



# Education Bond Reporting

1st Jan 20 - 31st Dec 20



## Educational bond summary

Pearson has long understood the value that learning brings to people’s lives, and how critical it is to helping them progress to achieve their goals. Learning is one of the most powerful forces for change in the world. We believe that everyone should have the opportunity to learn, because learning transforms lives and societies. Our purpose at Pearson is to help everyone achieve their potential through learning.

Pearson’s talent and content should reflect the diversity of the markets we serve, ensuring we create the best products, with the greatest impact, for the greatest number of people in the world. We want Pearson to have a positive impact on our customers’ lives, on the communities that we serve, and on the world of learning globally.

That’s why we issued a £350m Education Bond in June 2020.

Proceeds from the bond were to be used in part, or in full, to finance or refinance projects and expenditures that meet the Eligible Categories set out in [Pearson’s Social Bond Framework](#) (published May 2020). The framework, which is in alignment with the ICMA Social Bond Principles and the [second party opinion by Vigeo Eiris](#) are published on the Pearson website

The social bond framework is a natural progression of our long-standing commitment to integrating social and environmental sustainability into our business.

- We have partially allocated proceeds of the bonds to our Connections Academy - specifically our Partner Schools and District Partnerships - one of a pool of eligible projects and expenditures, identified in our Social Bond Framework. Connections Academy, our full-time virtual



schools programme provides high quality education to all, free to the user and those completing achieve as a minimum the required skills in maths and English. The expenditure’s primary objective is to advance the UN’s Sustainable Development Goals (SDG) #4 –Quality Education. We have not allocated proceeds to projects and expenditure related to Pearson Online Academy, the K-12 online international private school.

Pearson has thus far allocated £240m^ of the bond proceeds. The remaining has been placed on deposit with one of our nine relationship banks. It is expected that it will be allocated to Eligible Projects in 2021.

The Responsible Business Leadership Council (RBLC) on behalf of Pearson plc is responsible for the preparation of this report and all supporting records, including selecting appropriate reporting criteria to establish Pearson’s Social Bond Framework (published in May 2020) and assessing the statement as to the Use of Proceeds against that Framework. The allocation and tracking of the funds received is the responsibility of the RBLC as described in the Social Bond Framework. We confirm that the statement as to Use of Proceeds is properly prepared in accordance with the Framework for the year ended 2020.

## Pearson Allocation and Reporting

We are committed to reporting annually to investors on the use of proceeds until the bond is fully allocated. Pearson has utilised the reporting template set out to investors when we launched the Social Bond Framework. The allocations and impacts are detailed below. The total amount of proceeds from Pearson’s Education Bond allocated to Connections Academy is £240m^.

Project Overview				Target Population	Allocation Information for the year-ended 31 December				Output Indicator	Impact Indicator
SBP Category	Eligible Project	Location	SDG Alignment	Target Population*	Allocated Amount as at reporting date	Refinancing Amount	Financing Amount	Unallocated Amount	Number of Learners	% of learners who have completed the course
Access to Essential Services – Education	Connections Academy	US	SDG 4.1  SDG 8.6 	Undereducated, underserved learners* and people with disabilities	£240m^	£100m	£140m	£110m	77,000	95%

^ - PricewaterhouseCoopers (PwC) have been engaged to provide independent limited assurance over the allocation of the use of proceeds from the Education Bond for the year-ended 31 December 2020. Details of the limited assurance are available at <https://plc.pearson.com/sites/pearson-corp/files/pearson/investors/debt-investors/social-bond-framework/PWC-terms-and-conditions-for-access.pdf>

\*Underserved groups include also low-income learners, rural learners, first generation college students, students who do not speak the dominant language, people with disabilities, underrepresented minorities, and adult learners and others facing personal constraints, such as the need to balance education with work and family responsibilities

## Use of Proceeds

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

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

## Impact

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

As a measure of the impact of the spend we will show the percentage of learners who have completed the course.

Given that each state may have a different set of criteria for defining completion, for the purposes of the social bond, we are defining completion as students who have demonstrated sufficient presence to generate funding by the state. This is recorded in our enrolment system.

## Reporting Period

We focused on expenditures in the Financial Year 2020 (1<sup>st</sup> of January 2020 – 31<sup>st</sup> of December 2020). This aligns with Pearson annual public reporting cycle. Whilst this means that refinancing is minimised, funds have not been fully allocated within the first year. The remaining balance has been on deposit with one of our nine relationship banks.

## Monitoring

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

## Ineligible Spend

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

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

## Assurance

We are committed to reporting annually to investors on the use of proceeds, and the impact of the expenditure until proceeds have been fully allocated. PricewaterhouseCoopers LLP (PwC) have been engaged to provide independent limited assurance over the allocation of the use of proceeds from the Education Bond. The data subject to assurance is noted with a '^' and PwC's assurance report is available <https://plc.pearson.com/sites/pearson-corp/files/pearson/investors/debt-investors/social-bond-framework/PWC-terms-and-conditions-for-access.pdf>