figure included in the single figure table is attributable to share price growth. The award has been satisfied using market-purchased shares and shares retained after tax must be held until 31 December 2023. For further details see pages 103-104.

Page 1 of 1

Andy Bird and Sally Johnson were eligible to participate in the 2022 AIP. The following table summarises the performance targets (presented on a consistent basis to the actual results, considering portfolio and currency movements) and performance against these targets, which resulted in a 76% of maximum payout.

	Performance range				Payout	
	% of total	Threshold	Target	Maximum	Actual results	% of max bonus opportunity
Adjusted operating profit	30%	£405m	£428m	£520m	£456m	20%
Sales	30%	£3,600m	£3,725m	£3,980m	£3,841m	22%
Operating cash flow	20%	£300m	£315m	£390m	£401m	20%
Strategic measures	20%			See below		14%
	100%					76%

The targets and outcomes for performance against each of the strategic measures are shown in the table below.

Note: Internal Audit provided an independent assessment of the result for the Committee.

In May 2020, Sally Johnson was granted an LTIP award. This award is due to vest based on performance the business delivered over the three-year period from 2020 to 2022. The targets and performance against these targets are as follows:

Relative TSR was measured against the constituents of the FTSE 100 at the start of the performance period.

In determining the vesting outcome, the Committee carefully considered the portfolio changes over the last three years and made modest adjustments to reflect the impact of these, in particular the divestment of various businesses over strategic review during the performance period – the adjusted targets and adjusted results are presented in the table above. Overall the impact on vesting was an increase from 53% to 58% of maximum. The Committee considers such adjustments appropriate to ensure performance is measured on a like-for-like basis and reflect the principles against which the original targets were set as these did not consider the impact of the portfolio changes.

Overall, 58% of this award will vest on 1 May 2023, and its value is included in the single figure table on page 101. Shares vesting are subject to an additional two-year holding period to 1 May 2025.

Co-investment award*

To secure the appointment of Andy Bird as Chief Executive, the Committee designed a one-off co-investment award. The grant of this award was conditional on Andy Bird buying Pearson ordinary shares equal to 300% of his base salary, which he must continue to hold until 31 December 2023. The co-investment award vests in three equal annual tranches, with shares vesting subject to a holding period until 31 December 2023.

The vesting of each tranche of the award is subject to these performance underpins:

- an appropriate level of continued progress being made in relation to delivering Pearson’s strategy, including the ongoing transition from print to digital, and
- no significant ESG issues occurring, which relate to Andy Bird’s tenure as Chief Executive, and which result in significant reputational damage for Pearson

In addition, the vesting of the final tranche of the award is subject to the following TSR underpin:

- Pearson’s TSR from the date of the announcement of Andy Bird’s appointment to 31 December 2023 is either (1) positive; or (2) is at median or above when compared to the performance of the FTSE 100

If one or more of the underpins are not achieved, then the Committee will consider whether, and to what extent, a discretionary reduction in the number of shares vesting is required.

Assessment of performance underpins

The second tranche of the co-investment award vested as soon as practical following 31 December 2022. In advance of this, the Committee undertook a rigorous assessment of the relevant performance underpins, reviewed broader Pearson performance, and evaluated the experience of all stakeholders. The Committee followed the framework disclosed in the 2020 Remuneration Report.

Initial review of underpins

Progress in delivering Pearson’s strategy	Significant strategic progress was made during 2022 in the face of macroeconomic headwinds. This included: — Significant organic investment, bringing new capabilities. For example: invested in new capabilities for Pearson+, including Channels functionality; expanded reach of VUE remote proctoring solution; launched Skills Accelerator, developed MondlyWORKS capabilities to grow our presence in the enterprise language learning market. — Acquisitions to support growth strategy across the Pearson ecosystem. These include Credly, Mondly, Navyy, and ClutchPrep, and Pearson has also signed an agreement to acquire PDRI. — Refinement of Pearson’s portfolio through the completion of the strategic disposal of Pearson’s International Courseware local publishing businesses. — The delivery of £120m of cost efficiencies, accelerating improved margin expectation. — Launch of people strategy with a focus on engagement and high-performance

In 2022, there have been no ESG issues which, in the opinion of the Committee, have resulted in significant reputational damage.

Consideration of broader performance and stakeholder experience

Robust financial performance

Revenue £3,841m 5% underlying adjusted growth on prior year	Adj. operating profit £456m 11% underlying adjusted growth on prior year	Operating cash flow £401m 3% growth on prior year	Adjusted EPS 51.8p 48% growth on prior year	Net debt £557m 59% increase on prior year due to £350m share buy back

Wider stakeholder experience

Shareholders
— Strong strategic, operational, and financial progress was reflected in Pearson’s share price and value delivered to shareholders. Pearson ended the year as one of the top performers in the FTSE 100, delivering a total shareholder return of 57% in 2022. — Strong financial position has enabled Pearson to grow its dividend (up 5% to 21.5p in 2022), in line with Pearson’s commitment to a progressive and sustainable dividend. The Board also approved a £350m share buyback programme in February 2022 to return capital to shareholders. — Pearson has strong and constructive relationships with its key institutional investors. During 2022, Pearson held 373 meetings with 192 institutions, both virtually and in person.

Directors’ remuneration report *continued*

Employees

- Launch of people strategy with a focus on engagement and high-performance.
- Refresh of non-financial KPIs to measure how well Pearson is delivering on its people strategy, and to cover employee engagement, investing in talent, and diversity, equity, and inclusion.
- Launch of a new employee engagement survey to better understand employees’ needs and enable Pearson to benchmark itself globally. In addition, Pearson launched a new digital employee experience platform to improve communication across Pearson. Over 70% of colleagues participated in the new engagement survey in 2022, and more than 34,000 users have already accessed the new digital employee experience platform.
- Investment in learning, for example, manager upskilling and reskilling to drive engagement and high performance; new acquisitions such as Credly to certify employee skills; development of leaders via McKinsey accelerator programmes; and coaching and Board mentoring opportunities. Over 70% of Pearson’s employees agreed or strongly agreed they had access to opportunities to learn and grow over the past six months.
- Expansion of Pearson’s flagship Global Learning at Work week to a monthly series focused on priority skills from the Pearson Capabilities Framework featuring live and on demand sessions with external experts, Pearson authors, Pearson leaders as teachers, and curated learning pathways and team guides to support self-directed learning.
- Continued focus on building a culture of inclusion and increasingly diverse representation through inclusive learning experience for employees, and 75% of participants on leadership development and mentoring programs were diverse.
- Evolution of Pearson’s Employee Engagement Network, enabling the Board to hear directly from employees and creating additional insight on how to enhance employee satisfaction and engagement levels.

Customers

- Pearson+ registered users compared to prior year Fall grew to 2.83m (2021: 2.75m) , and there was a three-fold increase compared to prior Fall semester in Pearson+ paid subscriptions to 406k (2021: 133k). Through increased understanding of consumer behaviours and preferences, Pearson continues to evolve Pearson+, exploring new types of content and enhancing features such as Pearson+ Channels, which launched in Autumn 2022.
- In English Language Learning, enhancements were made to the user experience to ensure courseware is the most engaging and effective on the market, leveraging our partnerships with major corporations including Disney and the BBC.
- In Mondly, development of a new AI virtual tutor to be integrated into the product in 2023 to support where it is difficult for individuals to access in-person tutors.
- Reshape of Workforce Skills portfolio to better match the suite of products and services with the different needs of our enterprise customers.
- Launch of Skills Accelerator in Workforce Skills – a suite of peer-supported, project-based learning courses – to support people complete business-critical projects while developing future skills.
- Pearson opened its first virtual school in Virginia and helped to enact new legislation in Missouri facilitating easier access to publicly funded virtual learning.
- Launch of a new Privacy Centre for consumers which will be linked to all our products and a newly developed universal preferences centre.
- 70% of content partners are now trained in editorial guidelines released for Pearson’s authors, reviewers, and editors to ensure meaningful, diverse representation in content.

Suppliers & Business Partners

- Supplier diversity and responsible procurement are key priorities for Pearson. In 2022, two new supplier portals were added that provide access to over one million diverse accredited suppliers. Pearson progressed towards its goal of increasing spend with diverse-accredited suppliers.
- Continued progress towards Pearson’s goal of ethically sourcing 100% of its paper by 2025. Paper and print suppliers are integrated to the Book Chain Project platform which monitors and tracks actions and strategies to protect biodiversity. Pearson has also rationalised its paper suppliers to significantly increase use of responsibly sourced paper from the Forestry Stewardship Council and the Programme for the Endorsement of Forest Certification schemes.
- For the first time in 2022, we asked our key suppliers to participate in an EcoVadis sustainability assessment (or equivalent). We reviewed performance across environmental and human rights areas to ensure that they align to Pearson’s standards. Our key suppliers performed well, with an average score of 57.3/100 (average supplier’s score of 44.9/100).
- Pearson is working in partnership with other corporates to understand the decarbonisation plans of its top 50 suppliers ahead of developing tailored engagement plans for those suppliers that need support to drive change.
- Pearson continues to add business partners who contribute to the diversity of its workforce. In 2022, new partners included People of Colour in Tech and the Hispanic Association on Corporate Responsibility.

Taking all the above into account, the Committee has determined that the second tranche of the co-investment award will vest in full.



The following LTIP awards were granted during the year:

Note 1: Under the adjusted EPS and ROIC elements, 15% vests for threshold performance; under the TSR element, 25% vests for threshold performance. This is the weighted average of vesting for threshold.

Face value was determined using a share price of 779.4p (five-day average to 3 May 2022), which is the share price used to determine award values for LTIP awards for all employees.

Performance targets for the 2022 LTIP awards are:

Note 1: Straight-line vesting will occur in between the points shown, with no vesting for performance below threshold.

Note 2: Pearson's TSR performance is measured relative to the constituents of the FTSE 100 Index over the performance period.

The Committee reserves the right to adjust pay-outs up or down before they are released, if it believes the vesting outcome does not reflect underlying financial or non-financial performance, or for other exceptional factors. In making any adjustments, the Committee are guided by the principle of aligning shareholder and management interests.

Any shares vesting based on performance to 31 December 2024 will be subject to an additional two-year holding period to 3 May 2027.

Details of the Executive Directors' pension entitlements and pension-related benefits in 2022 are as follows:

Note 1: The value of defined benefit reflects the change in value over the period, less inflation.

Note 2: Other allowances in lieu of pension represent the cash allowances paid.

Note 3: Total value is the sum of the previous two rows and is disclosed in the single figure of remuneration table.

Note 4: The accrued pension at 31 December 2022 is the deferred annual pension to which the member would be entitled on ceasing pensionable service on 31 December 2022. It relates to the pension payable from the UK Plan. Normal retirement age is 62.

Andy Bird – Payment in Lieu of Pension

Andy Bird receives a payment in lieu of pension at 16% of his base salary, in line with the pension provision for UK employees of a similar age.

Sally Johnson was a member of the Final Pay section of the Pearson Pension Plan. Her pension accrual rate is 1/60th of pensionable salary per annum, restricted to the Plan's earnings cap.

Sally Johnson has now reached her pension lifetime allowance and therefore no further contributions will be made to the Pearson Pension Plan. Instead, from 1 October 2022, Sally Johnson receives a payment in lieu of pension at 16% of her base salary, in line with the pension provision for UK employees of a similar age.

Directors’ remuneration report *continued*

Directors’ interests in shares and value of shareholdings*

Shareholding guidelines

Executive Directors are expected to build up a substantial shareholding in Pearson, in line with our policy of encouraging widespread employee share ownership, and to align the interests of Executive Directors and shareholders.

For 2022, the shareholding guideline was 300% of base salary for the Chief Executive and 200% of base salary for the Chief Financial Officer. These shareholding guidelines will increase under the 2023 Directors’ Remuneration Policy.

Shares that count towards these guidelines include any shares held unencumbered by an Executive Director, their spouse and/or dependent children, plus any shares vested but held pending release under a share plan, and any shares unvested but not subject to future performance conditions (on a net of tax basis). Executive Directors have five years from their date of appointment to the Board to reach the guideline. Once the guideline is met, it is not re-tested, other than when shares are sold.

Executive Directors are expected to retain their current guideline (or actual shareholding if lower) for two years following stepping down as an Executive Director. This guideline does not apply to shares purchased by the Director.

The shareholding guidelines do not apply to the Chair, Deputy Chair and Senior Independent Director and Non-Executive Directors. However, a minimum of 25% of the Chair, Deputy Chair and Senior Independent Director and Non-Executive Directors’ basic fee is paid in Pearson shares, which the Chair, Deputy Chair and Senior Independent Director and Non-Executive Directors have committed to retain for the period of their directorships.

Directors’ interests

The share interests of the Directors and their connected persons are:

Director	Current shareholding (ordinary shares) at 31 Dec 22	Conditional shares subject to performance at 31 Dec 22	Conditional shares subject to employment only at 31 Dec 22	Total number of ordinary and conditional shares at 31 Dec 22	Shareholding guideline for 2022 (% salary)	Guideline met?
Chair						
Omid Kordestani	32,096	–	–	–	–	–
Sidney Taurel	242,770	–	–	–	–	–
Deputy Chair						
Tim Score	67,475	–	–	–	–	–
Executive Directors						
Andy Bird	591,983	1,494,289	207,584	2,293,856	300%	Yes
Sally Johnson	27,778	543,330	2,357	573,465	200%	n/a (see note 6)
Non-Executive Directors						
Sherry Coutu CBE	10,567	–	–	–	–	–
Esther Lee	1,497	–	–	–	–	–
Linda Lorimer	18,038	–	–	–	–	–
Graeme Pitkethly	10,477	–	–	–	–	–
Annette Thomas	2,317	–	–	–	–	–
Lincoln Wallen	16,315	–	–	–	–	–

Note 1: Share interests are shown as at 31 December 2022. For Directors who stepped down from the Board during the year, share interests are shown as at the date of their stepping down. Sidney Taurel stepped down from the Board at the AGM on 29 April 2022.

Note 2: Ordinary shares include both ordinary shares listed on the London Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. The figures include both shares and ADRs acquired by individuals under the LTIP and any other share plans in which they might have participated.

Note 3: Conditional shares subject to performance means unvested shares, which are subject to performance conditions and/or performance underpins and continuing employment for a pre-defined period. This includes the LTIP awards granted in 2020, 2021, and 2022 and, in respect of Andy Bird, the second and third tranche of his co-investment award.

Note 4: Conditional shares subject to employment only means unvested shares, which are subject to a holding period and continued employment. For Andy Bird this includes the first tranche of his co-investment award. For Sally Johnson, this includes share awards granted before her appointment to the Board in May 2020.

Note 5: Sally Johnson held 2,658 options under the Pearson Save For Shares scheme, a savings-related share acquisition programme open to all employees, which she exercised during the financial year. These were not subject to performance conditions.

Note 6: Sally Johnson has five years from the date of her appointment as an Executive Director on 24 April 2020 to reach the shareholding guideline.

Note 7: The second tranche of Andy Bird’s co-investment award, 423,786 shares (including 20,832 dividend equivalent shares), vested on 3 March 2023, taking his conditional share subject to employment only to 407,575 shares (after the sales of shares to cover any tax liability) and conditional shares subject to performance to 1,091,335 shares. The vested co-investment shares are subject to a holding period until 31 December 2023 and continued employment. There have been no other changes in the interests of any Director between 31 December 2022 and 13 March 2023, being the latest practicable date prior to the publication of this report.



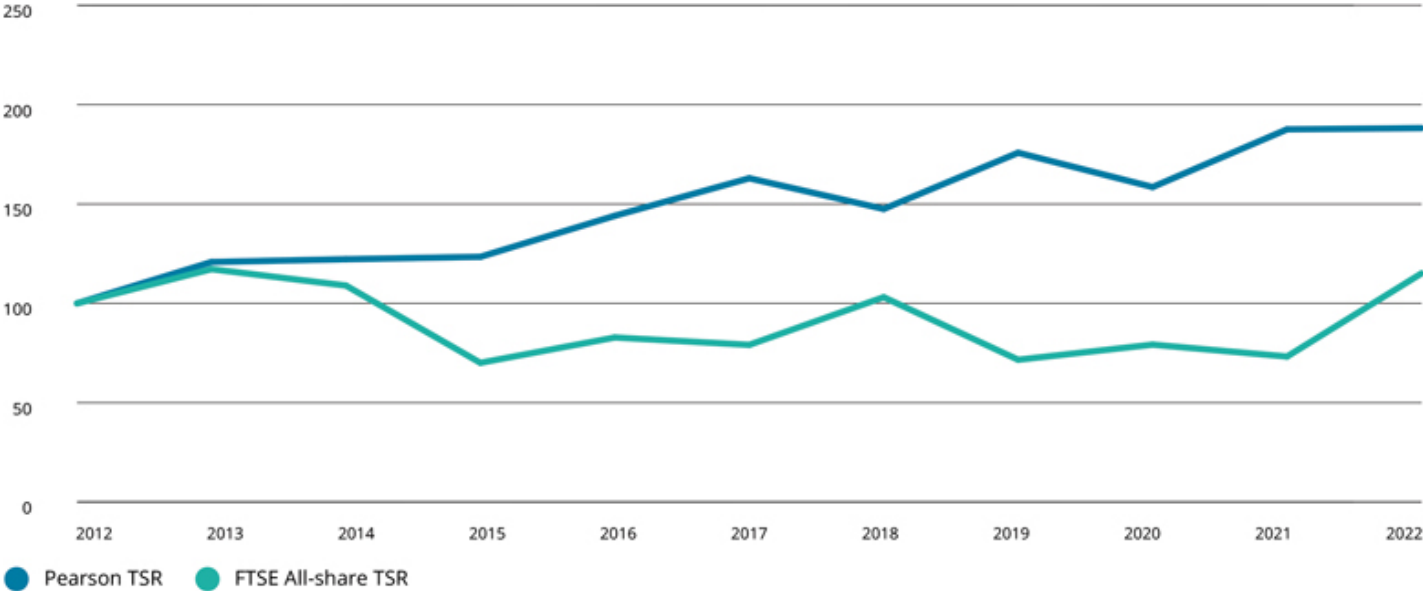
Directors’ remuneration report *continued*

Historical performance and remuneration

Total shareholder return performance

Set out below is Pearson’s total shareholder return (TSR) performance, relative to the FTSE All-Share index, on an annual basis over the 10-year period 1 January 2013 to 31 December 2022. We chose this comparison because the FTSE All-Share represents the broad market index within which Pearson shares are traded. TSR is a measure of returns a company provides for shareholders, reflecting share price movements and assuming reinvestment of dividends.

Alongside this a summary of the single figure of total remuneration for the Chief Executive over the last 10 years is provided, and a summary of the variable pay outcomes relative to the prevailing maximum at the time.



	John Fallon								Andy Bird		
	2013	2014	2015	2016	2017	2018	2019	2020	2020	2021	2022
Total remuneration (single figure, £000s)	1,727	1,895	1,263	1,518	1,758	3,094	1,616	855	334	5,167	6,856
Annual incentive (% of maximum)	34%	51%	Nil	24%	44%	45%	Nil	Nil	N/A	63%	76%
Long-term incentive (% of maximum)	Nil	Nil	Nil	Nil	Nil	42%	33%	Nil	N/A	N/A	N/A

Note 1: Total remuneration is as reflected in the single total figure of remuneration table. The 2021 and 2022 figures for Andy Bird include vesting of the first and second tranches of the co-investment award.

Note 2: Annual incentive is the actual annual incentive received by the incumbent as a percentage of maximum opportunity.

Note 3: Long-term incentive is the payout of performance-related share awards where the year shown is the final year of the performance period for the purposes of calculating the single total figure of remuneration.

Note 4: The single figure remuneration for 2022 Andy Bird has been converted using a USD:GBP exchange rate of 1.2371 (average exchange rate for 2022.)



The following information provides additional context regarding Directors' total remuneration.

The following table sets out the year-on-year percentage change in base salary/fees, allowances and benefits and annual incentives in respect of all Directors during the year, compared to the average percentage change for all employees of Pearson. The figures for all Directors are calculated based on remuneration received in the relevant year as set out in the tables on page 101 and page 107. For base salary/fees, we have annualised part-year figures for this disclosure. Part-year allowances and benefits are not annualised and are excluded from the table.

While the Committee reviews base pay for the Executive Directors relative to Pearson's broader employee population, local practices drive our approach to benefits, and we determine eligibility depending on level and individual circumstances, which do not lend themselves to comparison.

	2022			2021			2020		
	Base salary/fees	Allowances and benefits	Annual Incentives	Base salary/fees	Allowances and benefits	Annual Incentives	Base salary/fees	Allowances and benefits	Annual Incentives
Average employee¹	4%	8%	16%	4%	17%	38%	1%	6%	9%
Executive Directors									
Andy Bird	0%	20%	21%	0%	–	–	–	–	–
Sally Johnson	2.5%	0%	24%	1%	–	–	–	–	–
Chair and Non-Executive Directors¹									
Omid Kordestani	–	–	–	–	–	–	–	–	–
Sidney Taurel	0%	–	–	0%	–	–	0%	95%	–
Tim Score	25% ²	–	–	13%	–	–	0%	-20%	–
Sherry Coutu CBE	9%	–	–	5%	–	–	5%	–	–
Esther Lee	–	–	–	–	–	–	–	–	–
Linda Lorimer	0%	–	–	1%	–	–	1%	102%	–
Graeme Pitkethly	5%	–	–	1%	–	–	8%	–	–
Annette Thomas	7%	–	–	–	–	–	–	–	–
Lincoln Wallen	0%	–	–	1%	–	–	1%	-97%	–

Note 1: Changes in NED fees during the year are a result of changes in Committee Chairs and membership.

Note 2: Increase due to Tim Score taking over as Deputy Chair in April 2022

Note 3: The Chair and Non-Executive Directors did not receive any benefits in respect of 2021, and therefore it is not possible to calculate the relative change for 2022

The Committee considers Directors' remuneration in the context of the company's allocation and disbursement of resources to different stakeholders. Adjusted operating profit measures Pearson's ability to reinvest, and dividends are an important element of our return to shareholders.

			Headline change	
All figures in £	2022	2021	£	%
Adjusted operating profit	456	385	71	18%
Dividend per share	21.5p	20.5p	1p	5%
Share buybacks	353	Nil	-	-
Total wages and salaries	1,382	1,180	202	17%

Note 1: Adjusted operating profit is as set out in the financial statements.
Note 2: The Board approved a £350m share buyback programme in February 2022.
Note 3: Wages and salaries include continuing operations only and include Directors.

The table below illustrates the ratio of Chief Executive to employee pay for 2022. We use the single total figure of remuneration (as disclosed on page 101), compared to the full-time equivalent total reward of employees whose pay is ranked at the 25th, 50th and 75th percentiles (as identified by the gender pay gap methodology) in Great Britain's (GB) workforce.

Year	Method	Chief Executive pay ratio		
		25 th percentile	50 th percentile	75 th percentile
2022	B: Gender pay gap methodology	214.3	181.3	117.2
2021	B: Gender pay gap methodology	150.1	145.0	88.4
2020	B: Gender pay gap methodology	42.5	31.9	19.5
2019	B: Gender pay gap methodology	65.9	47.2	36.0

— We used GB gender pay gap data from April 2022 to identify employees at the 25th, 50th and 75th percentiles, and analysed data for employees around each quartile figure to ensure there were no anomalies



- Using the gender pay gap data to identify the quartile employees gives a central representation of the relevant employee population at the year end, and is the most practicable methodology given the timing of the disclosure and determination of remuneration outcomes for the wider workforce.
- We compared total remuneration for each employee, calculated with reference to 31 December 2022, compared to the Chief Executive's single figure (this was converted using a USD:GBP exchange rate of 1.2371 – the average exchange rate for 2022).
- For the quartile employees, we calculated total remuneration on a similar basis to the Chief Executive's single figure. We based base salary, pension and benefits on full-year figures taken from payroll. Annual bonus figures are based on the relevant manager recommendations and relate to performance in 2022. None of the employees at the 25th, 50th or 75th percentile had share awards vesting in 2022.
- Total remuneration figures for the 25th, 50th and 75th percentile employees are: £31,998, £37,822 and £58,525. The respective base salaries are: £29,500, £30,257 and £50,078.
- A significant proportion of the Chief Executive's pay is linked to performance and, in respect of the LTIP and co-investment award, share price performance. Therefore, the Chief Executive's pay can vary significantly year-on-year, based on company performance.
- The increase in this year's pay ratio is a result of a higher payout under the AIP for the Chief Executive (76% of maximum compared to 63% of maximum last year) as well as the strong share price performance over the last year which has resulted in a higher valuation of the vesting of the second tranche of the co-investment award.
- The median pay ratio is consistent with our wider policies on employee pay, reward and progression. The Committee is focused on ensuring that remuneration for all Pearson colleagues reflects our need to attract and retain the right talent for our digital future.

We can use existing shares bought in the market, treasury shares or newly issued shares, to satisfy awards under our various share plans. For restricted stock awards under the LTIP, we would expect to use market-purchased shares. There are limits on the amount of non-issue equity we can use. In any rolling 10-year period, no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson's share plans, and no more than 5% of Pearson equity will be issued, or be capable of being issued, under Executive or discretionary plans. The headroom available for all Pearson plans, Executive or discretionary, and shares held in trust is as follows:

Headroom	2022
All Pearson plans	7.60%
Executive or discretionary plans	4.70%
Shares held in trust	4.70%

Role	Name	Title
Chair	Sherry Coutu CBE	Independent Non-Executive Director
Members	Esther Lee	Independent Non-Executive Director
	Tim Score	Deputy Chair
	Annette Thomas	Independent Non-Executive Director
	Sidney Taurel (until 29 April 2022)	Chair
Internal attendees	Omid Kordestani	Chair
	Andy Bird	Chief Executive
	Sally Johnson	Chief Financial Officer
	Ali Bebo	Chief Human Resources Officer
	Paul Christian	Senior Vice President, Reward
	Graeme Baldwin	Company Secretary
External advisers	Deloitte LLP	

During 2022, the Remuneration Committee received advice from Deloitte LLP, our independent Remuneration Committee advisers.

Deloitte LLP was appointed by the Committee in July 2017, following a competitive tender process. It advises the Committee on market trends and developments, incentive plan design and target setting, investor engagement and other general executive remuneration matters. For provision of these services in 2022, Deloitte LLP were paid fees of £260,150, based on time spent. During the year, separate teams at Deloitte LLP also provided Pearson with certain tax and other advisory and consultancy services.

Deloitte LLP is a founding member of the Remuneration Consultants' Group and adheres to its Code of Conduct.

The Committee is satisfied that Deloitte LLP's advice was objective and independent, and that the provision of other services in no way compromised its independence. The Committee believes that the Deloitte LLP engagement partner and team that provides remuneration advice to the Committee does not have any connections with Pearson or its Directors that may impair its independence. The Committee reviewed the potential for conflicts of interest and believes there are appropriate safeguards against such conflicts.

The Committee's full charter and terms of reference are available on the Governance page of our website. A summary of the Committee's responsibilities is below.

The terms of reference reflect the provisions of the 2018 Code.

Determine and review policy

Determine and regularly review the remuneration policies for the Executive Directors, Presidents, and other members of Pearson's Executive Management who report directly to the Chief Executive. These policies include base salary, annual and long-term incentives, pension arrangements, any other benefits, and termination of employment.

When setting remuneration policy, the Committee considers remuneration practices and related policies for all employees

Shareholder engagement

Ensure Pearson engages with its shareholders and shareholder representative bodies on the remuneration policy and its implementation

Review and approve implementation

Regularly review the implementation and operation of the remuneration policy, and approve the individual remuneration and benefits packages of Pearson's Executive Management team, including Executive Directors

Approve performance-related plans

Approve the design of, and determine targets for, any performance-related pay plans operated by the Group for Pearson's Executive Management team, and approve total payments to be made under such plans

Set termination arrangements

Advise and decide on general and specific remuneration arrangements in connection with the termination of employment of Pearson's Executive Management team, including Executive Directors

Determine Chair's remuneration

Delegate responsibility for determining the Chair's remuneration and benefits package

Appoint remuneration consultants

Appoint and set the terms of engagement for any remuneration consultants who advise the Committee, and monitor the cost of such advice

Talent, retention, and gender pay gap

Review updates from management on talent, retention and gender pay gap

Workforce remuneration

Have oversight of workforce remuneration, policies, and practice for the wider organisation

Remuneration Committee meeting focus during 2022

During the year the Committee undertook the following activities:

- Reviewed and approved annual and long-term performance and payouts to Executive Directors and senior management for 2021

Voting on remuneration resolutions

The following table summarises votes cast for remuneration resolutions:

	Votes cast for	% of votes cast for	Votes cast against	% of votes cast against	Votes withheld
Annual report on Remuneration (2022 AGM)	462,488,192	76.53%	141,832,706	23.47%	3,136,939
2020 Remuneration Policy (2020 AGM)	586,460,258	95.12%	30,106,736	4.88%	219,641
Amendment to 2020 Remuneration Policy (2020 GM)	417,060,992	67.22%	203,423,538	32.78%	370,074

- Reviewed and approved incentive arrangements for Pearson, and how these will apply to Executive Directors and senior management in 2022
- Reviewed the Directors' remuneration policy and its implementation ahead of its renewal at the 2023 AGM
- Engaged extensively with shareholders following the 2022 AGM and in respect of the Directors' remuneration policy review. Reviewed and considered all feedback and considered ongoing shareholder engagement strategy
- Approved remuneration arrangements for new senior management appointments
- Received updates on Pearson's financial performance and progress against strategic measures. Noted and reviewed the status of in-flight incentives
- Received updates on pay and conditions across Pearson, and took these into account when determining executive remuneration
- Noted updates on corporate governance, including a review of the 2022 AGM remuneration reporting season, and anticipated areas of focus in 2023
- Reviewed Pearson's gender and ethnicity pay gap disclosures and noted actions to address the respective gaps
- Noted the activity of the Standing Committee on operating Pearson's equity-based reward programmes and noted Pearson's use of equity for employee share plans

Committee evaluation

Annually, the Committee reviews its performance, constitution, charter, and terms of reference to ensure it is operating at maximum effectiveness, and recommends any changes it considers necessary to the Board for approval. Overall, following its review in 2022, it was considered that the Committee is operating effectively with high levels of discussion and questioning. New members of the Committee brought a different perspective and enhanced visibility of matters that extend across the different Board Committees.

In 2023, the Committee will continue to focus on ensuring remuneration arrangements for senior management and the wider workforce continue to support the attraction and retention of key talent as well as the delivery of Pearson's strategy. The Committee continually assesses how its activities support and enable Pearson's progress.

Directors’ remuneration report *continued*

2023 Directors’ remuneration policy

The Remuneration Committee presents the 2023 Directors’ remuneration policy (2023 policy), which will be put to shareholders for binding vote at the AGM to be held on 28 April 2023. Subject to shareholder approval, the effective date of this policy will be 28 April 2023. However, it is proposed, subject to approval at the AGM, that changes to Executive Director incentives be made effective from the start of the 2023 performance periods. The intention of the Committee is that the policy will remain in place for three years from the date of its approval.

Review of the Directors’ remuneration policy

In determining the 2023 policy, the Committee followed a robust process which included discussions on the content of the policy at Remuneration Committee meetings throughout 2022 and in early 2023. The Committee considered the input of management and its independent advisors, while taking steps to ensure any conflicts of interest were appropriately managed. The Committee also sought the views of Pearson’s major shareholders and their advisors, considering all feedback received during the extensive shareholder engagement exercise when finalising the 2023 policy. Further information on the Committee’s decision-making process is set out in the remuneration report.

Changes to policy

The key changes to this 2023 policy compared to the 2020 policy are summarised below:

- Increase in the maximum opportunity under the Annual Incentive Plan to 300% of base salary.
- Increase in the maximum opportunity under the Long-Term Incentive Plan to 450% of salary.
- Increase in proportion of the Annual Incentive Plan that is payable for threshold performance to up to 25% of the maximum opportunity.
- Introduction of deferral under the Annual Incentive Plan where an Executive Director has not met their shareholding guideline.
- Changes to allow for the introduction of strategic measures, e.g. an ESG measure, into the long-term incentive performance framework.
- Increase in shareholding guidelines.

Other minor changes have been made to the drafting of the policy to simplify and aid its operation and to increase clarity.

Policy table for Executive Directors

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different strategic objectives. Remuneration is normally reviewed annually in the context of business performance and conditions prevailing, taking into account pay levels for similar positions in comparable companies as well as internal ratios.

Base salary

Purpose and link to strategy

- Helps to recruit, reward and retain.
- Reflects level, role, skills, experience, the competitive market and individual contribution.

Operation	Opportunity	Performance conditions and period
Base salaries are set to provide the appropriate rate of remuneration for the job, taking into account relevant recruitment markets, business sectors and geographic regions.	While there is no maximum salary level or maximum increase that may be offered, salary increases will normally be in line with typical increases awarded to other employees in the Group.	None, although performance of both the company and the individual are taken into account when determining an appropriate level of base salary increase each year.
Base salaries are normally reviewed annually taking into account: general economic and market conditions; the level of increases made across the company as a whole; particular circumstances such as changes in role, responsibilities or organisation; the remuneration and level of increases for executives in similar positions in comparable companies in both the UK, US and internationally; and individual performance.	However, increases may be above this level, for example, in circumstances including but not limited to: — Where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded to move salary positioning closer to typical market level as the Executive Director gains experience. — Where an Executive Director has been promoted or has had a change in responsibilities. — Where there has been a significant change in market practice or where there has been a significant change in the size and/or scope of the business	



Long-term incentive plan

Purpose and link to strategy

- Help to recruit, reward and retain.
- Drive long-term earnings, share price growth and value creation.
- Align the interests of executives and shareholders.
- Encourage long-term shareholding and commitment to the company.

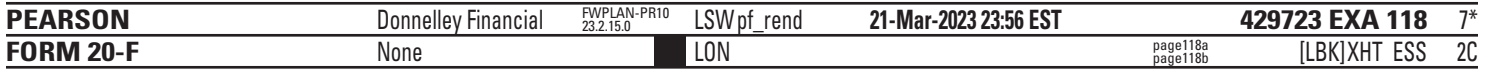
Operation	Opportunity	Performance conditions and period
Awards of shares are made on an annual basis, which vest on a sliding scale based on performance against stretching performance targets measured at the end of the three-year performance period. Awards are normally subject to a post-vesting holding period (on an after tax basis) for two years following the end of the performance period. Participants may receive additional shares representing the gross value of dividends that would have been paid on shares that vest during the performance period. The Committee reserves the right to adjust the vesting outcome up or down before they are released if it believes that this does not reflect underlying financial or non-financial performance or if such other exceptional factors warrant doing so. In making such adjustments, the Committee is guided by the principle of aligning shareholder and management interests. The Committee may apply malus and/or clawback for a period of five years in certain circumstances, such as financial misstatement, individual misconduct or reputational damage to the company.	The maximum award is 450% of base salary in respect of a financial year.	The Committee will determine the performance measures, weightings and targets governing an award of shares prior to grant to ensure continuing alignment with strategy and to ensure that targets are sufficiently stretching. The Committee establishes a threshold below which no payout is achieved and a maximum at or above which the award pays out in full. The proportion of the award that vests at threshold may be up to 25% of the maximum opportunity. Awards will normally be subject to the achievement of financial targets (e.g., earnings per share and a return measure), shareholder returns (e.g., relative total shareholder return) and strategic objectives (e.g., an environmental, social and/or governance measure). Where strategic objectives are incorporated, financial targets and/or shareholder returns will comprise the majority of the award. The Committee may determine that different measures or weightings may apply for future awards; however, the Committee would intend to consult with shareholders in advance if there was to be a significant change in the weighting of measures or the performance measures used. The performance period is three years.

Shareholding guidelines

Purpose and link to strategy

- Align the interests of Executives and shareholders and encourage long-term shareholding and commitment to the company.

Operation	Opportunity	Performance conditions and period
Executive Directors are expected to build up a shareholding in the company. Executive Directors are expected to reach the guideline within five years from the date of appointment. Post-employment shareholding: Executive Directors are expected to retain their shareholding guideline (or actual holding if lower) for two years following stepping down as an Executive Director. This provision does not apply to any shares purchased by the Executive Director.	The target holding is currently 450% of base salary for the Chief Executive Officer and 300% of base salary for other Executive Directors.	Not applicable



Notes to the policy table

Selection of performance measures and target setting

In the selection and weighting of performance measures for the annual and long-term incentive awards, the Committee takes into account Pearson's strategic objectives and short and long-term business priorities.

Annual incentive plan	For 2023, the Committee identified sales, adjusted operating profit, free cash flow and key strategic measures as being relevant measures of Pearson's performance against its shorter-term strategic objectives and business priorities. Further details on how these performance measures align to Pearson's strategy are set out in the remuneration report.
Long-term incentive plan	For 2023 LTIP awards, the Committee has judged the following to be most closely matched to sustained delivery of strategy and alignment with shareholders' interests: — Adjusted earnings per share (30%) rewards the delivery of the desired outcomes from our strategic growth objectives and is imperative if the company is to improve our total shareholder return and our return on capital. — Return on capital (30%) is a measure of how efficiently Pearson generates returns from its asset base and is considered a fair and robust assessment of management's performance given the current structure of the business. — Relative total shareholder return (30%) is used as the Committee believes, in line with many of our shareholders, that part of Executive Directors' rewards should be linked to long-term performance relative to comparable global companies. — An Environmental, Social and Governance measure (10%) has been selected to reflect that progression of Environmental, Social and Governance priorities are integral to the long-term sustainable growth of the business.

Performance targets are set to provide a careful balance between upside opportunity and downside risk and are normally set in accordance with the company's operating and strategic plans, while also considering analyst consensus to reflect market expectations.

Pre-existing commitments

The Committee reserves the right to make remuneration payments and payments for loss of office (which includes exercising related discretions) that are not in line with this policy if the terms of the payment were agreed:

- before the policy came into effect, if the payment was agreed or made in line with the policy in force at the time or was otherwise approved by shareholders; and
- at a time when the recipient was not subject to the policy, provided the Committee does not consider the payment to have been made in consideration of the recipient becoming subject to the policy.

For these purposes 'payment' means any payment that would otherwise be subject to the policy and, in relation to a share award, will not be considered to have been 'agreed' any later than the date of grant.

Remuneration policy for other employees

Pearson has a set of remuneration principles that govern pay for the whole organisation, although how these principles are applied varies by business need, level and geography as required. The key difference in remuneration for Executive Directors compared to the approach to remuneration across the workforce is that remuneration for Executive Directors is more heavily weighted towards variable pay and linked to the delivery of Pearson's strategic objectives and short and long-term business priorities.

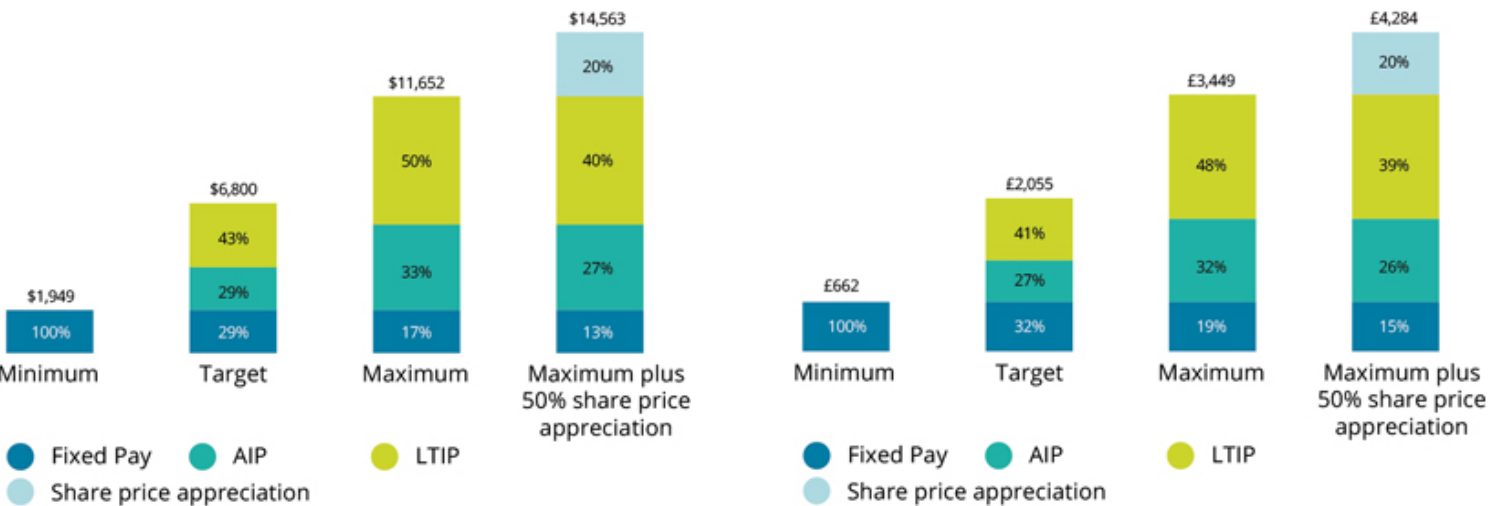
Further details on remuneration across the workforce at Pearson are set out in the remuneration report on page 100.

Pay and performance scenario analysis

The charts below illustrate what each Executive Director could expect to receive under the 2023 policy in different performance scenarios. The relative weighting of fixed and performance-related remuneration and the absolute size of the remuneration packages for the Chief Executive Officer and the Chief Financial Officer is shown. Consistent with its policy, the Committee places considerable emphasis on the performance-linked elements (the annual and long-term incentives) and will continue to review the mix of fixed and performance-linked remuneration on an annual basis.

Chief Executive (Andy Bird) \$000

Chief Financial Officer (Sally Johnson) £000



Performance scenario	Elements of remuneration and assumptions
Maximum plus 50% share price appreciation	— Fixed pay — Maximum individual annual incentive (300% of base salary for Chief Executive and 200% of salary for Chief Financial Officer) — Maximum value of 2023 LTIP award (450% for Chief Executive and 300% of salary for Chief Financial Officer) with 50% share price growth assumed
Maximum	— Fixed pay — Maximum individual annual incentive (300% of base salary for Chief Executive and 200% of salary for Chief Financial Officer) — Maximum value of 2023 LTIP award (450% for Chief Executive and 300% of salary for Chief Financial Officer) with no share price growth assumed
Target	— Fixed pay — 50% of the maximum individual annual incentive — 50% of the maximum value of 2023 long-term incentive award with no share price growth assumed
Minimum	— Fixed pay only

Note 1: Fixed pay includes 2023 base salary (\$1,293,750 for the Chief Executive and £557,225 for the Chief Financial Officer); allowances and benefits are the actual amounts incurred in the 2022 financial year. Retirement benefits for both Executive Directors are included at 16% of their base salary.

Note 2: The value of long-term incentives does not take into account dividend awards that are payable on the release of LTIP shares.

Recruitment

The Committee expects any new Executive Directors to be engaged on the same terms and to be awarded variable remuneration within the same normal limits and subject to the same conditions as for the current Executive Directors outlined in the policy.

The maximum level of variable remuneration which may be awarded (excluding any 'buyout' awards) in respect of recruitment is 750% of salary, which is in line with the current maximum limits under the annual and long-term incentive.

In setting the basic salary for any new Executive Director, the Committee will apply a level appropriate to recruit a suitable candidate, having regard to the factors set out in the policy table.

The Committee recognises that it cannot always predict accurately the circumstances in which any new Directors may be recruited. The Committee may determine that it is in the interests of the company and shareholders to secure the services of a particular individual which may require the Committee to take account of the terms of that individual's existing employment and/or their personal circumstances. The Committee may do this in the following circumstances:

- Where an individual is relocating in order to take up the role, in which case the company may provide certain benefits such as reasonable relocation expenses, accommodation and assistance with visa applications or other immigration issues and ongoing arrangements such as tax equalisation, annual flights home, schooling and housing allowance.
- Where an individual is required to forego compensation to take up the appointment or forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate taking into account all relevant factors including where applicable the form of compensation or awards, expected value and vesting time-frame of forfeited opportunities. The Committee would require reasonable evidence of the nature and value of any foregone or forfeited amounts and would, to the extent practicable, ensure any compensation was provided on a like-for-like basis and was no more valuable than the foregone or forfeited amounts.
- Where an individual incurs legal or other professional fees in connection with their appointment as an Executive Director, the Committee retains the discretion to compensate for these.

In making any decision on any aspect of the remuneration package for a new recruit, the Committee would balance shareholder expectations, current best practice and the requirements of any new recruit and would strive not to pay more than is necessary to achieve the recruitment. The Committee would give full details of the

terms of the package of any new recruit in the next annual remuneration report.

Where an existing employee of the company is promoted to the Board, the company may honour all existing contractual commitments including any outstanding share awards and benefits, including retirement benefits.

Pearson expects any new Chair or Non-Executive Director to be engaged on terms that are consistent with the general remuneration principles outlined in the relevant sections of this Policy.

Service contracts and termination provisions

In accordance with long established policy, all Executive Directors have service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues indefinitely.

There are no special provisions for notice or non-share-based compensation in the event of a change of control of Pearson.

The Chair and other Non-Executive Directors serve under letters of appointment.

It is the company's policy that the company may terminate the Chair's letter of appointment and the Executive Directors' service agreements by giving no more than 12 months' notice. Other Non-Executive Directors letters of appointment do not contain provision for notice periods or compensation if their appointments are terminated.

Payment in lieu of notice

As an alternative, for Executive Directors the company may at its discretion pay in lieu of that notice. Payment in lieu of notice may be made in equal monthly instalments from the date of termination to the end of any unexpired notice period. Payment in lieu of notice in instalments may also be subject to mitigation and reduced taking into account earnings from alternative employment.

For Executive Directors, payment in lieu of notice comprises 100% of the annual salary at the date of termination and the annual cost to the company of providing pension and all other benefits. For the Chair, payment in lieu of notice comprises 100% of the annual fees at the date of termination.

The company may, depending on the circumstances of the termination, determine that it will not pay the Director in lieu of notice and may instead terminate a Director's contract in breach and make a damages payment, taking into account as appropriate the Director's ability to mitigate his or her loss.



The company may also pay an amount considered to be reasonable by the Remuneration Committee in respect of fees for legal and tax advice and outplacement support for the departing Director. The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith, in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment.

On cessation of employment, treatment of unvested shares awards will be determined based on the rules of Pearson's share plans.

In respect of unvested deferred annual incentive awards, these will ordinarily subsist, except in circumstances where an individual is summarily dismissed. Awards would ordinarily vest on the original vesting date/be released in line with normal time horizons unless determined otherwise by the Committee.

In respect of unvested long-term incentive awards, unless otherwise provided for under the rules of Pearson's discretionary share plans, Executive Directors' entitlements would lapse automatically. In the case of death, injury, disability, ill-health or redundancy (as determined by the Committee), where a participant's employing business ceases to be part of Pearson, or any other reason if the Committee so decides in its absolute discretion:

- awards will stay in force as if the participant had not ceased employment and shall ordinarily vest on the original vesting date/be released in line with normal time horizons subject to performance conditions.
- the number of shares that are released shall be pro-rated for the period of the participant's service in the vesting period (although the Committee may in its absolute discretion waive or vary the pro-rating).

In determining whether and how to exercise its discretion under Pearson's discretionary share plans, the Committee will have regard to all relevant circumstances distinguishing between different types of leaver, the circumstances at the time the award was originally made, the Director's performance and the circumstances in which the Director left employment.

The rules of Pearson's discretionary share plans also make provision for the treatment of awards in respect of corporate activity, including a change of control of Pearson. The Committee would act in accordance with the terms of the awards in these circumstances, which includes terms as to the assessment of performance conditions and time apportionment.

On cessation of employment, Executive Directors may, at the Committee's discretion, retain entitlement to a pro rata annual incentive for their period of service in the financial year prior to their leaving date. Such payout will normally be calculated in good faith on the same terms and paid at the same time as for continuing Executive Directors.

Eligibility for allowances and benefits including retirement benefits (other than pension payments in connection with subsequent retirement) normally ceases on retirement or on the termination of employment for any other reason.

The termination provisions described above may be varied to the extent necessary to comply with applicable laws, including taxation laws in the United States.

Details of each individual's arrangement are outlined in the table below. Employment agreements for other employees are determined according to local labour law and market practice.

Chair	Omid Kordestani, 16 December 2021	12 months from the Director; 12 months from the company

Note 1: Under payment in lieu of notice, the annual cost of pension for Executive Directors is normally calculated as the sum, where applicable, of: an amount equal to the company's cost of providing the Executive's pension under the pension plan based on the Future Service Company Contribution Rate for the relevant section of the pension plan as stated in the most recent actuarial valuation (as at the date of termination of employment) as limited by the earnings cap; and any cash allowance in lieu of pension or to take account of the fact that pension benefits and life assurance cover are restricted by the earnings cap.

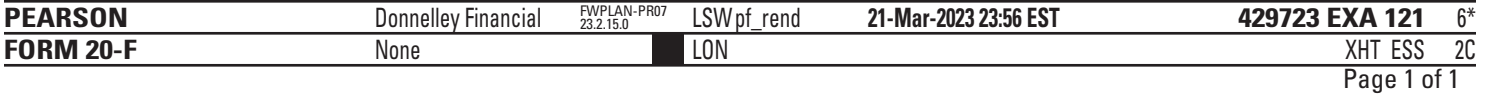
The Committee's policy is that Executive Directors may, by agreement with the Board, serve as non-executives of other companies and retain any fees payable for their services.

Under the Committee's charter and terms of reference, the Committee's remit includes determining remuneration for the Chief Executive Officer, other Executive Directors and other members of the Pearson Executive Management team. In addition, the Committee's remit includes oversight of certain remuneration matters below this level and review of remuneration policies and practices across the broader employee population.

When determining remuneration for Executive Directors and other members of the Pearson Executive Management team, the Committee considers reports from the Chief Executive and Chief Human Resources Officer on pay and conditions for the broader employee population, including information on the recruitment and retention of talent, general pay trends in the market and the level of pay increases and incentives across the company as a whole. This helps to ensure that remuneration for senior management is considered in the context of the wider organisation.

There are a number of established channels for consulting with employees and employee representative bodies – including trade unions and works councils in some jurisdictions – about the company's strategy, competitiveness and performance of the business and other matters affecting employees. The views of employees are also sought via the Employee Engagement Network, feedback from which is reported to the Board, and engagement surveys. These activities provide employees with the opportunity to express how they feel about working for Pearson, what they think about the work they do, the opportunities they have and the rewards (including pay and benefits) they get.

The Committee has not consulted directly with employees on the development of the Directors' remuneration policy.



The company consults regularly with shareholders on all matters affecting its strategy and business operations. This includes executive remuneration. Over the last year, whilst developing the 2023 policy and considering its implementation, the Remuneration Committee has engaged extensively with shareholders to ensure remuneration for Executive Directors is set appropriately, rewards for performance and aligns management with the shareholder experience.

This engagement exercise included writing to and meeting with many of Pearson's shareholders and their advisors, to seek their input on

the proposed changes to the policy. We would like to thank our shareholders for the time they have spent with us in this regard. All feedback received, which reflected a significant range of opinions, was duly considered by the Remuneration Committee as it finalised the 2023 policy. Further details on the shareholder engagement exercise can be found in my letter on pages 90-91.

The Committee continues to monitor and respond to best practice guidelines published by shareholders and their representative bodies. Pearson remains committed to an open and transparent dialogue with its shareholders.

The table below summarises the policy with respect to remuneration of the Chair and Non-Executive Directors.

Purpose and link to strategy

- To attract and retain high-calibre individuals, with appropriate experience or industry-relevant skills, by offering market competitive fee levels

Operation	Opportunity	Performance conditions and period
The Chair and Deputy Chair are paid a single fee for all of their responsibilities.	Fee levels are reviewed on a periodic basis.	None.
The Chair and Deputy Chair fee is set at a level that is competitive considering similar positions in comparable companies.	The total fees payable to the Non-Executive Directors (excluding the Chair) are subject to the limit set out in the Articles of Association of the company (currently £750,000) and as increased by ordinary resolution from time to time.	
The Non-Executive Directors are paid a basic fee.		
The Committee Chairs, members of the main Board Committees and, if relevant, the Senior Independent Director are paid an additional fee to reflect their extra responsibilities. Fees for Non-Executive Directors are determined by the full Board having regard to market practice.		
Additional fees or other payments may be paid to reflect additional responsibilities, roles or contribution, as appropriate.		
The Chair, Deputy Chair and Non-Executive Directors are not eligible to participate in any annual or long-term incentive, nor are they entitled to any retirement or other employee benefits. Selected benefits may be introduced, if considered appropriate.		
The company reimburses travel and other business expenses and any tax incurred thereon, if applicable.		
Normally a minimum of 25% of the Chair's, Deputy Chair's and Non-Executive Directors' basic fee is paid in Pearson shares that they have committed to retain for the period of their directorships. Shares are normally acquired quarterly at the prevailing market price with the individual's after-tax fee payments.		

The Directors' Remuneration Report was approved by the Board on 15 March 2023 and signed on its behalf by:

Sherry Coutu CBE

Chair of Remuneration Committee

Additional disclosures

Pages 54-124 of this document comprise the Directors' report for the year ended 31 December 2022.

Set out below is other statutory and regulatory information that Pearson is required to disclose in its Directors' report.

Going Concern

The Directors have confirmed that there are no material uncertainties that cast doubt on the Group's going concern status and that they have a reasonable expectation that the Group has adequate resources to continue in operational existence beyond 30 June 2024. The consolidated financial statements have therefore been prepared on a going concern basis.

Further details on the procedures undertaken may be found on page 147.

Viability statement

The Board assessed the prospects of the company using the company's long range plan, together with downside scenarios. Based on the result of these procedures and considering the company's strong balance sheet, the Directors have a reasonable expectation that Pearson will be able to continue in operation and to meet its liabilities as they fall due over the four-year period ending 31 December 2026. Further details may be found on page 52.

Share capital

Details of share issues and cancellations are given in note 27 to the financial statements on page 191. The company has a single class of shares which is divided into ordinary shares of 25p each. The ordinary shares are in registered form. As at 31 December 2022, 715,733,241 ordinary shares were in issue. At the AGM held on 29 April 2022, the company was authorised, subject to certain conditions, to acquire up to 75,727,045 ordinary shares by market purchase and to issue up to 504,846,968 ordinary shares. Shareholders will be asked to renew these authorities, subject to revised caps, at the AGM on 28 April 2023.

As at 13 March 2023, 2,487 record holders with registered addresses in the United States held 33,286,790 ADRs which represented 4.65% of the company's outstanding ordinary shares. Some of these ADRs are held by nominees and so these numbers may not accurately represent the number of shares beneficially owned in the United States.

Share buyback

On 25 February 2022, the company announced its intention to commence a share buyback programme during 2022, which was subsequently launched on 4 April 2022 and completed on 7 December 2022. Under the programme, approximately 42.3m shares were bought back and cancelled at a cost of £353m. The nominal value of these shares, approximately £10m, was transferred to the capital redemption reserve. The Board believes that the company's strategic priorities, combined with the disciplined approach to capital allocation, will enable Pearson to create sustainable, long-term value for every stakeholder.

We have set out clear capital allocation priorities as follows:

- Maintaining a strong balance sheet and solid investment-grade credit ratings through an appropriate capital structure
- Focused and disciplined approach to investing in the business to accelerate growth opportunities
- Delivering shareholder returns through a progressive and sustainable dividend policy
- Returning surplus cash to shareholders as and when appropriate through buybacks or special dividends

Major shareholders

Information provided to the company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR) is published on a Regulatory Information Service and on the company's website.

As at 31 December 2022, the company had been notified under DTR 5 of the following holders of significant voting rights in its shares.

	Number of voting rights	Percentage as at date of notification
Cevian Capital II GP Limited	82,952,354	11.16%
BlackRock, Inc. ¹	74,503,339	10.32%
Ameriprise Financial, Inc. and its group	41,236,375	5.02%
Silchester International Investors LLP	36,341,993	<5%
Schroders plc	36,003,705	<5%
Libyan Investment Authority ²	24,431,000	3.01%

1. Includes 6,864,838 (0.94%) qualifying financial instruments to which voting rights are attached.

2. Based on notification to the company dated 7 June 2010. We have not been notified of any change to this holding since that date. Assets belonging to, or owned, held or controlled on 16 September 2011 by the Libyan Investment Authority and located outside Libya on that date, are frozen in accordance with The Libya (Sanctions) (EU Exit) Regulations 2020.

Between 31 December 2022 and 13 March 2023, being the latest practicable date before the publication of this report, the company received a further notification under DTR 5, with the most recent position being as follows:

	Number of voting rights	Percentage as at date of notification
BlackRock, Inc. ³	78,810,810	11.00%

3. Includes 8,847,811 (1.23%) qualifying financial instruments to which voting rights are attached

**Additional disclosures** *continued*

Transfer of shares

The Board may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless: (i) the instrument of transfer is lodged, duly stamped (if stampable) or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, at the registered office of the company or any other place decided by the Board, and is accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) it is in respect of only one class of shares; and (iii) it is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

Variation of rights

If at any time the capital of the company is divided into different classes of shares, the special rights attaching to any class may be varied or revoked either:

- (i) with the written consent of the holders of at least 75% in nominal value of the issued shares of the relevant class or
- (ii) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the relevant class.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the company may from time to time by ordinary resolution determine.

Appointment and replacement of Directors

The Articles contain the following provisions in relation to Directors.

Directors shall be no less than two in number. Directors may be appointed by the company by ordinary resolution or by the Board.

A Director appointed by the Board shall hold office only until the next AGM and shall then be eligible for re-appointment. The Board may from time to time appoint one or more Directors to hold Executive office with the company for such period (subject to the provisions of the Act) and upon such terms as the Board may decide and may revoke or terminate any appointment so made.

The Articles provide that, at every AGM of the company, every Director shall retire from office and, unless not willing to act, be eligible for re-appointment.

If a Director is not re-appointed, they shall, subject to the Articles, retain office until the meeting appoints someone in their place, or, if it does not do so, until the end of the meeting, or, if the meeting is adjourned, the end of the adjourned meeting. Where a Director has been appointed after notice of the annual general meeting has been given, that Director shall retire at the next annual general meeting of which notice is first given after his or her appointment as Director.

If there is an insufficient number of appointed or re-appointed Directors at any of the company's annual general meetings thus rendering the Board inquorate, all Directors shall be automatically re-appointed only for the purposes of filling vacancies and convening general meetings of the company and to perform such duties as are appropriate to maintain the company as a going concern and to enable it to comply with its legal and regulatory obligations. The Directors are required to convene a further general meeting of the company as soon as reasonably practicable to allow new Directors to be appointed, and such Directors who were not appointed at the original general meeting shall subsequently retire.

The company may by ordinary resolution remove any Director before the expiration of their term of office. In addition, the Board may terminate an agreement or arrangement with any Director for the provision of their services to the company.

Powers of the Directors

Subject to the Articles, the Act and any directions given by special resolution, the business of the company will be managed by the Board who may exercise all the powers of the company, including powers relating to the issue and/or buying back of shares by the company (subject to authorisation, and any statutory restrictions or restrictions imposed by shareholders in a general meeting).

Directors' indemnities

A qualifying third-party indemnity (QTPI), as permitted by the Articles and sections 232 and 234 of the Act, has been granted by the company to each of its Directors. Under the provisions of the QTPI, the company undertakes to indemnify each Director against liability to third parties (excluding criminal and regulatory penalties) and to pay Directors' costs as incurred, provided that they are reimbursed to the company if the Director is found guilty, the court refuses to grant the relief sought or, in an action brought by the company, judgement is given against the Director. The indemnity has been in force for the financial year ended 31 December 2022 and is currently in force. The company has purchased and maintains Directors' and Officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such Directors and Officers in the execution of their duties.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the company.

As at 31 December 2022, the Group's principal bank facility, the \$1.19 billion Revolving Credit Facility (RCF) agreement, allowed that upon a change of control of the company, any participating bank may require its outstanding advances, together with accrued interest and any other amounts payable in respect of such facility, and its commitments, to be cancelled, each within 60 days of notification to the banks by the agent. The facility was undrawn at year end. The group's outstanding fixed rate notes (see note 18 Borrowings for more information) also contain a provision requiring that, in the event of a change of control which leads to a downgrade in credit rating below Baa3 (Moody's) or BBB- (Fitch Ratings), the company is required to make an offer to investors to repurchase outstanding instruments at par plus accrued interest, which investors are not obliged to accept. For these purposes, a 'change of control' occurs if the company becomes a subsidiary of any other company, or one or more persons acting either individually or in concert obtains control (as defined in section 1124 of the Corporation Tax Act 2010) of the company. In February 2023, the Group renegotiated its Revolving Credit Facility, reducing the maximum facility to \$1 billion.

Shares acquired through the company's employee share plans rank pari passu with shares in issue and have no special rights. For legal and practical reasons, the rules of these plans set out the consequences of a change of control of the company.

Other statutory information

Other information that is required by the Act and by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) to be included in the Directors' report, and which is incorporated by reference, can be located as follows:

Summary disclosures index	See more
Dividend recommendation	Page 25
Financial instruments and financial risk management	Page 178
Important events since year end	Page 25
Future development of the business	Page 11
Research and development activities	Page 16
Employment of disabled persons	Page 34
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Statement describing regard to suppliers, customers and other stakeholders' interests	Page 29

With the exception of the dividend waiver described on page 121 there is no information to be disclosed in accordance with Listing Rule 9.8.4.

No political donations or contributions were made or expenditure incurred by the company or its subsidiaries during the year.

Our disclosures are consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and are set out on pages 39-41.

Fair, balanced and understandable reporting and disclosure of information

As required by the UK Corporate Governance Code, we have established arrangements to ensure that all information we report to investors and regulators is fair, balanced and understandable. In its assessment, the Board paid particular attention to a set of criteria recommended by the Financial Reporting Council, including the use of straightforward language, focus on content that is important to investors, and exclusion of irrelevant information.

A process and timetable for the production and approval of this year's annual report and accounts was agreed by the Board at its meeting in December 2022. The full Board then had the opportunity to review and comment on the report as it progressed. The Audit Committee is also available to advise the Board on certain aspects of the annual report and accounts, to enable the Directors to fulfil their responsibility in this regard.

The Directors consider that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Representatives from Financial Reporting, Strategy, Investor Relations, Corporate Affairs, ESG & Sustainability, Company Secretarial, Legal, Internal Audit, Risk, HR and Reward teams are involved in the preparation and review of the annual report to ensure a cohesive and balanced approach and, as with all of our financial reporting, a thorough verification of narrative and financial statements is conducted. We also have procedures in place to ensure the timely release of inside information, through our Market Disclosure Committee.

- The Directors also confirm that, for each Director in office at the date of this report:
- so far as the Director is aware, there is no relevant audit information of which the Group and company's auditors are unaware.
 - they have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Group and the company's auditors are aware of that information.

Directors in office

The following Directors were in office during the year:

A P Bird	G D Pitkethly
S L Coutu	T Score
S K M Johnson	S Taurel – resigned on 29 April 2022
O Kordestani – appointed on 1 March 2022	A C Thomas
E S Lee – appointed on 1 February 2022	L A Wallen
L K Lorimer	

The Directors' report has been approved by the Board on 15 March 2023 and signed on its behalf by:

Graeme Baldwin
Company Secretary

Statement of Directors’ responsibilities in respect of the financial statements

Statement of Directors’ responsibilities

The Directors are responsible for preparing the annual report and accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and company financial statements in accordance with UK-adopted international accounting standards. In preparing the Group and company financial statements, the Directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

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

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK-adopted international accounting standards and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company’s transactions, and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements and the Directors’ remuneration report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ confirmations

Each of the Directors, whose names and functions are listed in the Governance report, confirms that, to the best of their knowledge:

- The Group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards and IFRSs issued by IASB, give a true and fair view of the assets, liabilities and financial position of the Group and company, and of the profit of the Group.
- The Strategic report includes a fair review of the development and performance of the business and the position of the Group and company, together with a description of the principal risks and uncertainties that it faces.

This responsibility statement has been approved by the Board on 15 March 2023 and signed on its behalf by:

Sally Johnson

Chief Financial Officer



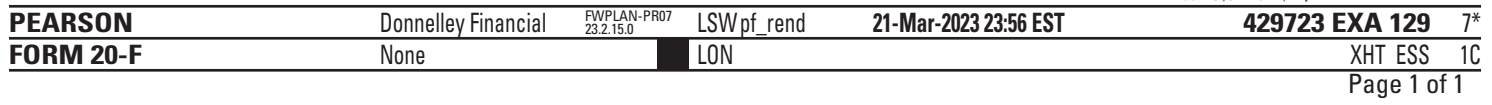
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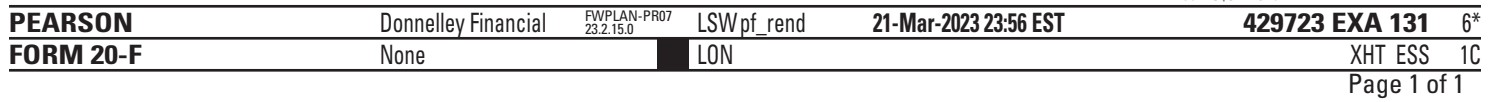


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Financial statements

Consolidated income statement

Year ended 31 December 2022

All figures in £ millions	Notes	2022	2021 ¹	2020 ¹
Continuing operations				
Sales	2,3	3,841	3,428	3,397
Cost of goods sold	4	(2,046)	(1,747)	(1,767)
Gross profit		1,795	1,681	1,630
Operating expenses	4	(1,549)	(1,562)	(1,402)
Other net gains and losses	4	24	63	178
Share of results of joint ventures and associates	12	1	1	5
Operating profit	2	271	183	411
Finance costs	6	(71)	(68)	(107)
Finance income	6	123	62	76
Profit before tax		323	177	380
Income tax	7	(79)	1	(50)
Profit for the year		244	178	330
Attributable to:				
Equity holders of the company		242	177	330
Non-controlling interest		2	1	—
Earnings per share attributable to equity holders of the company during the year (expressed in pence per share)				
• basic	8	32.8p	23.5p	43.7p
• diluted	8	32.6p	23.3p	43.7p

1. Comparative balances have been restated – see Note 1b.

Consolidated statement of comprehensive income

Year ended 31 December 2022

All figures in £ millions	Notes	2022	2021 ¹	2020 ¹
Profit for the year		244	178	330
Items that may be reclassified to the income statement				
Net exchange differences on translation of foreign operations		330	(6)	(109)
Currency translation adjustment disposed		(5)	4	(70)
Attributable tax	7	4	10	(13)
Items that are not reclassified to the income statement				
Fair value gain/(loss) on other financial assets		18	4	(12)
Attributable tax	7	1	(1)	–
Remeasurement of retirement benefit obligations	25	54	149	(23)
Attributable tax	7	(12)	(61)	2
Other comprehensive income/(expense) for the year	29	390	99	(225)
Total comprehensive income for the year		634	277	105
Attributable to:				
Equity holders of the company		630	276	105
Non-controlling interest		4	1	–

1. Comparative balances have been restated – see Note 1b.

Financial statements

Consolidated balance sheet

As at 31 December 2022

All figures in £ millions	Notes	2022	2021 ¹
Assets			
Non-current assets			
Property, plant and equipment	10	250	366
Investment property	10	60	—
Intangible assets	11	3,177	2,769
Investments in joint ventures and associates	12	25	24
Deferred income tax assets	13	57	57
Financial assets – derivative financial instruments	16	43	30
Retirement benefit assets	25	581	537
Other financial assets	15	133	113
Income tax assets		41	97
Trade and other receivables	22	139	129
		4,506	4,122
Current assets			
Intangible assets – product development	20	975	894
Inventories	21	105	98
Trade and other receivables	22	1,139	1,257
Financial assets – derivative financial instruments	16	16	2
Income tax assets		9	26
Cash and cash equivalents (excluding overdrafts)	17	558	937
		2,802	3,214
Assets classified as held for sale	32	16	7
Total assets		7,324	7,343
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	18	(1,144)	(1,245)
Financial liabilities – derivative financial instruments	16	(54)	(30)
Deferred income tax liabilities	13	(37)	(40)
Retirement benefit obligations	25	(61)	(66)
Provisions for other liabilities and charges	23	(14)	(7)
Other liabilities	24	(120)	(95)
		(1,430)	(1,483)

Consolidated balance sheet *continued*

As at 31 December 2022

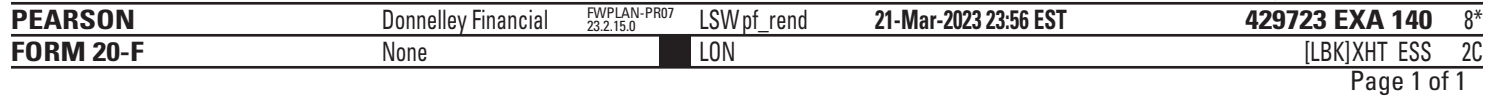
All figures in £ millions	Notes	2022	2021 ¹
Current liabilities			
Trade and other liabilities	24	(1,254)	(1,256)
Financial liabilities – borrowings	18	(86)	(155)
Financial liabilities – derivative financial instruments	16	(11)	(4)
Income tax liabilities		(43)	(125)
Provisions for other liabilities and charges	23	(85)	(40)
		(1,479)	(1,580)
Liabilities classified as held for sale	32	–	–
Total liabilities		(2,909)	(3,063)
Net assets			
Equity		4,415	4,280
Share capital	27	179	189
Share premium	27	2,633	2,626
Treasury shares	28	(15)	(12)
Capital redemption reserve		28	18
Fair value reserve		(13)	(4)
Translation reserve		709	386
Retained earnings		881	1,067
Total equity attributable to equity holders of the company		4,402	4,270
Non-controlling interest		13	10
Total equity		4,415	4,280

1. Comparative balances have been restated – see Note 1b.

These financial statements have been approved for issue by the Board of Directors on 31 March 2023 and signed on its behalf by

Sally Johnson

Chief Financial Officer



Consolidated statement of changes in equity

Year ended 31 December 2022

	Equity attributable to equity holders of the company									
All figures in £ millions	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2022	189	2,626	(12)	18	(4)	386	1,067	4,270	10	4,280
Profit for the year	–	–	–	–	–	–	242	242	2	244
Other comprehensive income/(expense)	–	–	–	–	18	323	47	388	2	390
Total comprehensive income/(expense)	–	–	–	–	18	323	289	630	4	634
Equity-settled transactions	–	–	–	–	–	–	38	38	–	38
Taxation on equity-settled transactions	–	–	–	–	–	–	3	3	–	3
Issue of ordinary shares under share option schemes	–	7	–	–	–	–	–	7	–	7
Buyback of equity	(10)	–	–	10	–	–	(353)	(353)	–	(353)
Purchase of treasury shares	–	–	(37)	–	–	–	–	(37)	–	(37)
Release of treasury shares	–	–	34	–	–	–	(34)	–	–	–
Transfer of gain on disposal of FVOCI investment	–	–	–	–	(27)	–	27	–	–	–
Dividends	–	–	–	–	–	–	(156)	(156)	(1)	(157)
At 31 December 2022	179	2,633	(15)	28	(13)	709	881	4,402	13	4,415

	Equity attributable to equity holders of the company								Non-controlling interest	Total equity
All figures in £ millions	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve ¹	Translation reserve	Retained earnings ¹	Total		
At 1 January 2021	188	2,620	(7)	18	(4)	388	922	4,125	9	4,134
Profit for the year	–	–	–	–	–	–	177	177	1	178
Other comprehensive income/(expense)	–	–	–	–	4	(2)	97	99	–	99
Total comprehensive income/(expense)	–	–	–	–	4	(2)	274	276	1	277
Equity-settled transactions	–	–	–	–	–	–	28	28	–	28
Issue of ordinary shares under share option schemes	1	6	(1)	–	–	–	–	6	–	6
Buyback of equity	–	–	–	–	–	–	–	–	–	–
Purchase of treasury shares	–	–	(16)	–	–	–	–	(16)	–	(16)
Release of treasury shares	–	–	12	–	–	–	(12)	–	–	–
Transfer of gain on disposal of FVOCI investment	–	–	–	–	(4)	–	4	–	–	–
Dividends	–	–	–	–	–	–	(149)	(149)	–	(149)
At 31 December 2021	189	2,626	(12)	18	(4)	386	1,067	4,270	10	4,280

	Equity attributable to equity holders of the company								Non-controlling interest	Total equity
All figures in £ millions	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve ¹	Translation reserve	Retained earnings ¹	Total		
At 1 January 2020	195	2,614	(24)	11	39	567	911	4,313	10	4,323
Adjustment (see note 1b)	–	–	–	–	(31)	–	31	–	–	–
At 1 January 2020 (restated)	195	2,614	(24)	11	8	567	942	4,313	10	4,323
Profit for the year	–	–	–	–	–	–	330	330	–	330
Other comprehensive income/(expense)	–	–	–	–	(12)	(179)	(34)	(225)	–	(225)
Total comprehensive income/(expense)	–	–	–	–	(12)	(179)	296	105	–	105
Equity-settled transactions	–	–	–	–	–	–	29	29	–	29
Issue of ordinary shares under share option schemes	–	6	–	–	–	–	–	6	–	6
Buyback of equity	(7)	–	–	7	–	–	(176)	(176)	–	(176)
Purchase of treasury shares	–	–	(6)	–	–	–	–	(6)	–	(6)
Release of treasury shares	–	–	23	–	–	–	(23)	–	–	–
Dividends	–	–	–	–	–	–	(146)	(146)	(1)	(147)
At 31 December 2020	188	2,620	(7)	18	(4)	388	922	4,125	9	4,134

1. Comparative balances have been restated – see Note 1b.

The capital redemption reserve reflects the nominal value of shares cancelled in the Group's share buyback programme. The fair value reserve arises on revaluation of other financial assets. The translation reserve includes exchange differences arising from the translation of the net investment in foreign operations and of borrowings and other currency instruments designated as hedges of such investments.



Consolidated cash flow statement

Year ended 31 December 2022

All figures in £ millions	Notes	2022	2021 ¹	2020 ¹
Cash flows from operating activities				
Profit before tax		323	177	380
Net finance (costs) / income		(52)	6	31
Depreciation and impairment - PPE and investment property		136	241	125
Amortisation and impairment - software		125	117	112
Amortisation and impairment - acquired intangible assets		54	50	80
Other net gains and losses		(24)	(63)	(178)
Product development capital expenditure		(357)	(287)	(323)
Amortisation and impairment - product development		303	279	280
Share-based payment costs		35	28	29
Change in inventories		(34)	22	35
Change in trade and other receivables		33	(71)	(1)
Change in trade and other liabilities		(84)	37	(26)
Change in provisions for other liabilities and charges		50	14	(37)
Other movements		19	20	(57)
Net cash generated from operations		527	570	450
Interest paid		(57)	(67)	(63)
Tax (paid)/received		(109)	(177)	2
Net cash generated from operating activities		361	326	389
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	30	(228)	(55)	(6)
Acquisition of joint ventures and associates		(5)	(10)	–
Purchase of investments		(12)	(4)	(6)
Purchase of property, plant and equipment and investment property		(57)	(64)	(53)
Purchase of intangible assets		(90)	(112)	(81)
Disposal of subsidiaries, net of cash disposed	31	333	83	100
Proceeds from disposal of joint ventures and associates	31	–	–	531
Proceeds from disposal of investments		17	48	–
Proceeds from disposal of property, plant and equipment		14	–	–
Lease receivables repaid including disposals		18	21	41
Loans repaid by related parties		–	–	48
Interest received		22	13	13
Dividends from joint ventures and associates		1	–	4
Net cash generated from/(used in) investing activities		13	(80)	591
Cash flows from financing activities				
Proceeds from issue of ordinary shares	27	7	6	6
Buyback of equity	27	(353)	–	(176)
Purchase of treasury shares	28	(37)	(16)	(6)
Proceeds from borrowings		–	–	346
Repayment of borrowings		(171)	(167)	(230)
Repayment of lease liabilities		(93)	(88)	(92)
Dividends paid to company's shareholders	9	(156)	(149)	(146)
Dividends paid to non-controlling interest		(1)	–	(1)
Net cash used in financing activities		(804)	(414)	(299)
Effects of exchange rate changes on cash and cash equivalents		36	(8)	(2)
Net (decrease)/increase in cash and cash equivalents		(394)	(176)	679
Cash and cash equivalents at beginning of year		937	1,113	434
Cash and cash equivalents at end of year	17	543	937	1,113

1. Comparative balances have been restated – see Note 1b. In addition, the Group has changed the presentation of the consolidated cash flow statement with the aim of simplifying for the reader. The reconciliation to net cash generated from operations is now presented above and certain line items have been aggregated and disaggregated. There has been no change to the classification of cash flows as operating, investing and financing.

Financial statements

Notes to the consolidated financial statements

General information

Pearson plc ('the company'), its subsidiaries and associates (together 'the Group') are international businesses covering educational courseware, assessments and services.

The company is a public limited company incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is 80 Strand, London WC2R 0RL.

The company has its primary listing on the London Stock Exchange and is also listed on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 31 March 2023.

1a. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

These consolidated financial statements have been prepared on the going concern basis (see note 1c) and in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards (IASs), with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted IASs on 1 January 2021. This change constituted a change in accounting framework. However, there was no impact on recognition, measurement or disclosure as a result of the change in framework. The consolidated financial statements have also been prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB). In respect of accounting standards applicable to the Group, there is no difference between UK-adopted IASs and IFRSs as issued by the IASB.

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

These accounting policies have been consistently applied to all years presented, unless otherwise stated.

1. Interpretations and amendments to published standards effective 2022 – No new standards were adopted in 2022.

A number of other new pronouncements are effective from 1 January 2022 but they do not have a material impact on the consolidated financial statements. Additional disclosure has been given where relevant.

2. Standards, interpretations and amendments to published standards that are not yet effective – The following new accounting standards and amendments to new accounting standards have been issued but are not yet effective and unless otherwise indicated, have been endorsed:

- IFRS 17 'Insurance contracts';
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of accounting policies';
- Amendments to IAS 1 'Classification of liabilities as current or non-current' (not yet endorsed);
- Amendments to IAS 1 'Non-current liabilities with covenants' (not yet endorsed);
- Amendments to IAS 8 'Definition of accounting estimates';
- Amendments to IAS 12 'Deferred tax related to assets and liabilities arising from a single transaction'; and
- Amendments to IFRS 16 'Lease liability in a sale and leaseback' (not yet endorsed).

The Group is currently assessing the impact of the above changes, but they are not expected to have a material impact. The Group does not plan to early adopt any of the above new accounting standards or amendments. The Group has not adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

3. Critical accounting assumptions and judgements – The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions and estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

All assumptions and estimates constitute management's best judgement at the date of the financial statements, however, in the future, actual experience may deviate from these estimates and assumptions.

The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates have a significant risk of resulting in material adjustments to the carrying value of assets and liabilities within the consolidated financial statements are:

- Intangible assets: goodwill and acquired intangible assets
- Taxation
- Revenue: provisions for returns
- Employee benefits: pensions
- Property, plant and equipment: right-of-use assets
- Classification as discontinued operations

The key judgements and key areas of estimation are set out below, as well as in the relevant accounting policies and in the notes to the accounts where appropriate.

Key judgements
— The application of tax legislation in relation to provisions for uncertain tax positions. See notes 7 and 34. — The allocation of goodwill to the cash-generating units and groups of cash-generating units. See note 11. — Whether the Group will be eligible to receive the surplus associated with the UK Group Pension Plan in recognising a pension asset. See note 25. — The results and cash flows of businesses disposed do not meet the criteria to be classified and presented as discontinued operations. See note 31.
Key areas of estimation
— The recoverability of goodwill balances. Key assumptions used in goodwill impairment testing are discount rates, perpetuity growth rates, forecast sales growth rates and forecast operating profits. See note 11. — The valuation of acquired intangible assets recognised on the acquisition of a business. See notes 11 and 30. — The level of provisions required in relation to uncertain tax positions is complex and each matter is separately assessed. The estimation of future settlement amounts is based on a number of factors including the status of the unresolved matter, clarity of legislation, range of possible outcomes and the statute of limitations. See notes 7 and 34. — The level of provisions required for anticipated returns is estimated based on historical experience, customer buying patterns and retailer behaviours including stock levels. See note 3. — The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth and longevity. See note 25. — The recoverability of right-of-use assets and in particular assumptions related to the ability to sublease vacant leased assets in the future. See note 10.

The Group has assessed the impact of the uncertainty presented by the volatile macro-economic and geo-political environment on the financial statements, specifically considering the impact on key judgements and significant estimates along with other areas of increased risk as follows:

— Financial instruments and hedge accounting; and

— Translation methodologies.

No material accounting impacts relating to the areas assessed above were recognised in the year. The Group will continue to monitor these areas of increased judgement, estimation and risk.

The Group no longer considers the COVID-19 pandemic to be an area of significant uncertainty and is no longer specifically assessing the impact of the COVID-19 pandemic on areas of judgement, estimation and risk.

Consolidation

1. Business combinations – The acquisition method of accounting is used to account for business combinations.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred in the operating expenses line of the income statement. Identifiable assets acquired and identifiable liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The determination of fair values often requires significant judgements and the use of estimates, and, for material acquisitions, the fair value of the acquired intangible assets is determined by an independent valuer. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (note 30).

See the 'Intangible assets' policy for the accounting policy on goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations before the date of transition to IFRS.

Management exercises judgement in determining the classification of its investments in its businesses, in line with the following:

2. Subsidiaries – Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

3. Transactions with non-controlling interests – Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. Any surplus or deficit arising from disposals to a non-controlling interest is recorded in equity. For purchases from a non-controlling interest, the difference between consideration paid and the relevant share acquired of the carrying value of the subsidiary is recorded in equity.

4. Joint ventures and associates – Joint ventures are entities in which the Group holds an interest on a long-term basis and has rights to the net assets through contractually agreed sharing of control. Associates are entities over which the Group has significant influence but not the power to control the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Ownership percentage is likely to be the key indicator of investment classification; however, other factors, such as Board representation, may also affect the accounting classification. Judgement is required to assess all of the qualitative and quantitative factors which may indicate that the Group does, or does not, have significant influence over an investment. Investments in joint ventures and associates are accounted for by the equity method and are initially recognised at the fair value of consideration transferred.

Notes to the consolidated financial statements *continued*

Consolidation continued

The Group's share of its joint ventures' and associates' results is recognised as a component of operating profit as these operations form part of the core publishing business of the Group and are an integral part of existing wholly-owned businesses. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture or associate equals or exceeds its interest in the joint venture or associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in these entities.

5. Contribution of a subsidiary to an associate or joint venture – The gain or loss resulting from the contribution or sale of a subsidiary to an associate or a joint venture is recognised in full. Where such transactions do not involve cash consideration, significant judgements and estimates are used in determining the fair values of the consideration received.

Foreign currency translation

1. Functional and presentation currency – Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is the company's functional and presentation currency.

2. Transactions and balances – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

3. Group companies – The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet
- Income and expenses are translated at average exchange rates
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. The Group treats specific inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The principal overseas currency for the Group is the US dollar. The average rate for the year against sterling was \$1.24 (2021: \$1.38; 2020: \$1.28) and the year-end rate was \$1.21 (2021: 1.35; 2020: \$1.37).

Property, plant and equipment

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Investment property

In 2022, the Group classified certain assets as investment property. Properties that are no longer occupied by the Group and which are held for operating lease rental are classified as investment property. Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for property, plant and equipment

Intangible assets

1. Goodwill – For the acquisition of subsidiaries made on or after 1 January 2010, goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. For the acquisition of subsidiaries made from the date of transition to IFRS to 31 December 2009, goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired.

Goodwill on acquisitions of associates and joint ventures is included in investments in associates and joint ventures.



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Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised to the extent that the carrying value of goodwill exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. These calculations require the use of estimates in respect of forecast cash flows and discount rates and significant management judgement in respect of cash-generating unit (CGU) and cost allocation; impairment is a key source of estimation uncertainty and has a significant risk of resulting in a material adjustment to the carrying amount of relevant assets within the next financial year. A summary of these assets by CGU and a description of the key assumptions and sensitivities is included in note 11.

Goodwill is allocated to aggregated CGUs for the purpose of impairment testing. The allocation is made to those aggregated CGUs that are expected to benefit from the business combination in which the goodwill arose. Where there are changes to CGUs, goodwill is reallocated to the new CGUs and aggregation of CGUs using a relative value method.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. Acquired software Software separately acquired for internal use is capitalised at cost. Software acquired in material business combinations is capitalised at its fair value as determined by an independent valuer. The assets are assessed for impairment triggers on an annual basis or when triggering events occur. Acquired software is amortised on a straight-line basis over its estimated useful life of between three and eight years.

3. Internally developed software – Internal and external costs incurred during the preliminary stage of developing computer software for internal use are expensed as incurred. Internal and external costs incurred to develop computer software for internal use during the application development stage are capitalised if the Group expects economic benefits from the development. Capitalisation in the application development stage begins once the Group can reliably measure the expenditure attributable to the software development and has demonstrated its intention to complete and use the software. Internally developed software is amortised on a straight-line basis over its estimated useful life of between three and ten years. The assets are assessed for impairment triggers on an annual basis or when triggering events occur.

4. Acquired intangible assets – Acquired intangible assets include customer lists, contracts and relationships, trademarks and brands, publishing rights, content, technology and software rights. These assets are capitalised on acquisition at cost and included in intangible assets. Intangible assets acquired in material business combinations are capitalised at their fair value as determined by an independent valuer. The valuation of these assets are a key source of estimation uncertainty. Intangible assets are amortised over their estimated useful lives of between two and 20 years, using an amortisation method that reflects the pattern of their consumption. The assets are assessed for impairment triggers on an annual basis or when triggering events occur.

5. Product development assets – Product development assets represent direct costs incurred in the development of educational programmes and titles prior to their publication. These costs are recognised as current intangible assets where the title will generate probable future economic benefits and costs can be measured reliably.

Product development assets relating to content are amortised upon publication of the title over estimated economic lives of seven years or less, being an estimate of the expected operating lifecycle of the title, with a higher proportion of the amortisation taken in the earlier years. Product development assets relating to product platforms are amortised over 10 years or less, being an estimate of the expected useful life.

The assessment of the useful economic life and the recoverability of product development assets involves judgement and is based on historical trends and management estimation of future potential sales.

Product development assets are assessed for impairment triggers on an annual basis or when triggering events occur. The carrying amount of product development assets is set out in note 20.

The investment in product development assets has been disclosed as part of net cash generated from operating activities in the cash flow statement.

Other financial assets

Other financial assets are non-derivative financial assets classified and measured at estimated fair value.

Marketable securities and cash deposits with maturities of greater than three months are classified and subsequently measured at fair value through profit and loss (FVTPL). They are remeasured at each balance sheet date by using market data and the use of established valuation techniques. Any movement in the fair value is immediately recognised in finance income or finance costs in the income statement.

Investments in the equity instruments of other entities are classified and subsequently measured at fair value through other comprehensive income (FVOCI). Changes in fair value are recorded in equity in the fair value reserve via other comprehensive income. On subsequent disposal of the asset, the net fair value gains or losses are reclassified from the fair value reserve to retained earnings. Any dividends received from equity investments classified as FVOCI are recognised in the income statement unless they represent a return of capital.

Investments in funds which have a limited life are classified and subsequently measured at fair value through profit and loss (FVTPL). Changes in fair value are included within net finance costs within the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method or an approximation thereof, such as the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made for slow-moving and obsolete stock.

Notes to the consolidated financial statements *continued*

Royalty advances

The royalty advance is expensed at the contracted or effective royalty rate as the related revenues are earned. Royalty advances which will be consumed within one year are held in current assets. Royalty advances which will be consumed after one year are held in non-current assets.

Cash and cash equivalents in the cash flow statement include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities in the balance sheet.

Short-term deposits and marketable securities with maturities of greater than three months do not qualify as cash and cash equivalents and are reported as financial assets. Movements on these financial assets are classified as cash flows from financing activities in the cash flow statement where these amounts are used to offset the borrowings of the Group or as cash flows from investing activities where these amounts are held to generate an investment return.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Ordinary shares purchased under a buyback programme are cancelled and the nominal value of the shares is transferred to a capital redemption reserve.

Borrowings are recognised initially at fair value, which is proceeds received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Accrued interest is included as part of borrowings.

Where a debt instrument is in a fair value hedging relationship, an adjustment is made to its carrying value in the income statement to reflect the hedged risk.

Where a debt instrument is in a net investment hedge relationship, gains and losses on the effective portion of the hedge are recognised in other comprehensive income.

Derivatives are recognised at fair value and remeasured at each balance sheet date. The fair value of derivatives is determined by using market data and the use of established estimation techniques such as discounted cash flow and option valuation models.

For derivatives in a hedge relationship, the currency basis spread is excluded from the designation as a hedging instrument.

Changes in the fair value of derivatives are recognised immediately in finance income or costs. However, derivatives relating to borrowings and certain foreign exchange contracts are designated as part of a hedging transaction.

The accounting treatment is summarised as follows:

Fair value hedges

Non-hedge accounted contracts



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

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

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

Deferred income tax is provided in respect of the undistributed earnings of subsidiaries, associates and joint ventures other than where it is intended that those undistributed earnings will not be remitted in the foreseeable future.

Current and deferred tax are recognised in the income statement, except when the tax relates to items charged or credited directly to equity or other comprehensive income, in which case the tax is also recognised in equity or other comprehensive income.

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the estimates in relation to the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises tax provisions when it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are based on management's best judgement of the application of tax legislation and best estimates of future settlement amounts (see note 7). Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and liabilities require management judgement and estimation in determining the amounts to be recognised. In particular, when assessing the extent to which deferred tax assets should be recognised, significant judgement is used when considering the timing of the recognition and estimation is used to determine the level of future taxable income together with any future tax planning strategies (see note 13).

1. Pensions – The retirement benefit asset and obligation recognised in the balance sheet represent the net of the present value of the defined benefit obligation and the fair value of plan assets at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using yields on high-quality corporate bonds which have terms to maturity approximating the terms of the related liability.

When the calculation results in a potential asset, the recognition of that asset is limited to the asset ceiling – that is the present value of any economic benefits available in the form of refunds from the plan or a reduction in future contributions. Management uses judgement to determine the level of refunds available from the plan in recognising an asset.

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth and longevity (see note 25).

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The service cost, representing benefits accruing over the year, is included in the income statement as an operating cost. Net interest is calculated by applying the discount rate to the net defined benefit obligation and is presented as finance costs or finance income.

Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the income statement as incurred.

2. Other post-retirement obligations – The expected costs of post-retirement medical and life assurance benefits are accrued over the period of employment, using a similar accounting methodology as for defined benefit pension obligations. The liabilities and costs relating to significant other post-retirement obligations are assessed annually by independent qualified actuaries.

3. Share-based payments – The fair value of options or shares granted under the Group's share and option plans is recognised as an employee expense after taking into account the Group's best estimate of the number of awards expected to vest. Fair value is measured at the date of grant and is spread over the vesting period of the option or share. The fair value of the options granted is measured using an option model that is most appropriate to the award. The fair value of shares awarded is measured using the share price at the date of grant unless another method is more appropriate. Any proceeds received are credited to share capital and share premium when the options are exercised.

Provisions are recognised if the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the effect is material.

The Group's revenue streams are courseware, assessments and services. Courseware includes curriculum materials provided in book form and/or via access to digital content. Assessments includes test development, processing and scoring services provided to governments, educational institutions, corporations and professional bodies. Services includes the operation of schools, colleges and universities, as well as the provision of online learning services in partnership with universities and other academic institutions.

Revenue is recognised in order to depict the transfer of control of promised goods and services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods and services. This process begins with the identification of our contract with a customer, which is generally through a master services agreement, customer purchase order, or a combination thereof. Within each contract, judgement is applied to determine the extent to which activities within the contract represent distinct performance obligations to be delivered and the total amount of transaction price to which we expect to be entitled.

Notes to the consolidated financial statements *continued*

The transaction price determined is net of sales taxes, rebates and discounts, and after eliminating sales within the Group. Where a contract contains multiple performance obligations such as the provision of supplementary materials or online access with textbooks, revenue is allocated on the basis of relative standalone selling prices. Where a contract contains variable consideration, significant estimation is required to determine the amount to which the Group is expected to be entitled.

Revenue from the sale of books is recognised net of a provision for anticipated returns. This provision is based primarily on historical return rates, customer buying patterns and retailer behaviours including stock levels (see note 24). If these estimates do not reflect actual returns in future periods then revenues could be understated or overstated for a particular period. When the provision for returns is remeasured at each reporting date to reflect changes in estimates, a corresponding adjustment is also recorded to revenue.

Income from recharges of freight and other activities which are incidental to the normal revenue-generating activities is included in other income.

Additional details on the Group's revenue streams are also included in note 3.

The Group as a lessee

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

Management uses judgement to determine the lease term where extension and termination options are available within the lease.

When the Group is an intermediate lessor, the head lease and sublease are accounted for as two separate contracts. The head lease is accounted for as per the lessee policy above. The sublease is classified as a finance lease or operating lease by reference to the right-of-use asset arising from the head lease. Where the lease transfers substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease; all other leases are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Amounts due from lessees under finance subleases are recognised as receivables at the amount of the Group's net investment in the leases discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the discount rate used in the head lease.

Final dividends are recorded in the Group's financial statements in the period in which they are approved by the company's shareholders. Interim dividends are recorded when paid.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or meets the criteria to be classified as held for sale.

When applicable, discontinued operations are presented in the income statement as a separate line and are shown net of tax.

Assets and liabilities are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. No depreciation is charged in respect of non-current assets classified as held for sale. Amounts relating to non-current assets and liabilities held for sale are classified as discontinued operations in the income statement where appropriate.

Trade receivables are stated at fair value after provision for bad and doubtful debts. Provisions for bad and doubtful debts are based on the expected credit loss model. The 'simplified approach' is used with the expected loss allowance measured at an amount equal to the lifetime expected credit losses. A provision for anticipated future sales returns is included within trade and other liabilities (also see Revenue recognition policy).

1b. Comparative period revisions

In 2022, the Group identified an error related to the classification of certain investments in unlisted securities. Investments that should have been accounted for at fair value through profit and loss were previously accounted for at fair value through other comprehensive income. The investments are held at fair value within other financial assets on the balance sheet. Having assessed both the quantitative and qualitative factors, the Group has determined that the error did not have a material impact on its previously issued consolidated financial statements. However, the comparative financial statement line items have been corrected to reflect the change in accounting treatment. The fair value movements are now recorded within finance income, rather than within other comprehensive income. All impacted primary statements and related notes have been restated.

For the year ended 31 December 2021, the revision has resulted in an increase in finance income and a corresponding increase in profit before tax of £20m, a reduction in the income tax benefit of £2m, an increase in profit for the year and profit for the year attributable to equity holders of the company of £18m, a decrease in the fair value gain on other financial assets through other comprehensive income of £20m with an increase in the attributable tax of £2m, resulting in a decrease in other comprehensive income for the year of £18m, and no change in total comprehensive income for the year, all as compared to amounts previously reported.

For the year ended 31 December 2020, the revision has resulted in an increase in finance income and a corresponding increase in profit before tax of £26m, an increase in income tax expense of £6m, an increase in profit for the year and profit for the year attributable to equity holders of the company of £20m, a decrease in the fair value gain on other financial assets through other comprehensive income of £26m with an increase in the attributable tax of £6m, resulting in a decrease in other comprehensive income for the year of £20m, and no change in total comprehensive income for the year, all as compared to amounts previously reported.

The impact on both basic and diluted earnings per share attributable to equity holders of the company is an increase of 2.4p for 2021 and 2.7p for 2020.

The restatement had no balance sheet impact except within equity. Opening retained earnings as at 1 January 2020 have increased by £31m and closing retained earnings as at 31 December 2020 have increased by £57m and an equivalent decrease has been recorded to the opening and closing fair value reserve. Closing retained earnings at 31 December 2021 has increased by £37m and an equivalent decrease has been recorded to the closing fair value reserve. The restatement has no impact on the carrying amount of other financial assets in the balance sheet and has no impact on reported net assets, cash flows or total equity. Accordingly, an additional balance sheet as at 1 January 2020 has not been presented.

1c. Going concern

In assessing the Group's ability to continue as a going concern for the period to 30 June 2024, the Board reviewed management's four-year plan, which was used as the base case. The review included available liquidity throughout the period and headroom against the Group's two main covenants, which require net debt to EBITDA to be a maximum of four times and interest cover to be at least three times.

At 31 December 2022, the Group had available liquidity of £1.4bn, comprising central cash balances and its undrawn \$1.19bn Revolving Credit Facility (RCF). In February 2023, the maximum RCF facility size was reduced to \$1bn and the model used reflects this change. Significant liquidity and covenant headroom was observed throughout the assessment period in this base model.

A severe but plausible scenario was analysed, where the Group is impacted by all principal risks in both 2023 and 2024, adjusted for probability weighting as well as other significant risks. For this and other downside scenarios tested, the acquisition of PDRI is assumed to be completed and a further capital allocation outflow of £350m is modelled. In the severe but plausible scenario, adjusted operating profit is reduced by around 30%, with a similar impact on operating cashflow. Significant liquidity and covenant headroom was observed throughout the assessment period even before any mitigation actions which management would take if these downside risks were to crystallise.

A reverse stress test was performed to identify the reduction in profit required to cease to be a going concern at or before 30 June 2024. This was achieved in the model through a covenant breach in June 2024 triggering repayment of the Group's debts. The model showed that operating losses were required, with profits reduced by around £750m per year in both 2023 and 2024. This significantly exceeded the severe but plausible downside scenario. The Directors consider this reverse stress test scenario to be implausible.

The Directors have confirmed that there are no material uncertainties that cast doubt on the Group's going concern status and that they have a reasonable expectation that the Group has adequate resources to continue in operational existence beyond 30 June 2024. The consolidated financial statements have therefore been prepared on a going concern basis.

1d. Climate change

The Group has assessed the impacts of climate change on the Group's financial statements , including our commitment to achieving net zero by 2030, and the actions the Group intends to take to achieve those targets. The assessment did not identify any material impact on the Group's significant judgements or estimates at 31 December 2022, or the assessment of going concern for the period to June 2024 and the Group's viability over the next four years. Specifically, we have considered the following areas:

- The physical and transition risks associated with climate change; and
- The actions the Group is taking to meet its carbon reduction and net zero targets.

As a result, the Group has assessed the impacts of climate change on the financial statements, and in particular, on the following areas:

- The impact on the Group's future cash flows, and the resulting impact that such adjustments to our future cash flows would have on the outcome of the annual impairment testing of our goodwill balances (see note 11 for further details), the recognition of deferred tax assets and our assessment of going concern;
- The carrying value of the Group's assets, in particular the recoverable amounts of inventories, product development assets, intangible assets and property, plant and equipment; and
- Any changes to our estimates of the useful economic lives of product development assets, intangible assets and property, plant and equipment.

Financial statements

Notes to the consolidated financial statements *continued*

2. Segment information

On 8 March 2021, the Group announced a new strategy, which included a new management structure and operating model. As a result, the primary operating segments reported to the Group's chief operating decision-maker, the Pearson Executive Management team, changed from 1 July 2021 to reflect the new Group structure. There are five main global business divisions, which are each considered separate operating segments for management and reporting purposes. These five divisions are Assessment & Qualifications, Virtual Learning, English Language Learning, Higher Education and Workforce Skills. In addition, the International Courseware local publishing businesses, which were under strategic review, were being managed as a separate division, known as Strategic Review. In 2022, some of the businesses from the Strategic Review division have been disposed of (see note 31) and the decision was made to retain the English-speaking Canadian and Australian K12 courseware businesses. Both of these businesses have been transferred from the Strategic Review division to the Assessment & Qualifications division to reflect changes to the management and reporting structure. Comparative figures for 2021 and 2020 have been restated to reflect the move between segments, resulting in £34m of sales being transferred from the Strategic Review division to the Assessment & Qualifications division in 2021 and £36m in 2020. The Group has separately disclosed the results from the Penguin Random House associate to the point of disposal in April 2020.

The following describes the principal activities of the five main operating segments:

- Assessment & Qualifications – Pearson VUE, US Student Assessment, Clinical Assessment, UK GCSE and A Levels and International academic qualifications and associated courseware including the English-speaking Canadian and Australian K-12 businesses;
- Virtual Learning – Virtual Schools and Online Program Management;
- English Language Learning – Pearson Test of English, Institutional Courseware and English Online Solutions;
- Workforce Skills – BTEC, GED, TalentLens, Faethm, Credly, Pearson College and Apprenticeships; and
- Higher Education – US, Canadian and International Higher Education Courseware businesses.

									2022
All figures in £ millions	Notes	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Penguin Random House	Group
Sales	3	1,444	820	321	204	898	154	–	3,841
Adjusted operating profit		258	70	25	(3)	91	15	–	456
Cost of major restructuring		(39)	(29)	(11)	(7)	(63)	(1)	–	(150)
Intangible charges		(14)	(21)	(6)	(12)	(3)	–	–	(56)
UK Pension discretionary increases		(1)	(1)	–	–	(1)	–	–	(3)
Other net gains and losses		(2)	(2)	(11)	–	–	39	–	24
Operating profit/(loss)		202	17	(3)	(22)	24	53	–	271
Finance costs	6								(71)
Finance income	6								123
Profit before tax									323
Income tax	7								(79)
Profit for the year									244
Other segment items									
Share of results of joint ventures and associates	12	–	(2)	4	(1)	–	–	–	1
Depreciation and impairment	10	63	31	7	6	26	3	–	136
Amortisation and impairment	11, 20	139	77	44	27	175	20	–	482

									2021
All figures in £ millions	Notes	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Penguin Random House	Group ¹
Sales	3	1,238	713	238	172	849	218	–	3,428
Adjusted operating profit		219	32	15	27	73	19	–	385
Cost of major restructuring		(48)	(48)	(27)	(28)	(63)	–	–	(214)
Intangible charges		(13)	(25)	(3)	(7)	(2)	(1)	–	(51)
Other net gains and losses		–	–	–	(2)	–	65	–	63
Operating profit/(loss)		158	(41)	(15)	(10)	8	83	–	183
Finance costs	6								(68)
Finance income	6								62
Profit before tax									177
Income tax	7								1
Profit for the year									178
Other segment items									
Share of results of joint ventures and associates	12	–	(1)	3	(1)	–	–	–	1
Depreciation and impairment	10	92	48	14	9	63	15	–	241
Amortisation and impairment	11, 20	134	67	34	25	165	21	–	446

1. Comparative balances have been restated to reflect the move between operating segments.

									2020
All figures in £ millions	Notes	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Penguin Random House	Group ¹
Sales	3	1,118	692	218	163	956	250	–	3,397
Adjusted operating profit		147	29	1	26	93	16	1	313
Cost of major restructuring		–	–	–	–	–	–	–	–
Intangible charges		(29)	(30)	(7)	(8)	(3)	(3)	–	(80)
Other net gains and losses		–	–	–	–	–	(2)	180	178
Operating profit/(loss)		118	(1)	(6)	18	90	11	181	411
Finance costs	6								(107)
Finance income	6								76
Profit before tax									380
Income tax	7								(50)
Profit for the year									330
Other segment items									
Share of results of joint ventures and associates		–	–	4	–	–	–	1	5
Depreciation and impairment		53	21	7	5	28	11	–	125
Amortisation and impairment		154	64	34	24	167	29	–	472

1. Comparative balances have been restated to reflect the move between operating segments.

Notes to the consolidated financial statements *continued*

There were no material inter-segment sales in either 2022, 2021 or 2020.

Adjusted operating profit is shown in the above tables as it is the key financial measure used by management to evaluate the performance of the Group. The measure also enables investors to more easily, and consistently, track the underlying operational performance of the Group and its business segments over time by separating out those items of income and expenditure relating to acquisition and disposal transactions, major restructuring programmes and certain other items that are also not representative of underlying performance, which are explained below and reconciled within this note.

Intangible charges – These represent charges relating to intangibles acquired through business combinations. These charges are excluded as they reflect past acquisition activity and do not necessarily reflect the current year performance of the Group.

Other net gains and losses – These represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets and are excluded from adjusted operating profit as they distort the performance of the Group as reported on a statutory basis. Other net gains and losses also includes costs related to business closures and acquisitions. Other net gains and losses in 2022 relate to the gains on the disposal of our international courseware local publishing businesses in Europe, French-speaking Canada and Hong Kong and a gain arising on a decrease in the deferred consideration payable on prior year acquisitions, offset by a loss on disposal of our international courseware local publishing businesses in South Africa due to recycling of currency translation adjustments and costs related to disposals and acquisitions. Other net gains and losses in 2021 largely related to the disposal of PIHE and the disposal of the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethm and the wind down of certain strategic review businesses. In 2020, they largely relate to the sale of the remaining interest in Penguin Random House (£180m gain).

Adjusted operating profit should not be regarded as a complete picture of the Group's financial performance. For example, adjusted operating profit includes the benefits of major restructuring programmes but excludes the significant associated costs, and adjusted operating profit excludes costs related to acquisitions, and the amortisation of intangibles acquired in business combinations, but does not exclude the associated revenues. The Group's definition of adjusted operating profit may not be comparable to other similarly titled measures reported by other companies.

The Group operates in the following main geographic areas:

All figures in £ millions

Sales are allocated based on the country in which the customer is located. This does not differ materially from the location where the order is received. The geographical split of non-current assets is based on the subsidiary's country of domicile. This is not materially different to the location of the assets. Non-current assets comprise investment property, property, plant and equipment, intangible assets and investments in joint ventures and associates.

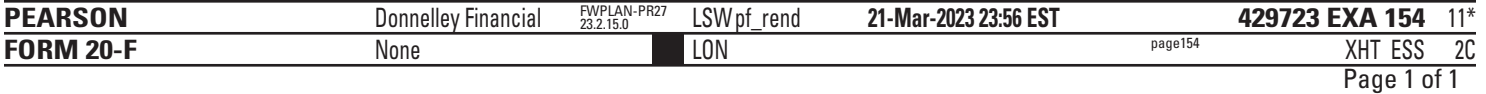
3. Revenue from contracts with customers

The following tables analyse the Group’s revenue streams. Courseware includes curriculum materials provided in book form and/or via access to digital content. Assessments includes integrated test development, processing and scoring services provided to governments, educational institutions, corporations and professional bodies. Services includes the operation of schools, colleges and universities, including sistemas in Brazil, until disposed, as well as the provision of online learning services in partnership with universities and other academic institutions. Comparative figures for 2021 and 2020 have been restated to reflect the move between segments.

The Group derived revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

							2022
All figures in £ millions	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Total
Courseware							
Products transferred at a point in time	64	–	110	2	302	148	626
Products and services transferred over time	21	–	25	–	588	6	640
	85	–	135	2	890	154	1,266
Assessments							
Products transferred at a point in time	169	–	5	14	–	–	188
Products and services transferred over time	1,190	–	138	142	–	–	1,470
	1,359	–	143	156	–	–	1,658
Services							
Products transferred at a point in time	–	–	29	–	–	–	29
Products and services transferred over time	–	820	14	46	8	–	888
	–	820	43	46	8	–	917
Total	1,444	820	321	204	898	154	3,841

							2021
All figures in £ millions	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Total
Courseware							
Products transferred at a point in time	62	–	109	–	283	180	634
Products and services transferred over time	30	–	26	–	558	17	631
	92	–	135	–	841	197	1,265
Assessments							
Products transferred at a point in time	173	–	6	16	–	–	195
Products and services transferred over time	973	–	72	119	–	–	1,164
	1,146	–	78	135	–	–	1,359
Services							
Products transferred at a point in time	–	–	22	–	–	14	36
Products and services transferred over time	–	713	3	37	8	7	768
	–	713	25	37	8	21	804
Total	1,238	713	238	172	849	218	3,428

Notes to the consolidated financial statements *continued*

							2020
All figures in £ millions	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Total
Courseware							
Products transferred at a point in time	66	–	106	–	313	185	670
Products and services transferred over time	27	–	24	–	630	15	696
	93	–	130	–	943	200	1,366
Assessments							
Products transferred at a point in time	138	–	3	7	–	–	148
Products and services transferred over time	887	–	61	123	–	–	1,071
	1,025	–	64	130	–	–	1,219
Services							
Products transferred at a point in time	–	–	22	–	–	22	44
Products and services transferred over time	–	692	2	33	13	28	768
	–	692	24	33	13	50	812
Total	1,118	692	218	163	956	250	3,397

The following is a description of the nature of the Group's performance obligations within contracts with customers broken down by revenue stream, along with significant judgements and estimates made within each of those revenue streams.

NE Key areas of estimation

The level of provisions required for anticipated returns is estimated based on historical experience, customer buying patterns and retailer behaviours including stock levels.

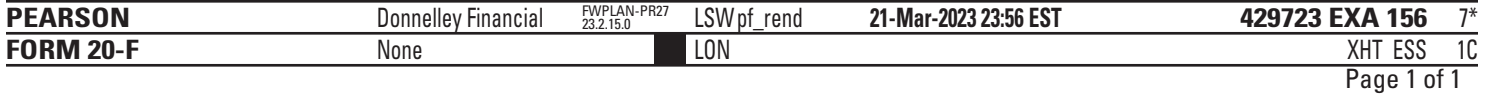
Revenue is generated from customers through the sales of print and digital courseware materials to schools, bookstores and direct to individual learners. Goods and services may be sold separately or purchased together in bundled packages. The goods and services included in bundled arrangements are considered distinct performance obligations, except for where Pearson provides both a licence of intellectual property and an ongoing hosting service. As the licence of intellectual property is only available with the concurrent hosting service, the licence is not treated as a distinct performance obligation separate from the hosting service.

The transaction price is allocated between distinct performance obligations on the basis of their relative standalone selling prices.

In determining the transaction price, variable consideration exists in the form of discounts and anticipated returns. Discounts reduce the transaction price on a given transaction. A provision for anticipated returns is made based primarily on historical return rates, customer buying patterns and retailer behaviours including stock levels (see note 24). If these estimates do not reflect actual returns in future periods then revenues could be understated or overstated for a particular period. Variable consideration as described above is determined using the expected value approach. The sales return liability at the end of 2022 was £53m (2021: £83m; 2020: £86m). This represents 8% of courseware sales transferred at a point in time.

While payment for these goods and services generally occurs at the start of these arrangements, the length of time between payment and delivery of the performance obligations is generally short-term in nature or the reason for early payment relates to reasons other than financing, including customers securing a vendor in a longer-term arrangement or the transfer of goods or services is at the discretion of the customer. For these reasons and the use of the practical expedient on short-term financing, significant financing components are not recognised within Courseware transactions.



Notes to the consolidated financial statements *continued*

Services

Revenue is primarily generated from multi-year contractual arrangements related to large-scale educational service delivery to academic institutions, such as schools and higher education universities. Under these arrangements, while an agreement may span multiple years, the contract duration has been determined to be each academic period based on the structure of contracts, including clauses regarding termination. While in some cases the customer may have the ability to terminate during the term for convenience, significant financial or qualitative barriers exist limiting the potential for such terminations in the middle of an academic period. The academic period for this customer base is normally an academic year for schools and a semester for higher education universities.

Within each academic period, a variety of services are provided such as programme development, student acquisition, education technology and student support services. These services are not distinct in the context of the customer contract as Pearson provides an integrated managed service offering and these activities are accounted for together as a comprehensive performance obligation.

Where Services are provided to university customers, volume and transaction price are fixed at the start of the semester. Where Services are provided to school customers, the transaction price may contain both fixed and variable amounts which require estimation during the academic period. Estimation is required where consideration is based upon average enrolments or other metrics which are not known at the start of the academic year. Variable consideration is measured using the expected value method. Historical experience, current trends, local circumstances and customer-specific funding formulas are considered in estimating and constraining variable consideration. To the extent that a higher degree of uncertainty exists regarding variable consideration, these amounts are excluded from the transaction price and recognised when the uncertainty is reasonably removed.

schedule, payment terms are within 12 months and the Group has elected to use the practical expedient available in IFRS 15 and not identify a significant financing component on these transactions.

Revenue is recognised for Service contracts over time as the customer is benefiting as performance takes place through a continuous transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in the contracts which may allow the customer to terminate for convenience, compensate for work performed to date, and take possession of work in process.

As control transfers over time, revenue is recognised based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services provided. Within the comprehensive service obligation, the timing of services occurs relatively evenly over each academic period and, as such, time elapsed is used to recognise the transfer of control to the customer on a straight-line basis.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated total costs of the contract exceed the estimated total revenues that will be generated.

In cases of optional or add-on purchases, institutions may purchase physical goods priced at their standalone value, which are accounted for separately and recognised at the point in time when control passes to the customer upon shipment.

b. Disaggregation of revenue

The tables in notes 2 and 3 show revenue from contracts with customers disaggregated by operating segment, geography and revenue stream. These disaggregation categories are appropriate as they represent the key groupings used in managing and evaluating underlying performance of each of the businesses. The categories also reflect groups of similar types of transactional characteristics, among similar customers, with similar accounting conclusions.

c. Contract balances

Transactions within the Courseware revenue stream generally entail customer billings at or near the contract’s inception and accordingly Courseware deferred income balances are primarily related to subscription performance obligations to be delivered over time.

Transactions within the Assessments and Services revenue streams generally entail customer billings over time based on periodic intervals, progress towards milestones or enrolment census dates. As the performance obligations within these arrangements are delivered over time, the extent of accrued income or deferred income will ultimately depend upon the difference between revenue recognised and billings to date.

Refer to note 22 for opening and closing balances of accrued income. Refer to note 24 for opening and closing balances of deferred income. Revenue recognised during the period from changes in deferred income was driven primarily by the release of revenue over time from digital subscriptions.

d. Contract costs

The Group capitalises incremental costs to obtain contracts with customers where it is expected these costs will be recoverable. Incremental costs to obtain contracts with customers are considered those which would not have been incurred if the contract had not been obtained. For the Group, these costs relate primarily to sales commissions. The Group has elected to use the practical expedient as allowable by IFRS 15 whereby such costs will be expensed as incurred where the expected amortisation period is one year or less. Where the amortisation period is greater than one year, these costs are amortised over the contract term on a systematic basis consistent with the transfer of the underlying goods and services within the contract to which these costs relate, which will generally be on a rateable basis.

The Group does not recognise any material costs to fulfil contracts with customers as these types of activities are governed by other accounting standards.

There were no deferred contract costs in 2022, 2021 or 2020.

e. Remaining transaction price

The below table depicts the remaining transaction price on unsatisfied or partially unsatisfied performance obligations from contracts with customers.

	2022						
	Sales	Deferred income	Committed sales	Total remaining transaction price	2023	2024	2025 and later
All figures in £ millions							
Courseware							
Products transferred at a point in time	626	1	–	1	1	–	–
Products and services transferred over time	640	95	–	95	56	14	25
Assessments							
Products transferred at a point in time	188	–	–	–	–	–	–
Products and services transferred over time	1,470	262	472	734	524	206	4
Services							
Products transferred at a point in time	29	–	–	–	–	–	–
Products and services transferred over time – subscriptions	351	20	7	27	27	–	–
Products and services transferred over time – other ongoing performance obligations	537	22	225	247	247	–	–
Total	3,841	400	704	1,104	855	220	29

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Notes to the consolidated financial statements *continued*

3. Revenue from contracts with customers continued

2021							
All figures in £ millions	Sales	Deferred income	Committed sales	Total remaining transaction price	2022	2023	2024 and later
Courseware							
Products transferred at a point in time	634	1	–	1	1	–	–
Products and services transferred over time	631	93	–	93	60	11	22
Assessments							
Products transferred at a point in time	195	–	–	–	–	–	–
Products and services transferred over time	1,164	255	442	697	503	191	3
Services							
Products transferred at a point in time	36	–	–	–	–	–	–
Products and services transferred over time – subscriptions	290	13	10	23	23	–	–
Products and services transferred over time – other ongoing performance obligations	478	24	220	244	244	–	–
Total	3,428	386	672	1,058	831	202	25

2020							
All figures in £ millions	Sales	Deferred income	Committed sales	Total remaining transaction price	2021	2022	2023 and later
Courseware							
Products transferred at a point in time	670	–	–	–	–	–	–
Products and services transferred over time	696	105	14	119	84	14	21
Assessments							
Products transferred at a point in time	148	1	–	1	1	–	–
Products and services transferred over time	1,071	217	413	630	426	203	1
Services							
Products transferred at a point in time	44	–	–	–	–	–	–
Products and services transferred over time – subscriptions	323	18	10	28	27	1	–
Products and services transferred over time – other ongoing performance obligations	445	18	195	213	213	–	–
Total	3,397	359	632	991	751	218	22

Committed sales amounts are equal to the transaction price from contracts with customers, excluding those amounts previously recognised as revenue and amounts currently recognised in deferred income. The total of committed sales and deferred income is equal to the remaining transaction price. Time bands stated above represent the expected timing of when the remaining transaction price will be recognised as revenue.

4. Operating expenses

All figures in £ millions	2022	2021	2020
By function:			
Cost of goods sold	2,046	1,747	1,767
Operating expenses			
Distribution costs	61	62	59
Selling, marketing and product development costs	564	521	572
Administrative and other expenses	823	802	816
Restructuring costs	150	214	–
Other income	(49)	(37)	(45)
Total net operating expenses	1,549	1,562	1,402
Other net gains and losses	(24)	(63)	(178)
Total	3,571	3,246	2,991

Other income includes freight income and sublet income. Included in administrative and other expenses are research and efficacy costs of £10m (2021: £12m; 2020: £11m). Other net gains in 2022, largely relate to the gain on the sales of certain businesses (see note 31) and a gain arising on a decrease in the deferred consideration payable on prior year acquisitions, offset by costs related to disposals and acquisitions. In 2021, other net gains and losses largely relate to the sale of interests in PIHE in South Africa and the school business in Brazil. In 2020, other net gains and losses largely relate to the sale of the remaining interest in Pearson Random House (£180m gain).

In August 2022, the Group announced a major restructuring programme to run in 2022. The programme includes efficiencies in product and content, support costs, technology and corporate property. The restructuring costs in 2022 of £150m mainly relate to severance and impairment of right-of-use property assets. In March 2021, the Group announced a major restructuring programme to run in 2021, principally comprising the reorganisation of the Group into five global business divisions and the simplification of the Group’s property portfolio. An analysis of major restructuring costs are as follows:

All figures in £ millions	2022	2021	2020
By nature:			
Product costs	11	19	–
Employee costs	73	32	–
Depreciation and impairment of non-current assets	51	145	–
Property and facilities	7	11	–
Technology and communications	1	3	–
Professional and outsourced services	7	4	–
Total restructuring – operating expenses	150	214	–

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Notes to the consolidated financial statements *continued*

4. Operating expenses continued

All figures in £ millions	Notes	2022	2021	2020
By nature:				
Royalties expensed		194	185	191
Other product costs		412	353	349
Employee benefit expense	5	1,605	1,365	1,337
Contract labour		73	69	67
Employee-related expense		52	21	30
Promotional costs		268	239	233
Depreciation and impairment of property, plant and equipment and investment property	10	136	241	125
Amortisation and impairment of intangible assets – product development	20	303	279	280
Amortisation and impairment of intangible assets – software	11	125	117	112
Amortisation and impairment of intangible assets – other	11	54	50	80
Property and facilities		102	124	85
Technology and communications		221	215	216
Professional and outsourced services		501	477	498
Other general and administrative costs		76	58	71
Costs capitalised		(478)	(447)	(460)
Other net gains and losses		(24)	(63)	(178)
Other income		(49)	(37)	(45)
Total		3,571	3,246	2,991

During the year the Group obtained the following services from the Group’s auditors, which changed to EY in 2022 and was PwC in 2021 and 2020:

All figures in £ millions	2022	2021	2020
The audit of parent company and consolidated financial statements	6	5	5
The audit of the company’s subsidiaries	1	2	2
Total audit fees	7	7	7
Audit-related and other assurance services	–	–	–
Other non-audit services	–	–	–
Total other services	–	–	–
Total non-audit services	–	–	–
Total	7	7	7

Reconciliation between audit and non-audit service fees is shown below:

All figures in £ millions	2022	2021	2020
Group audit fees including fees for attestation under section 404 of the Sarbanes-Oxley Act	7	7	7
Non-audit fees	–	–	–
Total	7	7	7

Fees for attestation under section 404 of the Sarbanes-Oxley Act are allocated between fees payable for the audits of consolidated and subsidiary accounts.

5. Employee information

All figures in £ millions	Notes	2022	2021	2020
Employee benefit expense				
Wages and salaries (including termination costs)		1,382	1,180	1,152
Social security costs		113	95	96
Share-based payment costs	26	35	28	29
Retirement benefits – defined contribution plans	25	46	37	47
Retirement benefits – defined benefit plans	25	29	25	13
Total		1,605	1,365	1,337

An additional £3m of share-based payment costs (2021: £nil; 2020: £nil) in respect of remuneration for post-acquisition services for recent acquisitions is included in other net gains and losses in the income statement.

The details of the emoluments of the Directors of Pearson plc are shown in the report on Directors’ remuneration.

Average number employed	2022	2021	2020
Employee numbers			
UK	3,244	3,395	3,304
Other European countries	809	878	886
US	11,357	11,757	11,432
Canada	522	593	648
Asia Pacific	3,369	2,738	2,812
Other countries	1,137	1,383	2,109
Total	20,438	20,744	21,191

6. Net finance costs

All figures in £ millions	Notes	2022	2021 ¹	2020 ¹
Interest payable on financial liabilities at amortised cost and associated derivatives				
Interest on lease liabilities		(25)	(27)	(41)
Net foreign exchange losses		–	–	(6)
Interest on deferred and contingent consideration		(5)	–	–
Interest on tax provisions		(7)	(11)	(7)
Derivatives not in a hedge relationship		(2)	–	(22)
Finance costs		(71)	(68)	(107)
Interest receivable on financial assets at amortised cost				
Interest on lease receivables		18	5	9
Net finance income in respect of retirement benefits	25	5	6	9
Fair value remeasurement of disposal proceeds		9	4	6
Fair value movements on investments held at fair value		–	6	26
Net foreign exchange gains		28	20	26
Interest on tax provisions		1	1	–
Derivatives not in a hedge relationship		35	–	–
		27	20	–
Finance income		123	62	76
Net finance income/(costs)		52	(6)	(31)

1. Comparative balances have been restated – see Note 1b.

Net movement in the fair value of hedges is further explained in note 16. Derivatives not in a hedge relationship include fair value movements in the interest rate and cross-currency interest rate swaps.

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Notes to the consolidated financial statements *continued*

7. Income tax

All figures in £ millions	Notes	2022	2021 ¹	2020 ¹
Current tax				
Charge in respect of current year		(127)	(103)	(18)
Adjustments in respect of prior years		18	(12)	4
Total current tax charge		(109)	(115)	(14)
Deferred tax				
In respect of temporary differences		29	103	(34)
Other adjustments in respect of prior years		1	13	(2)
Total deferred tax credit/(charge)	13	30	116	(36)
Total tax (charge)/credit		(79)	1	(50)

1. Comparative balances have been restated – see Note 1b.

The adjustments in respect of prior years in 2022 is primarily due to movements in provisions for tax uncertainties, whilst in 2021 and 2020 the differences primarily arise from revising the previous year's reported tax provision to reflect the tax returns subsequently filed. This results in a change between deferred and current tax as well as an absolute benefit to the total tax charge. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK tax rate as follows:

All figures in £ millions	2022	2021	2020
Profit before tax	323	177	380
Tax calculated at UK rate (2022: 19%; 2021: 19%; 2020: 19%)	(62)	(34)	(72)
Effect of overseas tax rates	(12)	(24)	(7)
Effect of UK rate change	3	25	(5)
Joint venture and associate income reported net of tax	–	–	1
Intra-group financing benefit	–	7	14
Net expense not subject to tax	(9)	(9)	(7)
Gains and losses on sale of businesses not subject to tax	2	4	21
Unrecognised tax losses	3	9	(21)
Benefit from changes in local tax law	–	11	–
Benefit from US accounting method changes	–	11	–
Movement in provisions for tax uncertainties - current year	(23)	–	24
Adjustments in respect of prior years - movement in provisions for tax uncertainties	13	–	–
Adjustments in respect of prior years - other	6	1	2
Total tax (charge)/credit	(79)	1	(50)
UK	(41)	27	23
Overseas	(38)	(26)	(73)
Total tax (charge)/credit	(79)	1	(50)
Tax rate reflected in earnings	24.5%	(0.6)%	13.2%

1. Comparative balances have been restated – see Note 1b.

Key judgements

The application of tax legislation in relation to provisions for uncertain tax positions.

Key areas of estimation

The level of provisions required in relation to uncertain tax positions is complex and each matter is separately assessed. The estimation of future settlement amounts is based on a number of factors including the status of the unresolved matter, clarity of legislation, range of possible outcomes and the statute of limitations.

Included in net expense not subject to tax are foreign taxes not creditable, the tax impact of share-based payments and other expenses not deductible.

Factors which may affect future tax charges include changes in tax legislation, transfer pricing regulations, the level and mix of profitability in different countries, and settlements with tax authorities.

The movement in provisions for tax uncertainties primarily reflects releases due to the expiry of relevant statutes of limitation, settlement of certain audits and the establishment of provisions for new uncertain tax positions, primarily the potential State Aid exposure offset against the release of US provisions following the expiry of the statute of limitations for certain periods. The current tax liability of £43m (2021: £125m; 2020: £84m) includes £28m (2021: £104m; 2020: £104m) of provisions for tax uncertainties principally in respect of several matters in the US and the UK.

The Group is currently under audit in several countries, and the timing of any resolution of these audits is uncertain. In most countries, tax years up to and including 2017 are now statute barred from examination by tax authorities, however, a balance of £3m relates to certain remaining open issues. Of the remaining £25m balance, £1m relates to 2018, £14m to 2019, £5m to 2020, £3m to 2021 and £2m to 2022. The tax authorities may take a different view from management and the final liability may be greater than provided.

The matters provided for include a provision of £63m related to the potential State Aid exposure and the potential disallowance of intra-group charges. In relation to the potential State Aid exposure, a payment has been made in relation to the maximum potential exposure with the provision of £63m offset against this resulting in a £41m non-current tax debtor.

Contingent liabilities relating to tax are disclosed in note 34.

The tax benefit/(charge) recognised in other comprehensive income is as follows:

All figures in £ millions	2022	2021	2020
Net exchange differences on translation of foreign operations	4	10	(13)
Fair value gain on other financial assets	1	(1)	–
Remeasurement of retirement benefit obligations	(12)	(61)	2
	(7)	(52)	(11)

1. Comparative balances have been restated – see Note 1b.

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Notes to the consolidated financial statements *continued*

8. Earnings per share

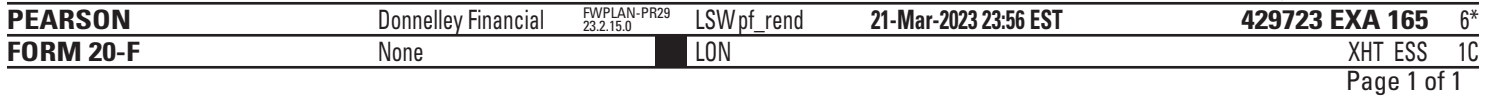
Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders of the company (earnings) by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to take account of all dilutive potential ordinary shares and adjusting the profit attributable, if applicable, to account for any tax consequences that might arise from conversion of those shares.

Certain contingently issuable shares vested on 31 December 2022 but have not yet been issued, these shares are considered dilutive for 2022 but do not materially impact basic EPS.

All figures in £ millions	2022	2021 ¹	2020 ¹
Earnings for the year	244	178	330
Non-controlling interest	(2)	(1)	—
Earnings attributable to equity shareholders	242	177	330
Weighted average number of shares (millions)	738.1	754.1	755.4
Effect of dilutive share options (millions)	3.9	5.0	—
Weighted average number of shares (millions) for diluted earnings	742.0	759.1	755.4
Earnings per share (in pence per share)			
Basic	32.8p	23.5p	43.7p
Diluted	32.6p	23.3p	43.7p

1. Comparative balances have been restated – see Note 1b.



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Notes to the consolidated financial statements *continued*

9. Dividends

All figures in £ millions	2022	2021	2020
Final paid in respect of prior year 14.2p (2020: 13.5p; 2021: 13.5p)	107	102	101
Interim paid in respect of current year 6.6p (2020: 6.0p; 2021: 6.3p)	49	47	45
	156	149	146

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2022 of 14.9p per equity share which will absorb an estimated £107m of shareholders' funds. It will be paid on 5 May 2023 to shareholders who are on the register of members on 24 March 2023. These financial statements do not reflect this dividend.

10. Property, plant and equipment and investment property

All figures in £ millions	Right-of-use assets			Owned assets			Total
	Investment property	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Assets in the course of construction	
Cost							
At 1 January 2021	–	439	12	296	308	21	1,076
Exchange differences	–	–	–	2	(3)	–	(1)
Additions	–	32	–	8	17	39	96
Disposals and retirements	–	(6)	(7)	(100)	(72)	–	(185)
Reclassifications and transfers	–	–	–	35	–	(31)	4
Transfer to assets classified as held for sale	–	–	–	(15)	–	–	(15)
At 31 December 2021	–	465	5	226	250	29	975
Exchange differences	–	30	–	18	23	–	71
Additions	22	33	1	4	8	33	101
Transfers to investment property	174	(141)	–	(32)	(1)	–	–
Disposals of businesses (note 31)	–	(10)	–	(1)	(8)	–	(19)
Disposals and retirements	(6)	(23)	(1)	(5)	(39)	–	(74)
Reclassifications and transfers	–	–	–	13	27	(40)	–
Transfer to assets classified as held for sale	–	–	–	(45)	(3)	–	(48)
At 31 December 2022	190	354	5	178	257	22	1,006

	Right-of-use assets			Owned assets			
	Investment property	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Assets in the course of construction	Total
All figures in £ millions							
Depreciation and impairment							
At 1 January 2021	–	(110)	(9)	(199)	(243)	–	(561)
Exchange differences	–	(1)	1	(1)	1	–	–
Charge for the year	–	(46)	(3)	(16)	(30)	–	(95)
Disposals and retirements	–	7	6	99	71	–	183
Reclassifications and transfers	–	–	–	(5)	7	–	2
Impairment	–	(119)	–	(22)	(5)	–	(146)
Transfer to assets classified as held for sale	–	–	–	8	–	–	8
At 31 December 2021	–	(269)	(5)	(136)	(199)	–	(609)
Exchange differences	–	(17)	–	(14)	(18)	–	(49)
Transfers to investment property	(105)	101	–	3	1	–	–
Charge for the year	(6)	(44)	(1)	(13)	(26)	–	(90)
Disposals of businesses (note 31)	–	2	–	1	5	–	8
Disposals and retirements	–	13	1	5	39	–	58
Reclassifications and transfers	–	–	–	–	–	–	–
Impairment	(19)	(15)	–	(9)	(3)	–	(46)
Transfer to assets classified as held for sale	–	–	–	30	2	–	32
At 31 December 2022	(130)	(229)	(5)	(133)	(199)	–	(696)
Carrying amounts							
At 1 January 2021	–	329	3	97	65	21	515
At 31 December 2021	–	196	–	90	51	29	366
At 31 December 2022	60	125	–	45	58	22	310

Key areas of estimation

The recoverability of right-of-use assets and in particular assumptions related to the ability to sublease vacant leased assets in the future.

Depreciation expense of £45m (2021: £40m; 2020: £44m) has been included in the income statement in cost of goods sold and £45m (2021: £55m; 2020: £81m) in operating expenses. The impairment charge of £46m (2021: £146m; 2020: £nil) has been included within operating expenses within the income statement.

Property, plant and equipment (including investment property) assets are assessed for impairment triggers annually or when triggering events occur. In 2022, similar to 2021, as part of a major restructuring programme, the Group continued to simplify its property portfolio, reducing the overall office space required. All property related assets were assessed for impairment as a result of this triggering event and impairment charges of £46m (2021: £141m) have been recognised within costs of major restructuring (see note 4 for details). The recoverability of certain of the Group's right-of-use assets is now based on the Group's ability to sublease vacant space. This involves the use of assumptions related to future subleases including the achievable rent, lease start dates, lease incentives such as rent free periods and the discount rate applied. Should the future sublease outcomes be more or less favourable than the assumptions used by management this could result in additional impairment charges or reversals of impairment charges.

Investment property

Buildings, or portions of buildings, that are no longer occupied by the Group and are held for operating lease rental are classified as investment property. Investment property includes both, right-of-use assets and owned assets. The Group recognised rental income of £3m (2021: £nil; 2020 £nil) in relation to properties classified as investment property. Investment property is measured using the cost model. As a result of recent impairments, the fair value of investment property is equal to the carrying value. The fair value of investment property has been determined using a discounted cash flow model. The valuation model is internally generated but uses inputs from external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuations require the application of judgement and involve the use of known inputs for existing contracted subleases as well as assumptions related to future potential subleases including the achievable rent, lease start dates, lease incentives such as rent free periods and the discount rate applied. The fair value measurement of investment properties has been classified as level 3 within the fair value hierarchy based on the inputs and valuation technique used. Should the future sublease outcomes be more or less favourable than the assumptions used by management this could result in additional impairment charges or reversals of impairment charges.

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Notes to the consolidated financial statements *continued*

11. Intangible assets

All figures in £ millions	Goodwill	Software	Acquired customer lists, contracts and relationships	Acquired trademarks and brands	Acquired publishing rights	Other intangibles acquired	Total
Cost							
At 1 January 2021	2,094	1,104	751	198	97	349	4,593
Exchange differences	8	5	4	(2)	–	(2)	13
Additions – internal development	–	110	–	–	–	–	110
Additions – purchased	–	2	–	–	–	–	2
Disposals and retirements	–	(135)	–	(25)	–	(43)	(203)
Acquisition of subsidiary (note 30)	43	–	–	–	–	27	70
Disposal of subsidiary (note 31)	–	–	(14)	(3)	–	(10)	(27)
Transfers	–	1	–	–	–	–	1
At 31 December 2021	2,145	1,087	741	168	97	321	4,559
Exchange differences	206	83	80	20	5	44	438
Additions – internal development	–	86	–	–	–	–	86
Additions – purchased	–	4	–	–	–	–	4
Disposals and retirements	–	(131)	–	–	–	–	(131)
Acquisition of subsidiary (note 30)	204	–	37	6	1	66	314
Disposal of subsidiary (note 31)	(75)	(9)	(20)	(8)	–	(1)	(113)
Transfers	–	(5)	–	–	–	–	(5)
At 31 December 2022	2,480	1,115	838	186	103	430	5,152

All figures in £ millions	Goodwill	Software	Acquired customer lists, contracts and relationships	Acquired trademarks and brands	Acquired publishing rights	Other intangibles acquired	Total
Amortisation and impairment							
At 1 January 2021	–	(676)	(594)	(158)	(95)	(328)	(1,851)
Exchange differences	–	(5)	(4)	1	(1)	4	(5)
Charge for the year	–	(113)	(34)	(8)	–	(8)	(163)
Impairment charge	–	(4)	–	–	–	–	(4)
Disposals and retirements	–	135	–	25	–	43	203
Disposal of subsidiary (note 31)	–	–	12	2	–	10	24
Transfers	–	6	–	–	–	–	6
At 31 December 2021	–	(657)	(620)	(138)	(96)	(279)	(1,790)
Exchange differences	–	(49)	(65)	(16)	(5)	(37)	(172)
Charge for the year	–	(125)	(33)	(8)	–	(13)	(179)
Impairment charge	–	–	–	–	–	–	–
Disposals and retirements	–	130	–	–	–	–	130
Disposal of subsidiary (note 31)	–	8	20	7	–	1	36
Transfers	–	–	–	–	–	–	–
At 31 December 2022	–	(693)	(698)	(155)	(101)	(328)	(1,975)
Carrying amounts							
At 1 January 2021	2,094	428	157	40	2	21	2,742
At 31 December 2021	2,145	430	121	30	1	42	2,769
At 31 December 2022	2,480	422	140	31	2	102	3,177

Goodwill

The goodwill carrying value of £2,480m (2021: £2,145m) relates to acquisitions completed after 1 January 1998. Prior to 1 January 1998, all goodwill was written off to reserves on the date of acquisition. For acquisitions completed between 1 January 1998 and 31 December 2002, no value was ascribed to intangibles other than goodwill which was amortised over a period of up to 20 years. On adoption of IFRS on 1 January 2003, the Group chose not to restate the goodwill balance and at that date the balance was frozen (i.e. amortisation ceased). If goodwill had been restated, then a significant value would have been ascribed to other intangible assets, which would be subject to amortisation, and the carrying value of goodwill would be significantly lower. For acquisitions completed after 1 January 2003, value has been ascribed to other intangible assets which are amortised.

Software and acquired intangible assets

Acquired intangible assets are valued separately for each acquisition. For material business combinations, the valuation is carried out by an independent valuation specialist. The primary method of valuation used is the discounted cash flow method. Acquired intangibles are amortised either on a straight line basis or using an amortisation profile based on the projected cash flows underlying the acquisition date valuation of the intangible asset, which generally results in a larger proportion of amortisation being recognised in the early years of the asset's life, depending on the individual asset. The Group keeps the expected pattern of consumption under review. Other intangibles acquired includes technology.

Amortisation of £32m (2021: £25m; 2020: £22m) is included in the income statement in cost of goods sold and £147m (2021: £138m; 2020: £158m) in operating expenses. Impairment charges of £nil (2021: £4m; 2020: £12m) are included in operating expenses within the income statement, of which £nil (2021: £4m; 2020: £nil) relates to software, £nil (2021: £nil; 2020: £2m) relates to customer lists, contracts and relationships, and £nil (2021: £nil; 2020: £10m) to other intangibles acquired.

The range of useful economic lives for each major class of intangible asset (excluding goodwill and software) is shown below:

	2022
	Useful economic life
Class of intangible asset	
Acquired customer lists, contracts and relationships	3-20 years
Acquired trademarks and brands	2-20 years
Acquired publishing rights	5-20 years
Other intangibles acquired	2-20 years

The expected amortisation profile of acquired intangible assets is shown below:

					2022
All figures in £ millions	One to five years	Six to ten years	Eleven to fifteen years	Sixteen to twenty years	Total
Class of intangible asset					
Acquired customer lists, contracts and relationships	92	30	10	8	140
Acquired trademarks and brands	24	6	1	—	31
Acquired publishing rights	2	—	—	—	2
Other intangibles acquired	82	20	—	—	102

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Notes to the consolidated financial statements *continued*

11. Intangible assets continued

Impairment tests for cash-generating units (CGUs) containing goodwill

Impairment tests have been carried out where appropriate as described below. Goodwill was allocated to CGUs, or an aggregation of CGUs, where goodwill could not be reasonably allocated to individual business units. CGUs were revised in 2021. Impairment reviews were conducted on these revised CGUs as summarised below:

2022 CGUs	
All figures in £ millions	2022 Goodwill
Assessment & Qualifications	1,361
Virtual Learning	443
English Language Learning	259
Workforce Skills	348
Higher Education	69
Total	2,480

2021 CGUs	
All figures in £ millions	2021 Goodwill
Assessment & Qualifications	1,198
Virtual Learning	395
English Language Learning	153
Workforce Skills	223
Higher Education	68
Strategic Review (includes the separate CGUs of China, India, South Africa, Canada and Other Strategic Review)	108
Total	2,145

Goodwill is tested at least annually for impairment. The recoverable amount of each aggregated CGU is based on the higher of value in use and fair value less costs of disposal. The impairment assessment is based on value in use. Other than goodwill there are no intangible assets with indefinite lives. No impairments of goodwill were recorded in 2022 or 2021.

Key judgements
The allocation of goodwill to the cash-generating units and groups of cash-generating units.
Key areas of estimation
The recoverability of goodwill balances. Key assumptions used in goodwill impairment testing are discount rates, perpetuity growth rates, forecast sales growth rates and forecast operating profits.
The valuation of acquired intangible assets recognised on the acquisition of a business. See note 30.

Determination of CGUs and reallocation of goodwill

Pearson identifies its CGUs based on its operating model and how data is collected and reviewed for management reporting and strategic planning purposes in accordance with IAS 36 'Impairment of Assets'. The CGUs and CGU aggregations reflect the level at which goodwill is monitored by management.

In 2021, the CGUs and aggregations of CGUs were revised to take into account the announcement and implementation of a new strategy including five new business divisions and a strategic review division.

In 2021, goodwill was reallocated to the new CGUs and aggregations of CGUs. The majority of the goodwill balances were directly mapped from one previous CGU (or CGU aggregation) to one newly created CGU (or CGU aggregation). Where it was not possible to directly map the goodwill it was reallocated using a relative value method. The key area where the relative value method was used was for the goodwill related to the previous International CGU aggregation which was reallocated across the newly created CGU aggregations where applicable.

In 2022, the separate CGUs of China, South Africa and Canada have been disposed. The goodwill related to the Strategic Review CGU has been reallocated between businesses disposed and businesses retained. All of the goodwill related to businesses retained has since been transferred to the Assessment & Qualifications CGU aggregation.

Key assumptions

For the purpose of estimating the value in use of the CGUs, management has used an income approach based on present value techniques. The calculations for all CGUs use cash flow projections based on financial budgets approved by management covering a four-year period, except for Virtual Learning which for OPM uses a longer range plan out to 2038 reflecting the term of existing contracts.

The key assumptions used by management in the value in use calculations were:

Discount rates – The discount rates are based on the Group's weighted average cost of capital, where the cost of equity is calculated based on the risk-free rate of government bonds, adjusted for a risk premium to reflect the increased risk in investing in equities. Where CGUs cover multiple territories, a blended risk-free rate is used. A further risk premium is assessed for each CGU. The average pre-tax discount rates range from 11.6% to 12.0% (2021: pre-tax 8.9% to 17.1%).

Perpetuity growth rates – The perpetuity growth rates are based on inflation trends. A perpetuity growth rate of 2% (2021: 2%) was used for cash flows subsequent to the approved budget period for CGUs operating primarily in mature markets. This perpetuity growth rate is a conservative rate and is considered to be lower than the long-term historical growth rates of the underlying territories in which the CGU operates and the long-term growth rate prospects of the sectors in which the CGU operates. Blended growth rate of 3.5% (2021: 2.0% to 5.0%) was used for cash flows subsequent to the approved budget period for ELL which has a higher exposure to emerging markets with higher inflation. This geographically blended growth rate is generally in line with the long-term historical growth rates in those markets. The longer-term plan prepared for OPM focuses on delivery of existing contracts until their expiration, as such, a perpetuity growth rate was not applied to OPM cashflows within the Virtual Learning CGU.

The key assumptions used by management in setting the financial budgets were as follows:

Forecast sales growth rates – Forecast sales growth rates are based on past experience adjusted for the strategic direction and near-term investment priorities within each CGU. Key assumptions include growth in English Language Learning and Workforce Skills – in part due to contribution from new acquisitions, stabilisation and recovery in Higher Education, growth in Virtual Learning - albeit impacted by the unwinding of COVID-19 enrolments and school churn in Virtual Schools in the short term, and steady growth in Assessments and Qualifications. The sales forecasts use average nominal growth rates of low-mid single digits for mature businesses in mature markets and double digit growth where there is significant organic and inorganic investment. The Virtual Learning CGU assumes low-single digit growth for Virtual Schools, and delivery of existing contracts in OPM which is under strategic review.

Operating profits – Operating profits are forecast based on historical experience of operating margins, adjusted for the impact of changes to product costs, committed restructuring plans, strategic developments and new business cases to the extent they have been formally approved prior to the balance sheet date. Management applies judgement in allocating corporate costs on a reasonable and consistent basis in order to determine operating profit at a CGU level. Forecasts reflect margin improvements secured in 2022.

Management have considered the impact of climate change risks (including physical and transition risks and the costs associated with achieving the Group's net zero commitment) and are satisfied that any related costs will not materially impact the Group's profit forecasts or impairment judgements at 31 December 2022.

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Notes to the consolidated financial statements *continued*

11. Intangible assets continued

The table below shows the key assumptions used by management in the value in use calculations.

	Discount rate	Perpetuity growth rate
Assessment & Qualifications	12.0%	2.0%
Virtual Learning	11.9%	2.0%
English Language Learning	11.8%	3.5%
Workforce Skills	11.6%	2.0%
Higher Education	12.0%	2.0%

Sensitivities

Impairment testing for the year ended 31 December 2022 has identified that the Virtual Learning CGU aggregation is sensitive to reasonably possible changes in key assumptions. The Virtual learning headroom at 31 December 2022 is £82m, this headroom would be eliminated if the discount rate increased to 12.8%, the long term growth rate reduced to 0.8% or the adjusted operating profit per annum reduced by £8m.

12. Investments in joint ventures and associates

The amounts recognised in the balance sheet are as follows:

All figures in £ millions	2022	2021
Associates	25	24
Total	25	24

The amounts recognised in the income statement are as follows:

All figures in £ millions	2022	2021
Associates	1	1
Total	1	1

The Group has no material associates or joint ventures. The largest associate is a 40% interest in the Academy of Pop (AOP), which was set up in 2021. It had a year end carrying amount of £9m (2021: £10m), of which £5m (2021: £7m) was still to be paid as at 31 December 2022 (see note 36). AOP is incorporated in Delaware and is a Limited Liability Company. It was set up with XIX Entertainment to create a new entertainment driven performing arts learning platform, which will offer coaching from renowned instructors, with a combination of physical locations and online learning.

There were no other material transactions with associates or joint ventures during 2022 or 2021.

13. Deferred income tax

All figures in £ millions	2022	2021
Deferred income tax assets	57	57
Deferred income tax liabilities	(37)	(40)
Net deferred income tax asset/(liability)	20	17

Substantially all of the deferred income tax assets are expected to be recovered after more than one year.

Deferred income tax assets and liabilities shall be offset when there is a legally enforceable right to offset current income tax assets with current income tax liabilities and where the deferred income taxes relate to the same fiscal authority.

At 31 December 2022, the Group has gross tax losses for which no deferred tax asset is recognised of £547m (2021: £721m). The expiry date and key geographic split of these losses is set out in the following table.

Year ended 31 December 2022	Gross				Tax effected			
	UK	US	Other	Total	UK	US	Other	Total
Tax losses expiring:								
Within 10 years	–	3	30	33	–	–	10	10
Within 10-20 years	–	104	–	104	–	5	–	5
Available indefinitely	166	30	214	410	41	2	68	111
Total	166	137	244	547	41	7	78	126

Year ended 31 December 2021	Gross				Tax effected			
	UK	US	Other	Total	UK	US	Other	Total
Tax losses expiring:								
Within 10 years	–	9	27	36	–	–	10	10
Within 10-20 years	–	297	–	297	–	14	–	14
Available indefinitely	166	86	136	388	41	5	49	95
Total	166	392	163	721	41	19	59	119

The reduction in unrecognised tax attributes in the US has been impacted by two factors. Firstly certain US tax attributes have now been recognised, however, due to uncertainty over recoverability have been provided against. Offsetting this is the de-recognition of certain state tax losses following changes in the forecast profitability of US legal entities. The increase in unrecognised tax losses in other territories is primarily due to foreign exchange and additional losses incurred across territories which have incurred losses either in the ordinary course of trade or as a result of wind down activities.

Other gross deductible temporary differences for which no deferred tax asset is recognised total £218m (2021: £22m). This includes £193m in respect of interest limitations, with the increase from 2021 due to changes in the forecast profitability of certain US legal entities. The amount of temporary differences associated with subsidiaries for which no deferred tax has been provided totals £275m (2021: £229m).

In the UK March Budget 2021, the Government announced that from 1 April 2023 the UK corporation tax rate will increase to 25%, and this was substantively enacted on 24 May 2021. UK deferred tax balances have been remeasured at the enacted rate.

Deferred income tax assets of £14m (2021: £19m) have been recognised in countries that reported a tax loss in either the current or preceding year. This primarily arises in Brazil in respect of tax deductible goodwill and tax losses. It is considered more likely than not that there will be sufficient future taxable profits to realise these assets.

The recognition of the deferred income tax assets is supported by management’s forecasts of the future profitability of the relevant countries. In some cases deferred income tax assets are forecast to be recovered through taxable profits over a period that exceeds five years. Management consider these forecasts are sufficiently reliable to support the recovery of the assets. Where there are insufficient forecasts of future profits, deferred income tax assets have not been recognised.

The movement in deferred income tax assets and liabilities during the year is as follows:

All figures in £ millions	Trading losses	Accruals and other provisions	Retirement benefit obligations	Deferred revenue	Goodwill and intangibles	Interest limitations	Other	Total
Deferred income tax assets/(liabilities)								
At 1 January 2021	47	35	(49)	45	(209)	76	25	(30)
Exchange differences	–	(1)	–	–	(2)	–	2	(1)
Acquisition of subsidiaries	1	–	–	–	4	–	–	5
Income statement benefit/(charge)	34	30	2	7	29	(21)	35	116
Tax charge in OCI	–	–	(61)	–	–	–	(12)	(73)
At 31 December 2021	82	64	(108)	52	(178)	55	50	17
Exchange differences	–	7	2	6	(21)	6	4	4
Acquisitions and disposals of subsidiaries	7	–	–	–	(21)	–	(12)	(26)
Income statement benefit/(charge)	37	(4)	(9)	5	14	(6)	(7)	30
Tax charge in OCI / equity	4	–	(12)	–	–	–	3	(5)
At 31 December 2022	130	67	(127)	63	(206)	55	38	20

Other deferred income tax items include temporary differences in respect of right-of-use assets (deferred tax asset of £66m, with an offsetting deferred tax liability of £50m), accelerated capital allowances (£13m) and share-based payments (£9m).

As at 31 December 2022, no deferred income tax assets or liabilities were classified as held for sale (2021: £nil).

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Notes to the consolidated financial statements *continued*

14. Classification of financial instruments

The accounting classification of each class of the Group's financial assets, and their carrying values, is as follows:

		2022					2021				
		Fair value			Amortised cost		Fair value			Amortised cost	
		Fair value through other comprehensive income	Fair value through profit and loss	Fair value – hedging instrument	Financial assets	Total carrying value	Fair value through other comprehensive income ¹	Fair value through profit and loss ¹	Fair value – hedging instrument	Financial assets	Total carrying value
All figures in £ millions	Notes										
Investments in unlisted securities	15	24	109	–	–	133	28	85	–	–	113
Cash and cash equivalents	17	–	40	–	518	558	–	84	–	853	937
Derivative financial instruments	16	–	5	54	–	59	–	–	32	–	32
Trade receivables	22	–	–	–	825	825	–	–	–	854	854
Investment in finance lease receivable	22	–	–	–	121	121	–	–	–	115	115
Other receivable		–	–	–	3	3	–	87	–	–	87
Total financial assets		24	154	54	1,467	1,699	28	256	32	1,822	2,138

1. Comparative balances have been restated – see Note 1b.

The carrying value of the Group's financial assets is equal to, or approximately equal to, the market value. The other receivable relates to the receivable which arose on the disposal of the US K-12 business and was paid during the year.

The accounting classification of each class of the Group's financial liabilities, together with their carrying values and market values, is as follows:

		2022					2021				
		Fair value			Amortised cost		Fair value			Amortised cost	
		Fair value through profit and loss	Fair value – hedging instrument	Other financial liabilities	Total carrying value	Total market value	Fair value through profit and loss	Fair value – hedging instrument	Other financial liabilities	Total carrying value	Total market value
All figures in £ millions	Notes										
Derivative financial instruments	16	(2)	(63)	–	(65)	(65)	(12)	(22)	–	(34)	(34)
Trade payables	24	–	–	(348)	(348)	(348)	–	–	(351)	(351)	(351)
Deferred and contingent consideration	24	(79)	–	–	(79)	(79)	(44)	–	–	(44)	(44)
Other borrowings due within one year	18	–	–	(86)	(86)	(86)	–	–	(155)	(155)	(155)
Borrowings due after more than one year	18	–	–	(1,144)	(1,144)	(1,096)	–	–	(1,245)	(1,245)	(1,276)
Total financial liabilities		(81)	(63)	(1,578)	(1,722)	(1,674)	(56)	(22)	(1,751)	(1,829)	(1,860)

The market value of leases has been stated at book value.

Fair value measurement

As shown above, the Group's derivative assets and liabilities, unlisted securities, marketable securities and deferred and contingent consideration are held at fair value. Financial instruments that are measured subsequently to initial recognition at fair value are grouped into levels 1 to 3, based on the degree to which the fair value is observable, as follows:

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's bonds valued at £610m (2021: £767m) and money market funds of £40m (2021: £84m) included within cash and cash equivalents are classified as level 1. The Group's derivative assets valued at £59m (2021: £32m) and derivative liabilities valued at £65m (2021: £34m) are classified as level 2. The Group's investments in unlisted securities are valued at £133m (2021: £113m) and the other receivable that was repaid in the year £3m (2021: £87m) are classified as level 3.

The following table analyses the movements in level 3 fair value remeasurements:

	2022			2021 ¹
	Other receivable	Investments in unlisted securities	Total	Total
All figures in £ millions				
At beginning of year	87	113	200	234
Exchange differences	1	9	10	2
Acquisition of investments and other receivable	7	12	19	4
Repayments	(92)	–	(92)	(16)
Disposal of investments	–	(48)	(48)	(54)
Fair value movements - OCI	–	18	18	4
Fair value movements - income statement	–	29	29	26
At end of year	3	133	136	200

1. Comparative balances have been restated – see Note 1b.

The fair value of the investments in unlisted securities is determined by reference to the financial performance of the underlying asset, recent funding rounds and amounts realised on the sale of similar assets.

The other receivable at the beginning of the year arose on the disposal of the US K-12 business, and was repaid in January 2022, following a £16m partial repayment in 2021.

15. Other financial assets

	2022	2021 ¹
All figures in £ millions		
At beginning of year	113	138
Exchange differences	9	1
Acquisition of investments	12	4
Disposal of investments	(48)	(54)
Fair value movements - OCI	18	4
Fair value movements - income statement	29	20
At end of year	133	113

1. Comparative balances have been restated – see Note 1b.

Other financial assets are unlisted securities of £133m (2021: £113m), of which £24m (2021: £28m) are classified at fair value through other comprehensive income (FVOCI), with the remaining £109m (2021: £85m) mainly relating to investments in funds, being required to be held at fair value through profit and loss (FVTPL). The assets, which are not held for trading, relate to the Group's interests in new and innovative educational ventures across the world. These are strategic investments and where permitted, the Group made the election to classify such investments as FVOCI on initial recognition of the assets. None of the investments are individually significant to the financial statements and therefore sensitivities have not been provided.

During the year, the Group disposed of investments that were classified as FVOCI for £31m (2021: £6m). These disposals predominantly relate to the Group's investments in Credly in 2022 and Faethm in 2021. In both cases the remainder of the share capital was purchased by the Group and so the investment is disposed as the companies are now fully consolidated. The cumulative gain on disposal was £23m (2021: £4m).

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16. Derivative financial instruments and hedge accounting

The Group's approach to the management of financial risks is set out in note 19. The Group's outstanding derivative financial instruments are as follows:

	2022			2021		
	Gross notional amounts	Assets	Liabilities	Gross notional amounts	Assets	Liabilities
All figures in £ millions						
Interest rate derivatives – in a fair value hedge relationship	177	–	(11)	168	5	–
Interest rate derivatives – not in a hedge relationship	260	19	–	217	–	(9)
Cross-currency rate derivatives – in a hedge relationship	83	34	(43)	331	24	(21)
FX derivatives – in a hedge relationship	355	1	(9)	237	3	(1)
FX derivatives – not in a hedge relationship	573	5	(2)	193	–	(3)
Total	1,448	59	(65)	1,146	32	(34)
Analysed as expiring:						
In less than one year	1,028	16	(11)	393	2	(4)
Later than one year and not later than five years	420	43	(54)	679	30	(26)
Later than five years	–	–	–	74	–	(4)
Total	1,448	59	(65)	1,146	32	(34)

The Group's treasury policies only allow derivatives to be traded where the objective is risk mitigation. These are then designated for hedge accounting using the following criteria:

- Where interest rate and cross-currency interest rate swaps are used to convert fixed rate debt to floating and we expect to receive inflows equal to the fixed rate debt interest, these are classified as fair value hedges
- Where derivatives are used to create a future foreign currency exposure to provide protection against currency movements affecting the foreign currency movements of an overseas investment, these are designated as a net investment hedge
- All other derivatives are not designated in a hedge relationship.

The Group's fixed rate GBP debt is held as fixed rate instruments at amortised cost.

The Group uses a combination of interest rate and cross currency swaps to convert its €300m EUR debt.

Receive Notional	Receive coupon	FX rate	Notional	Pay coupon
GBPEUR:				
€100m	1.375%	1.1295	£87m	3.51%
GBPUSD:				
€181m	1.375%	1.206	£160m	3.402%
GBPUSD:				
€19m	1.375%	1.206	£23m	USD Libor +1.36%

To create the synthetic debt positions outlined above the Group converts €100m to £87m at a rate of 3.51% this is not in a hedge relationship. The remaining €200m of its EUR fixed debt is swapped to EUR floating debt via interest rate swap contracts that are in a designated fair value hedge. The EUR floating debt is then converted to GBP floating debt via cross-currency swap contracts that are in a designated fair value hedge. The GBP floating debt is then converted to USD floating debt through cross-currency swap contracts that are in a designated net investment hedging relationship. £160m of the EUR debt is finally converted to USD fixed debt via interest rate swap contracts that are not in a hedge relationship.

Additionally, the Group uses FX derivatives including forwards, collars, cross-currency swaps and swaptions to create synthetic USD debt as a hedge of its USD assets and to achieve reasonable certainty of USD currency conversion rates, in line with the Group's FX hedging policy. As at 31 December 2022 the Group held FX outright with a notional of \$378m at an average rate of GBP:USD rate of 1.24.

The Group's portfolio of derivatives is diversified by maturity, counterparty and type. Natural offsets between transactions within the portfolio and the designation of certain derivatives as hedges significantly reduce the risk of income statement volatility. The sensitivity of the portfolio to changes in market rates is set out in note 19.

In 2021, the Group transitioned GBP exposures from GBP LIBOR to SONIA. During the year, for USD exposures the Group transitioned its RCF from USD LIBOR to SOFR, it plans to move other exposures including derivatives in the near future. The Group's risk management strategy has not changed as a result of IBOR Reform and it is considered to be immaterial to the financial statements.

Fair value hedges

The Group uses interest rate swaps and cross-currency swaps as fair value hedges of the Group's euro issued debt.

Interest rate exposure arises from movements in the fair value of the Group's euro debt attributable to movements in euro interest rates. The hedged risk is the change in the euro bonds fair value attributable to interest rate movements. The hedged items are the Group's euro bonds which are issued at a fixed rate. The hedging instruments are fixed to floating euro interest rate swaps where the Group receives fixed interest payments and pays three-month Euribor.

As the critical terms of the interest rate swaps match the bonds, there is an expectation that the value of the hedging instrument and the value of the hedged item will move equally in the opposite direction as a result of movements in the zero coupon Euribor curve. Potential sources of hedge ineffectiveness would be material changes in the credit risk of swap counterparties or a reduction or modification in the hedge item.



As the critical terms of the cross-currency swap match the bonds, there is an expectation that the value of the hedging instrument and the value of the hedged item move in the opposite direction as a result of movements in the EUR:GBP exchange rate. Potential sources of hedge ineffectiveness are a reduction or modification in the hedged item or a material change in the credit risk of swap counterparties.

	2022		
	Carrying amount of hedging instruments	Change in fair value of hedging instrument used to determine hedge ineffectiveness	Nominal amounts of hedging instruments
All figures in £ millions			
Derivative financial instruments for interest rate risk	(11)	(16)	177
Derivative financial instruments for currency risk	33	9	266

	2021		
	Carrying amount of hedging instruments	Change in fair value of hedging instrument used to determine hedge ineffectiveness	Nominal amounts of hedging instruments
All figures in £ millions			
Derivative financial instruments for interest rate risk	5	(5)	168
Derivative financial instruments for currency risk	24	(20)	168

	2022				
	Carrying amount of hedged items	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount	Change in fair value of hedged item used to determine hedge ineffectiveness	Hedge ineffectiveness	Line item in profit or loss that includes hedge ineffectiveness
All figures in £ millions					
Interest rate risk					
Financial liabilities – borrowings	(167)	11	15	(1)	Finance costs
Currency risk					
Financial liabilities – borrowings	(167)	n/a	(14)	–	n/a

	2021				
	Carrying amount of hedged items	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount	Change in fair value of hedged item used to determine hedge ineffectiveness	Hedge ineffectiveness	Line item in profit or loss that includes hedge ineffectiveness
All figures in £ millions					
Interest rate risk					
Financial liabilities – borrowings	(173)	(4)	5	–	n/a
Currency risk					
Financial liabilities – borrowings	(173)	n/a	20	–	n/a

A foreign currency exposure arises from the translation of the Group's net investments in its subsidiaries which have USD and EUR functional currencies. The hedged risk is the risk of changes in the GBP:USD and GBP:EUR spot rates that will result in changes in the value of the Group's net investment in its USD and EUR assets when translated into GBP. The hedged items are a portion of the Group's assets which are denominated in USD and EUR. The hedging instruments are debt and derivative financial instruments, including cross-currency swaps, FX forwards (including non-deliverable forwards) and FX collars, which mitigates an exposure to the effect of a weakening USD or EUR on the hedged item against GBP.

Notes to the consolidated financial statements *continued*

It is expected that the change in value of each of these items will offset each other as there is a clear and direct economic relationship between the hedging instrument and the hedged item in the hedge relationship.

The amounts related to items designated as hedging instruments were as follows:

All figures in £ millions

All figures in £ millions

Included in the translation reserve is a cost of hedging reserve relating to the time value of FX collars which is not separately disclosed due to materiality. The value of that reserve will decrease over the life of the hedge transaction. The balance as at 1 January and 31 December 2022 was £1m. During the year £2m of hedging gains were recycled to the profit and loss on the discontinuance of the net investment hedge of our Italian business.

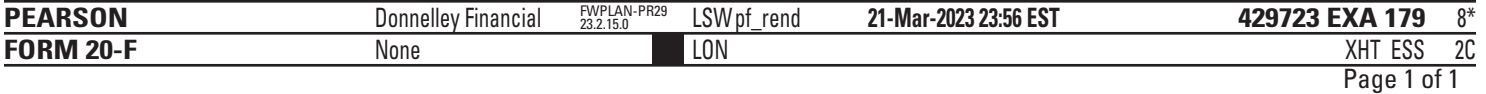
All of the Group's derivative financial instruments are subject to enforceable netting arrangements with individual counterparties, allowing net settlement in the event of default of either party. Derivative financial assets and liabilities subject to offsetting arrangements are as follows:

All figures in £ millions

Offset arrangements in respect of cash balances are described in note 17.

Counterparty exposure from all derivatives is managed, together with that from deposits and bank account balances, within credit limits that reflect published credit ratings and by reference to other market measures (e.g. market prices for credit default swaps) to ensure that there is no significant exposure to any one counterparty's credit risk.

The Group has no material embedded derivatives that are required to be separately accounted for in accordance with IFRS 9 'Financial Instruments'.



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Notes to the consolidated financial statements *continued*

18. Financial liabilities – borrowings continued

The market values stated above are based on clean market prices at the year end or, where these are not available, on the quoted market prices of comparable debt issued by other companies. The effective interest rates above relate to the underlying debt instruments.

The carrying amounts of the Group’s borrowings before the effect of derivatives (see notes 16 and 19 for further information on the impact of derivatives) are denominated in the following currencies:

All figures in £ millions	2022	2021
US dollar	276	434
Sterling	672	674
Euro	262	268
Other	20	24
	1,230	1,400

The Group had \$1.19bn (£0.9bn) of undrawn capacity on its committed borrowing facilities as at 31 December 2022 (2021: \$1.19bn (£0.9bn) undrawn). The committed borrowing facilities have subsequently been reduced to \$1bn. In addition, there are a number of short-term facilities that are utilised in the normal course of business. All of the Group’s borrowings are unsecured. In respect of lease obligations, the rights to the leased asset revert to the lessor in the event of default.

19. Financial risk management

The Group’s approach to the management of financial risks together with sensitivity analyses of its financial instruments is set out below.

Treasury policy

Pearson’s treasury policies set out the Group’s principles for addressing key financial risks including capital risk, liquidity risk, foreign exchange risk and interest rate risk, and sets out measurable targets for each. The Audit Committee receives quarterly reports incorporating compliance with measurable targets and reviews and approves any changes to treasury policies annually.

The treasury function is permitted to use derivatives where their use reduces a risk or allows a transaction to be undertaken more cost effectively. Derivatives permitted include swaps, forwards and collars to manage foreign exchange and interest rate risk, with

foreign exchange swap and forward contracts the most commonly executed. Speculative transactions are not permitted.

Capital risk

The Group’s objectives when managing capital are:

- To maintain a strong balance sheet and a solid investment grade rating;
- To continue to invest in the business organically and through acquisitions; and
- To have a sustainable and progressive dividend policy.

At 31 December 2022 the Group and its bonds were rated BBB-(stable outlook) with Fitch Ratings Limited and Baa3 (stable outlook) with Moody’s Investor Services.

Net debt

The Group’s net debt position is set out below:

All figures in £ millions	2022	2021
Cash and cash equivalents	558	937
Overdrafts	(15)	–
Derivative financial instruments	(6)	(2)
Bonds	(610)	(767)
Investment in finance lease receivable	121	115
Lease liabilities	(605)	(633)
Net debt	(557)	(350)

There are no balances held for sale as at 31 December 2022 or 31 December 2021.

Interest and foreign exchange rate management

The Group's principal currency exposure is to the US dollar which represents almost 70% of the Group's sales.

The Group's long-term debt is primarily held in US dollars to provide a natural hedge of this exposure, which is achieved through issued US dollar debt or converting euro debt to US dollars using cross-currency swaps, forwards and collars. As at 31 December 2022 and 2021, the Group's debt of £1,230m (2021: £1,400m) is all held at fixed rates.

See note 16 for details of the Group's hedging programme which addresses interest rate risk and foreign currency risk.

Overseas profits are converted to sterling to satisfy sterling cash outflows such as dividends at the prevailing spot rate at the time of the transaction. To the extent the Group has sufficient sterling, US dollars may be held as dollar cash to provide a natural offset to the Group's debt or to satisfy future US dollar cash outflows.

The Group does not have significant cross-border foreign exchange transactional exposures.

As at 31 December 2022, the sensitivity of the carrying value of the Group's financial instruments to fluctuations in interest rates and exchange rates is as follows:

	2022				
	Carrying value	Impact of 1% increase in interest rates	Impact of 1% decrease in interest rates	Impact of 10% strengthening in sterling	Impact of 10% weakening in sterling
All figures in £ millions					
Investments in unlisted securities	133	—	—	(10)	12
Other receivable	3	—	—	—	—
Cash and cash equivalents	558	—	—	(25)	31
Derivative financial instruments	(6)	7	(6)	(10)	12
Bonds	(610)	4	(4)	24	(30)
Other borrowings	(620)	—	—	26	(32)
Investment in finance lease receivable	121	—	—	(11)	13
Deferred and contingent consideration	(79)	—	—	4	(5)
Other net financial assets	477	—	—	(38)	47
Total	(23)	11	(10)	(40)	48

	2021				
	Carrying value	Impact of 1% increase in interest rates	Impact of 1% decrease in interest rates	Impact of 10% strengthening in sterling	Impact of 10% weakening in sterling
All figures in £ millions					
Investments in unlisted securities	113	—	—	(9)	11
Other receivable	87	—	—	(8)	10
Cash and cash equivalents	937	—	—	(43)	53
Derivative financial instruments	(2)	6	(6)	(1)	1
Bonds	(767)	5	(5)	37	(45)
Other borrowings	(633)	—	—	57	(70)
Investment in finance lease receivable	115	—	—	(11)	13
Other net financial assets	503	—	—	(42)	51
Total	353	11	(11)	(20)	24

The table above shows the sensitivities of the fair values of each class of financial instrument to an isolated change in either interest rates or foreign exchange rates. Other net financial assets comprise trade receivables less trade payables. A significant proportion of the movements shown above would impact equity rather than the income statement due to the location and functional currency of the entities in which they arise and the availability of net investment hedging.

The Group's income statement is reported at average rates for the year while the balance sheet is translated at the year-end closing rate. Differences between these rates can distort ratio calculations such as debt to EBITDA and interest cover.

Financial statements

Notes to the consolidated financial statements *continued*

19. Financial risk management continued

Liquidity and refinancing risk management

The Group regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast for the next three to five years, determining the level of debt facilities required to fund the business, planning for shareholder returns and repayments of maturing debt, and identifying an appropriate amount of headroom to provide a reserve against unexpected outflows.

At 31 December 2022, the Group had cash of £0.5bn (2021: £0.9bn) and no outstanding drawings (2021: £nil) on the US dollar denominated revolving credit facility due 2026 of \$1.19bn (2021: \$1.19bn).

The \$1.19bn facility contains interest cover and leverage covenants which the Group has complied with for the year ended 31 December 2022. The maturity of the carrying values of the Group's borrowings and trade payables are set out in notes 18 and 24 respectively.

At the end of 2022, the currency split of the Group's trade payables was US dollar £234m (2021: £199m), sterling £71m (2021: £76m) and other currencies £43m (2021: £76m). Trade payables are all due within one year (2021: all due within one year).

The table below analyses the Group's bonds and derivative assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Short dated derivative instruments have not been included in this table. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest) and as such may differ from the amounts disclosed on the balance sheet.

Any cash flows based on a floating rate are calculated using interest rates as set at the date of the last rate reset. Where this is not possible, floating rates are based on interest rates prevailing at 31 December in the relevant year.

Financial counterparty and credit risk management

Financial counterparty and credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. Counterparty credit limits, which take published credit rating and other factors into account, are set to cover the Group's total aggregate exposure to a single financial institution. The limits applicable to published credit rating bands are approved by the Chief Financial Officer within guidelines approved by the Board. Exposures and limits applicable to each financial institution are reviewed on a regular basis.

	Analysed by maturity				Analysed by currency			
	Greater than one month and less than one year	Later than one year but less than five years	Five years or more	Total	USD	GBP	Other	Total
All figures in £ millions								
At 31 December 2022								
Bonds	–	342	389	731	–	455	276	731
Rate derivatives – inflows	(11)	(471)	–	(482)	(24)	(170)	(288)	(482)
Rate derivatives – outflows	1	490	–	491	224	255	12	491
FX forwards – inflows	(304)	–	–	(304)	–	(304)	–	(304)
FX forwards – outflows	313	–	–	313	–	313	–	313
Total	(1)	361	389	749	200	549	–	749
At 31 December 2021								
Bonds	107	386	403	896	162	468	266	896
Rate derivatives – inflows	(7)	(331)	–	(338)	(9)	(150)	(179)	(338)
Rate derivatives – outflows	12	339	4	355	203	150	2	355
FX forwards – inflows	(148)	–	–	(148)	–	(148)	–	(148)
FX forwards – outflows	148	–	–	148	90	–	58	148
Total	112	394	407	913	446	320	147	913

Cash deposits and derivative transactions are made with approved counterparties up to pre-agreed limits. To manage counterparty risk associated with cash and cash equivalents, the Group uses a mixture of money market funds as well as bank deposits. As at 31 December 2022, 77% (2021: 81%) of cash and cash equivalents was held with investment grade bank counterparties, 8% (2021: 9%) with AAA money market funds and 15% (2021: 10%) with non-investment grade bank counterparties.

For trade receivables and contract assets, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, risk associated with the industry and country in which customers operate may also influence the credit risk. The credit quality of customers is assessed by taking into account financial position, past experience and other relevant factors. Individual credit limits are set for each customer based on internal ratings. The compliance with credit limits is regularly monitored by the Group. A default on a trade receivable is when the counterparty fails to make contractual payments within the stated payment terms. Trade receivables and contract assets are written off when there is no reasonable expectation of recovery.

The carrying amounts of financial assets, trade receivables and contract assets represent the maximum credit exposure.

Trade receivables and contract assets are subject to impairment using the expected credit loss model. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. See note 22 for further details about trade receivables and contract assets including movements in provisions for bad and doubtful debts.

20. Intangible assets – product development

All figures in £ millions	2022	2021
Cost		
At 1 January	2,698	2,514
Exchange differences	235	–
Additions	357	287
Disposals and retirements	(191)	(92)
Disposal of subsidiary (note 31)	(186)	(9)
Transfers	5	(2)
At 31 December	2,918	2,698
Amortisation		
At 1 January	(1,804)	(1,609)
Exchange differences	(174)	(3)
Charge for the year	(288)	(260)
Impairment	(15)	(19)
Disposals and retirements	191	92
Disposal of subsidiary (note 31)	147	3
Transfers	–	(8)
At 31 December	(1,943)	(1,804)
Carrying amounts at 31 December	975	894

Product development assets are amortised over their estimated useful economic lives. Product development assets relating to content are amortised over seven years or less, being an estimate of the expected operating lifecycle of the title, with a higher proportion of the amortisation taken in the earlier years. Product development assets relating to product platforms are amortised over 10 years or less. Amortisation is included in the income statement in cost of goods sold.

Product development assets are assessed for impairment triggers on an annual basis or when triggering events occur. In 2022, of the £15m (2021: £19m) impairment charges, £13m (2021: £14m; 2020: £nil) have been recognised as a result of asset write-offs related to the major restructuring programme. The full annual impairment test showed that there is adequate headroom across all product development assets and accordingly no further impairment charges were recognised in 2022 (2021: £nil; 2020: £nil).

21. Inventories

All figures in £ millions	2022	2021
Raw materials	5	7
Work in progress	2	2
Finished goods	93	84
Returns asset	5	5
	105	98

The cost of inventories recognised as an expense and included in the income statement in cost of goods sold amounted to £166m (2021: £171m; 2020: £219m) including £16m (2021: £22m; 2020: £41m) of inventory provisions. None of the inventory is pledged as security. Included within the inventory balance is the estimation of the right to receive goods from contracts with customers via returns. The value of the returns asset is measured at the carrying amount of the assets at the time of sale aligned to the Group's normal inventory valuation methodology less any expected costs to recover the asset and any expected reduction in value. Impairment charges against the inventory returns asset are £nil in 2022 (2021: £nil; 2020: £nil). The returns asset all relates to finished goods. The obsolescence provision takes account of the Group's digital first strategy and the increasing shift towards print on demand. The year-on-year reduction in inventories is due to increased provisions for obsolescence and a reduction in the production of inventory due to the Group's digital first strategy and the increasing shift towards print on demand.

Financial statements

Notes to the consolidated financial statements *continued*

22. Trade and other receivables

All figures in £ millions	2022	2021
Current		
Trade receivables	824	853
Royalty advances	1	2
Prepayments	200	198
Investment in finance lease receivable	17	15
Accrued income	15	14
Other receivables	82	175
	1,139	1,257
Non-current		
Trade receivables	1	1
Royalty advances	5	5
Prepayments	12	10
Investment in finance lease receivable	104	100
Accrued income	2	1
Interest receivable	3	8
Other receivables	12	4
	139	129

Accrued income represents contract assets which are unbilled amounts generally resulting from assessments and services revenue streams where revenue to be recognised over time has been recognised in excess of customer billings to date. Impairment charges on accrued income assets are £nil (2021: £nil). The carrying value of the Group's trade and other receivables approximates its fair value. Trade receivables are stated net of provisions for bad and doubtful debts. In addition to the above, there are trade receivables of £nil (2021: nil) classified as held for sale (see note 32).

The movements in the provision for bad and doubtful debts are as follows:

All figures in £ millions	2022	2021
At beginning of year	(63)	(74)
Exchange differences	(3)	–
Income statement movements	(18)	(15)
Utilised	12	26
Disposal of subsidiary	3	–
At end of year	(69)	(63)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed.

The ageing of the Group's gross trade receivables is as follows:

All figures in £ millions	2022	2021
Within due date and one month past due date	663	766
One to three months past due date	118	58
Three to six months past due date	25	20
Six to nine months past due date	14	13
Nine to 12 months past due date	14	5
More than 12 months past due date	60	55
Gross trade receivables	894	917

The Group reviews its bad debt provision at least twice a year following a detailed review of receivable balances, historical payment profiles, and assessment of relevant forward-looking risk factors including macroeconomic trends. Management believes all the remaining receivable balances are fully recoverable.

The decrease in trade receivables held by the Group is driven by current year disposals. Other current receivables have decreased due to the receipt of deferred proceeds in relation to the US K-12 disposal.

23. Provisions for other liabilities and charges

All figures in £ millions	Property	Disposals and closures	Legal and other	Total
At 1 January 2022	15	2	30	47
Exchange differences	–	–	4	4
Provisions made during the year	9	–	78	87
Provisions reversed during the year	(1)	–	(6)	(7)
Provisions used during the year	(1)	–	(30)	(31)
Disposal of subsidiary	–	–	(1)	(1)
At 31 December 2022	22	2	75	99

Analysis of provisions:

	2022			
All figures in £ millions	Property	Disposals and closures	Legal and other	Total
Current	9	2	74	85
Non-current	13	–	1	14
	22	2	75	99

	2021			
Current	11	2	27	40
Non-current	4	–	3	7
	15	2	30	47

Property provisions in 2022 and 2021 relate to the simplification of the Group’s property portfolio (see note 4). Disposals and closures relate to the disposal of the Pearson Institute of Higher Education.

Legal and other includes legal claims, contract disputes and potential contract losses with the provisions utilised as the cases are settled. Also included in legal and other are other restructuring provisions that are generally utilised within one year.

The year on year increase in provisions is mainly due to the 2022 restructuring programme (see note 4).

24. Trade and other liabilities

All figures in £ millions	2022	2021
Current		
Trade payables	348	351
Sales return liability	53	83
Deferred income	340	330
Interest payable	10	42
Accruals and other liabilities	503	450
	1,254	1,256
Non-current		
Deferred income	60	56
Accruals and other liabilities	60	39
	120	95

The carrying value of the Group’s trade and other liabilities approximates its fair value. The deferred income balance comprises contract liabilities in respect of advance payments in assessment, testing and training businesses; subscription income in school and college businesses; and obligations to deliver digital content in future periods. In addition to the above, there are accruals of £nil (2021: £nil) and deferred income of £nil (2021: £nil) classified as held for sale (see note 32). The increase in trade and other liabilities held by the Group is driven by an increase in accruals related to severance arising from the 2022 restructuring programme and the recognition of deferred consideration in relation to acquisitions made in 2022.

Financial statements

Notes to the consolidated financial statements *continued*

25. Retirement benefit and other post-retirement obligations

Background

The Group operates a number of defined benefit and defined contribution retirement plans throughout the world.

The largest plan is the Pearson Pension Plan (UK Group plan) in the UK, which is sectionalised to provide both defined benefit and defined contribution pension benefits. The defined benefit section was largely closed to new members from 1 November 2006. The defined contribution section, opened in 2003, is open to new and existing employees. Finally, there is a separate section within the UK Group plan set up for auto-enrolment.

The defined benefit section of the UK Group plan is a final salary pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits depends on the length of service and final pensionable pay.

The defined contribution section of the UK Group plan operates a Reference Scheme Test (RST) pension underpin for its members. Where a member's fund value is insufficient to purchase the RST pension upon retirement, the UK Group plan is liable for the shortfall to cover the member's RST pension. In addition, in recent years, the scheme rules were amended to enable members who have sufficient funds to purchase an RST pension the ability to convert their fund value into a pension in the UK Group plan as an alternative to purchasing an annuity with an insurer. The Group recognises any assets and liabilities relating to these features of the defined contribution section as part of the overall UK Group plan obligation. From 1 January 2021, the Group also recognised the assets and liabilities for all members of the defined contribution section of the UK Group plan, accounting for the whole defined contribution section as a defined benefit scheme under IAS 19 'Employee Benefits' as there is a risk the underpin will require the Group to pay further contributions to the scheme.

The UK Group plan is funded with benefit payments from trustee-administered funds. The UK Group plan is administered in accordance with the Trust Deed and Rules in the interests of its beneficiaries by Pearson Pension Trustee Limited.

At 31 December 2022, the UK Group plan had approximately 26,500 members, analysed in the following table:

All figures in %	Active	Deferred	Pensioners	Total
Defined benefit	–	16	33	49
Defined contribution	12	39	–	51
Total	12	55	33	100

The other major defined benefit plans are based in the US. These are also final salary pension plans which provide benefits to members in the form of a guaranteed pension payable for life, with the level of benefits dependent on length of service and final pensionable pay. The majority of the US plans are fully funded.

The Group also has several post-retirement medical benefit plans (PRMBs), principally in the US. PRMBs are unfunded but are accounted for and valued similarly to defined benefit pension plans.

The defined benefit schemes expose the Group to actuarial risks, such as life expectancy, inflation risks and investment risk including asset volatility and changes in bond yields. The Group is not exposed to any unusual, entity-specific or plan-specific risks.

Key judgements

Whether the Group will be eligible to receive the surplus associated with the UK Group Pension Plan in recognising a pension asset.

Key areas of estimation

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth and longevity.



The principal assumptions used for the UK Group plan and the US PRMB are shown below. Weighted average assumptions have been shown for the other plans, which primarily relate to US pension plans.

All figures in %

The inflation rate for the UK Group plan of 3.4% (2021: 3.3%) reflects the RPI rate. In line with changes to legislation in 2010, certain benefits have been calculated with reference to CPI as the inflationary measure and in these instances a rate of 2.7% (2021: 2.6%) has been used. The CPI rate is determined as a weighted average deduction from the RPI rate, and allows for the expected change to the formula for calculating RPI to be in line with CPIH from 2030 onwards.

For the US plans, a mortality table (Pri – 2012) and 2021 improvement scale (MP – 2021) with generational projection for male and female annuitants has been adopted.

All figures in years

All figures in years

Although the Group anticipates that plan surpluses will be utilised during the life of the plan to address member benefits, the Group recognises it's pension surplus in full in respect of the UK Group plan on the basis that it is management's judgement that there are no substantive restrictions on the return of residual plan assets in the event of a winding up of the plan after all member obligations have been met.

Financial statements

Notes to the consolidated financial statements *continued*

25. Retirement benefit and other post-retirement obligations continued

Financial statement information

The amounts recognised in the income statement are as follows:

						2022
	UK Group plan	Defined benefit other	Sub-total	Defined contribution	PRMB	Total
All figures in £ millions						
Current service cost	17	2	19	46	–	65
Past service cost	3	–	3	–	–	3
Administration expenses	7	–	7	–	–	7
Total operating expense	27	2	29	46	–	75
Interest on plan assets	(77)	(3)	(80)	–	–	(80)
Interest on plan liabilities	67	3	70	–	1	71
Net finance (income)/expense	(10)	–	(10)	–	1	(9)
Net income statement charge	17	2	19	46	1	66

						2021
	UK Group plan	Defined benefit other	Sub-total	Defined contribution	PRMB	Total
All figures in £ millions						
Current service cost	17	2	19	37	–	56
Past service cost	–	–	–	–	–	–
Administration expenses	6	–	6	–	–	6
Total operating expense	23	2	25	37	–	62
Interest on plan assets	(55)	(2)	(57)	–	–	(57)
Interest on plan liabilities	49	3	52	–	1	53
Net finance (income)/expense	(6)	1	(5)	–	1	(4)
Net income statement charge	17	3	20	37	1	58

						2020
	UK Group plan	Defined benefit other	Sub-total	Defined contribution	PRMB	Total
All figures in £ millions						
Current service cost	6	2	8	47	–	55
Past service cost	1	–	1	–	–	1
Curtailments	–	(1)	(1)	–	–	(1)
Administration expenses	5	–	5	–	–	5
Total operating expense	12	1	13	47	–	60
Interest on plan assets	(66)	(3)	(69)	–	–	(69)
Interest on plan liabilities	57	5	62	–	1	63
Net finance (income)/expense	(9)	2	(7)	–	1	(6)
Net income statement charge	3	3	6	47	1	54

The amounts recognised in the balance sheet are as follows:

	2022				2021			
	UK Group plan	Other funded plans	Other unfunded plans	Total	UK Group plan	Other funded plans	Other unfunded plans	Total
All figures in £ millions								
Fair value of plan assets	3,088	104	–	3,192	4,125	120	–	4,245
Present value of defined benefit obligation	(2,514)	(106)	(17)	(2,637)	(3,588)	(123)	(20)	(3,731)
Net pension asset/(liability)	574	(2)	(17)	555	537	(3)	(20)	514
Other post-retirement medical benefit obligation				(25)				(34)
Other pension accruals				(10)				(9)
Net retirement benefit asset				520				471
Analysed as:								
Retirement benefit assets				581				537
Retirement benefit obligations				(61)				(66)

The following gains/(losses) have been recognised in other comprehensive income:

	2022	2021	2020
All figures in £ millions			
Amounts recognised for defined benefit plans	44	145	(24)
Amounts recognised for post-retirement medical benefit plans	10	4	1
Total recognised in year	54	149	(23)

The fair value of plan assets comprises the following:

	2022			2021		
	UK Group plan	Other funded plans	Total	UK Group plan	Other funded plans	Total
All figures in %						
Insurance	33	–	33	35	–	35
Equities	15	1	16	11	1	12
Fixed interest securities	7	2	9	7	2	9
Property	6	–	6	5	–	5
Pooled asset investment funds (including LDI)	22	–	22	30	–	30
Other	14	–	14	9	–	9

The plan assets do not include any of the Group’s own financial instruments, or any property occupied by the Group. The table below further disaggregates the plan assets into those assets which have a quoted market price in an active market and those that do not:

	2022		2021	
	Quoted market price	No quoted market price	Quoted market price	No quoted market price
All figures in %				
Insurance	33	–	35	–
Equities	16	–	11	1
Fixed-interest securities	9	–	9	–
Property	–	6	–	5
Pooled asset investment funds (including LDI)	22	–	30	–
Other	1	13	–	9
Total	81	19	85	15

Financial statements

Notes to the consolidated financial statements *continued*

25. Retirement benefit and other post-retirement obligations continued

Financial statement information continued

The liquidity profile of the UK Group plan assets is as follows:

All figures in %	2022	2021
Liquid – call <1 month	47	51
Less liquid – call 1–3 months	2	–
Illiquid – call >3 months	51	49

Changes in the values of plan assets and liabilities of the retirement benefit plans are as follows:

All figures in £ millions	2022			2021		
	UK Group plan	Other plans	Total	UK Group plan	Other plans	Total
Fair value of plan assets						
Opening fair value of plan assets	4,125	120	4,245	3,588	119	3,707
Recognition of Money Purchase assets	–	–	–	513	–	513
Exchange differences	–	12	12	–	2	2
Interest on plan assets	77	3	80	55	2	57
Return on plan assets excluding interest	(1,000)	(18)	(1,018)	71	6	77
Contributions by employer	15	2	17	14	1	15
Benefits paid	(136)	(15)	(151)	(123)	(10)	(133)
Contributions by employees	7	–	7	7	–	7
Closing fair value of plan assets	3,088	104	3,192	4,125	120	4,245
Present value of defined benefit obligation						
Opening defined benefit obligation	(3,588)	(143)	(3,731)	(3,178)	(156)	(3,334)
Recognition of Money Purchase liabilities	–	–	–	(513)	–	(513)
Exchange differences	–	(14)	(14)	–	(1)	(1)
Disposals	–	1	1	–	–	–
Current service cost	(17)	(2)	(19)	(17)	(2)	(19)
Past service cost	(3)	–	(3)	–	–	–
Administration expenses	(7)	–	(7)	(6)	–	(6)
Interest on plan liabilities	(67)	(3)	(70)	(49)	(3)	(52)
Actuarial (losses)/gains – experience	(25)	(2)	(27)	(100)	3	(97)
Actuarial gains/(losses) – demographic	14	–	14	(1)	–	(1)
Actuarial gains – financial	1,050	25	1,075	160	6	166
Contributions by employees	(7)	–	(7)	(7)	–	(7)
Benefits paid	136	15	151	123	10	133
Closing defined benefit obligation	(2,514)	(123)	(2,637)	(3,588)	(143)	(3,731)

From 1 January 2021, the Group has recognised the assets and liabilities for all members of the defined contribution section of the UK Group plan, accounting for the whole defined contribution section as a defined benefit scheme under IAS 19 ‘Employee Benefits’. The net impact on the balance sheet was £nil, however, the gross amounts of £513m can be seen in the table above. Subsequent movements to those assets and liabilities are included in the relevant lines in the table above.

The weighted average duration of the defined benefit obligation is 13 years for the UK and six years for the US.

Changes in the value of the US PRMB are as follows:

All figures in £ millions	2022	2021
Opening defined benefit obligation	(34)	(39)
Exchange differences	(3)	(1)
Interest on plan liabilities	(1)	(1)
Actuarial gains – experience	5	2
Actuarial gains – financial	5	2
Benefits paid	3	3
Closing defined benefit obligation	(25)	(34)

Funding

The UK Group plan is self-administered with the plan’s assets being held independently of the Group in trust. The trustee of the UK Group plan is required to act in the best interest of the plan’s beneficiaries. The most recent triennial actuarial valuation for funding purposes was completed as at 1 January 2021 and this valuation revealed a technical provision funding surplus of £160m. The UK Group plan expects to be able to provide benefits (in accordance with the plan rules) with a very low level of reliance on future funding from the Group.

Assets of the UK Group plan are divided into two main elements: liability matching assets and return seeking assets. The UK Group plan’s investment strategy allocates approximately 95% to matching assets and 5% to return-seeking assets.

Liability matching assets are assets that produce cash flows that can be expected to match the cash flows for a proportion of the membership, and include a liability-driven investment mandate (LDI) for which a Qualifying Investor Alternative Investment Fund (QIAIF) was established, managed by a subsidiary of Legal & General Investment Management. The QIAIF invests in UK bonds, interest rate/inflation swaps and other derivative instruments in order to reduce interest rate and inflation risks using accurate cash flow matching and risk control. Other liability matching assets include pensioner buy-in insurance policies, bonds and inflation-linked property and infrastructure.

Following the purchase of buy-in policies with Legal & General and Aviva in 2017 and 2019, 95% of the UK Group plan’s pensioner liabilities were matched with buy-in policies. These transfer significant longevity risk to Aviva and Legal & General, reducing the pension risks being underwritten by the Group and providing additional security for members.

Return-seeking assets are assets invested with a longer-term horizon to generate the returns needed to provide the remaining expected cash flows for the beneficiaries, and include diversified growth funds, property and alternative asset classes.

Recent economic and geopolitical uncertainty has increased volatility in the valuation of certain assets, in particular the LDI and insurance contracts. However, these movements are offset by equivalent movements in the defined benefit obligation. The UK Group plan divides its assets between a number of investment managers and across different types of assets, as such there is no significant concentration of risk.

Regular employer contributions to the UK Group plan in respect of the defined benefit sections are estimated to be £nil for 2023.

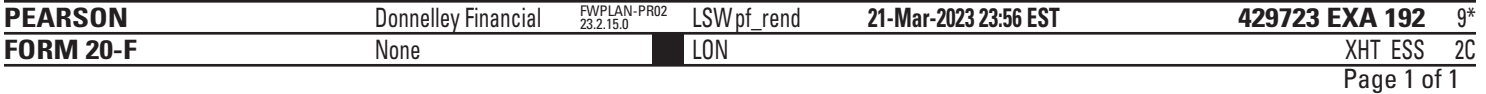
Sensitivities

The effect of a one percentage point increase and decrease in the discount rate on the defined benefit obligation and the total pension expense is as follows:

All figures in £ millions	1% increase	1% decrease
Effect:		
(Decrease)/increase in defined benefit obligation – UK Group plan	(209)	261
(Decrease)/increase in defined benefit obligation – US plan	(7)	7

The effect of members living one year more or one year less on the defined benefit obligation is as follows:

All figures in £ millions	One year increase	One year decrease
Effect:		
Increase/(decrease) in defined benefit obligation – UK Group plan	59	(59)
Increase/(decrease) in defined benefit obligation – US plan	3	(2)

Notes to the consolidated financial statements *continued*

The effect of a half percentage point increase and decrease in the inflation rate is as follows:

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant, although in practice this is unlikely to occur and changes in some assumptions may be correlated. When calculating these sensitivities, the same method has been applied to calculate the defined benefit obligation as has been applied when calculating the liability recognised in the balance sheet. This methodology is the same as prior periods.

The Group recognised the following charges in the income statement in respect of its equity-settled share-based payment plans:

The Group operates the following equity-settled employee option and share plans:

Worldwide Save for Shares Plan – The Group has a Worldwide Save for Shares Plan. Under these plans, employees can save a portion of their monthly salary over a period of three years. At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equal to 80% of the market price prevailing at the time of the commencement of the employee's participation in the plan. Options that are not exercised within six months of the end of the savings period lapse unconditionally.

Employee Stock Purchase Plan – In 2000, the Group established an Employee Stock Purchase Plan which allows all employees in the US to save a portion of their monthly salary over six-month periods. At the end of the period, the employee has the option to purchase American Depositary Receipts (ADRs) with their accumulated funds at a purchase price equal to 85% of the lower of the market prices prevailing at the beginning or end of the period.

Long-Term Incentive Plan – The plan was first introduced in 2001 and from time to time the plan rules are renewed. The plan consists of restricted shares. The vesting of restricted shares is normally dependent on continuing service over a three to five-year period, and in the case of Executive Directors and senior management upon the satisfaction of corporate performance targets over a three-year period. These targets may be based on market and/or non-market performance criteria. Restricted shares awarded to Executive Directors in May 2022, May 2021 and May 2020 vest dependent on relative total shareholder return, return on invested capital and adjusted earnings per share growth. These awards are in addition to the 2020 one-off co-investment award for the Chief Executive, vesting in three equal tranches based on market and non-market performance criteria. The applicable market condition for the vesting of the final tranche is on total shareholder return. Other restricted shares awarded in 2022, 2021 and 2020 generally vest depending on continuing service over periods of up to four years. Included within the total share-based payments charge in 2022 was £3m (2021: £nil; 2020: £nil) in respect of remuneration for post-acquisition services for recent acquisitions, which was included within other net gains and losses in the income statement.

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

The following shares were granted under restricted share arrangements:

In 2022, £26m of shares vested across the Worldwide Save for Shares Plan, the Long-Term Incentive Plan and the Management Incentive Plan.

The fair value of shares granted under the Long-Term Incentive Plan and the Management Incentive Plan that vest unconditionally is determined using the share price at the date of grant. Participants under the plans are entitled to dividends during the vesting period and therefore the share price is not discounted.

Restricted shares with a market performance condition were valued by an independent actuary using a Monte Carlo model. Restricted shares with a non-market performance condition were fair valued based on the share price at the date of grant. Non-market performance conditions are taken into consideration by adjusting the number of shares expected to vest based on the most likely outcome of the relevant performance criteria.

27. Share capital and share premium

	Number of shares 000s	Share capital £m	Share premium £m
At 1 January 2021	753,258	188	2,620
Issue of ordinary shares – share option schemes	3,544	1	6
Purchase of own shares	–	–	–
At 31 December 2021	756,802	189	2,626
Issue of ordinary shares – share option schemes	1,199	–	7
Purchase of own shares	(42,268)	(10)	–
At 31 December 2022	715,733	179	2,633

The ordinary shares have a par value of 25p per share (2021: 25p per share). All issued shares are fully paid. All shareholders are entitled to receive dividends and vote at general meetings of the company. All shares have the same rights.

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. During the year, approximately 42m shares were bought back and cancelled at a cost of £353m. The nominal value of these shares, £10m, was transferred to the capital redemption reserve, and the remainder of the purchase price is recorded within retained earnings. In 2021, no shares were bought back.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt (see note 18), cash and cash equivalents (see note 17) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group reviews its capital structure on a regular basis and will balance its overall capital structure through payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt in line with the financial risk policies outlined in note 19.

28. Treasury shares

	Number of shares 000s	£m
At 1 January 2021	903	7
Purchase of treasury shares	2,158	16
Newly issued treasury shares	2,500	1
Release of treasury shares	(3,990)	(12)
At 31 December 2021	1,571	12
Purchase of treasury shares	4,513	37
Release of treasury shares	(4,220)	(34)
At 31 December 2022	1,864	15

The Group holds Pearson plc shares in trust to satisfy its obligations under its restricted share plans (see note 26). These shares, representing 0.3% (2021: 0.2%) of called-up share capital, are treated as treasury shares for accounting purposes and have a par value of 25p per share.

The nominal value of Pearson plc treasury shares amounts to £0.5m (2021: £0.4m). Dividends on treasury shares are waived.

At 31 December 2022, the market value of Pearson plc treasury shares was £18m (2021: £10m).

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Notes to the consolidated financial statements *continued*

29. Other comprehensive income

	2022				
	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest
All figures in £ millions					
Items that may be reclassified to the income statement					
Net exchange differences on translation of foreign operations	–	328	–	328	2
Currency translation adjustment disposed	–	(5)	–	(5)	–
Attributable tax	–	–	4	4	–
Items that are not reclassified to the income statement					
Fair value gain on other financial assets	18	–	–	18	–
Attributable tax	–	–	1	1	–
Remeasurement of retirement benefit obligations	–	–	54	54	–
Attributable tax	–	–	(12)	(12)	–
Other comprehensive income/(expense) for the year	18	323	47	388	2

	2021 ¹				
	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest
All figures in £ millions					
Items that may be reclassified to the income statement					
Net exchange differences on translation of foreign operations	–	(6)	–	(6)	–
Currency translation adjustment disposed	–	4	–	4	–
Attributable tax	–	–	10	10	–
Items that are not reclassified to the income statement					
Fair value gain on other financial assets	4	–	–	4	–
Attributable tax	–	–	(1)	(1)	–
Remeasurement of retirement benefit obligations	–	–	149	149	–
Attributable tax	–	–	(61)	(61)	–
Other comprehensive income/(expense) for the year	4	(2)	97	99	–

1. Comparative balances have been restated – see Note 1b.

	2020 ¹				
	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest
All figures in £ millions					
Items that may be reclassified to the income statement					
Net exchange differences on translation of foreign operations	–	(109)	–	(109)	–
Currency translation adjustment disposed	–	(70)	–	(70)	–
Attributable tax	–	–	(13)	(13)	–
Items that are not reclassified to the income statement					
Fair value gain/(loss) on other financial assets	(12)	–	–	(12)	–
Attributable tax	–	–	–	–	–
Remeasurement of retirement benefit obligations	–	–	(23)	(23)	–
Attributable tax	–	–	2	2	–
Other comprehensive income/(expense) for the year	(12)	(179)	(34)	(225)	–

1. Comparative balances have been restated – see Note 1b.

30. Business combinations

On 28 January 2022, the Group acquired 100% of the share capital in Credly Inc (Credly), having previously held a 19.9% interest in the company. Credly was founded in 2012 in New York and is a digital credential service provider whose platform enables customers to design, create, issue and manage digital credentials. It now forms part of the Workforce Skills division. Total consideration was £149m comprising upfront cash consideration of £107m, Pearson's existing interest valued at £31m and £11m of deferred consideration. The deferred consideration is payable in two years, with additional amounts being payable if certain revenue and non-financial targets are met, and dependent on continuing employment, and therefore these additional amounts will be expensed over the period and are not treated as consideration.

On 28 April 2022, the Group acquired 100% of the share capital of ATI STUDIOS A.P.P.S S.R.L (Mondly), a global online learning platform offering customers learning in English and 40 other languages via its app, website, virtual reality and augmented reality products. It now forms part of the English Language Learning division. Total consideration was £135m comprising upfront cash consideration of £105m, and deferred consideration of £30m. The deferred consideration is payable over the next two years with no performance conditions attached. In addition, a further \$29.6m (c£24m) of cash and \$10m (c£8m) in shares will be paid over the next four years, dependent on continuing employment, and therefore these additional amounts will be expensed over the period and are not treated as consideration.

These transactions have resulted in the recognition of £202m of goodwill, which represents the expected growth through new products and customers, the workforce and know-how acquired and the anticipated synergies, none of which can be recognised as separate intangible assets. The goodwill is not deductible for tax purposes.

Intangible assets of £99m have been recognised in respect of Credly and Mondly. The valuations of these assets were carried out by third party specialists, and were based on discounted cash flow models. The key assumptions that feed into the valuations are the cash flow forecasts, revenue projections from existing customers, forecasted profit margins and discount rates. For Credly, £49m of intangible assets were recognised, mainly relating to the existing customer relationships that will be amortised over 20 years, and technology which will be amortised over five years. For Mondly, £50m of intangible assets were recognised, the majority of which relates to acquired technology, and will be amortised over periods up to seven years.

In 2022, the Group also made three smaller acquisitions in the period for total consideration of £11m. In December 2022, the Group announced that it had signed a deal to acquire 100% of Personnel Decisions Research Institutes, LLC, the transaction has not yet completed.

In September 2021, Pearson completed the acquisition of 100% of the share capital of Faethm Holdings Pty Limited (Faethm), having already held 9% of the share capital previously. Faethm uses artificial intelligence and analytics services to help governments, companies and workers understand the dynamic forces shaping the labour market. Faethm now forms part of the Workforce Skills division. The total consideration for the transaction was £65m, which included £10m of contingent consideration, dependent upon meeting certain earnings targets. The contingent consideration was valued at the net present value of the Group's best estimate of the amount that will be payable. In 2022, contingent consideration amounts have been settled resulting in the recognition of an £8m gain in the income statement within other net gains and losses.

In addition, the Group made two additional acquisitions of subsidiaries for total consideration of £11m. In both cases, the Group acquired 100% of the share capital of the respective entities. Opinion Interactive LLC (also known as Spotlight Education) was acquired in February 2021. MZ Development Inc. was acquired in July 2021. Both form part of the Assessment & Qualifications division.

The Group also made additional investments in associates, which are detailed in note 12, and are not included below.

Details of the fair values of the assets and liabilities recognised at the acquisition date and the related consideration is shown in the table below. Amounts for intangible assets and goodwill for Mondly are provisional as management finalise reviews of the asset valuations. There were no significant acquisitions in 2020.

All figures in £ millions	2022 Credly	2022 Mondly	2022 Other	2022 Total	2021 Total	2020 Total
Intangible assets	49	50	11	110	27	–
Deferred tax asset	7	1	–	8	11	–
Trade and other receivables	6	2	–	8	2	–
Cash and cash equivalents	12	1	–	13	4	–
Trade and other liabilities	(18)	(8)	–	(26)	(5)	–
Deferred tax liabilities	(12)	(8)	(2)	(22)	(6)	–
Net assets acquired	44	38	9	91	33	–
Goodwill	105	97	2	204	43	–
Total	149	135	11	295	76	–
Satisfied by:						
Cash consideration	107	105	11	223	54	–
Contingent or deferred consideration	11	30	–	41	16	–
Fair value of existing investment	31	–	–	31	6	–
Total consideration	149	135	11	295	76	–

Credly generated revenues of £13m and a loss after tax of £4m for the period from acquisition date to 31 December 2022. Mondly generated revenues of £11m and a profit after tax of £3m for the period from acquisition date to 31 December 2022. If the acquisitions had occurred on 1 January 2022, the Group's revenue would have been £7m higher and the profit after tax would not have been materially different.

Notes to the consolidated financial statements *continued*

Total acquisition related costs of £20m were recognised in 2022 within other net gains and losses.

2022 and 2021 relate to deferred payments for prior year acquisitions.

All figures in £ millions

In March 2021, the Group announced that it was launching a strategic review of its international courseware local publishing businesses. In 2022, the Group disposed of its interests in the Canadian educational publisher (ERPI), Pearson Italia S.p.A, Stark Verlag GmbH, Austin Education (Hong Kong) Limited, Pearson South Africa (Pty) Ltd and various other South African companies. Total cash consideration received was £287m resulting in a pre-tax gain on disposal of £42m. All entities disposed of were previously in the Strategic Review segment. £5m of losses arose from other immaterial disposals and costs related to the wind-down of certain businesses.

Whether the associated results and cash flows of the businesses disposed in 2022 should be classified and presented as discontinued operations is a significant judgement. The Group's judgement is that the results and cash flows of the related businesses should not be classified and presented as discontinued operations. The basis of this judgement is that the businesses disposed do not constitute a separate major line of business or geographical area of operations. The Group will continue to operate in the international K12 courseware market and in all geographical areas where disposals have taken place. All of the businesses subject to this judgement are within the Strategic Review segment and represent £126m of sales for the year ended 31 December 2022 out of the total sales in the Strategic Review segment of £154m. If the Group had concluded that these businesses represented discontinued operations, their results and the related gains on disposal would not have been included within each of the continuing operations income statement lines. Profit for the period from continuing operations would have been £52m lower and this amount would have been separately presented as profit for the period from discontinued operations as a single line item.

In February 2021, the Group completed the sale of its interests in the Pearson Institute of Higher Education (PIHE) in South Africa resulting in a pre-tax loss of £5m. In October 2021, the sale of the Group's interests in K12 Sistemas in Brazil was also completed for consideration of £108 million, resulting in a gain on sale of £84m. There were no other business disposals in 2021 and additional losses of £14m relate to other disposal costs including costs related to the wind-down of certain businesses under strategic review.

In April 2020, the Group completed the sale of the remaining 25% interest in Penguin Random House resulting in a pre-tax profit of £180m. There were no other material disposals in 2020. Deferred proceeds relating to the K12 sale were received in 2022, 2021 and 2020 (see note 14).

None of the 2021 or 2020 disposals met the criteria to be considered a discontinued operation on the basis that they did not represent major lines of business or geographical areas of operations.

The table below shows a summary of the assets and liabilities disposed of:

All figures in £ millions	Notes	2022	2021	2020
Disposal of subsidiaries and associates				
Intangible assets, including goodwill		(77)	(3)	–
Property, plant and equipment		(11)	(48)	–
Investments in joint ventures and associates		–	–	(418)
Intangible assets – product development		(39)	(6)	–
Inventories		(33)	(2)	–
Trade and other receivables		(106)	(6)	–
Deferred tax		(12)	–	–
Cash and cash equivalents (excluding overdrafts)		(21)	(24)	–
Provisions for other liabilities and charges		1	3	–
Retirement benefit obligations		2	–	–
Trade and other liabilities		52	4	–
Financial liabilities – borrowings		8	67	–
Net assets disposed		(236)	(15)	(418)
Cumulative currency translation adjustment		5	(4)	70
Cash proceeds		291	108	531
Deferred proceeds		2	–	–
Costs of disposal		(25)	(24)	1
Gain on disposal		37	65	184

Cash flow from disposals				
Proceeds – current year disposals		291	108	531
Proceeds – prior year disposals		86	16	105
Cash and cash equivalents disposed		(21)	(24)	–
Costs and other disposal liabilities paid		(23)	(17)	(5)
Net cash inflow		333	83	631
Analysed as:				
Cash inflow from disposal of subsidiaries		333	83	100
Cash inflow from disposal of joint ventures and associates		–	–	531

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Notes to the consolidated financial statements *continued*

32. Held for sale

At 31 December 2022, the Group has entered into an agreement to dispose of a property that was previously accounted for as investment property. The sale is expected to complete in 2023. Two other properties are currently also in the process of being sold, with the sales also expected to complete in 2023. The properties are all classified as held for sale and have a carrying value of £16m as at 31 December 2022.

At 31 December 2021, only one property, which was disposed of in 2022, was classified as held for sale, and had a carrying value of £7m as at 31 December 2021. The businesses that were included in the Strategic Review segment as at 31 December 2021 did not meet the criteria for classification as held for sale as at 31 December 2021 on the basis that the Group was not sufficiently advanced in the sales process at that time for the sale to be considered highly probable.

The held for sale balances are analysed as follows:

	2022 Total	2021 Total
All figures in £ millions		

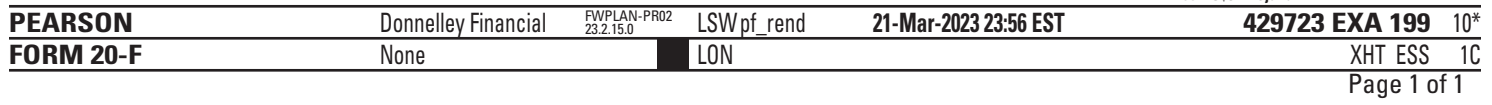
Non-current assets		
Property, plant and equipment	16	7

	16	7

Assets classified as held for sale	16	7

Net assets classified as held for sale	16	7

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Notes to the consolidated financial statements *continued*

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

The movements in the Group's current and non-current borrowings are as follows:

		Fair value and other movements	Foreign exchange movements	Financing cash flows	Transfer from non-current to current	New leases/disposal of leases	
All figures in £ millions	2020						2021
Financial liabilities							
Non-current borrowings	1,458	(20)	3	–	(160)	(36)	1,245
Current borrowings	248	9	(4)	(255)	160	(1)	157
Total	1,706	(11)	(1)	(255)	–	(37)	1,402

Non-current borrowings include bonds, derivative financial instruments and leases. Current borrowings include loans repayable within one year, derivative financial instruments and leases, but exclude overdrafts classified within cash and cash equivalents.

- The application of tax legislation in relation to provisions for uncertain tax positions.

- The level of provisions required in relation to uncertain tax positions is complex and each matter is separately assessed. The estimation of future settlement amounts is based on a number of factors including the status of the unresolved matter, clarity of legislation, range of possible outcomes and the statute of limitations.

There are contingent Group liabilities that arise in the normal course of business in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries, joint ventures and associates. In addition, there are contingent liabilities of the Group in respect of unsettled or disputed tax liabilities, legal claims, contract disputes, royalty, copyright fees, permissions and other rights. None of these claims are expected to result in a material gain or loss to the Group.

On 25 April 2019, the European Commission published the full decision that the United Kingdom controlled foreign company group financing partial exemption (FCPE) partially constitutes State Aid. This decision was appealed by the UK Government and other parties. On 8 June 2022, the EU General Court dismissed the appeal following which it has been concluded that a provision is now required in relation to this issue.

The total exposure in relation to this issue is calculated to be £105m (excluding interest) with a provision of £63m now included in the results representing our estimate of the expected value. At 31 December 2021, it was considered to be a contingent liability. This issue is specific to periods up to 2018 and is not a continuing exposure.

The Group is under assessment from the tax authorities in Brazil challenging the deduction for tax purposes of goodwill amortisation for the years 2012 to 2017. Similar assessments may be raised for other years. Potential total exposure (including possible interest and penalties) could be up to BRL 1,212m (£190m) up to 31 December 2022. Such assessments are common in Brazil. The Group believes that the likelihood that the tax authorities will ultimately prevail is low and that the Group's position is strong. At present, the Group believes no provision is required.

The Group is also under assessment from the UK tax authorities in relation to an issue related to the UK's FCPD legislation with the relevant years being 2019 to 2021. The maximum exposure is calculated to be £44m, with a provision of £13m currently held in relation to this issue. The provision is calculated considering a range of possible outcomes and applying a probability to each, resulting in a weighted average outcome. The possible outcomes considered range from no liability through to the full exposure (£44m). This issue is specific to 2019 to 2021 and is not a continuing exposure.

At the balance sheet date there were no commitments for capital expenditure contracted for but not yet incurred. Commitments in respect of leases are shown in note 35.

35. Leases

The Group's lease portfolio consists of approximately 720 property leases, mainly offices and test centres, together with a number of vehicle and equipment leases. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessee:

The amounts recognised in the income statement are as follows:

All figures in £ millions	Note	2022	2021	2020
Interest on lease liabilities		(25)	(27)	(41)
Expenses relating to short-term leases		–	–	(1)
Depreciation of right-of-use assets	10	(46)	(49)	(68)
Impairment of right-of-use assets	10	(34)	(119)	(4)

Lease liabilities are included within financial liabilities – borrowings in the balance sheet, see note 18. The maturities of the Group's lease liabilities are as follows:

All figures in £ millions	2022	2021
Less than one year	94	92
One to five years	320	318
More than five years	332	394
Total undiscounted lease liabilities	746	804
Lease liabilities included in the balance sheet	605	633
Analysed as:		
Current	71	68
Non-current	534	565

There are no lease liabilities classified as held for sale.

The amounts recognised in the cash flow statement are as follows:

All figures in £ millions	2022	2021	2020
Total cash outflow for leases as a lessee	118	115	133

At the balance sheet date commitments for capital leases contracted for but not yet incurred were £5m (2021: £3m). Extension and termination options and variable lease payments are not significant within the lease portfolio. Short-term leases to which the Group is committed at the balance sheet date are similar to the portfolio of short-term leases to which the short-term lease expense is disclosed above.

As a lessor:

In the event that the Group has excess capacity in its leased offices and warehouses, the Group subleases some of its properties under operating and finance leases.

The amounts recognised in the income statement are as follows:

All figures in £ millions	2022	2021	2020
Interest on lease receivables	5	6	9
Income from subleasing right-of-use assets (within other income)	4	2	7

The amounts recognised in the cash flow statement are as follows:

All figures in £ millions	2022	2021	2020
Total cash inflow for leases as a lessor	23	27	50

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Notes to the consolidated financial statements *continued*

35. Leases continued

The following table sets out the maturity analysis of lease payments receivable for subleases classified as operating leases, showing the undiscounted lease payments to be received after the reporting date, and subleases classified as finance leases showing the undiscounted lease payments to be received after the reporting date and the net investment in the finance lease receivable. During the year, the investment in finance lease receivable increased by £6m (2021: decreased £15m), primarily due to new finance subleases entered into in excess of payments received.

All figures in £ millions	Operating leases	Finance leases	2022 Total	2021 Total	2020 Total
Less than one year	3	21	24	21	24
One to two years	5	23	28	18	24
Two to three years	5	23	28	20	18
Three to four years	5	23	28	21	18
Four to five years	5	24	29	20	18
More than five years	21	23	44	41	56
Total undiscounted lease payments receivable	44	137	181	141	158
Unearned finance income		(16)			
Net investment in finance lease receivable		121			

36. Related party transactions

Joint ventures and associates

In 2021, the Group acquired a 40% interest in Academy of Pop and is accounting for the investment as an associate. At 31 December 2022, the Group had a current liability payable to Academy of Pop of £5m (2021: £7m), which relates to the Group's initial capital contribution that had not yet been paid as at 31 December 2022. This balance was paid in early 2023.

Key management personnel

Key management personnel are deemed to be the members of the Pearson Executive Management team (see pages 60-61). It is this Committee which had responsibility for planning, directing and controlling the activities of the Group in 2022. Key management personnel compensation is disclosed below:

All figures in £ millions	2022	2021	2020
Short-term employee benefits	7	6	6
Retirement benefits	1	1	1
Share-based payment costs	9	8	6
Total	17	15	13

Short-term employee benefits and retirement benefits exclude Executive Directors which are shown on page 101 of the Directors Remuneration Report.

There were no other material related party transactions. No guarantees have been provided to related parties.

37. Events after the balance sheet date

In February 2023, the Group renegotiated its revolving credit facility, reducing the maximum facility to \$1bn.

Pearson holds investments in unlisted securities with a value at 22 December 2022 of £133m. Some of the businesses relevant to this investment, bank with Silicon Valley Bank which collapsed in early March 2023. Given the US Government has announced that it will guarantee all deposits held at Silicon Valley Bank, any subsequent risk to the valuation of these investments is considered by management to be low, but possible.

On 21 March 2023, the Group agreed to sell its international Online Program Management ('OPM') business, Pearson Online Learning Services ('POLS') to Regent, a global private equity firm. The consideration to be received by Pearson is deferred and comprises (i) each year, for a period of 6-years from completion of the transaction, 27.5% of POLS positive adjusted EBITDA in each calendar year; and (ii) a further contingent payment equal to 27.5% of the proceeds received by Regent in relation to any monetisation event, such as a future disposal of POLS, following completion of the transaction.

On 22 March 2023, the Group completed the acquisition of 100% of the share capital of SHL US Management LLC, the parent company of Personnel Decisions Research Institutes LLC (PDRI), a provider of workforce assessment services. The total consideration paid is \$187 million, all of which was paid upfront. The net assets acquired will mainly comprise goodwill and intangible assets, principally comprising customer contracts and technology, recognised on acquisition. Given the proximity of the acquisition to the publication of this Form 20-F, the full valuation exercise has not been completed, and therefore, the financial impact on the Group's balance sheet has not been disclosed.



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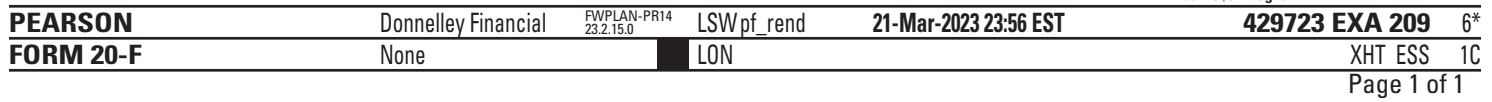


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FORM 20-F	None		LON		XHT ESS	1C

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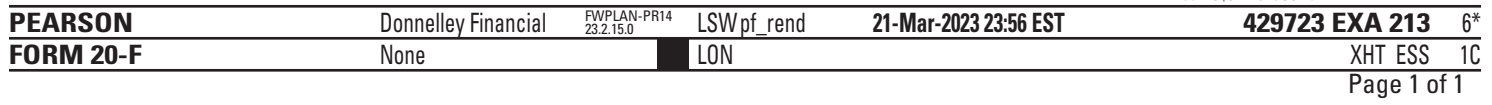
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Five-year summary

All figures in £ millions	2022	2021	2020	2019	2018
Sales: By operating segment					
Assessment & Qualifications*	1,444	1,238	1,118		
Virtual Learning	820	713	692		
English Language Learning	321	238	218		
Workforce Skills	204	172	163		
Higher Education	898	849	956		
Strategic review*	154	218	250		
Total sales	3,841	3,428	3,397	3,869	4,129
Adjusted operating profit: By operating segment					
Assessment & Qualifications*	258	219	147		
Virtual Learning	70	32	29		
English Language Learning	25	15	1		
Workforce Skills	(3)	27	26		
Higher Education	91	73	93		
Strategic review*	15	19	16		
Penguin Random House	–	–	1		
Total adjusted operating profit	456	385	313	581	546
Operating margin – continuing	11.9%	11.2%	9.2%	15.0%	13.2%
Adjusted earnings					
Total adjusted operating profit	456	385	313	581	546
Net finance costs	(1)	(57)	(61)	(41)	(24)
Income tax	(71)	(64)	(35)	(89)	27
Non-controlling interest	(2)	(1)	–	(2)	(2)
Adjusted earnings	382	263	217	449	547
Weighted average number of shares (millions)	738.1	754.1	755.4	777.0	778.1
Adjusted earnings per share	51.8p	34.9p	28.7p	57.8p	70.3p

Prior periods have not been restated to reflect the adoption of IFRS 16 in 2019.

Sales and adjusted operating profit for periods prior to 2020 have not been restated to reflect the new organisational structure including the transfer of retained English-speaking Canadian and Australian K12 Courseware businesses from Strategic review to the Assessment & Qualifications division.

* Comparative amounts for 2021 and 2020 have been restated to reflect the move between operating segments.

Other information

All figures in £ millions	2022	2021	2020	2019	2018
Cash flow					
Operating cash flow	401	388	315	418	513
Operating cash conversion	88%	101%	101%	72%	94%
Net assets	4,415	4,280	4,134	4,323	4,525
Net debt	557	350	463	1,016	143
Return on invested capital					
Total adjusted operating profit	456	385	313	581	546
Operating tax paid	(95)	(60)	(10)	(9)	(43)
Return	361	325	303	572	503
Gross basis:					
Average invested capital	10,896	9,857	10,625	11,096	10,672
Return on invested capital	3.3%	3.3%	2.9%	5.2%	4.7%
Net basis:					
Average invested capital	7,896	7,161	7,708	8,097	7,544
Return on invested capital	4.6%	4.5%	3.9%	7.1%	6.7%
Dividend per share	21.5p	20.5p	19.5p	19.5p	18.5p

Financial key performance indicators

The following tables and narrative provide further analysis of the financial key performance indicators which are described in the financial review of the annual report on pages 20-25, shown within the key performance indicators on page 19 of the annual report and shown in notes 2 and 8 of the notes to the consolidated financial statements.

Adjusted performance measures

The annual report and accounts reports results and performance on a headline basis which compares the reported results both on a statutory and on a non-GAAP (non-statutory) basis. The Group's adjusted performance measures are non-GAAP (non-statutory) financial measures and are also included in the annual report as they are key financial measures used by management to evaluate performance. The measures also enable investors to more easily, and consistently, track the underlying operational performance of the Group and its business segments by separating out those items of income and expenditure relating to acquisition and disposal transactions, major restructuring programmes and certain other items that are also not representative of underlying performance.

The Group's definition of adjusted performance measures may not be comparable to other similarly titled measures reported by other companies. A reconciliation of the adjusted measures to their corresponding statutory measures is shown below.

Sales

Underlying sales movements exclude the effect of exchange, the impact of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Portfolio changes are calculated by taking account of the additional sales (at constant exchange rates) from acquisitions made in both the current year and the prior year. For acquisitions made in the prior year, the additional sales excluded is calculated as the sales made in the period of the current year that corresponds to the pre-acquisition period in the prior year. Sales made by businesses disposed in either the current year or the prior year are also excluded. Constant exchange rates are calculated by assuming the average exchange rates in the prior year prevailed throughout the current year. These non-GAAP measures enable management and investors to track more easily, and consistently, the underlying sales performance of the Group.

All figures in £ millions	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Total
Statutory sales 2022	1,444	820	321	204	898	154	3,841
Statutory sales 2021	1,238	713	238	172	849	218	3,428
Statutory sales increase/(decrease)	206	107	83	32	49	(64)	413
Comprising:							
Underlying increase/(decrease)	95	28	57	12	(33)	(5)	154
Portfolio changes	–	–	9	15	–	(61)	(37)
Exchange differences	111	79	17	5	82	2	296
Statutory sales increase/(decrease)	206	107	83	32	49	(64)	413
Statutory increase/(decrease)	17%	15%	35%	19%	6%	(29)%	12%
Constant exchange rate increase/(decrease)	8%	4%	28%	16%	(4)%	(30)%	3%
Underlying increase/(decrease)	8%	4%	24%	7%	(4)%	(16)%	5%

Other information

Financial key performance indicators *continued*

Adjusted operating profit

Adjusted operating profit excludes the cost of major restructuring; other net gains and losses on the sale or closure of subsidiaries, joint ventures, associates and other financial assets; and intangible charges, including impairment, relating only to goodwill and intangible assets acquired through business combinations or relating to associates. Other net gains and losses also includes costs related to business closures and acquisitions. Further details are given below under 'Adjusted earnings per share'. Underlying adjusted operating profit movements exclude the effect of exchange, the impact of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Portfolio changes are calculated by taking account of the additional contribution (at constant exchange rates) from acquisitions made in both the current year and the prior year.

For acquisitions made in the prior year the additional contribution excluded is calculated as the operating profit made in the period of the current year that corresponds to the pre-acquisition period in the prior year. Operating profit made by businesses disposed in either the current year or the prior year is also excluded. Constant exchange rates are calculated by assuming the average exchange rates in the prior year prevailed throughout the current year. This non-GAAP measure enables management and investors to track more easily, and consistently, the underlying operating profit performance of the Group.

All figures in £ millions	2022	2021
Operating profit	271	183
Cost of major restructuring	150	214
Other net gains and losses	(24)	(63)
Intangible charges	56	51
UK pension discretionary increase	3	–
Adjusted operating profit	456	385

All figures in £ millions	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Total
Adjusted operating profit increase/(decrease)	39	38	10	(30)	18	(4)	71
Comprising:							
Underlying increase/(decrease)	14	28	5	(18)	9	–	38
Portfolio changes	–	–	2	(10)	–	(5)	(13)
Exchange differences	25	10	3	(2)	9	1	46
Adjusted operating profit increase/(decrease)	39	38	10	(30)	18	(4)	71
Constant exchange rate increase/(decrease)	6%	88%	47%	(104)%	12%	(26)%	6%
Underlying increase/(decrease)	6%	88%	33%	(67)%	12%	–	11%

Adjusted earnings per share

Adjusted earnings includes adjusted operating profit and adjusted finance and tax charges. Adjusted earnings is included as a non-GAAP measure as it is used by management to evaluate performance and by investors to more easily, and consistently, track the underlying operational performance of the Group over time. Adjusted earnings per share is calculated as adjusted earnings divided by the weighted average number of shares in issue on an undiluted basis.

The following items are excluded from adjusted earnings:

Cost of major restructuring – In August 2022, the Group announced a major restructuring programme to run in 2022. The programme includes efficiencies in product and content, support costs, technology and corporate property. The restructuring costs in 2022 of £150m mainly relate to severance and impairment of right-of-use property assets. In March 2021, the Group announced a restructuring programme to run primarily in 2021. The programme includes the reorganisation of the Group into five global business divisions and the simplification of the Group's property portfolio to drive significant cost savings. The costs of these restructuring programmes are significant enough to exclude from the adjusted operating profit measure so as to better highlight the underlying performance (see note 4).

Other net gains and losses – These represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets and are excluded from adjusted earnings as they distort the performance of the Group as reported on a statutory basis.

Intangible charges – These represent charges in respect of intangible assets acquired through business combinations or relating to associates. These charges are excluded as they reflect past acquisition activity and do not necessarily reflect the current year performance of the Group.

Other net finance income/costs – These include finance costs in respect of retirement benefits, finance costs of deferred consideration, fair value movements in relation to financial assets held at fair value through profit and loss and foreign exchange and other gains and losses. Finance income relating to retirement benefits is excluded as management does not believe that the consolidated income statement presentation under IAS 19 reflects the economic substance of the underlying assets and liabilities. Finance costs relating to acquisition transactions are excluded as these relate to future earn-outs or acquisition expenses and are not part of the underlying financing. Foreign exchange and other gains and losses are excluded as they represent short-term fluctuations in market value and are subject to significant volatility. Other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity.

Tax – Tax on the above items is excluded from adjusted earnings. Where relevant the Group also excludes the benefit from recognising previously unrecognised pre-acquisition and capital losses. The tax benefit from tax deductible goodwill and intangibles is added to the adjusted income tax charge as this benefit more accurately aligns the adjusted tax charge with the expected rate of cash tax payments.

In addition, one off items such as the impact of the UK tax rate change and changes in local tax law have been excluded.

All figures in £ millions	2022	2021
Profit for the year	244	178
Non-controlling interest	(2)	(1)
Cost of major restructuring	150	214
Other net gains and losses	(24)	(63)
Intangible charges	56	51
Other net finance income	(53)	(51)
UK pension discretionary increase	3	–
Tax	8	(65)
Adjusted earnings	382	263
Weighted average number of shares (millions)	738.1	754.1
Adjusted earnings per share	51.8p	34.9p

Return on invested capital

Return on invested capital (ROIC) is included as a non-GAAP measure as it is used by management to help inform capital allocation decisions within the business. ROIC is calculated as adjusted operating profit less operating cash tax paid expressed as a percentage of average invested capital. Invested capital includes the original unamortised goodwill and intangibles. Average values for total invested capital are calculated as the average monthly balance for the year. ROIC is also presented on a net basis after removing impaired goodwill from the invested capital balance. The net approach assumes that goodwill which has been impaired is treated consistently to goodwill disposed as it is no longer being used to generate returns.

All figures in £ millions	2022 Gross	2021 Gross	2022 Net	2021 Net
Adjusted operating profit	456	385	456	385
Operating tax paid	(95)	(60)	(95)	(60)
Return	361	325	361	325
Average goodwill	6,490	5,758	3,490	3,063
Average other non-current intangibles	2,012	1,970	2,012	1,970
Average intangible assets – product development	948	892	948	892
Average tangible fixed assets and working capital	1,446	1,237	1,446	1,237
Average invested capital	10,896	9,857	7,896	7,162
Return on invested capital	3.3%	3.3%	4.6%	4.5%

Other information

Financial key performance indicators *continued*

Return on capital

Return on capital (ROC) is included as a non-GAAP measure of how efficiently we are generating returns from our asset base. ROC is calculated as adjusted operating profit less adjusted income tax as a proportion of capital, where capital adjusts net statutory assets for net debt, retirement benefit assets, other post-retirement medical obligations and other non-operating items. These adjustments to net statutory assets have been made to better reflect the asset base that generates returns.

All figures in £ millions	2022	2021
Adjusted operating profit	456	385
Adjusted income tax charge	(71)	(64)
Return	385	321
Net statutory assets	4,415	4,280
Adjustments for:		
Net debt	557	350
Retirement benefit assets	(581)	(537)
Other post-retirement medical benefit obligation	25	34
Other non-operating assets	23	(41)
Capital	4,439	4,086
Return on capital	8.7%	7.9%

Operating cash flow

Operating cash flow is calculated as net cash generated from operations before the impact of items excluded from the adjusted income statement plus dividends from joint ventures and associates (less the re-capitalisation dividends from Penguin Random House); less capital expenditure on property, plant and equipment (including additions to right-of-use assets) and intangible software assets; plus proceeds from the sale of property, plant and equipment (including the impacts of transfers to/from investment in finance lease receivable) and intangible software assets; plus special pension contributions paid; and plus costs of major restructuring paid. Operating cash flow is included as a non-GAAP measure in order to align the cash flows with the corresponding adjusted operating profit measures.

All figures in £ millions	2022	2021
Net cash generated from operations	527	570
Dividends from joint ventures and associates	1	–
Purchase / disposal of PPE and software	(133)	(176)
Net addition of right-of-use assets	(29)	(30)
Net costs paid for major restructuring	35	24
Operating cash flow	401	388

Cash conversion, calculated as operating cash flow as a percentage of adjusted operating profit, is also shown as a non-GAAP measure as this is used by management and investors to measure cash generation by the Group.

All figures in £ millions	2022	2021
Adjusted operating profit	456	385
Operating cash flow	401	388
Cash conversion	88%	101%

Net debt and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)

For information, the net debt/adjusted EBITDA ratio is shown as a non-GAAP measure as it is commonly used by investors to measure balance sheet strength. Adjusted EBITDA is calculated as adjusted operating profit less depreciation on property, plant and equipment, and amortisation on intangible software assets.

All figures in £ millions	2022	2021
Adjusted operating profit	456	385
Depreciation (excluding items included in 'cost of major restructuring')	88	100
Amortisation on intangible software assets (excluding items included in 'cost of major restructuring')	123	113
Adjusted EBITDA	667	598
Cash and cash equivalents	558	937
Overdrafts	(15)	–
Investment in finance lease receivable	121	115
Derivative financial instruments	(6)	(2)
Bonds	(610)	(767)
Lease liabilities	(605)	(633)
Net debt	(557)	(350)
Net debt/adjusted EBITDA ratio	0.8x	0.6x



Shareholder Information

Shareholder Information

Shareholder Information

Pearson ordinary shares are listed on the London Stock Exchange and on the New York Stock Exchange in the form of American Depositary Receipts.

Corporate website

The investors' section of our corporate website www.pearsonplc.com/investors provides a wealth of information for shareholders. It is also possible to sign up to receive email alerts for reports and press releases relating to Pearson at www.pearsonplc.com.

Shareholder information online

Shareholder information can be found on our website at www.pearsonplc.com/investors.

Our registrar, Equiniti, also provides a range of shareholder information online. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk. For more information, please contact our registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. Telephone 0371 384 2043* or, for those shareholders with hearing difficulties, text phone number 0371 384 2255*.

Information about the Pearson share price

The company's share price can be found on our website at www.pearsonplc.com/investors/performance/share-price-dividend. It also appears in the financial columns of the national press.

2022 dividends

	Payment Date	Amount per share
Interim	20 September 2022	6.6 pence
Final ¹	5 May 2023	14.9 pence

1. Subject to approval by shareholders at the 2023 Annual General Meeting.

2023 financial calendar

Ex-dividend date	23 March 2023
Record date	24 March 2023
Last date for dividend reinvestment election	13 April 2023
Annual General Meeting	28 April 2023
Payment date for dividend and share purchase date for dividend reinvestment	5 May 2023

Payment of dividends to mandated accounts

Should you elect to have your dividends paid through BACS, this can be done directly into a bank or building society account, with the dividend confirmation voucher sent to the shareholder's registered address. Equiniti can be contacted for information on 0371 384 2043*.

Dividend reinvestment plan (DRIP)

The DRIP gives shareholders the right to buy the company's shares on the London stock market with their cash dividend. For further information, please contact Equiniti on 0371 384 2268*.

Individual Savings Accounts (ISAs)

Equiniti offers a Flexible Stocks and Shares ISA. For more information, please visit www.eqi.co.uk or call customer services on 0345 070 0720*.

Share dealing facilities

Equinix offers telephone and internet services for dealing in Pearson shares. For further information, please contact their telephone dealing helpline on 0345 603 7037*, or, for online dealing, log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate.

A postal dealing service is also available through Equiniti. Please telephone 0371 384 2248* for details or log on to www.shareview.co.uk to download a form.

ShareGift

Shareholders with small holdings of shares, whose value makes them uneconomic to sell, may wish to donate them to ShareGift, the share donation charity (registered charity number 1052686).

Further information about ShareGift and the charities it has supported may be obtained from their website, www.ShareGift.org, or by contacting them at ShareGift, PO Box 72253 London, SW1P 9LQ.

American Depositary Receipts (ADRs)

Pearson's ADRs are listed on the New York Stock Exchange and traded under the symbol **PSO**. Each ADR represents one ordinary share. For enquiries regarding registered ADR holder accounts and dividends, please contact BNY Mellon Shareowner Services, PO Box 43006, Providence, RI 02940-3078, telephone 1 (866) 259 2289 (toll free within the US) or 001 201 680 6825 (outside the US). Alternatively, you may email shrrelations@cpushareownerservices.com.

Voting rights for registered ADR holders can be exercised through Bank of New York Mellon, and for beneficial ADR holders (and/or nominee accounts) through your US brokerage institution. Pearson will file with the Securities and Exchange Commission a Form 20-F.

Share register fraud: protecting your investment

Pearson does not contact its shareholders directly to provide recommendations or investment advice and neither does it appoint third parties to do so. As required by law, our shareholder register is available for public inspection, but we cannot control the use of information obtained by persons inspecting the register. Please treat any approaches purporting to originate from Pearson with caution.

For more information, please log on to our website at www.pearsonplc.com/en-GB/investors/shareholders/shares-shareholding

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and shred any unwanted documentation
- Inform our registrar, Equiniti, promptly when you change address
- Be aware of dividend payment dates and contact the registrar if you do not receive your dividend cheque or, better still, make arrangements to have the dividend paid directly into your bank account
- Consider holding your shares electronically in a CREST account via a nominee.

* Lines open 8.30 am to 5.30 pm Monday to Friday (excluding UK public holidays).

ESG data

Our performance

About our reporting

This report provides a summary of Pearson’s sustainable business strategy and our environmental, social, and governance (ESG) performance for the calendar year ended 31 December 2022. Our Reputation and Responsibility Committee, the highest Board Committee responsible for our sustainability agenda, has reviewed the reported information, including the list of material topics on page 30.

Global Reporting Initiative (GRI)

Our report is in accordance with the GRI standards, using the GRI 1: Foundation 2021 guidance. There is no relevant GRI sector standard for our industry.

Sustainability Accounting Standards Board (SASB)

We continue to report in line with the SASB’s standards to provide industry-based insights into the most relevant sustainability-related risks and opportunities for the media, and professional services sectors.

UN Global Compact (UNGC) and the UN Sustainable Development Goals (SDGs)

We were proud to participate in the Early Adopter Programme of the UN Global Communication on Progress (CoP) designed to add value and streamline sustainability reporting for all participating companies of the UN GC. Our CoP is publicly available on our participant profile at: <https://unglobalcompact.org/what-is-gc/participants/7319-Pearson-plc>

Lifelong learning and education have an important role to play in achieving all the UN SDGs, but we focus our efforts on those where we have the greatest impact. Our priority SDGs are: 4 quality education, 8 decent work and economic growth, and 10 reducing inequalities.

ESG material issues reporting against GRI and SASB

Material issues	GRI	SASB	Page/web reference	Comments/omissions
Product effectiveness	GRI 203-2: significant indirect impacts		Risks, opportunities, and management approach: Pages 30-38 Performance: Page 18 Social Bond Reporting: https://plc.pearson.com/en-GB/investors/debt-investors/social-bond-framework	
Consumer engagement	GRI 203-2: significant indirect impacts		Risks, opportunities, and management approach: Pages 18, 30-38 Performance: Page 18	
Digital growth	GRI 203-2: significant indirect impacts		Risks, opportunities, and management approach: Pages 30-38 Performance: non-financial KPIs - Page 18	
Employee learning and development	GRI 404-1: average hours of training per year, per employee GRI 404-2: programmes for upgrading employee skills and transition assistance programmes GRI 404-3: percentage of employees receiving regular performance and career development reviews		Risks, opportunities, and management approach: Pages 30-38 Performance: Pages 18, 221-226	We do not report on average hours of training. In 2022, we launched a new approach to engagement as a driver of growth and retention, including a set of performance measures. 100% of direct employees covered by Gallup survey.
Employee engagement		SV-PS-330a.2. (1) voluntary and (2) involuntary turnover rate for employees SV-PS-330a.3. employee engagement %	Risks, opportunities, and management approach: Pages 30-36 Performance: Pages 18, 221-226	
Inclusion and diversity	405-1 Diversity of governance bodies and employees	SV-PS-330a.1. & SV-ME-260a.1. percentage of gender and racial/ ethnic group representation for: executive management (2) professionals (3) all other employees SV-ME-260a.2. description of policies and procedures to ensure pluralism in news media content	Risks, opportunities, and management approach: Pages 30-36 Performance: Pages 18, 221-226 Social Equity portal: https://www.pearson.com/en-us/social-equity.html	

ESG data continued

Material issues	GRI	SASB	Page/web reference	Comments/omissions
Reducing our environmental impact	GHG Emission scope 1, 2, 3. Baseline and methodology. Any offsets including type, amount, criteria		Risks, opportunities, and management approach: Pages 30, 36-38 TCFD Report: Pages 39-41 Performance: Pages 18, 36-41, 221-226	
Data privacy and cyber security	GRI 418 -1 Substantiated complaints received concerning breaches of customer privacy, and losses of customer data	SV-PS-230a.1 description of approach to identifying and addressing data security risks SV-PS-230a.2. description of policies and practices relating to collection, usage, and retention of customer information SV-PS-230a.3. number of data breaches percentage involving customers' confidential business information or personally identifiable information number of customers affected	The following sections of our report detail: — our approach to data security risks: Pages 43-52 — governance of data privacy, cyber security and technology resilience: Page 82 — approach to customer data and safeguarding and training provided: Pages 30, 36 — consumer-facing privacy center explaining how Pearson uses personal information: https://www.pearson.com/en-us/privacy-center.html	In the event of a reportable breach, we would disclose information about the incident and commit to contact any affected data subjects in a timely way. In line with regulations, we will disclose material lapses to the relevant regulators. To the extent that any relevant regulator should find fault with our data management and/or data security practices, they will publish their findings/ sanctions.

GRI General Disclosures Index

Disclosure	Page/Location	Comment
2-1 Organisational details	120, 140, 150	
2-2 Entities included in the organisation's sustainability reporting	209-211	
2-3 Reporting period, frequency and contact point		2022 annual report, sustainability@pearson.com
2-4 Restatements of information	223	
2-5 External assurance		https://plc.pearson.com/en-GB/purpose/our-esg-reporting
2-6 Activities, value chain and other business relationships	16-17	
2-7 Employees	224-226	
2-8 Workers who are not employees		We do not currently report on workers who are not employees. Most common type of workers are regular employees (19,051) and most common type of work performed is in testing centres, technology, sales, customer services, and prof. development
2-9 Governance structure and composition	56-66	
2-10 Nomination and selection of the highest governance body	74-77	
2-11 Chair of the highest governance body	56	
2-12 Role of the highest governance body in overseeing the management of impacts	56-66	
2-13 Delegation of responsibility for managing impacts	65-66	
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2-15 Conflicts of interest	59	
2-16 Communication of critical concerns	65	
2-17 Collective knowledge of the highest governance body	56-59	
2-18 Evaluation of the performance of the highest governance body	71-73	
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2-20 Process to determine remuneration	88-119	
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2-23 Policy commitments	42	



Environment

Methodology: We follow the requirements from the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) to calculate our emissions. For scope 2, we use the dual reporting methodology (location and market-based approach), together with some of the latest emission factors from recognised public sources, including, but not limited to, the UK Department for Business, Energy and Industrial Strategy, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency, and the Intergovernmental Panel on Climate Change (IPCC). Energy use includes gas and electricity consumption in MWh and vehicle fuel use converted from mileage into MWh using BEIS conversion factor. For 2022, we are also using the latest global warming potential from the IPCC's Sixth Assessment Report.

See Corporate Citizenship assurance statement here: <https://plc.pearson.com/en-GB/purpose/our-esg-reporting>

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ESG data continued

Resource use	2022	2021
Paper used (t)	24,187	29,056
% FSC	33%	29%
% PEFC	20%	28%
% SFI	9%	
Waste	2022	2021
Total waste generated (t)	1,298*	875
Share of waste recycled in office space	17.7%	25.9%
Water	2022	2021
Total water consumption (m³)	538,556*	152,702

* We report estimated water and waste in some of our properties by applying an intensity ratio per sqm based on all actual data available.
This year, we extended the scope of sites with actual data that are included in 2022 figures.

Social
All employee figures, with the exception of total average number of employees (as noted below) are based on employee volumes as at 31st December 2022.

Our Employees	2022	2021
Total average number of employees for the year*	20,438	20,744
Employees by geography (Regional Representation)	20,169	21,350
US as of 31 December	10,694	11,670
UK as of 31 December	3,931	3,826
Rest of World as of 31 December	5,544	5,854

* Total average number of employees is calculated using a Full-time Equivalent (FTE) methodology, as an average across the reporting period.

Gender diversity breakdown	2022	2021
Total number of permanent, regular employees	97%	97%
Male	40%	40%
Female	59%	59%
Non-binary	0%	0%
No data	1%	1%
Total number of temporary, limited term employees	3%	3%
Male	32%	32%
Female	66%	65%
Non-binary	0%	0%
No data	2%	3%
Total full-time, regular, employees	79%	75%
Male	44%	44%
Female	55%	55%
Non-binary	0%	0%
Not Disclosed	1%	1%
Total part-time, regular, employees	21%	21%
Male	27%	27%
Female	72%	73%
Non-binary	0%	0%
Not Disclosed	1%	1%



Men	5	50	3	6	54.5
Women	5	50	1	5	45.5
Other categories					
Not specified / prefer not to say					

White British or other White (including minority-white groups)	7	70	4	8	72.73
Mixed/Multiple Ethnic Groups	2	20		1	9.09
Asian/Asian British	1	10		1	9.09
Black/African/Caribbean/Black British					
Other ethnic group, including Arab				1	9.09
Not specified/ prefer not to say					

Manager	51%	50%
Percentage of women in technology roles (IT/engineering)	31%	29%

VP and Director (US and UK)	18% (US) / 13% (UK)	17% (US) / 13% (UK)
Manager (US and UK)	25% (US) / 14% (UK)	23% (US) / 16% (UK)

Black or African American	11%	10%
Hispanic or Latino	9%	9%
Other	2%	3%
White	67%	69%
Not Stated	1%	0%

Black	4%	4%
Hispanic or Latino	0%	0%
Other	4%	5%
White	66%	70%
Not Stated	16%	11%

* As prescribed by LR9.8.6R(10), for the purpose of this disclosure, the Executive Management includes the Company Secretary.

**ESG data** *continued*

% of total management workforce (US and UK)	2022	2021
Asian	10%	10%
Black or African American	4%	4%
Hispanic or Latino	4%	3%
Other	2%	2%
White	77%	78%
Not Stated	3%	3%

Turnover	2022	2021
Turnover rate, total average for the year*	6,974 /33%	7,232 /33%
Voluntary turnover	4,658 /22%	5,062 /23%
Involuntary turnover	2,316 /11%	2,170 /10%
*% calculated using average 2022 H/C of 21,342, not 2022 year end position.		
Turnover by gender	2022	2021
Total female	4,233 / 20%	4,512 /20%
Total male	2,659 / 12%	2,709 /12%
Non-binary	6 / 0%	-
Not disclosed	76 / 0%	-

Turnover by age group	2022	2021
Under 30 years old	1,720 / 8%	2,019 / 9%
30-50 years old	3,449 / 16%	3,428 / 15%
Over 50 years old	1,785 / 8%	1,764 / 8%
No date	20 / 0%	21 / 0%

New hires	2022	2021
Total number and rate of new employee hires (number of hires/average headcount)*	5,600 / 26%	5,934 / 27%
Total number of new hires - female	3,378 / 60%	3,528 / 60%
Total number of new hires - male	2,076 / 37%	2,261 / 38%
Total number of new hires - non binary	24 / 0%	0 / 0%
Total number of new hires - not disclosed	122 / 2%	145 / 2%

New hires by age group	2022	2021
Under 30 years old	38%	40%
30-50 years old	44%	42%
Over 50 years old	17%	17%
No date	1%	1%

Employee engagement measures*	2022	2021
Engagement	3.96^	-
Inclusion	4.12^	-
Progress	67%	-
Learning and Growth	72%	-

*Sourced from Gallup Access. Proprietary data.

^GrandMean on a 5-point Likert scale.

Governance	2022	2021
Total number of concerns raised & investigated	92	110
Percentage of employees completing code of conduct certification or training	100%	100%





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