# Independent Auditor’s Report to the members of Pearson plc



## Opinion

In our opinion:

— Pearson plc’s group financial statements and parent company financial statements (the “financial statements”) give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 December 2023 and of the group’s profit for the year then ended;

— the group financial statements have been properly prepared in accordance with UK adopted international accounting standards and IFRS accounting standards as issued by the International Accounting Standards Board (IASB);

— the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards and IFRS accounting standards as issued by the International Accounting Standards Board (IASB) as applied in accordance with section 408 of the Companies Act 2006; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pearson plc (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2023 which comprise:

| Group | Parent company |
|---|---|
| Consolidated income statement for the year ended 31 December 2023 | Balance sheet as at 31 December 2023 |
| Consolidated statement of comprehensive income for the year ended 31 December 2023 | Statement of changes in equity for the year ended 31 December 2023 |
| Consolidated balance sheet as at 31 December 2023 | Cash flow statement for the year ended 31 December 2023 |
| Consolidated statement of changes in equity for the year ended 31 December 2023 | Related notes 1 to 11 to the financial statements, including material accounting policy information |
| Consolidated cash flow statement for the year ended 31 December 2023 | |
| Related notes 1 to 38 to the financial statements, including material accounting policy information | |

The financial reporting framework that has been applied in their preparation is applicable law, UK adopted international accounting standards and IFRS accounting standards as issued by the IASB and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the group and parent company’s ability to continue to adopt the going concern basis of accounting included:

— In conjunction with our walkthrough of the Group’s financial statement close process, we confirmed our understanding of management’s going concern assessment process to understand and challenge the key assumptions made in their assessment.

— We assessed the appropriateness of the duration of the going concern assessment period to 30 June 2025 and considered the existence of any significant events or conditions beyond this period based on our procedures on the Group’s long-range plan and knowledge arising from other areas of the audit.

— We agreed the 31 December 2023 cash and debt balances included in the going concern assessment to the Group’s year end balances.

— We read the group’s debt agreements to confirm availability and to understand the covenant requirements and reperformed management’s covenant compliance test to check that no covenants have been breached during the year to 31 December 2023. We have also tested management’s forecast covenant compliance test to check that there is no forecast covenant breach in either the base or severe but plausible downside case scenarios during the going concern assessment period covering the period to 30 June 2025.

— For debt amounts that are repayable within the going concern assessment period we have understood the assumptions that management has made in respect of refinancing.

— We checked the logic and arithmetical integrity of management’s going concern model that includes the cash forecasts for the going concern assessment period to 30 June 2025.

— We challenged the appropriateness of the assumptions used to calculate the cash forecasts under base and plausible downside case scenarios, including whether the downside scenarios were sufficiently severe, by reference to historical forecasting accuracy and comparison to sector benchmarks and other evidence obtained during the audit, such as audit procedures on the long range plans which underpin management’s goodwill impairment assessments.

— We evaluated the key assumptions by searching for contrary evidence to challenge these assumptions, including third party sector forecasts and analyst expectations. Further, we validated that these assumptions were consistent with the budget approved by Pearson’s Board.

— We considered the mitigating actions that are within the control of the Group and evaluated the Group’s ability to control these outflows if required.

- We considered the Group's reverse stress testing to identify the magnitude of decline in revenue and operating profit that would lead to the Group utilising all liquidity or breaching a covenant during the going concern assessment period and we have challenged the likelihood of such a decline.
- We reviewed the Group's going concern disclosures included in the Annual Report, in note 1(b) to the financial statements, to assess that they were accurate and in conformity with the reporting standards.

We observe that in management's base case and severe but plausible downside scenarios, there is headroom without taking the benefit of any identified mitigations.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 30 June 2025.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| **Audit scope** | — We performed an audit of the complete financial information of 5 components and audit procedures on specific balances for a further 6 components. We also performed specified audit procedures on specific balances for a further 2 components.<br>— The components where we performed full or specific audit procedures accounted for 82% of adjusted Profit before tax, 83% of Revenue and 89% of Total assets. |
| **Key audit matters** | — Fraud risks in revenue recognition<br>— Valuation of acquired intangible assets<br>— Uncertain tax provision for EU State Aid case |
| **Materiality** | — Overall group materiality of £24.6m which represents 5% of adjusted Profit before tax. |

## An overview of the scope of the parent company and group audits

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent Internal Audit results when assessing the level of work to be performed at each company.

The Group operates finance shared service centres in Belfast and Manila, the outputs of which are included in the financial information of the reporting components they service and therefore they are not separate reporting components. Each of the service centres is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and controls testing.

Additional procedures are performed at the scoped components to address the audit risks not covered by the work performed over the shared service centres, or where the scoped components are not served by the shared service centres.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 497 reporting components of the Group, we selected 13 components covering entities within the UK, US and Australia, which represent the principal business units within the Group.

Of the 13 components selected, we performed an audit of the complete financial information of 5 components ("full scope components") which were selected based on their size or risk characteristics, including the parent company; Pearson plc. For 6 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

For an additional 2 components ("specified procedures components"), we performed certain audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile. These procedures were undertaken by separate component audit teams under the primary audit team's direction.

The reporting components where we performed audit procedures accounted for 82% (2022: 85%) of the Group's adjusted Profit before tax, 83% (2022: 89%) of the Group's Revenue and 89% (2022: 95%) of the Group's Total assets. For the current year, the full scope components contributed 56% (2022: 71%) of the Group's adjusted Profit before tax, 72% (2022: 73%) of the Group's Revenue and 83% (2022: 88%) of the Group's Total assets. The specific scope components contributed 25% (2022: 14%) of the Group's adjusted Profit before tax, 11% (2022:16%) of the Group's Revenue and 6% (2022: 7%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also instructed 2 locations to perform specified procedures over certain balances, including aspects of revenue recognition.

Of the remaining 484 components that together represent 18% of the Group's adjusted Profit before tax, none are individually greater than 3% of the Group's adjusted Profit before tax. For these components, we performed other procedures, including testing certain management review controls, analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

## Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. The audit procedures performed at the finance shared service centres were performed by the primary team with assistance from the Philippines member firm. Due to the financial shared service environment described earlier, of the 5 full scope components, audit procedures were performed on all of these directly by the primary audit team, with assistance from our US component team. Of the 6 specific scope components, audit procedures were performed on 5 of these directly by the primary audit team, with assistance from our US component team. For the 1 specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that each full or specific scope component was visited by either the Senior Statutory Auditor, or other senior members of the Group audit team. During the current year's audit cycle, visits were undertaken by the primary audit team to the component team in the US and the Manila shared service centre team. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and progress meetings and reviewing relevant audit working papers on risk areas.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. Close meetings for full, specific, and specified procedures components (excluding those performed by the primary audit team) were held via video conference in January and February 2024 and were attended by the Senior Statutory Auditor and/or other members of the primary audit team. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

## Climate change

Stakeholders are increasingly interested in how climate change will impact Pearson. The Group has determined that the most significant future impacts from climate change on their operations will be from physical risks in the medium and long term. These are explained on pages 44-48 in the required Task Force for Climate related Financial Disclosures. They have also explained their climate commitments on pages 42-43. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in the Basis of Preparation note the key areas of the financial statements that may be impacted by climate change and the Group concluded there is no material financial statement impact from climate change. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining impairment assessments under the requirements of UK-adopted International accounting standards and IFRS accounting standards as issued by the International Accounting Standards Board (IASB).

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of physical and transition climate risk, their climate commitments, the effects of material climate risks disclosed on pages 45-46 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows and associated sensitivity disclosures, this primarily being impairment assessments following the requirements of UK-adopted international accounting standards and IFRS accounting standards as issued by the International Accounting Standards Board (IASB). As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Fraud risk in revenue recognition (revenues of £3,674 million, 2022 £3,841 million)**<br><br>*Refer to the Audit Committee's Report (page 105); Accounting policies (page 158; and note 3 of the Consolidated Financial Statements (page 163)*<br><br>Given revenue is a key performance indicator, both in communication of the Group's results and for management incentives, we have identified a risk of management override of controls through topside manual journal entries to revenue. | We obtained an understanding of and evaluated the design and tested the operating effectiveness of controls over the Group's material revenue processes.<br><br>We performed testing over revenue recognition in 5 full scope components, 6 specific scope components and 2 specified procedures components.<br><br>The audit of topside manual journals included central testing of the consolidation and close-process adjustments, testing any that had an entry against revenue and obtaining supporting evidence.<br><br>Where relevant, we have understood each significant revenue stream in each full, specific and specified procedure location. Where a process is automated, we have performed testing over all manual journals recorded against revenue. Where a process has more manual intervention, we performed testing during the year and placed increased focus over testing manual adjustments at year end and obtained supporting evidence.<br><br>The testing was performed in combination by the component teams and the Group audit team. | Revenue for the year to 31 December 2023 has been recognised appropriately and based on our procedures performed, we have not identified any inappropriate revenue journal entries. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Valuation of acquired intangible assets (£117 million, 2022 £110 million)**<br>*Refer to the Audit Committee Report (page 105); Accounting policies (page153); and Note 30 of the Consolidated Financial Statements (page 201).*<br>During the year, Pearson made one significant acquisition: Personnel Decisions Research Institutes, LLC ('PDRI') for cash consideration of £152 million.<br>The valuation of acquired intangible assets requires specialised skills since it involves complex judgement due to the estimation uncertainty and the application of valuation techniques built, in part, on assumptions around the future performance of the acquired business. Changes in certain of these assumptions can have a material effect on the valuation of acquired intangible assets.<br>We focused our procedures on the most significant elements of the valuation, namely the software as a service ('SaaS') customer contracts and technology intangible assets, with an aggregate value of £97 million. The most significant assumption that is most sensitive for the valuation of these assets was revenue growth rates. | Our audit of the fair values of the acquired intangible assets was performed by the Group audit team, with specified procedures performed by a non-EY audit team over certain Prospective Financial Information ("PFI") used in the valuation model.<br>We reviewed the underlying sale and purchase agreements and tested the consideration for the acquisition.<br>We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Group's process to identify and value intangible assets, including their use of an external valuation specialist.<br>We assessed the independence and expertise of management's external valuation specialist.<br>We assessed the valuation methodologies applied by management, with the assistance of EY valuation specialists, to validate that they were appropriate.<br>We focused our testing of the PFI included in the valuation calculation on the significant assumption that is most sensitive to the valuation, namely revenue growth rates.<br>We challenged these assumptions by comparison to historical performance, underlying contractual terms and corroborating the rationale for any future growth. We instructed a non-EY audit team to test details of revenue for FY23 to underlying contracts and related approved funding by US governmental agencies for 2024.<br>We evaluated the adequacy of the business combination disclosures to the requirements in IFRS 3. | Based on our procedures performed the valuation of the acquired PDRI intangibles is acceptable and the methodology used is in accordance with IFRS 3 Business Combinations. We agree that the disclosures in Note 30 of the consolidated financial statements provide the detail required by IFRS 3 and appropriately reflect the level of estimation. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Uncertain tax position for EU State Aid case (£63 million, 2022 £63 million)**<br><br>*Refer to the Audit Committee Report (page 106); Accounting policies (page 157); and Notes 7 and 34 of the Consolidated Financial Statements (pages 171 and 204).*<br><br>Pearson has recorded a provision for the uncertain tax position related to the EU State Aid case. The provision was recorded as a tax expense in 2022 against a non-current receivable in respect of a payment on account made to the UK tax authority.<br><br>Auditing the Group's recorded £63 million provision at 31 December 2023 required significant auditor judgement in assessing management's expectations of the outcome of matters as there is a significant range of possible outcomes between £nil and the maximum exposure of £105 million and therefore a risk of material misstatement. | Our audit of the uncertain tax position was performed by the Group audit team.<br><br>We obtained an understanding and evaluated the design and tested the operating effectiveness of controls over the Group's tax process over uncertain tax positions.<br><br>We reviewed management's analysis of developments, including recent decisions in other EU case law, which they prepared with support from third party advisors.<br><br>We challenged whether an update to the provision was required by involving EY tax specialists to assess these developments and any potential impact on the amount recorded by the Group at 31 December 2023.<br><br>We reviewed correspondence with management's specialist, assessed their independence and expertise, and held a virtual meeting with them to discuss the scope of their work and their considerations on the matter.<br><br>We tested management's calculation of the provision as part of our prior year audit procedures and assessed the appropriateness of the methodology used against the requirements of IFRIC 23. We considered the appropriateness of the potential outcomes included in the calculation and the probabilities assigned to each outcome.<br><br>We challenged the probabilities by seeking the input of an EY specialist in State Aid matters.<br><br>We assessed the adequacy of the disclosures in notes 7 and 34 of the Annual Report. | Based on our procedures performed, the current status of proceedings and the opinion of the Group's external legal counsel, we conclude that management's provision is acceptable and the methodology used is in line with the requirements of IFRIC 23.<br><br>We agree that disclosures set out in Notes 7 and 34 of the consolidated financial statements provides adequate explanation of the nature of the liability and the level of uncertainty in the amount provided. |

In our prior year auditor's report, the 'Fraud risk in revenue recognition' key audit matter also included a fraud risk in respect of manipulation of the rate of completion for contracts that span the year end. Based on the knowledge gained in our first year audit and the updated risk assessment as part of the 2023 audit, we no longer consider that this risk area of the audit constitutes a key audit matter.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £24.6 million (2022: £20.9 million), which is 5% (2022: 5%) of adjusted Profit before tax. We believe that adjusted Profit before tax is the appropriate basis since it is earnings-based and excludes certain non-recurring items.

We determined materiality for the Parent Company to be £44 million (2022: £44 million), which is 1% (2022: 1%) of net assets.

**Starting basis**

— Profit before tax - £493 million

**Adjustments**

— Add: £11 million property charges and £16 million other net gains and losses

— Less: £28 million other net finance income

**Materiality**

— Adjusted profit before tax £492 million (materiality basis)

— Materiality of £24.6 million (5% of materiality basis)

During the course of our audit, we reassessed initial materiality and updated it for actual 2023 results, which resulted in a small increase to £24.6m.

## Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2022: 50%) of our planning materiality, namely £12.3 million (2022: £10.5 million). We have set performance materiality at this percentage to reduce to an appropriately low level the probability that the aggregate of uncorrected and corrected misstatements exceeds materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.4 million to £6.3 million (2022: £1.8 million to £5.0 million).

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.2 million (2022: £1.05 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report set out on pages 1 to 135, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

— the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit

### Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

— Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 160;

— Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 65;

— Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 65;

— Directors' statement on fair, balanced and understandable set out on page 134;

— Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 57;

— The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 102; and;

— The section describing the work of the audit committee set out on page 100.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 136, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

— We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (UK-adopted International Accounting Standards, IFRS accounting standards as issued by the International Accounting Standards Board (IASB), the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax laws and regulations in the countries in which the Group operates.

— We understood how Pearson plc is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through reading of Board minutes and papers provided to the Audit Committee and observation in Audit Committee meetings, as well as consideration of the results of our audit procedures across the Group.

— We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur and met with finance and operational management from various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential to influence management to manage earnings or influence the perception of analysts. We have determined that there is a fraud risk with aspects of revenue recognition. We considered the policies, processes and controls that the Group has established to address the risks identified, including the design of controls over each significant revenue stream. We also considered the controls that the Group has that otherwise prevent, deter and detect fraud, and how senior management monitors those controls.

— Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations including providing specific instructions to full scope and specific scope component teams and where necessary, using our forensic and other relevant specialists. Our procedures included reading any correspondence with regulators, making enquiries of management's specialists, and journal entry testing, with a focus on manual journal entries, consolidation journals and journal entries indicating large or unusual transactions using data analytics. We based this testing on our understanding of the business, enquiries of management, including internal audit and other advisors, the company secretary and reading relevant reports. We performed specific searches derived from forensic investigations experience and leveraged our data analytics platform in performing our testing. We have also reviewed the whistleblowing reports issued during the year. We also used EY's Document Authenticity Tool to analyse certain electronic documents used as audit evidence to identify characteristics of documents that can be indicators of alteration or inauthenticity.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Other matters we are required to address

— Following the recommendation from the Audit Committee, we were appointed by the company at its Annual General Meeting on 29 April 2022 to audit the financial statements for the year ending 31 December 2022 and subsequent financial periods.

— The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ended 31 December 2022 to 31 December 2023.

— The audit opinion is consistent with the additional report to the audit committee.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Ben Marles** (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

13 March 2024

# Consolidated income statement

Year ended 31 December 2023

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Sales | 2,3 | **3,674** | 3,841 | 3,428 |
| Cost of goods sold | 4 | **(1,839)** | (2,046) | (1,747) |
| **Gross profit** | | **1,835** | 1,795 | 1,681 |
| Operating expenses | 4 | **(1,322)** | (1,549) | (1,562) |
| Other net gains and losses | 4 | **(16)** | 24 | 63 |
| Share of results of joint ventures and associates | 12 | **1** | 1 | 1 |
| **Operating profit** | 2 | **498** | 271 | 183 |
| Finance costs | 6 | **(81)** | (71) | (68) |
| Finance income | 6 | **76** | 123 | 62 |
| **Profit before tax** | | **493** | 323 | 177 |
| Income tax | 7 | **(113)** | (79) | 1 |
| **Profit for the year** | | **380** | 244 | 178 |
| **Attributable to:** | | | | |
| Equity holders of the company | | **378** | 242 | 177 |
| Non-controlling interest | | **2** | 2 | 1 |
| **Earnings per share attributable to equity holders of the company during the year** (expressed in pence per share) | | | | |
| —basic | 8 | **53.1p** | 32.8p | 23.5p |
| —diluted | 8 | **52.7p** | 32.6p | 23.3p |

# Consolidated statement of comprehensive income

Year ended 31 December 2023

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| Profit for the year | | **380** | 244 | 178 |
| **Items that may be reclassified to the income statement** | | | | |
| Net exchange differences on translation of foreign operations | | **(177)** | 330 | (6) |
| Currency translation adjustment disposed | 31 | **(122)** | (5) | 4 |
| Attributable tax | 7 | **–** | 4 | 10 |
| **Items that are not reclassified to the income statement** | | | | |
| Fair value gains on other financial assets | | **1** | 18 | 4 |
| Attributable tax | 7 | **–** | 1 | (1) |
| Remeasurement of retirement benefit obligations | 25 | **(85)** | 54 | 149 |
| Attributable tax | 7 | **20** | (12) | (61) |
| **Other comprehensive (expense)/income for the year** | 29 | **(363)** | 390 | 99 |
| **Total comprehensive income for the year** | | **17** | 634 | 277 |
| **Attributable to:** | | | | |
| Equity holders of the company | | **16** | 630 | 276 |
| Non-controlling interest | | **1** | 4 | 1 |

# Consolidated balance sheet

As at 31 December 2023

| All figures in £ millions | Notes | 2023 | 2022 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **217** | 250 |
| Investment property | 10 | **79** | 60 |
| Intangible assets | 11 | **3,091** | 3,177 |
| Investments in joint ventures and associates | 12 | **22** | 25 |
| Deferred income tax assets | 13 | **35** | 57 |
| Financial assets – derivative financial instruments | 16 | **32** | 43 |
| Retirement benefit assets | 25 | **499** | 581 |
| Other financial assets | 15 | **143** | 133 |
| Income tax assets | 7 | **41** | 41 |
| Trade and other receivables | 22 | **135** | 139 |
| | | **4,294** | 4,506 |
| **Current assets** | | | |
| Intangible assets – product development | 20 | **947** | 975 |
| Inventories | 21 | **91** | 105 |
| Trade and other receivables | 22 | **1,050** | 1,139 |
| Financial assets – derivative financial instruments | 16 | **16** | 16 |
| Income tax assets | | **15** | 9 |
| Cash and cash equivalents (excluding overdrafts) | 17 | **312** | 558 |
| | | **2,431** | 2,802 |
| Assets classified as held for sale | 32 | **2** | 16 |
| **Total assets** | | **6,727** | 7,324 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Financial liabilities – borrowings | 18 | **(1,094)** | (1,144) |
| Financial liabilities – derivative financial instruments | 16 | **(38)** | (54) |
| Deferred income tax liabilities | 13 | **(46)** | (37) |
| Retirement benefit obligations | 25 | **(44)** | (61) |
| Provisions for other liabilities and charges | 23 | **(15)** | (14) |
| Other liabilities | 24 | **(98)** | (120) |
| | | **(1,335)** | (1,430) |

| All figures in £ millions | Notes | 2023 | 2022 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other liabilities | 24 | **(1,275)** | (1,254) |
| Financial liabilities – borrowings | 18 | **(67)** | (86) |
| Financial liabilities – derivative financial instruments | 16 | **(5)** | (11) |
| Income tax liabilities | 7 | **(32)** | (43) |
| Provisions for other liabilities and charges | 23 | **(25)** | (85) |
| | | **(1,404)** | (1,479) |
| Liabilities classified as held for sale | 32 | **–** | – |
| **Total liabilities** | | **(2,739)** | (2,909) |
| **Net assets** | | **3,988** | 4,415 |
| **Equity** | | | |
| Share capital | 27 | **174** | 179 |
| Share premium | 27 | **2,642** | 2,633 |
| Treasury shares | 28 | **(19)** | (15) |
| Capital redemption reserve | | **33** | 28 |
| Fair value reserve | | **(12)** | (13) |
| Translation reserve | | **411** | 709 |
| Retained earnings | | **745** | 881 |
| **Total equity attributable to equity holders of the company** | | **3,974** | 4,402 |
| Non-controlling interest | | **14** | 13 |
| **Total equity** | | **3,988** | 4,415 |

These financial statements have been approved for issue by the Board of Directors on 13 March 2024 and signed on its behalf by

**Sally Johnson**
Chief Financial Officer
**Pearson plc**
**Registered number: 00053723**

# Consolidated statement of changes in equity

Year ended 31 December 2023

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of the company | | | | | | | | | |
| At 1 January 2023 | 179 | 2,633 | (15) | 28 | (13) | 709 | 881 | 4,402 | 13 | 4,415 |
| Profit for the year | – | – | – | – | – | – | 378 | 378 | 2 | 380 |
| Other comprehensive income/(expense) | – | – | – | – | 1 | (298) | (65) | (362) | (1) | (363) |
| **Total comprehensive income/(expense)** | – | – | – | – | 1 | (298) | 313 | 16 | 1 | 17 |
| Equity-settled transactions | – | – | – | – | – | – | 40 | 40 | – | 40 |
| Taxation on equity-settled transactions | – | – | – | – | – | – | 1 | 1 | – | 1 |
| Issue of ordinary shares under share option schemes | – | 9 | – | – | – | – | – | 9 | – | 9 |
| Buyback of equity | (5) | – | – | 5 | – | – | (304) | (304) | – | (304) |
| Purchase of treasury shares | – | – | (35) | – | – | – | – | (35) | – | (35) |
| Release of treasury shares | – | – | 31 | – | – | – | (31) | – | – | – |
| Transfer of gain on disposal of FVOCI investment | – | – | – | – | – | – | – | – | – | – |
| Dividends | – | – | – | – | – | – | (155) | (155) | – | (155) |
| **At 31 December 2023** | 174 | 2,642 | (19) | 33 | (12) | 411 | 745 | 3,974 | 14 | 3,988 |

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of the company | | | | | | | | | |
| 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 |

# Consolidated statement of changes in equity *continued*
Year ended 31 December 2023

| | 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 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 |

# Consolidated cash flow statement

Year ended 31 December 2023

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | | **493** | 323 | 177 |
| Net finance costs/(income) | | **5** | (52) | 6 |
| Depreciation and impairment – PPE, investment property and assets held for sale | | **90** | 136 | 241 |
| Amortisation and impairment – software | | **123** | 125 | 117 |
| Amortisation and impairment – acquired intangible assets | | **46** | 54 | 50 |
| Other net gains and losses | | **13** | (24) | (63) |
| Product development capital expenditure | | **(300)** | (357) | (287) |
| Amortisation and impairment – product development | | **284** | 303 | 279 |
| Share-based payment costs | | **40** | 35 | 28 |
| Change in inventories | | **9** | (34) | 22 |
| Change in trade and other receivables | | **(24)** | 33 | (71) |
| Change in trade and other liabilities | | **(20)** | (84) | 37 |
| Change in provisions for other liabilities and charges | | **(61)** | 50 | 14 |
| Other movements | | **(16)** | 19 | 20 |
| Net cash generated from operations | | **682** | 527 | 570 |
| Interest paid | | **(60)** | (57) | (67) |
| Tax paid | | **(97)** | (109) | (177) |
| **Net cash generated from operating activities** | | **525** | 361 | 326 |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiaries, net of cash acquired | 30 | **(171)** | (228) | (55) |
| Acquisition of joint ventures and associates | | **(5)** | (5) | (10) |
| Purchase of investments | | **(8)** | (12) | (4) |
| Purchase of property, plant and equipment and investment property | | **(30)** | (57) | (64) |
| Purchase of intangible assets | | **(96)** | (90) | (112) |
| Disposal of subsidiaries, net of cash disposed | 31 | **(38)** | 333 | 83 |
| Proceeds from disposal of investments | | **7** | 17 | 48 |
| Proceeds from disposal of property, plant and equipment | | **5** | 14 | – |
| Lease receivables repaid including disposals | | **15** | 18 | 21 |
| Interest received | | **20** | 22 | 13 |
| Dividends from joint ventures and associates | | **–** | 1 | – |
| **Net cash (used in)/generated from investing activities** | | **(301)** | 13 | (80) |

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Proceeds from issue of ordinary shares | 27 | **9** | 7 | 6 |
| Buyback of equity | 27 | **(186)** | (353) | – |
| Purchase of treasury shares | 28 | **(35)** | (37) | (16) |
| Proceeds from borrowings | | **285** | – | – |
| Repayment of borrowings | | **(285)** | (171) | (167) |
| Repayment of lease liabilities | | **(84)** | (93) | (88) |
| Dividends paid to company's shareholders | 9 | **(154)** | (156) | (149) |
| Dividends paid to non-controlling interest | | **–** | (1) | – |
| **Net cash used in financing activities** | | **(450)** | (804) | (414) |
| Effects of exchange rate changes on cash and cash equivalents | | **(8)** | 36 | (8) |
| **Net decrease in cash and cash equivalents** | | **(234)** | (394) | (176) |
| Cash and cash equivalents at beginning of year | | **543** | 937 | 1,113 |
| **Cash and cash equivalents at end of year** | 17 | **309** | 543 | 937 |

# 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 13 March 2024.

## 1a. Accounting policies

The material 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 1b) 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 Accounting Standards 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 IFRS Accounting Standards as issued by the International Accounting Standards Board (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 2023** – The Group adopted IFRS 17 'Insurance Contracts' for the first time in 2023, but it has not had a material impact on the consolidated financial statements. No other new standards were adopted in 2023.

A number of other new pronouncements are effective from 1 January 2023 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:

— Amendments to IAS 1 'Classification of liabilities as current or non-current';
— Amendments to IAS 1 'Non-current liabilities with covenants';
— Amendments to IFRS 16 'Lease liability in a sale and leaseback';
— Amendments to IAS 7 and IFRS 7 'Supplier finance arrangements'; and
— Amendments to IAS 21 'Lack of exchangeability' (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: acquired intangible assets
— Taxation
— 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.

KJ Key judgements

- The application of tax legislation in relation to provisions for uncertain tax positions. See notes 7 and 34.
- The Group is 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.

KE Key areas of estimation

- The valuation of acquired intangible assets recognised on the acquisition of a business. The valuation is based on a number of assumptions, including estimations of future business performance. 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 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.

## 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.

## 1a. Accounting policies continued

### Consolidation continued

**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.

The Group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves.

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 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; and
— 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 $1.25 (2022: $1.24; 2021: $1.38) and the year-end rate was $1.27 (2022: $1.21; 2021: $1.35).

### 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:

| | |
|---|---|
| Buildings (freehold): | 20–50 years |
| Buildings (leasehold): | over the period of the lease |
| Plant and equipment: | 3–10 years |

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

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.

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 management judgement in respect of cash-generating unit (CGU) and cost allocation.

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, with the valuation being determined with the support of a third-party specialist. 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 with the support of a third-party specialist. 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 twenty 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 ten 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.

## 1a. Accounting policies continued

### Other financial assets continued

Investments in the equity instruments of other entities are classified and subsequently measured at fair value through other comprehensive income (FVOCI) where the investment meets the definition of equity from the perspective of the issuer. 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 and those investment which do not meet the criteria to be classified as FVOCI are classified and subsequently measured at fair value through profit and loss (FVTPL). Changes in fair value are included within finance income or 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.

### Royalty advances

Advances of royalties to authors are included within trade and other receivables when the advance is paid less any provision required to adjust the advance to its net realisable value. The realisable value of royalty advances relies on a degree of management estimation in determining the profitability of individual author contracts. If the estimated realisable value of author contracts is overstated, this will have an adverse effect on operating profits as these excess amounts will be written off.

The recoverability of royalty advances is based upon an annual detailed management review of the age of the advance, the future sales projections for new authors and prior sales history of repeat authors.

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

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.

### Share capital

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

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.

### Derivative financial instruments

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:

| Typical reason for designation | Reporting of gains and losses on effective portion of the hedge | Reporting of gains and losses on disposal |
|---|---|---|
| **Net investment hedge** | | |
| The derivative creates a foreign currency liability which is used to hedge changes in the value of a subsidiary which transacts in that currency. | Recognised in other comprehensive income. | On the disposal of foreign operations or subsidiaries, the accumulated value of gains and losses reported in other comprehensive income is transferred to the income statement. |
| **Fair value hedges** | | |
| The derivative transforms the interest profile on debt from fixed rate to floating rate. Changes in the value of the debt as a result of changes in interest rates and foreign exchange rates are offset by equal and opposite changes in the value of the derivative. When the Group's debt is swapped to floating rates, the contracts used are designated as fair value hedges. | Gains and losses on the derivative are reported in finance income or finance costs. However, an equal and opposite change is made to the carrying value of the debt (a 'fair value adjustment') with the benefit/cost reported in finance income or finance costs. The net result should be a zero charge on a perfectly effective hedge. | If the debt and derivative are disposed of, the value of the derivative and the debt (including the fair value adjustment) are reset to zero. Any resultant gain or loss is recognised in finance income or finance costs. |
| **Non-hedge accounted contracts** | | |
| These are not designated as hedging instruments. Typically, these are short-term contracts to convert debt back to fixed rates or foreign exchange contracts where a natural offset exists. | Recognised in the income statement. No hedge accounting applies. | |

## Taxation

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 has applied the exception under IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

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).

## 1a. Accounting policies continued

### Employee benefits

**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 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

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.

### Revenue recognition

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.

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 is recognised on contracts with customers when or as performance obligations are satisfied, which is the period or the point in time where control of goods or services transfers to the customer. Judgement is applied to determine first whether control passes over time and if not, then the point in time at which control passes. Where revenue is recognised over time, judgement is used to determine the method which best depicts the transfer of control. Where an input method is used, significant estimation is required to determine the progress towards delivering the performance obligation.

If a contract with a customer is modified (change of scope, price or both), management uses judgement to determine whether changes to existing rights and obligations should be accounted for as a separate contract or as an adjustment to the existing contracts. Adjustments to existing contracts are either accounted for prospectively or through a cumulative catch up adjustment.

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. If these estimates do not reflect actual returns in future periods then revenue 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.

The Group may enter into contracts with another party in addition to our customer. In making the determination as to whether revenue should be recognised on a gross or net basis, the contract with the customer is analysed to understand which party controls the relevant good or service prior to transferring to the customer. This judgement is informed by facts and circumstances of the contract in determining whether the Group has promised to provide the specified good or service or whether the Group is arranging for the transfer of the specified good or service, including which party is responsible for fulfilment, has discretion to set the price to the customer and is responsible for inventory risk. On certain contracts, where the Group acts as an agent, only commissions and fees receivable for services rendered are recognised as revenue. Any third-party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in 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.

## Leases

**1. 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.

The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The Group applies IAS 36 to determine whether a right-of-use asset is impaired. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset.

Management uses judgement to determine the lease term where extension and termination options are available within the lease.

**2. The Group as a lessor –** 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.

## Dividends

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.

## Discontinued operations

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 held for sale

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

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. Going concern

In assessing the Group's ability to continue as a going concern for the period to 30 June 2025, the Board reviewed management's five-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 2023, the Group had available liquidity of c.£1bn, comprising central cash balances and its undrawn $1bn Revolving Credit Facility (RCF). The company's subsidiary Pearson Funding plc has a debt maturity of €300m due within the going concern assessment period and it is assumed that this is refinanced ahead of time with a £250m bond or bank facility. In both the base case and severe but plausible scenario, the business has sufficient liquidity to repay this amount and does not rely on this refinancing in order to remain a going concern. 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 2024 and 2025, adjusted for probability weighting as well as other significant risks. For this and other downside scenarios tested, the net impact of the risks modelled was to reduce adjusted operating profit by around 40% in each year. Even under a severe downside case, the company would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment. That is, even before modelling the mitigating effect of actions that management would take if these downside risks were to crystalise.

A reverse stress test was performed to identify the reduction in profit required to exhaust liquidity at 30 June 2025. The model showed that operating losses were required in both 2024 and 2025 to exhaust liquidity.

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 2025. The consolidated financial statements have therefore been prepared on a going concern basis.

## 1c. Climate change

The Group has assessed the impacts of climate change on the Group's financial statements, including our commitment to reducing our absolute scope 1, 2 and 3 carbon emissions by 50% 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 2023, or the assessment of going concern for the period to June 2025 and the Group's viability over the next five 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.

## 2. Segment information

There are five main global business divisions, which are each considered separate operating segments for management and reporting purposes, as these are reported separately to the Group's chief operating decision-maker, the Pearson Executive Management team. 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 were disposed of (see note 31).

The following describes the principal activities of the five main operating segments:

— Assessment & Qualifications – Pearson VUE, US School 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, and PDRI;

— 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.

The Pearson Executive Management team evaluates and allocates resources to operating segments, and evaluates the performance of each of its operating segments on the basis of adjusted operating profit, which is considered to be the segment measure.

| All figures in £ millions<br>**Sales** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Assessment & Qualifications | **1,559** | 1,444 | 1,238 |
| Virtual Learning | **616** | 820 | 713 |
| English Language Learning | **415** | 321 | 238 |
| Workforce Skills | **220** | 204 | 172 |
| Higher Education | **855** | 898 | 849 |
| Strategic Review | **9** | 154 | 218 |
| **Total sales** | **3,674** | 3,841 | 3,428 |

| All figures in £ millions<br>**Adjusted operating profit** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Assessment & Qualifications | **350** | 258 | 219 |
| Virtual Learning | **76** | 70 | 32 |
| English Language Learning | **47** | 25 | 15 |
| Workforce Skills | **(8)** | (3) | 27 |
| Higher Education | **110** | 91 | 73 |
| Strategic Review | **(2)** | 15 | 19 |
| **Total adjusted operating profit** | **573** | 456 | 385 |

A reconciliation of the operating segments' measure of profit to profit for the year is provided below:

| | | **2023** | **2022** | **2021** |
|---|---|---|---|---|
| Adjusted operating profit | | **573** | 456 | 385 |
| Cost of major restructuring | | **–** | (150) | (214) |
| Property charges | | **(11)** | – | – |
| Intangible charges | | **(48)** | (56) | (51) |
| UK pension discretionary increases | | **–** | (3) | – |
| Other net gains and losses | | **(16)** | 24 | 63 |
| **Operating profit** | | **498** | 271 | 183 |
| Finance costs | 6 | **(81)** | (71) | (68) |
| Finance income | 6 | **76** | 123 | 62 |
| **Profit before tax** | | **493** | 323 | 177 |
| Income tax | 7 | **(113)** | (79) | 1 |
| **Profit for the year** | | **380** | 244 | 178 |

There were no material inter-segment sales in either 2023, 2022 or 2021.
Corporate costs are allocated to business segments on an appropriate basis depending on the nature of the cost and therefore the total segment result is equal to the Group operating profit.

## 2. Segment information continued

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, certain property charges, major restructuring programmes and certain other items that are also not representative of underlying performance, which are explained below and reconciled within this note.

Cost of major restructuring – In 2023, there are no costs of major restructuring. In 2022, the restructuring costs of £150m mainly related to staff redundancies and impairment of right of use property assets. The 2022 charge includes the impact of updated assumptions related to the recoverability of right-of-use assets made in 2021. 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 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).

Property charges – Charges of £11m relate to impairments of property assets arising from the impact of updates in 2023 to assumptions initially made during the 2022 and 2021 restructuring programmes.

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. Intangible amortisation charges in 2023 were £48m compared to a charge of £56m in 2022. This is due to decreased amortisation from disposals partially offset by additional amortisation from recent acquisitions. In 2021, intangible charges were £51m. In all three years, there were no impairment charges.

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 2023 relate to the gain on the disposal of the POLS business and gains related to the release of accruals and a provision related to historical acquisitions, offset by losses on the disposal of Pearson College and costs related to current and prior year disposals and acquisitions. In 2022, they related 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.

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

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 revenue. 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:

| | | Sales | | Non-current assets | |
|---|---|---|---|---|---|
| All figures in £ millions | **2023** | 2022 | 2021 | **2023** | 2022 |
| UK | **450** | 424 | 355 | **518** | 527 |
| Other European countries | **130** | 192 | 249 | **179** | 192 |
| US | **2,504** | 2,668 | 2,182 | **2,320** | 2,333 |
| Canada | **83** | 110 | 111 | **186** | 243 |
| Asia Pacific | **386** | 290 | 359 | **186** | 200 |
| Other countries | **121** | 157 | 172 | **20** | 17 |
| **Total** | **3,674** | 3,841 | 3,428 | **3,409** | 3,512 |

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, as well as the provision of online learning services in partnership with universities and other academic institutions.

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:

| | | | | | | | 2023 |
|---|---|---|---|---|---|---|---|
| **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 | **57** | **–** | **135** | **2** | **254** | **9** | **457** |
| Products and services transferred over time | **20** | **–** | **15** | **–** | **595** | **–** | **630** |
| | **77** | **–** | **150** | **2** | **849** | **9** | **1,087** |
| **Assessments** | | | | | | | |
| Products transferred at a point in time | **198** | **–** | **5** | **5** | **–** | **–** | **208** |
| Products and services transferred over time | **1,284** | **–** | **204** | **170** | **–** | **–** | **1,658** |
| | **1,482** | **–** | **209** | **175** | **–** | **–** | **1,866** |
| **Services** | | | | | | | |
| Products transferred at a point in time | **–** | **–** | **35** | **–** | **–** | **–** | **35** |
| Products and services transferred over time | **–** | **616** | **21** | **43** | **6** | **–** | **686** |
| | **–** | **616** | **56** | **43** | **6** | **–** | **721** |
| **Total** | **1,559** | **616** | **415** | **220** | **855** | **9** | **3,674** |

| | | | | | | | 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 |

## 3. Revenue from contracts with customers continued

| All figures in £ millions | Assessment & Qualifications | Virtual Learning | English Language Learning | Workforce Skills | Higher Education | Strategic Review | 2021 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 |

### a. Nature of goods and services

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.

### Courseware

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. If these estimates do not reflect actual returns in future periods then revenue 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 2023 was £31m (2022: £53m; 2021: £83m).

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.

Revenue from the sale of physical books is recognised at a point in time when control passes. This is generally at the point of shipment when title passes to the customer, when the Group has a present right to payment and the significant risks and rewards of ownership have passed to the customer. Revenue from physical books sold through the direct print rental method is recognised over the rental period, as the customer is simultaneously receiving and consuming the benefits of this rental service through the passage of time.

Revenue from the sale of digital courseware products is recognised on a straight-line basis over the subscription period, unless hosted by a third party or representative of a downloadable product, in which case Pearson has no ongoing obligation and recognises revenue when control transfers as the customer is granted access to the digital product.

Revenue from the sale of 'off-the-shelf' software is recognised on delivery or on installation of the software where that is a condition of the contract. In certain circumstances, where installation is complex, revenue is recognised when the customer has completed their acceptance procedures.

## Assessments

Revenue is primarily generated from multi-year contractual arrangements related to large-scale assessment delivery, such as contracts to process qualifying tests for individual professions and government departments, and is recognised as performance occurs. Under these arrangements, while the agreement spans multiple years, the contract duration has been determined to be each testing cycle based on contract structure, 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 a testing cycle.

Within each testing cycle, a variety of service activities are performed such as test administration, delivery, scoring, reporting, item development, operational services and programme management. These services are not treated as distinct in the context of the customer contract as Pearson provides an integrated managed service offering and these activities are accounted for together as one comprehensive performance obligation.

Within each testing cycle, the transaction price may contain both fixed and variable amounts. Variable consideration within these transactions primarily relates to expected testing volumes to be delivered in the cycle. The assumptions, risks and uncertainties inherent to long-term contract accounting can affect the amounts and timing of revenue and related expenses reported. Variable consideration is measured using the expected value method, except where amounts are contingent upon a future event's occurrence, such as performance bonuses. Such event-driven contingency payments are measured using the most likely amount approach. In estimating and constraining variable consideration, historical experience, current trends and local market conditions are considered. 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.

Customer payments are generally defined in the contract through a payment schedule, which may require customer acceptance for services rendered. Pearson has a history of providing satisfactory services which are accepted by the customer. While a delay between rendering of services and payment may exist, payment terms are within 12 months and the Group has elected to use the practical expedient available in IFRS 15 'Revenue from Contracts with Customers' and not identify a significant financing component on these transactions.

Revenue is recognised for Assessment 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 us 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 services provided. Revenue is recognised on a percentage of costs basis, calculated using the proportion of the total estimated costs incurred to date. The proportion of estimated costs incurred to date is primarily based on historical cost analysis for similar groups of contracts, with regular true-ups to contract costs throughout the contract period. Percentage of completion is used to recognise the transfer of control of services provided as these services are not provided evenly throughout the testing cycle and involve varying degrees of effort during the contract term.

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 revenue that will be generated.

In Assessments contracts driven primarily by transactions directly to end users, Pearson's main obligation to the customer involves test delivery and scoring. Test delivery and scoring are defined as a single performance obligation delivered over time whether the test is subsequently manually scored or digitally scored on the day of the assessment. Customers may also purchase print and digital supplemental materials. Print products in this revenue stream are recognised at a point in time when control passes to the customer upon shipment. Recognition of digital revenue will occur based on the extent of Pearson's ongoing hosting obligation.

## 3. Revenue from contracts with customers 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.

Customer payments are generally defined in the contract as occurring shortly after invoicing. Where there is a longer payment term offered to a customer through a payment 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 revenue 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.

## e. Remaining transaction price

The below table depicts the remaining transaction price on unsatisfied or partially unsatisfied performance obligations from contracts with customers.

| | | | | | | | 2023 |
|---|---|---|---|---|---|---|---|
| All figures in £ millions | Sales | Deferred income | Committed sales | Total remaining transaction price | 2024 | 2025 | 2026 and later |
| **Courseware** | | | | | | | |
| Products transferred at a point in time | 457 | – | – | – | – | – | – |
| Products and services transferred over time | 630 | 78 | – | 78 | 38 | 15 | 25 |
| **Assessments** | | | | | | | |
| Products transferred at a point in time | 208 | 1 | – | 1 | 1 | – | – |
| Products and services transferred over time | 1,658 | 261 | 332 | 593 | 496 | 94 | 3 |
| **Services** | | | | | | | |
| Products transferred at a point in time | 35 | – | – | – | – | – | – |
| Products and services transferred over time – subscriptions | 660 | 12 | – | 12 | 11 | 1 | – |
| Products and services transferred over time – other | 26 | 16 | 234 | 250 | 250 | – | – |
| **Total** | 3,674 | 368 | 566 | 934 | 796 | 110 | 28 |

| | | | | | | | 2022 |
|---|---|---|---|---|---|---|---|
| All figures in £ millions | Sales | Deferred income | Committed sales | Total remaining transaction price | 2023 | 2024 | 2025 and later |
| **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 | 537 | 22 | 225 | 247 | 247 | – | – |
| **Total** | 3,841 | 400 | 704 | 1,104 | 855 | 220 | 29 |

## 3. Revenue from contracts with customers continued

### e. Remaining transaction price 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 | 478 | 24 | 220 | 244 | 244 | – | – |
| **Total** | 3,428 | 386 | 672 | 1,058 | 831 | 202 | 25 |

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 | 2023 | 2022 | 2021 |
|---|---|---|---|
| **By function:** | | | |
| Cost of goods sold | **1,839** | 2,046 | 1,747 |
| **Operating expenses** | | | |
| Distribution costs | **47** | 61 | 62 |
| Selling, marketing and product development costs | **549** | 564 | 521 |
| Administrative and other expenses | **767** | 823 | 802 |
| Restructuring costs | **–** | 150 | 214 |
| Other income | **(41)** | (49) | (37) |
| **Total net operating expenses** | **1,322** | 1,549 | 1,562 |
| Other net gains and losses | **16** | (24) | (63) |
| **Total** | **3,177** | 3,571 | 3,246 |

Other income includes freight income and sublet income. Included in administrative and other expenses are research and efficacy costs of £8m (2022: £10m; 2021: £12m). In 2023, other net gains and losses relate to the gain on the disposal of the POLS business and gains related to the release of accruals and a provision related to historical acquisitions, offset by losses on the disposal of Pearson College and costs related to current and prior year disposals and acquisitions. 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 2023, there are no costs of major restructuring. In 2022, the restructuring costs of £150m mainly related to staff redundancies and impairment of right-of-use property assets. The 2022 charge includes the impact of updated assumptions related to the recoverability of right-of-use assets made in 2021. In 2023, charges of £11m relating to impairments of property assets arising from the impact of updates to assumptions made during the 2022 and 2021 restructuring programmes are included within administrative and other expenses.

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **By nature:** | | | | |
| Royalties expensed | | **164** | 194 | 185 |
| Other product costs | | **393** | 412 | 353 |
| Employee benefit expense | 5 | **1,467** | 1,605 | 1,365 |
| Contract labour | | **70** | 73 | 69 |
| Employee-related expense | | **60** | 52 | 21 |
| Promotional costs | | **146** | 268 | 239 |
| Depreciation and impairment of property, plant and equipment and investment property and assets held for sale | 10 | **90** | 136 | 241 |
| Amortisation and impairment of intangible assets – product development | 20 | **284** | 303 | 279 |
| Amortisation and impairment of intangible assets – software | 11 | **123** | 125 | 117 |
| Amortisation and impairment of intangible assets – other | 11 | **46** | 54 | 50 |
| Property and facilities | | **82** | 102 | 124 |
| Technology and communications | | **215** | 221 | 215 |
| Professional and outsourced services | | **443** | 501 | 477 |
| Other general and administrative costs | | **43** | 76 | 58 |
| Costs capitalised | | **(424)** | (478) | (447) |
| Other net gains and losses | | **16** | (24) | (63) |
| Other income | | **(41)** | (49) | (37) |
| **Total** | | **3,177** | 3,571 | 3,246 |

## 4. Operating expenses continued

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:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| The audit of parent company and consolidated financial statements | 8 | 6 | 5 |
| The audit of the company's subsidiaries | 2 | 1 | 2 |
| **Total audit fees*** | 10 | 7 | 7 |
| Audit-related and other assurance services | – | – | – |
| Other non-audit services | – | – | – |
| **Total other services** | – | – | – |
| **Total non-audit services** | – | – | – |
| **Total** | 10 | 7 | 7 |

Reconciliation between audit and non-audit service fees is shown below:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Group audit fees including fees for attestation under section 404 of the Sarbanes-Oxley Act | 10 | 7 | 7 |
| Non-audit fees | – | – | – |
| **Total** | 10 | 7 | 7 |

* Includes fees in connection with the interim review, preliminary announcement and controls audit required under Section 404 of the Sarbanes Oxley Act. In total this amounted to £1m in each of the years presented.

## 5. Employee information

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **Employee benefit expense** | | | | |
| Wages and salaries (including termination costs) | | 1,252 | 1,382 | 1,180 |
| Social security costs | | 107 | 113 | 95 |
| Share-based payment costs | 26 | 37 | 35 | 28 |
| Retirement benefits – defined contribution plans | 25 | 45 | 46 | 37 |
| Retirement benefits – defined benefit plans | 25 | 26 | 29 | 25 |
| **Total** | | 1,467 | 1,605 | 1,365 |

An additional £3m of share-based payment costs (2022: £3m; 2021: £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 | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Employee numbers** | | | |
| UK | 3,045 | 3,244 | 3,395 |
| Other European countries | 633 | 809 | 878 |
| US | 10,125 | 11,357 | 11,757 |
| Canada | 398 | 522 | 593 |
| Asia Pacific | 3,257 | 3,369 | 2,738 |
| Other countries | 902 | 1,137 | 1,383 |
| **Total** | 18,360 | 20,438 | 20,744 |

## 6. Net finance costs

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| Interest payable on financial liabilities at amortised cost and associated derivatives | | **(34)** | (32) | (30) |
| Interest on lease liabilities | 35 | **(23)** | (25) | (27) |
| Interest on deferred and contingent consideration | | **(4)** | (5) | – |
| Interest on provisions for uncertain tax positions | | **–** | (7) | (11) |
| Fair value movement on derivatives | | **(20)** | (2) | – |
| **Finance costs** | | **(81)** | (71) | (68) |
| Interest receivable on financial assets at amortised cost | | **16** | 18 | 5 |
| Interest on lease receivables | 35 | **4** | 5 | 6 |
| Net finance income in respect of retirement benefits | 25 | **26** | 9 | 4 |
| Fair value remeasurement of disposal proceeds | | **–** | – | 6 |
| Fair value movements on investments held at fair value | 15 | **13** | 28 | 20 |
| Net foreign exchange gains | | **3** | 1 | 1 |
| Interest on provisions for uncertain tax positions | | **4** | 35 | – |
| Fair value movement on derivatives | | **10** | 27 | 20 |
| **Finance income** | | **76** | 123 | 62 |
| **Net finance (costs)/income** | | **(5)** | 52 | (6) |

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.

## 7. Income tax

| All figures in £ millions | Notes | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **Current tax** | | | | |
| Charge in respect of current year | | **(105)** | (127) | (103) |
| Adjustments in respect of prior years | | **20** | 18 | (12) |
| **Total current tax charge** | | **(85)** | (109) | (115) |
| **Deferred tax** | | | | |
| In respect of temporary differences | | **(11)** | 29 | 103 |
| Other adjustments in respect of prior years | | **(17)** | 1 | 13 |
| **Total deferred tax (charge)/credit** | 13 | **(28)** | 30 | 116 |
| **Total tax (charge)/credit** | | **(113)** | (79) | 1 |

## 7. Income tax continued

The adjustments in respect of prior years in 2023 and 2021 primarily arise from revising the previous year's reported tax provision to reflect the tax returns subsequently filed, whilst in 2022, the difference is primarily due to movements in provisions for tax uncertainties. 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 | 2023 | 2022 | 2021 |
|---|---|---|---|
| Profit before tax | **493** | 323 | 177 |
| Tax calculated at UK rate (2023: 23.5%; 2022: 19%; 2021: 19%) | **(116)** | (62) | (34) |
| Effect of overseas tax rates | **(1)** | (12) | (24) |
| Effect of UK rate change | **(1)** | 3 | 25 |
| Intra-group financing benefit | **–** | – | 7 |
| Net expense not subject to tax | **(3)** | (9) | (9) |
| Gains and losses on sale of businesses not subject to tax | **5** | 2 | 4 |
| Unrecognised tax losses | **1** | 3 | 9 |
| Benefit from changes in local tax law | **–** | – | 11 |
| Benefit from US accounting method changes | **–** | – | 11 |
| Movement in provisions for tax uncertainties – current year | **(2)** | (23) | – |
| Adjustments in respect of prior years – movement in provisions for tax uncertainties | **1** | 13 | – |
| Adjustments in respect of prior years – other | **3** | 6 | 1 |
| **Total tax (charge)/credit** | **(113)** | (79) | 1 |
| UK | **(54)** | (41) | 27 |
| Overseas | **(59)** | (38) | (26) |
| **Total tax (charge)/credit** | **(113)** | (79) | 1 |
| Tax rate reflected in earnings | **23.0%** | 24.5% | (0.6)% |

KJ Key judgements

— The application of tax legislation in relation to provisions for uncertain tax positions.

KE 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.

UK legislation in relation to Pillar Two was substantively enacted on 20 June 2023 and was effective from 1 January 2024. The Group is in scope of this legislation and has performed an assessment of the Group's potential exposure to Pillar Two income taxes. The assessment of the potential exposure to Pillar Two income taxes is based on the most recent financial information available for the constituent entities in the Group. Based on the assessment, the Pillar Two effective tax rates in most of the jurisdictions in which the Group operates are above 15%. However, there are a limited number of jurisdictions where the transitional safe harbour relief does not apply and the Pillar Two effective tax rate is close to 15%. The Group does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

The movement in provisions for tax uncertainties primarily reflects releases due to the expiry of relevant statutes of limitation, settlement of certain audits and reassessment of existing exposures based on currently available information and tax authority correspondence. The current tax liability of £32m (2022: £43m; 2021: £125m) includes £27m (2022: £28m; 2021: £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 2018 are now statute barred from examination by tax authorities, however, a balance of £1m relates to certain remaining open issues. Of the remaining £26m balance, £12m relates to 2019, £4m to 2020, £4m to 2021, £3m to 2022 and £3m to 2023. The tax authorities may take a different view from management and the final liability may be greater or lower than provided.

The matters provided for include a provision of £63m related to the potential EU State Aid exposure and the potential disallowance of intra-group charges. In relation to the potential EU State Aid exposure, a payment was made in 2022 in relation to the maximum potential exposure with the provision of £63m offset against this resulting in a £41m non-current tax debtor.

Refer to note 34 for details of other uncertain tax positions.

The tax benefit/(charge) recognised in other comprehensive income is as follows:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net exchange differences on translation of foreign operations | **–** | 4 | 10 |
| Fair value gains on other financial assets | **–** | 1 | (1) |
| Remeasurement of retirement benefit obligations | **20** | (12) | (61) |
| | **20** | (7) | (52) |

## 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 2023 and 31 December 2022 but have not yet been issued, these shares are considered dilutive but do not materially impact basic EPS.

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Earnings for the year | 380 | 244 | 178 |
| Non-controlling interest | (2) | (2) | (1) |
| **Earnings attributable to equity shareholders** | 378 | 242 | 177 |
| Weighted average number of shares (millions) | 711.5 | 738.1 | 754.1 |
| Effect of dilutive share options (millions) | 5.8 | 3.9 | 5.0 |
| Weighted average number of shares (millions) for diluted earnings | 717.3 | 742.0 | 759.1 |
| **Earnings per share (in pence per share)** | | | |
| Basic | 53.1p | 32.8p | 23.5p |
| Diluted | 52.7p | 32.6p | 23.3p |

## 9. Dividends

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Final paid in respect of prior year 14.9p (2022: 14.2p; 2021: 13.5p) | 106 | 107 | 102 |
| Interim paid in respect of current year 7.0p (2022: 6.6p; 2021: 6.3p) | 49 | 49 | 47 |
| | 155 | 156 | 149 |

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2023 of 15.7p per equity share which will absorb an estimated £107m of shareholders' funds. It will be paid on 3 May 2024 to shareholders who are on the register of members on 22 March 2024. These financial statements do not reflect this dividend as a liability.

## 10. Property, plant and equipment and investment property

| | | Right-of-use assets | | Owned assets | | | |
|---|---|---|---|---|---|---|---|
| All figures in £ millions | Investment property | Land and buildings | Plant and equipment | Land and buildings | Plant and equipment | Assets in the course of construction | Total |
| **Cost** | | | | | | | |
| At 1 January 2022 | – | 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 (see 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** |
| Exchange differences | – | (14) | – | (9) | (11) | (1) | (35) |
| Additions | 24 | 26 | 1 | – | 6 | 24 | 81 |
| Transfers to investment property | – | – | – | – | – | – | – |
| Disposals of businesses (note 31) | – | – | – | (4) | (3) | (2) | (9) |
| Disposals and retirements | – | (29) | (1) | (10) | (36) | – | (76) |
| Reclassifications and transfers | – | – | – | 10 | 24 | (34) | – |
| Transfer to assets classified as held for sale | – | – | – | – | – | – | – |
| **At 31 December 2023** | **214** | **337** | **5** | **165** | **237** | **9** | **967** |

## 10. Property, plant and equipment and investment property continued

| All figures in £ millions | Investment property | Right-of-use assets Land and buildings | Right-of-use assets Plant and equipment | Owned assets Land and buildings | Owned assets Plant and equipment | Owned assets Assets in the course of construction | Total |
|---|---|---|---|---|---|---|---|
| **Depreciation and impairment** | | | | | | | |
| At 1 January 2022 | – | (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) |
| Exchange differences | **–** | **12** | **–** | **6** | **10** | **–** | **28** |
| Charge for the year | **(5)** | **(38)** | **(1)** | **(10)** | **(25)** | **–** | **(79)** |
| Disposals of businesses (note 31) | **–** | **–** | **–** | **2** | **2** | **–** | **4** |
| Disposals and retirements | **–** | **28** | **1** | **10** | **35** | **–** | **74** |
| Reclassifications and transfers | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Impairment | **–** | **(2)** | **–** | **–** | **–** | **–** | **(2)** |
| Transfer to assets classified as held for sale | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **At 31 December 2023** | **(135)** | **(229)** | **(5)** | **(125)** | **(177)** | **–** | **(671)** |
| **Carrying amounts** | | | | | | | |
| At 1 January 2022 | – | 196 | – | 90 | 51 | 29 | 366 |
| At 31 December 2022 | 60 | 125 | – | 45 | 58 | 22 | 310 |
| **At 31 December 2023** | **79** | **108** | – | **40** | **60** | **9** | **296** |

KE 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 £40m (2022: £45m; 2021: £40m) has been included in the income statement in cost of goods sold and £39m (2022: £45m; 2021: £55m) in operating expenses. The impairment charge of £2m (2022: £46m; 2021: £146m) 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 and 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 in 2022 and £141m in 2021 recognised within costs of major restructuring (see note 4 for details). In 2023, there were impairment charges of £11m in respect of property assets including £9m in relation to property assets which are classified as assets held for sale. 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.

In 2023, total additions to right-of-use-assets are £42m (2022: £49m) including £15m (2022: £15m) in respect of investment property.

### 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 £6m (2022: £3m; 2021 £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.

## 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 2022 | 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 businesses (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** |
| Exchange differences | **(107)** | **(40)** | **(42)** | **(5)** | **(3)** | **(12)** | **(209)** |
| Additions – internal development | **–** | **96** | **–** | **–** | **–** | **–** | **96** |
| Additions – purchased | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Disposals and retirements | **–** | **(18)** | **–** | **(1)** | **–** | **(3)** | **(22)** |
| Acquisition of subsidiary (note 30) | **61** | **–** | **82** | **6** | **–** | **29** | **178** |
| Disposal of businesses (note 31) | **–** | **(15)** | **(298)** | **(2)** | **–** | **–** | **(315)** |
| Transfers | **–** | **(1)** | **–** | **–** | **–** | **–** | **(1)** |
| **At 31 December 2023** | **2,434** | **1,137** | **580** | **184** | **100** | **444** | **4,879** |

| 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 2022 | – | (657) | (620) | (138) | (96) | (279) | (1,790) |
| Exchange differences | – | (49) | (65) | (16) | (5) | (37) | (172) |
| Charge for the year | – | (125) | (33) | (8) | – | (13) | (179) |
| Disposals and retirements | – | 130 | – | – | – | – | 130 |
| Disposal of businesses (note 31) | – | 8 | 20 | 7 | – | 1 | 36 |
| Transfers | – | – | – | – | – | – | – |
| **At 31 December 2022** | **–** | **(693)** | **(698)** | **(155)** | **(101)** | **(328)** | **(1,975)** |
| Exchange differences | **–** | **24** | **31** | **4** | **3** | **9** | **71** |
| Charge for the year | **–** | **(123)** | **(19)** | **(7)** | **(1)** | **(19)** | **(169)** |
| Disposals and retirements | **–** | **18** | **–** | **1** | **–** | **3** | **22** |
| Disposal of businesses (note 31) | **–** | **8** | **252** | **2** | **–** | **–** | **262** |
| Transfers | **–** | **1** | **–** | **–** | **–** | **–** | **1** |
| **At 31 December 2023** | **–** | **(765)** | **(434)** | **(155)** | **(99)** | **(335)** | **(1,788)** |
| **Carrying amounts** | | | | | | | |
| At 1 January 2022 | 2,145 | 430 | 121 | 30 | 1 | 42 | 2,769 |
| At 31 December 2022 | 2,480 | 422 | 140 | 31 | 2 | 102 | 3,177 |
| **At 31 December 2023** | **2,434** | **372** | **146** | **29** | **1** | **109** | **3,091** |

## 11. Intangible assets continued

### Goodwill

The goodwill carrying value of £2,434m (2022: £2,480m) 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 determined with the support of a third-party 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 £37m (2022: £32m; 2021: £25m) is included in the income statement in cost of goods sold and £132m (2022: £147m; 2021: £138m) in operating expenses. Impairment charges of £nil (2022: nil; 2021: £4m) are included in operating expenses within the income statement.

The range of useful economic lives for each major class of intangible asset (excluding goodwill and software) is shown below:

| | At 31 December 2023 |
|---|---|
| | 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:

| | At 31 December 2023 | | | | |
|---|---|---|---|---|---|
| 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 | 71 | 41 | 28 | 6 | 146 |
| Acquired trademarks and brands | 22 | 7 | – | – | 29 |
| Acquired publishing rights | 1 | – | – | – | 1 |
| Other intangibles acquired | 84 | 17 | 8 | – | 109 |

### 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. Impairment reviews were conducted on these CGUs as summarised below:

| All figures in £ millions | 2023 Goodwill | 2022 Goodwill |
|---|---|---|
| Assessment & Qualifications | 1,355 | 1,361 |
| Virtual Learning | 419 | 443 |
| English Language Learning | 255 | 259 |
| Workforce Skills | 337 | 348 |
| Higher Education | 68 | 69 |
| **Total** | 2,434 | 2,480 |

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 2023 or 2022.

KE Key areas of estimation

— The valuation of acquired intangible assets recognised on the acquisition of a business. The valuation is based on a number of assumptions, including estimations of future business performance. 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 2022, the separate CGUs of China, South Africa and Canada were disposed. The goodwill related to the Strategic Review CGU was reallocated between businesses disposed and businesses retained. All of the goodwill related to businesses retained was transferred to the Assessment & Qualifications CGU aggregation.

In 2023, business disposals resulted in the disposal of £53m of intangible assets (see note 31 for further details). A relative value method was used to allocate goodwill to the disposed business in the Virtual Learning CGU aggregation. The result of this was that no goodwill was allocated to the disposed business.

## 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 five-year period.

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. Base discount rates were assessed as reflecting underlying economic conditions, and so no further risk premiums were considered necessary. The average pre-tax discount rates range from 10.4% to 13.0% (2022: pre-tax 11.6% to 12.0%).

**Perpetuity growth rates** – The perpetuity growth rates are based on inflation trends. A perpetuity growth rate of 2% (2022: 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. A blended growth rate of 3.5% (2022: 3.5%) was used for cash flows subsequent to the approved budget period for English Language Learning 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 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 – due to product-led share gains and contribution from new acquisitions, recovery in Higher Education, growth in Virtual Learning – albeit impacted by 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 has been significant organic and/or inorganic investment.

**Operating profits** – Operating profits are forecast based on historical experience of operating margins, adjusted for the impact of changes to product costs, 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.

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 2023.

## 11. Intangible assets continued

### Key assumptions continued

The table below shows the key assumptions used by management in the value in use calculations.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Discount rate | Perpetuity growth rate | Discount rate | Perpetuity growth rate |
| Assessment & Qualifications | **10.8%** | **2.0%** | 12.0% | 2.0% |
| Virtual Learning | **11.0%** | **2.0%** | 11.9% | 2.0% |
| English Language Learning | **13.0%** | **3.5%** | 11.8% | 3.5% |
| Workforce Skills | **10.4%** | **2.0%** | 11.6% | 2.0% |
| Higher Education | **10.7%** | **2.0%** | 12.0% | 2.0% |

### Sensitivities

Impairment testing for the year ended 31 December 2023 did not find any of the CGUs to be sensitive to reasonably possible changes in key assumptions.

## 12. Investments in joint ventures and associates

The amounts recognised in the balance sheet are as follows:

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Associates | **22** | 25 |
| **Total** | **22** | 25 |

The amounts recognised in the income statement are as follows:

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Associates | **1** | 1 |
| **Total** | **1** | 1 |

The Group has no material associates or joint ventures. The largest associate is a 49% interest in The Egyptian International Publishing Company-Longman, which had a carrying value of £13m as at 31 December 2023 (2022: £9m).

Other than the £5m payment in respect of Academy of Pop disclosed in note 36, there were no material transactions with associates or joint ventures during 2023 or 2022.

## 13. Deferred income tax

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Deferred income tax assets | **35** | 57 |
| Deferred income tax liabilities | **(46)** | (37) |
| **Net deferred income tax (liability)/asset** | **(11)** | 20 |

Substantially all of the deferred income tax assets are expected to be recovered after more than one year. The net deferred income tax liability of £11m (2022: deferred tax asset of £20m; 2021: deferred tax asset of £17m) includes £23m (2022: £19m; 2021: £nil) of provisions for tax uncertainties principally in respect of several matters in the US and the UK.

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 2023, the Group has gross tax losses for which no deferred tax asset is recognised of £1,029m (2022: £547m). The expiry date and key geographic split of these losses is set out in the following table.

| | Gross | | | | Tax effected | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2023** | **UK** | **US** | **Other** | **Total** | **UK** | **US** | **Other** | **Total** |
| Tax losses expiring: | | | | | | | | |
| Within 10 years | – | 437 | 34 | **471** | – | 91 | 9 | **100** |
| Within 10-20 years | – | 143 | – | **143** | – | 7 | – | **7** |
| Available indefinitely | 168 | 48 | 199 | **415** | 42 | 2 | 65 | **109** |
| **Total** | 168 | 628 | 233 | **1,029** | 42 | 100 | 74 | **216** |

| | Gross | | | | Tax effected | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2022** | **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** |

The increase in unrecognised tax losses in the US is principally due to the crystallisation of a capital loss on disposal during the year which has not been recognised for tax purposes. Other unrecognised tax losses includes £155m gross (2022: £140m) and £53m tax effected (2022: £48m) relating to Brazil.

Other gross deductible temporary differences for which no deferred tax asset is recognised total £201m (2022: £218m). This includes £196m (2022: £193m) in respect of interest limitations. The amount of temporary differences associated with subsidiaries for which no deferred tax has been provided totals £268m (2022: £275m).

Deferred income tax assets of £18m (2022: £14m) have been recognised in countries that reported a tax loss in either the current or preceding year. This primarily arises in respect of tax losses in Brazil, India and Australia. 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 2022 | 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** |
| Exchange differences | **(1)** | **(3)** | **(1)** | **(3)** | **9** | **(2)** | **1** | **–** |
| Acquisitions and disposals of subsidiaries | **(3)** | **6** | **–** | **–** | **(26)** | **–** | **–** | **(23)** |
| Income statement benefit/(charge) | **(25)** | **(11)** | **(6)** | **(17)** | **71** | **(19)** | **(21)** | **(28)** |
| Tax charge in OCI/ equity | **–** | **–** | **20** | **–** | **–** | **–** | **–** | **20** |
| **At 31 December 2023** | **101** | **59** | **(114)** | **43** | **(152)** | **34** | **18** | **(11)** |

Other deferred income tax items include temporary differences in respect of right-of-use assets (deferred tax asset of £54m, with an offsetting deferred tax liability of £42m), and accelerated capital allowances of £11m.

## 14. Classification of financial instruments

The accounting classification of each class of the Group's financial assets, and their carrying values, is as follows:

| All figures in £ millions | Notes | 2023 Fair value through other comprehensive income | 2023 Fair value through profit and loss | 2023 Fair value – hedging instrument | 2023 Amortised cost Financial assets | 2023 Total carrying value | 2022 Fair value through other comprehensive income | 2022 Fair value through profit and loss | 2022 Fair value – hedging instrument | 2022 Amortised cost Financial assets | 2022 Total carrying value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investments in unlisted securities | 15 | **23** | **120** | **–** | **–** | **143** | 24 | 109 | – | – | 133 |
| Cash and cash equivalents | 17 | **–** | **31** | **–** | **281** | **312** | – | 40 | – | 518 | 558 |
| Derivative financial instruments | 16 | **–** | **1** | **47** | **–** | **48** | – | 5 | 54 | – | 59 |
| Trade receivables | 22 | **–** | **–** | **–** | **695** | **695** | – | – | – | 825 | 825 |
| Investment in finance lease receivable | 22 | **–** | **–** | **–** | **100** | **100** | – | – | – | 121 | 121 |
| Other receivable | | **–** | **–** | **–** | **12** | **12** | – | – | – | 3 | 3 |
| **Total financial assets** | | **23** | **152** | **47** | **1,088** | **1,310** | 24 | 154 | 54 | 1,467 | 1,699 |

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 deferred consideration receivable on the disposal of POLS.

The accounting classification of each class of the Group's financial liabilities, together with their carrying values and market values, is as follows:

| All figures in £ millions | Notes | 2023 Fair value through profit and loss | 2023 Fair value – hedging instrument | 2023 Amortised cost Other financial liabilities | 2023 Total carrying value | 2023 Total market value | 2022 Fair value through profit and loss | 2022 Fair value – hedging instrument | 2022 Amortised cost Other financial liabilities | 2022 Total carrying value | 2022 Total market value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Derivative financial instruments | 16 | **(7)** | **(36)** | **–** | **(43)** | **(43)** | (2) | (63) | – | (65) | (65) |
| Trade payables | 24 | **–** | **–** | **(317)** | **(317)** | **(317)** | – | – | (348) | (348) | (348) |
| Deferred and contingent consideration | 24 | **(57)** | **–** | **–** | **(57)** | **(57)** | (79) | – | – | (79) | (79) |
| Borrowings due within one year | 18 | **–** | **–** | **(67)** | **(67)** | **(67)** | – | – | (86) | (86) | (86) |
| Borrowings due after more than one year | 18 | **–** | **–** | **(1,094)** | **(1,094)** | **(1,062)** | – | – | (1,144) | (1,144) | (1,096) |
| **Total financial liabilities** | | **(64)** | **(36)** | **(1,478)** | **(1,578)** | **(1,546)** | (81) | (63) | (1,578) | (1,722) | (1,674) |

The market value of leases approximates their 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. The Group's bonds valued at £611m (2022: £610m) and money market funds of £31m (2022: £40m) included within cash and cash equivalents are classified as level 1.

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). The Group's derivative assets valued at £48m (2022: £59m) and derivative liabilities valued at £43m (2022: £65m) are classified as level 2.

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 investments in unlisted securities are valued at £143m (2022: £133m), deferred and contingent consideration of £57m (2022: £79m) and the other receivable of £12m (2022: £3m) are classified as level 3.

The movements in fair values of level 3 financial assets measured at fair value, are shown in the table below:

| | 2023 | | | 2022 |
|---|---|---|---|---|
| All figures in £ millions | Other receivable | Investments in unlisted securities | Total | Total |
| At 1 January | 3 | 133 | 136 | 200 |
| Exchange differences | – | (5) | (5) | 10 |
| Acquisition of investments and other receivable | 12 | 8 | 20 | 19 |
| Repayments | (3) | – | (3) | (92) |
| Disposal of investments | – | (7) | (7) | (48) |
| Fair value movements – OCI | – | 1 | 1 | 18 |
| Fair value movements – income statement | – | 13 | 13 | 29 |
| **At 31 December** | 12 | 143 | 155 | 136 |

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 relates to £12m (2022: £nil) in respect of the contingent consideration receivable for the sale of the POLS business, which comprises a 27.5% share of positive adjusted EBITDA in each calendar year for six years and 27.5% of the proceeds received by the purchaser in relation to any future monetisation event. The valuation of the deferred consideration has been determined on the basis of a discounted cash flow model, and valued by a third-party specialist.

The key inputs into the discounted cash flow model are the estimates of adjusted EBITDA for the next 6 years and the estimate of the valuation of the business thereafter. Reasonably possible changes in assumptions for the inputs into the model would not have a material impact on the carrying value of the contingent consideration, and therefore sensitivities have not been disclosed.

The deferred consideration payable in respect of prior year acquisitions is measured as the net present value of the expected cash flows. The movement in the fair value of the deferred consideration payable is shown in the table below:

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| At 1 January | (79) | (44) |
| Exchange differences | 3 | (7) |
| Acquisitions | – | (42) |
| Fair value movements – income statement | (4) | 4 |
| Repayments | 23 | 10 |
| **At 31 December** | (57) | (79) |

## 15. Other financial assets

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| At 1 January | 133 | 113 |
| Exchange differences | (5) | 9 |
| Acquisition of investments | 8 | 12 |
| Disposal of investments | (7) | (48) |
| Fair value movements – OCI | 1 | 18 |
| Fair value movements – income statement | 13 | 29 |
| **At 31 December** | 143 | 133 |

Other financial assets are unlisted securities of £143m (2022: £133m), of which £23m (2022: £24m) are classified at fair value through other comprehensive income (FVOCI), with the remaining £120m (2022: £109m) 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 £3m (2022: £31m). In 2022, these disposals predominantly related to the Group's investment in Credly, where the Group acquired the remainder of the share capital and so the investment was treated as disposed as the company is now fully consolidated. The cumulative loss on disposal was £2m (2022: £23m gain).

## 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:

| All figures in £ millions | **2023** Gross notional amounts | **2023** Assets | **2023** Liabilities | 2022 Gross notional amounts | 2022 Assets | 2022 Liabilities |
|---|---|---|---|---|---|---|
| Interest rate derivatives – in a fair value hedge relationship | **174** | **–** | **(5)** | 177 | – | (11) |
| Interest rate derivatives – not in a hedge relationship | **356** | **14** | **(1)** | 260 | 19 | – |
| Cross-currency rate derivatives – in a hedge relationship | **352** | **26** | **(31)** | 83 | 34 | (43) |
| Cross-currency rate derivatives – not in a hedge relationship | **87** | **–** | **(1)** | – | – | – |
| FX derivatives – in a hedge relationship | **420** | **7** | **–** | 355 | 1 | (9) |
| FX derivatives – not in a hedge relationship | **526** | **1** | **(5)** | 573 | 5 | (2) |
| **Total** | **1,915** | **48** | **(43)** | 1,448 | 59 | (65) |
| **Analysed as expiring:** | | | | | | |
| In less than one year | **1,047** | **16** | **(5)** | 1,028 | 16 | (11) |
| Later than one year and not later than five years | **868** | **32** | **(38)** | 420 | 43 | (54) |
| **Total** | **1,915** | **48** | **(43)** | 1,448 | 59 | (65) |

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 debt.

| Receive Notional | Receive coupon | FX rate | Notional | Pay coupon |
|---|---|---|---|---|
| €100m | 1.375% | GBPEUR: 1.1295 | £87m | 3.51% |
| €181m | 1.375% | GBPUSD: 1.206 | £157m | 3.402% |
| €19m | 1.375% | GBPUSD: 1.206 | £16m | 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. £157m 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 2023, the Group held FX outrights with a notional of $280m at an average rate of GBP:USD rate of 1.25.

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. In 2022, for USD exposures the Group transitioned its RCF from USD LIBOR to SOFR. 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.

A foreign currency exposure arises from foreign exchange fluctuations on translation of the Group's euro debt into GBP. The hedged risk is the risk of changes in the GBP:EUR spot rate that will result in changes in the value of the euro debt when translated into GBP. The hedged items are a portion of the Group's euro bonds. The hedging instruments are floating to floating cross-currency swaps which mitigates an exposure to the effect of euro strengthening against GBP within 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.

The Group held the following instruments to hedge exposures to changes in interest rates and foreign currency risk associated with borrowings:

| | | | **2023** |
|---|---|---|---|
| All figures in £ millions | Carrying amount of hedging instruments | Change in fair value of hedging instrument used to determine hedge ineffectiveness | Nominal amounts of hedging instruments |
| Derivative financial instruments for interest rate risk | **(6)** | **5** | **174** |
| Derivative financial instruments for currency risk | **26** | **(7)** | **174** |

| | | | 2022 |
|---|---|---|---|
| All figures in £ millions | Carrying amount of hedging instruments | Change in fair value of hedging instrument used to determine hedge ineffectiveness | Nominal amounts of hedging instruments |
| Derivative financial instruments for interest rate risk | (11) | (16) | 177 |
| Derivative financial instruments for currency risk | 33 | 9 | 266 |

## 16. Derivative financial instruments and hedge accounting continued

The amounts at the reporting date relating to items designated as hedge items were as follows:

| All figures in £ millions | 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 |
|---|---|---|---|---|---|
| | | | | | **2023** |
| **Interest rate risk** | | | | | |
| Financial liabilities – borrowings | **(169)** | **6** | **5** | **1** | **Finance costs** |
| **Currency risk** | | | | | |
| Financial liabilities – borrowings | **(169)** | **n/a** | **5** | **–** | **n/a** |

| All figures in £ millions | 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 |
|---|---|---|---|---|---|
| | | | | | 2022 |
| **Interest rate risk** | | | | | |
| Financial liabilities – borrowings | (167) | 11 | 15 | (1) | Finance costs |
| **Currency risk** | | | | | |
| Financial liabilities – borrowings | (167) | n/a | (14) | – | n/a |

### Hedge of net investment in a foreign operation

A foreign currency exposure arises from the translation of the Group's net investments in its subsidiaries. The hedged risk is the risk of changes in the currency spot rate (eg GBP:USD) that will result in changes in the value of the Group's net investment in its overseas subsidiaries when translated into GBP. The hedged items are a portion of the Group's assets which are denominated in USD. The hedging instruments are debt and derivative financial instruments, including cross-currency swaps, FX forwards and FX collars, which mitigates an exposure to the effect of a weakening USD on the hedged item against GBP. It is expected that the change in value of each of these items will mirror each other as there is a clear and direct economic relationship between the hedging instrument and the hedged item in the hedge relationship.

Hedge ineffectiveness would arise if the value of the hedged items fell below the value of the hedging instruments; however, this is unlikely as the value of the Group's assets denominated in USD is significantly greater than the proposed net investment programme.

The amounts related to items designated as hedging instruments were as follows:

| All figures in £ millions | Carrying amount of hedging instruments | Change in value of hedging instrument used to determine hedge ineffectiveness | Nominal amounts of hedging instruments | Hedging gains/(losses) recognised in OCI | Hedge ineffectiveness recognised in profit or loss |
|---|---|---|---|---|---|
| | | | | | **2023** |
| Derivative financial instruments | **(24)** | **26** | **599** | **26** | **–** |
| Financial liabilities – borrowings | **–** | **–** | **–** | **–** | **–** |

| All figures in £ millions | Carrying amount of hedging instruments | Change in value of hedging instrument used to determine hedge ineffectiveness | Nominal amounts of hedging instruments | Hedging gains/(losses) recognised in OCI | Hedge ineffectiveness recognised in profit or loss |
|---|---|---|---|---|---|
| | | | | | 2022 |
| Derivative financial instruments | (50) | (31) | 172 | (31) | – |
| Financial liabilities – borrowings | (89) | (5) | (88) | (5) | – |

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 2023 was £nil (2022: £1m). During the year £nil (2022: £2m) of hedging gains were recycled to the profit and loss.

### Offsetting arrangements with derivative counterparties

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 | 2023 Gross derivative assets | 2023 Gross derivative liabilities | 2023 Net derivative assets/ liabilities | 2022 Gross derivative assets | 2022 Gross derivative liabilities | 2022 Net derivative assets/ liabilities |
|---|---|---|---|---|---|---|
| Counterparties in an asset position | 26 | (14) | 12 | 30 | (17) | 13 |
| Counterparties in a liability position | 22 | (29) | (7) | 29 | (48) | (19) |
| **Total as presented in the balance sheet** | 48 | (43) | 5 | 59 | (65) | (6) |

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'.

## 17. Cash and cash equivalents (excluding overdrafts)

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Cash at bank and in hand | 312 | 269 |
| Short-term bank deposits | – | 289 |
| Cash and cash equivalents | 312 | 558 |

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | 312 | 558 |
| Bank overdrafts | (3) | (15) |
| Cash and cash equivalents in the cash flow statement | 309 | 543 |

Short-term bank deposits are invested with banks and earn interest at the prevailing short-term deposit rates.

At the end of 2023, the currency split of cash and cash equivalents was US dollar 16% (2022: 31%), sterling 11% (2022: 6%), and other 73% (2022: 63%).

Cash and cash equivalents have fair values that approximate to their carrying value due to their short-term nature.

The Group has certain cash pooling arrangements in US dollars, sterling and Canadian dollars where both the company and the bank have a legal right of offset. The company presents these amounts net in the balance sheet where legal right of offset exists and the company has the intention to settle net if required. As at 31 December 2023, £23m (2022: £5m) of financial liabilities were presented net within financial assets.

## 18. Financial liabilities – borrowings

The Group's current and non-current borrowings are as follows:

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| **Non-current** | | |
| 1.375% Euro notes 2025 (nominal amount €300m) | 257 | 257 |
| 3.75% GBP notes 2030 (nominal amount £350m) | 354 | 353 |
| Lease liabilities (see note 35) | 483 | 534 |
| | 1,094 | 1,144 |
| **Current (due within one year or on demand)** | | |
| Lease liabilities (see note 35) | 64 | 71 |
| Overdrafts | 3 | 15 |
| | 67 | 86 |
| **Total borrowings** | 1,161 | 1,230 |

Included in the non-current borrowings above is £10m of accrued interest (2022: £10m). No accrued interest is included in the current borrowings above (2022: £nil). The maturities of the Group's non-current borrowings are as follows:

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Between one and two years | 70 | 72 |
| Between two and five years | 419 | 442 |
| Over five years | 605 | 630 |
| | 1,094 | 1,144 |

## 18. Financial liabilities – borrowings continued

The carrying amounts and market values of borrowings are as follows:

| All figures in £ millions | 2023 Effective interest rate | 2023 Carrying value | 2023 Market value | 2022 Effective interest rate | 2022 Carrying value | 2022 Market value |
|---|---|---|---|---|---|---|
| 1.375% Euro notes 2025 | **1.44%** | **257** | **252** | 1.44% | 257 | 252 |
| 3.75% GBP notes 2030 | **3.93%** | **354** | **327** | 3.93% | 353 | 310 |
| Overdrafts | **n/a** | **3** | **3** | n/a | 15 | 15 |
| | | **614** | **582** | | 625 | 577 |

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 | 2023 | 2022 |
|---|---|---|
| US dollar | **217** | 276 |
| Sterling | **667** | 672 |
| Euro | **261** | 262 |
| Other | **16** | 20 |
| | **1,161** | 1,230 |

The Group had $1bn (£0.8bn) of undrawn capacity on its committed borrowing facilities as at 31 December 2023 (2022: $1.19bn (£0.9bn) undrawn). 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 2023 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 | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | **312** | 558 |
| Overdrafts | **(3)** | (15) |
| Derivative financial instruments | **5** | (6) |
| Bonds | **(611)** | (610) |
| Investment in finance lease receivable | **100** | 121 |
| Lease liabilities | **(547)** | (605) |
| **Net debt** | **(744)** | (557) |

## Interest and foreign exchange rate management

The Group's principal currency exposure is to the US dollar which represents 68% 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 2023 and 2022, the Group's debt of £1,161m (2022: £1,230m) 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 2023, the sensitivity of the carrying value of the Group's financial instruments to fluctuations in interest rates and exchange rates is as follows:

| | | | | | 2023 |
|---|---|---|---|---|---|
| All figures in £ millions | 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 |
| Investments in unlisted securities | 143 | – | – | (10) | 12 |
| Other receivable | 12 | – | – | (1) | 1 |
| Cash and cash equivalents | 312 | – | – | (24) | 30 |
| Derivative financial instruments | 5 | 15 | (15) | (5) | 19 |
| Bonds | (611) | 2 | (2) | 24 | (29) |
| Other borrowings | (550) | – | – | 21 | (26) |
| Investment in finance lease receivable | 100 | – | – | (9) | 11 |
| Deferred and contingent consideration | (57) | – | – | 3 | (4) |
| Other net financial assets | 378 | – | – | (31) | 38 |
| **Total** | (268) | 17 | (17) | (32) | 52 |

| | | | | | 2022 |
|---|---|---|---|---|---|
| All figures in £ millions | 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 |
| 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 |

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.

## 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 2023, the Group had cash of £0.3bn (2022: £0.5bn) and no outstanding drawings (2022: £nil) on the US dollar denominated revolving credit facility due 2026 of $1bn (2022: $1.19bn).

The $1bn facility contains interest cover and leverage covenants which the Group has complied with for the year ended 31 December 2023. 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 2023, the currency split of the Group's trade payables was US dollar £228m (2022: £234m), sterling £64m (2022: £71m) and other currencies £25m (2022: £43m). Trade payables are all due within one year (2022: all due within one year).

## 19. Financial risk management continued

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 | | | |
|---|---|---|---|---|---|---|---|---|
| All figures in £ millions | 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 |
| **At 31 December 2023** | | | | | | | | |
| Bonds | **–** | **257** | **354** | **611** | **–** | **354** | **257** | **611** |
| Rate derivatives – inflows | **(13)** | **(262)** | **–** | **(275)** | **(6)** | **(9)** | **(260)** | **(275)** |
| Rate derivatives – outflows | **5** | **268** | **–** | **273** | **178** | **89** | **6** | **273** |
| FX forwards – inflows | **(428)** | **–** | **–** | **(428)** | **–** | **(428)** | **–** | **(428)** |
| FX forwards – outflows | **421** | **–** | **–** | **421** | **421** | **–** | **–** | **421** |
| **Total** | **(15)** | **263** | **354** | **602** | **593** | **6** | **3** | **602** |
| **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 |

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 2023, 75% (2022: 77%) of cash and cash equivalents was held with investment grade bank counterparties, 10% (2022: 8%) with AAA money market funds and 15% (2022: 15%) 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 | 2023 | 2022 |
|---|---|---|
| **Cost** | | |
| At 1 January | **2,918** | 2,698 |
| Exchange differences | **(121)** | 235 |
| Additions | **300** | 357 |
| Disposals and retirements | **(550)** | (191) |
| Disposal of businesses (note 31) | **(29)** | (186) |
| Transfers | **(1)** | 5 |
| **At 31 December** | **2,517** | 2,918 |
| **Amortisation** | | |
| At 1 January | **(1,943)** | (1,804) |
| Exchange differences | **92** | (174) |
| Charge for the year | **(280)** | (288) |
| Impairment | **(4)** | (15) |
| Disposals and retirements | **550** | 191 |
| Disposal of businesses (note 31) | **14** | 147 |
| Transfers | **1** | – |
| **At 31 December** | **(1,570)** | (1,943) |
| **Carrying amounts at 31 December** | **947** | 975 |

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 ten 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 2023, of the £4m (2022: £15m) impairment charges, £nil (2022: £13m; 2021: £14m) 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 2023 (2022: £nil; 2021: £nil).

## 21. Inventories

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Raw materials | **4** | 5 |
| Work in progress | **1** | 2 |
| Finished goods | **81** | 93 |
| Returns asset | **5** | 5 |
| | **91** | 105 |

The cost of inventories recognised as an expense and included in the income statement in cost of goods sold amounted to £155m (2022: £166m; 2021: £171m) including £19m (2022: £16m; 2021: £22m) 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 2023 (2022: £nil; 2021: £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.

## 22. Trade and other receivables

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| **Current** | | |
| Trade receivables | 694 | 824 |
| Royalty advances | 1 | 1 |
| Prepayments | 233 | 200 |
| Investment in finance lease receivable | 18 | 17 |
| Accrued income | 13 | 15 |
| Other receivables | 91 | 82 |
| | 1,050 | 1,139 |
| **Non-current** | | |
| Trade receivables | 1 | 1 |
| Royalty advances | 4 | 5 |
| Prepayments | 8 | 12 |
| Investment in finance lease receivable | 82 | 104 |
| Accrued income | 2 | 2 |
| Interest receivable | 3 | 3 |
| Other receivables | 35 | 12 |
| | 135 | 139 |

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 (2022: £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.

The movements in the provision for bad and doubtful debts are as follows:

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| At 1 January | (69) | (63) |
| Exchange differences | 2 | (3) |
| Income statement movements | 3 | (18) |
| Utilised | 9 | 12 |
| Disposal of businesses | 4 | 3 |
| **At 31 December** | (51) | (69) |

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 | 2023 | 2022 |
|---|---|---|
| Within due date and one month past due date | 564 | 663 |
| One to three months past due date | 83 | 118 |
| Three to six months past due date | 25 | 25 |
| Six to nine months past due date | 12 | 14 |
| Nine to 12 months past due date | 8 | 14 |
| More than 12 months past due date | 54 | 60 |
| **Gross trade receivables** | 746 | 894 |

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.

## 23. Provisions for other liabilities and charges

| All figures in £ millions | Property | Legal and other | Total |
|---|---|---|---|
| At 1 January 2023 | 22 | 77 | 99 |
| Exchange differences | – | (4) | (4) |
| Provisions made during the year | 6 | 12 | 18 |
| Provisions reversed during the year | (4) | (9) | (13) |
| Provisions used during the year | – | (60) | (60) |
| **At 31 December 2023** | 24 | 16 | 40 |

## Analysis of provisions:

| | | | 2023 |
|---|---|---|---|
| All figures in £ millions | Property | Legal and other | Total |
| Current | 11 | 14 | 25 |
| Non-current | 13 | 2 | 15 |
| | 24 | 16 | 40 |
| | | | 2022 |
| Current | 9 | 76 | 85 |
| Non-current | 13 | 1 | 14 |
| | 22 | 77 | 99 |

Property provisions made in 2023 and 2022 relate to the simplification of the Group's property portfolio (see note 4) and dilapidations.

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 decrease in provisions is mainly due to the utilisation of restructuring provisions in the year.

## 24. Trade and other liabilities

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| **Current** | | |
| Trade payables | 317 | 348 |
| Sales return liability | 31 | 53 |
| Deferred income | 295 | 340 |
| Interest payable | 4 | 10 |
| Accruals and other liabilities | 628 | 503 |
| | 1,275 | 1,254 |
| **Non-current** | | |
| Deferred income | 73 | 60 |
| Accruals and other liabilities | 25 | 60 |
| | 98 | 120 |

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. The increase in trade and other liabilities held by the Group is driven by the liability recorded for the remainder of the Share buyback scheme offset against disposals, differences in deferred income due to timing, and utilisation of accruals from the 2022 restructuring programme.

## 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. The Group also recognises 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 2023, the UK Group plan had approximately 26,300 members, analysed in the following table:

| All figures in % | Active | Deferred | Pensioners | Total |
|---|---|---|---|---|
| Defined benefit | – | 15 | 33 | 48 |
| Defined contribution | 10 | 42 | – | 52 |
| **Total** | 10 | 57 | 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.

KJ Key judgements

— Whether the Group will be eligible to receive the surplus associated with the UK Group Pension Plan in recognising a pension asset.

KE 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.

## Assumptions

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 % | 2023 UK Group plan | 2023 Other plans | 2023 PRMB | 2022 UK Group plan | 2022 Other plans | 2022 PRMB | 2021 UK Group plan | 2021 Other plans | 2021 PRMB |
|---|---|---|---|---|---|---|---|---|---|
| Inflation | **3.0** | **2.0** | **–** | 3.4 | 2.0 | – | 3.3 | 1.4 | – |
| Rate used to discount plan liabilities | **4.6** | **4.9** | **5.0** | 4.9 | 5.3 | 5.3 | 1.9 | 2.8 | 2.6 |
| Expected rate of increase in salaries | **3.5** | **2.5** | **–** | 3.9 | 2.9 | – | 3.8 | 2.7 | – |
| Expected rate of increase for pensions in payment and deferred pensions | **1.75 to 5.10** | **–** | **–** | 1.95 to 5.20 | – | – | 2.35 to 5.10 | – | – |
| Initial rate of increase in healthcare rate | **–** | **–** | **6.5** | – | – | 6.5 | – | – | 6.3 |
| Ultimate rate of increase in healthcare rate | **–** | **–** | **5.0** | – | – | 5.0 | – | – | 5.0 |

The UK discount rate is based on corporate bond yields adjusted to reflect the duration of liabilities.

The inflation rate for the UK Group plan of 3.0% (2022: 3.4%) 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 2.3% (2022: 2.7%) 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 UK Group plan, the mortality base table assumptions are derived from the SAPS S3 for males and females, adjusted to reflect the observed experience of the plan, with CMI model improvement factors. A 1.5% long-term rate improvement on the CMI 2022 model is applied for both males and females, with a weighting to 2022 mortality experience in the CMI model of 40% to reflect current trends in life expectancy. Life expectancy remains uncertain following the COVID-19 pandemic which had wide-ranging direct and indirect impacts.

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.

Using the above tables, the remaining average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date for the UK Group plan and US plans is as follows:

| All figures in years | UK 2023 | UK 2022 | UK 2021 | US 2023 | US 2022 | US 2021 |
|---|---|---|---|---|---|---|
| Male | **21.8** | 22.5 | 22.6 | **20.7** | 20.6 | 20.5 |
| Female | **24.1** | 24.7 | 24.8 | **22.6** | 22.6 | 22.5 |

The remaining average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, for the UK and US Group plans is as follows:

| All figures in years | UK 2023 | UK 2022 | UK 2021 | US 2023 | US 2022 | US 2021 |
|---|---|---|---|---|---|---|
| Male | **23.4** | 24.1 | 24.2 | **22.2** | 22.1 | 22.0 |
| Female | **25.8** | 26.4 | 26.5 | **24.1** | 24.0 | 23.9 |

Although the Group anticipates that plan surpluses will be utilised during the life of the plan to address member benefits, the Group recognises its 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.

## 25. Retirement benefit and other post-retirement obligations continued

### Financial statement information

The amounts recognised in the income statement are as follows:

| All figures in £ millions | UK Group plan | Defined benefit other | Sub-total | Defined contribution | PRMB | Total 2023 |
|---|---|---|---|---|---|---|
| Current service cost | 16 | 2 | 18 | 45 | – | 63 |
| Past service cost | – | – | – | – | – | – |
| Settlements | – | – | – | – | – | – |
| Administration expenses | 8 | – | 8 | – | – | 8 |
| **Total operating expense** | 24 | 2 | 26 | 45 | – | 71 |
| Interest on plan assets | (148) | (5) | (153) | – | – | (153) |
| Interest on plan liabilities | 121 | 6 | 127 | – | – | 127 |
| **Net finance (income)/ expense** | (27) | 1 | (26) | – | – | (26) |
| **Net income statement charge** | (3) | 3 | – | 45 | – | 45 |

| All figures in £ millions | UK Group plan | Defined benefit other | Sub-total | Defined contribution | PRMB | Total 2022 |
|---|---|---|---|---|---|---|
| Current service cost | 17 | 2 | 19 | 46 | – | 65 |
| Past service cost | 3 | – | 3 | – | – | 3 |
| Settlements | – | – | – | – | – | – |
| 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 |

| All figures in £ millions | UK Group plan | Defined benefit other | Sub-total | Defined contribution | PRMB | Total 2021 |
|---|---|---|---|---|---|---|
| Current service cost | 17 | 2 | 19 | 37 | – | 56 |
| Past service cost | – | – | – | – | – | – |
| Settlements | – | – | – | – | – | – |
| 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 |

The amounts recognised in the balance sheet are as follows:

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| All figures in £ millions | UK Group plan | Other funded plans | Other unfunded plans | Total | UK Group plan | Other funded plans | Other unfunded plans | Total |
| Fair value of plan assets | 3,060 | 107 | – | 3,167 | 3,088 | 104 | – | 3,192 |
| Present value of defined benefit obligation | (2,569) | (99) | (15) | (2,683) | (2,514) | (106) | (17) | (2,637) |
| **Net pension asset/ (liability)** | 491 | 8 | (15) | 484 | 574 | (2) | (17) | 555 |
| Other post-retirement medical benefit obligation | | | | (21) | | | | (25) |
| Other pension accruals | | | | (8) | | | | (10) |
| **Net retirement benefit asset** | | | | 455 | | | | 520 |
| **Analysed as:** | | | | | | | | |
| Retirement benefit assets | | | | 499 | | | | 581 |
| Retirement benefit obligations | | | | (44) | | | | (61) |

The following gains/(losses) have been recognised in other comprehensive income:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Amounts recognised for defined benefit plans | (86) | 44 | 145 |
| Amounts recognised for post-retirement medical benefit plans | 1 | 10 | 4 |
| **Total recognised in year** | (85) | 54 | 149 |

The fair value of plan assets comprises the following:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| All figures in % | UK Group plan | Other funded plans | Total | UK Group plan | Other funded plans | Total |
| Insurance | 33 | – | 33 | 33 | – | 33 |
| Equities | 15 | 1 | 16 | 14 | 1 | 15 |
| Fixed interest securities | 6 | 2 | 8 | 5 | 2 | 7 |
| Property | 5 | – | 5 | 6 | – | 6 |
| Pooled asset investment funds (including LDI) | 24 | – | 24 | 23 | – | 23 |
| Infrastructure | 11 | – | 11 | 11 | – | 11 |
| Cash and cash equivalents | 1 | – | 1 | 3 | – | 3 |
| Other | 2 | – | 2 | 2 | – | 2 |

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:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| All figures in % | Quoted market price | No quoted market price | Quoted market price | No quoted market price |
| Insurance | – | 33 | – | 33 |
| Equities | 16 | – | 15 | – |
| Fixed-interest securities | 8 | – | 7 | – |
| Property | – | 5 | – | 6 |
| Pooled asset investment funds (including LDI) | 24 | – | 23 | – |
| Infrastructure | – | 11 | – | 11 |
| Cash and cash equivalents | – | 1 | – | 3 |
| Other | – | 2 | – | 2 |
| **Total** | 48 | 52 | 45 | 55 |

The liquidity profile of the UK Group plan assets is as follows:

| All figures in % | 2023 | 2022 |
|---|---|---|
| Liquid – call <1 month | 48 | 47 |
| Less liquid – call 1–3 months | 2 | 2 |
| Illiquid – call >3 months | 50 | 51 |

## 25. Retirement benefit and other post-retirement obligations continued

Changes in the values of plan assets and liabilities of the retirement benefit plans are as follows:

| All figures in £ millions | 2023 UK Group plan | 2023 Other plans | 2023 Total | 2022 UK Group plan | 2022 Other plans | 2022 Total |
|---|---|---|---|---|---|---|
| **Fair value of plan assets** | | | | | | |
| Opening fair value of plan assets | 3,088 | 104 | 3,192 | 4,125 | 120 | 4,245 |
| Recognition of Money Purchase assets | – | – | – | – | – | – |
| Exchange differences | – | (6) | (6) | – | 12 | 12 |
| Interest on plan assets | 148 | 5 | 153 | 77 | 3 | 80 |
| Return on plan assets excluding interest | (48) | 5 | (43) | (1,000) | (18) | (1,018) |
| Contributions by employer | – | 15 | 15 | 15 | 2 | 17 |
| Contributions by employees | 7 | – | 7 | 7 | – | 7 |
| Benefits paid | (135) | (14) | (149) | (136) | (15) | (151) |
| Settlements | – | (2) | (2) | – | – | – |
| **Closing fair value of plan assets** | 3,060 | 107 | 3,167 | 3,088 | 104 | 3,192 |
| **Present value of defined benefit obligation** | | | | | | |
| Opening defined benefit obligation | (2,514) | (123) | (2,637) | (3,588) | (143) | (3,731) |
| Recognition of Money Purchase liabilities | – | – | – | – | – | – |
| Exchange differences | – | 6 | 6 | – | (14) | (14) |
| Disposals | – | – | – | – | 1 | 1 |
| Current service cost | (16) | (2) | (18) | (17) | (2) | (19) |
| Past service cost | – | – | – | (3) | – | (3) |
| Administration expenses | (8) | – | (8) | (7) | – | (7) |
| Interest on plan liabilities | (121) | (6) | (127) | (67) | (3) | (70) |
| Actuarial losses – experience | (61) | (2) | (63) | (25) | (2) | (27) |
| Actuarial gains – demographic | 52 | – | 52 | 14 | – | 14 |
| Actuarial (losses)/gains – financial | (29) | (3) | (32) | 1,050 | 25 | 1,075 |
| Contributions by employees | (7) | – | (7) | (7) | – | (7) |
| Benefits paid | 135 | 14 | 149 | 136 | 15 | 151 |
| Settlements | – | 2 | 2 | – | – | – |
| **Closing defined benefit obligation** | (2,569) | (114) | (2,683) | (2,514) | (123) | (2,637) |

The weighted average duration of the defined benefit obligation is 12 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 | 2023 | 2022 |
|---|---|---|
| Opening defined benefit obligation | (25) | (34) |
| Exchange differences | 1 | (3) |
| Interest on plan liabilities | – | (1) |
| Actuarial gains – experience | 2 | 5 |
| Actuarial (losses)/gains – financial | (1) | 5 |
| Benefits paid | 2 | 3 |
| **Closing defined benefit obligation** | (21) | (25) |

### 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 final salary section 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 for the final salary section 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 2024.

## 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:

| | 2023 | |
|---|---|---|
| All figures in £ millions | 1% increase | 1% decrease |
| **Effect:** | | |
| (Decrease)/increase in defined benefit obligation – UK Group plan | (203) | 251 |
| (Decrease)/increase in defined benefit obligation – US plan | (5) | 5 |

The effect of members living one year more or one year less on the defined benefit obligation is as follows:

| | 2023 | |
|---|---|---|
| All figures in £ millions | One year increase | One year decrease |
| **Effect:** | | |
| Increase/(decrease) in defined benefit obligation – UK Group plan | 58 | (58) |
| Increase/(decrease) in defined benefit obligation – US plan | 2 | (2) |

The effect of a half percentage point increase and decrease in the inflation rate is as follows:

| | 2023 | |
|---|---|---|
| All figures in £ millions | 0.5% increase | 0.5% decrease |
| **Effect:** | | |
| Increase/(decrease) in defined benefit obligation – UK Group plan | 61 | (58) |
| Increase/(decrease) in defined benefit obligation – US plan | – | – |

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.

## 26. Share-based payments

The Group recognised the following charges in the income statement in respect of its equity-settled share-based payment plans:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Pearson plans | 40 | 38 | 28 |

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 this plan, 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 and May 2021 vest dependent on relative total shareholder return (FTSE 100), net return on invested capital and adjusted earnings per share, and the May 2023 awards vest based on relative total shareholder return (FTSE 100 and S&P 500, excluding certain sectors), return on capital, adjusted earnings per share and an ESG measure. These awards are in addition to the 2020 co-investment award for Andy Bird, vesting in three equal tranches based on market and non-market performance underpins. The applicable market condition for the vesting of the final tranche is on relative total shareholder return (FTSE 100). Other restricted shares awarded in 2023, 2022 and 2021 generally vest depending on continuing service over periods of up to five years. Included within the total share-based payments charge in 2023 was £3m (2022: £3m; 2021: £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.

## 26. Share-based payments continued

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. In 2021 this scheme was replaced by the Long-Term Incentive Plan for senior management.

The following shares were granted under restricted share arrangements:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Number of shares 000s** | **Weighted average fair value £** | Number of shares 000s | Weighted average fair value £ |
| Long-Term Incentive Plan | **5,572** | **6.99** | 7,584 | 7.61 |

In 2023, £23m (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 31 December 2021 | 756,802 | 189 | 2,626 |
| Issue of ordinary shares – share option schemes | 1,199 | – | 7 |
| Buyback of equity | (42,268) | (10) | – |
| **At 31 December 2022** | 715,733 | 179 | 2,633 |
| Issue of ordinary shares – share option schemes | **1,809** | – | **9** |
| Buyback of equity | **(20,243)** | **(5)** | – |
| **At 31 December 2023** | **697,299** | **174** | **2,642** |

The ordinary shares have a par value of 25p per share (2022: 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 20 September 2023, the Board approved a £300m share buyback programme in order to return capital to shareholders. During the year, approximately 20m shares were bought back and cancelled at a cost of £186m. The nominal value of these shares, £5m, was transferred to the capital redemption reserve, and the remainder of the purchase price is recorded within retained earnings. At 31 December 2023, a liability of £118m remained for those shares contracted to be repurchased but where the repurchases were still outstanding and associated costs.

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. During 2022, 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 was recorded within retained earnings.

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 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 |
| Purchase of treasury shares | **3,991** | **35** |
| Release of treasury shares | **(3,695)** | **(31)** |
| **At 31 December 2023** | **2,160** | **19** |

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% (2022: 0.3%) 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 (2022: £0.5m). Dividends on treasury shares are waived.

At 31 December 2023, the market value of Pearson plc treasury shares was £21m (2022: £18m). The gross book value of the shares at 31 December 2023 amounts to £19m (2022: £15m).

## 29. Other comprehensive income

| | | | | | | 2023 |
|---|---|---|---|---|---|---|
| | Attributable to equity holders of the company | | | | | |
| All figures in £ millions | Fair value reserve | Translation reserve | Retained earnings | Total | Non-controlling interest | Total |
| **Items that may be reclassified to the income statement** | | | | | | |
| Net exchange differences on translation of foreign operations | – | (176) | – | (176) | (1) | (177) |
| Currency translation adjustment disposed | – | (122) | – | (122) | – | (122) |
| Attributable tax | – | – | – | – | – | – |
| **Items that are not reclassified to the income statement** | | | | | | |
| Fair value gain on other financial assets | 1 | – | – | 1 | – | 1 |
| Attributable tax | – | – | – | – | – | – |
| Remeasurement of retirement benefit obligations | – | – | (85) | (85) | – | (85) |
| Attributable tax | – | – | 20 | 20 | – | 20 |
| **Other comprehensive income/(expense) for the year** | 1 | (298) | (65) | (362) | (1) | (363) |

## 29. Other comprehensive income continued

| All figures in £ millions | Fair value reserve | Translation reserve | Retained earnings | Total | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| | 2022 | | | | | |
| | Attributable to equity holders of the company | | | | | |
| **Items that may be reclassified to the income statement** | | | | | | |
| Net exchange differences on translation of foreign operations | – | 328 | – | 328 | 2 | 330 |
| Currency translation adjustment disposed | – | (5) | – | (5) | – | (5) |
| Attributable tax | – | – | 4 | 4 | – | 4 |
| **Items that are not reclassified to the income statement** | | | | | | |
| Fair value gain on other financial assets | 18 | – | – | 18 | – | 18 |
| Attributable tax | – | – | 1 | 1 | – | 1 |
| Remeasurement of retirement benefit obligations | – | – | 54 | 54 | – | 54 |
| Attributable tax | – | – | (12) | (12) | – | (12) |
| **Other comprehensive income/(expense) for the year** | 18 | 323 | 47 | 388 | 2 | 390 |

| All figures in £ millions | Fair value reserve | Translation reserve | Retained earnings | Total | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| | 2021 | | | | | |
| | Attributable to equity holders of the company | | | | | |
| **Items that may be reclassified to the income statement** | | | | | | |
| Net exchange differences on translation of foreign operations | – | (6) | – | (6) | – | (6) |
| Currency translation adjustment disposed | – | 4 | – | 4 | – | 4 |
| Attributable tax | – | – | 10 | 10 | – | 10 |
| **Items that are not reclassified to the income statement** | | | | | | |
| Fair value gain/(loss) on other financial assets | 4 | – | – | 4 | – | 4 |
| Attributable tax | – | – | (1) | (1) | – | (1) |
| Remeasurement of retirement benefit obligations | – | – | 149 | 149 | – | 149 |
| Attributable tax | – | – | (61) | (61) | – | (61) |
| **Other comprehensive income/(expense) for the year** | 4 | (2) | 97 | 99 | – | 99 |

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.

## 30. Business combinations

On 22 March 2023, the Group acquired 100% of the share capital of Personnel Decisions Research Institutes, LLC (PDRI) for cash consideration of £152m ($187m). PDRI is a provider of workforce assessment services and has significant expertise in providing recruitment assessment solutions to the US federal government. It forms part of the Assessment & Qualifications division. There is no contingent or deferred consideration. Net assets acquired of £91m were recognised on the Group's balance sheet including £117m of acquired intangible assets.

This transaction has resulted in the recognition of £61m of goodwill, which represents the expected growth of the business, 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 £117m have been recognised in respect of PDRI, the majority of which relates to SAAS customer contracts and technology, which will be amortised over periods of up to 15 years. The valuations of these assets were carried out with the support of a third-party specialist, 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.

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 is a digital credential service provider whose platform enables customers to design, create, issue and manage digital credentials. It 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 two years from the acquisition date.

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 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 two years from the acquisition date, 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 four years from the acquisition date, dependent on continuing employment, and therefore these additional amounts are being expensed over the period and are not treated as consideration.

In 2022, these transactions resulted in the recognition of £202m of goodwill, which represented 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 were recognised in respect of Credly and Mondly. The valuations of these assets were carried out with the support of third-party specialists, and were based on discounted cash flow models. The key assumptions that feed into the valuations were 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 are being amortised over 20 years, and technology which are being amortised over five years. For Mondly, £50m of intangible assets were recognised, the majority of which relates to acquired technology, and are being 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 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 forms part of the Workforce Skills division. The total consideration for the transaction was £65m, which included £10m of contingent consideration, which has since been settled in 2022.

In addition, in 2021, 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.

KE Key areas of estimation

The valuation of acquired intangible assets recognised on the acquisition of a business. The valuation is based on a number of assumptions, including estimations of future business performance.

## 30. Business combinations continued

| All figures in £ millions | 2023 Total | 2022 Total | 2021 Total |
|---|---|---|---|
| Intangible assets | **117** | 110 | 27 |
| Deferred tax asset | **–** | 8 | 11 |
| Trade and other receivables | **8** | 8 | 2 |
| Cash and cash equivalents | **4** | 13 | 4 |
| Trade and other liabilities | **(7)** | (26) | (5) |
| Deferred tax liabilities | **(31)** | (22) | (6) |
| **Net assets acquired** | **91** | 91 | 33 |
| Goodwill | **61** | 204 | 43 |
| **Total** | **152** | 295 | 76 |
| **Satisfied by:** | | | |
| Cash consideration | **152** | 223 | 54 |
| Contingent or deferred consideration | **–** | 41 | 16 |
| Fair value of existing investment | **–** | 31 | 6 |
| **Total consideration** | **152** | 295 | 76 |

PDRI generated revenue of £24m and a profit after tax of £4m for the period from the acquisition date to 31 December 2023. If the acquisitions had occurred on 1 January 2023, the Group's revenue would have been £7m higher and the profit after tax would have been £1m higher.

Total acquisition related costs of £12m (2022: £20m) were recognised within other net gains and losses. There were also gains of £5m (2022: £8m) arising on decreases in the deferred consideration payable on prior year acquisitions.

The net cash outflows related to the acquisitions are set out in the table below. In addition to the current year acquisitions, the other net cash outflows on acquisition of subsidiaries relate to deferred payments for prior year acquisitions.

| All figures in £ millions | 2023 Total | 2022 Total | 2021 Total |
|---|---|---|---|
| **Cash flow on acquisitions** | | | |
| Cash – current year acquisitions | **(152)** | (223) | (54) |
| Cash and cash equivalents acquired | **4** | 13 | 4 |
| Deferred payments for prior year acquisitions and other items | **(23)** | (18) | (5) |
| **Net cash outflow** | **(171)** | (228) | (55) |

## 31. Disposals and business closures

On 30 June 2023, the Group disposed of its interests in its POLS businesses in the US, UK, Australia and India. The businesses disposed excludes Pearson's contract with ASU. The consideration to be received is deferred and comprises a 27.5% share of positive adjusted EBITDA in each calendar year for six years and 27.5% of the proceeds received by the purchaser in relation to any future monetisation event. The consideration has been valued at £12m and a pre-tax gain on disposal of £13m has been recognised. In addition, a gain of £9m has been recognised which arises from the release of a provision related to a historical disposal, £19m of losses arose from the disposals of Pearson College and the international courseware local publishing business in India and £12m of costs related to previous disposals were recognised.

Whether the associated results and cash flows of the POLS businesses 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 on the basis that the businesses disposed do not constitute a separate major line of business or geographical area of operations, and the cash flows related to one of the large contracts within the business are being retained.

KJ Key judgements

— The results and cash flows of businesses disposed do not meet the criteria to be classified and presented as discontinued operations.

The POLS business is within the Virtual Learning segment and represents £93m of sales for the year ended 31 December 2023 out of the total sales in the Virtual Learning segment of £616m. If the Group had concluded that this business represented discontinued operations, its results and the related gain 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 £10m lower and this amount would have been separately presented as profit for the period.

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.

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 £108m, 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.

Deferred proceeds relating to the K12 sale were received in 2022 and 2021 (see note 14). None of the 2022 or 2021 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 | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Disposal of subsidiaries and associates** | | | |
| Intangible assets, including goodwill | **(53)** | (77) | (3) |
| Property, plant and equipment | **(5)** | (11) | (48) |
| Intangible assets – product development | **(15)** | (39) | (6) |
| Inventories | **(1)** | (33) | (2) |
| Trade and other receivables | **(65)** | (106) | (6) |
| Deferred tax | **8** | (12) | – |
| Current tax (receivable)/payable | **(2)** | – | – |
| Cash and cash equivalents (excluding overdrafts) | **(12)** | (21) | (24) |
| Provisions for other liabilities and charges | **–** | 1 | 3 |
| Retirement benefit obligations | **–** | 2 | – |
| Trade and other liabilities | **31** | 52 | 4 |
| Financial liabilities – borrowings | **–** | 8 | 67 |
| **Net assets disposed** | **(114)** | (236) | (15) |
| Cumulative currency translation adjustment | **122** | 5 | (4) |
| Cash proceeds | **1** | 291 | 108 |
| Deferred proceeds | **12** | 2 | – |
| Costs of disposal | **(30)** | (25) | (24) |
| **(Loss)/gain on disposal** | **(9)** | 37 | 65 |

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Cash flow from disposals** | | | |
| Proceeds – current year disposals | **1** | 291 | 108 |
| Proceeds – prior year disposals | **–** | 86 | 16 |
| Cash and cash equivalents disposed | **(12)** | (21) | (24) |
| Costs and other disposal liabilities paid | **(27)** | (23) | (17) |
| **Net cash (outflow)/inflow** | **(38)** | 333 | 83 |

## 32. Held for sale

At 31 December 2023, the Group has classified two properties (2022: three), with a total carrying value of £2m (2022: £16m), as held for sale.

## 33. Additional cash flow information

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Net book amount | **6** | 9 |
| (Loss)/profit on sale of property, plant and equipment | **(1)** | 5 |
| **Proceeds from sale of property, plant and equipment** | **5** | 14 |

The movements in the Group's current and non-current borrowings are as follows:

| All figures in £ millions | 2022 | Fair value and other movements | Foreign exchange movements | Financing cash flows | Transfer from non-current to current | New leases/ disposal of leases | 2023 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Non-current borrowings | 1,155 | **(2)** | **(15)** | **–** | **(80)** | **42** | **1,100** |
| Current borrowings | 66 | **10** | **(18)** | **(84)** | **80** | **(1)** | **53** |
| **Total** | 1,221 | **8** | **(33)** | **(84)** | **–** | **41** | **1,153** |

| All figures in £ millions | 2021 | Fair value and other movements | Foreign exchange movements | Financing cash flows | Transfer from non-current to current | New leases/ disposal of leases | 2022 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Non-current borrowings | 1,245 | (14) | 61 | (76) | (92) | 31 | 1,155 |
| Current borrowings | 157 | (10) | 16 | (188) | 92 | (1) | 66 |
| **Total** | 1,402 | (24) | 77 | (264) | – | 30 | 1,221 |

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.

## 34. Contingencies, tax uncertainties and commitments

KJ Key judgements

— The application of tax legislation in relation to provisions for uncertain tax positions.

KE 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.

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, royalties, copyright fees, permissions and other rights. None of these claims is 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, however, this decision was further appealed by the UK Government and other parties, with the subsequent hearing having taken place on 10 January 2024 (outcome pending). The total exposure is calculated to be £105m (excluding interest) with a provision of £63m held in relation to this issue. The remaining tax receivable is disclosed as a non-current asset on the balance sheet. 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 (£105m). 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 2020. Similar assessments may be raised for other years. Potential total exposure (including possible interest and penalties) could be up to BRL 1,294m (£209m) up to 31 December 2023, with additional potential exposure of BRL 24m (£4m) in relation to deductions expected to be taken in future periods. Such assessments are common in Brazil. The Group believes that the likelihood that the tax authorities will ultimately prevail is low and that the Group's position is strong. At present, the Group believes no provision is required.

The Group is also under assessment from the UK tax authorities with the relevant years being 2019 to 2021. The maximum exposure is calculated to be £43m, with a provision of £21m currently held in relation to this assessment. 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 (£43m). The point being assessed 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 710 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 | **2023** | 2022 | 2021 |
|---|---|---|---|---|
| Interest on lease liabilities | | **(23)** | (25) | (27) |
| Expenses relating to short-term leases | | **–** | – | – |
| Depreciation of right-of-use assets | 10 | **(39)** | (45) | (49) |
| Impairment of right-of-use assets | 10 | **(2)** | (34) | (119) |

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 | **2023** | 2022 |
|---|---|---|
| Less than one year | **84** | 94 |
| One to five years | **286** | 320 |
| More than five years | **301** | 332 |
| **Total undiscounted lease liabilities** | **671** | 746 |
| **Lease liabilities included in the balance sheet** | **547** | 605 |
| Analysed as: | | |
| Current | **64** | 71 |
| Non-current | **483** | 534 |

The amounts recognised in the cash flow statement are as follows:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Total cash outflow for leases as a lessee | **107** | 118 | 115 |

At the balance sheet date commitments for capital leases contracted for but not yet incurred were £8m (2022: £5m). 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 | 2023 | 2022 | 2021 |
|---|---|---|---|
| Interest on lease receivables | **4** | 5 | 6 |
| Income from subleasing right-of-use assets (within other income) | **6** | 4 | 2 |

The amounts recognised in the cash flow statement are as follows:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Total cash inflow for leases as a lessor | **19** | 23 | 27 |

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 decreased by £21m (2022: increased £6m), primarily due to payments received.

| All figures in £ millions | Operating leases | Finance leases | 2023 Total | 2022 Total | 2021 Total |
|---|---|---|---|---|---|
| Less than one year | **10** | **21** | **31** | 24 | 21 |
| One to two years | **10** | **23** | **33** | 28 | 18 |
| Two to three years | **11** | **23** | **34** | 28 | 20 |
| Three to four years | **11** | **23** | **34** | 28 | 21 |
| Four to five years | **11** | **16** | **27** | 29 | 20 |
| More than five years | **48** | **6** | **54** | 44 | 41 |
| Total undiscounted lease payments receivable | **101** | **112** | **213** | 181 | 141 |
| Unearned finance income | | **(12)** | | | |
| Net investment in finance lease receivable | | **100** | | | |

## 36. Related party transactions

### Joint ventures and associates

At 31 December 2022, the Group had a current liability payable to Academy of Pop of £5m (2021: £7m), which related 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 72-73). It is this Committee which had responsibility for planning, directing and controlling the activities of the Group in 2023. Key management personnel compensation is disclosed below:

| All figures in £ millions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Short-term employee benefits | **9** | 7 | 6 |
| Retirement benefits | **1** | 1 | 1 |
| Share-based payment costs | **11** | 9 | 8 |
| **Total** | **21** | 17 | 15 |

Short-term employee benefits and retirement benefits exclude Executive Directors which are shown on page 119 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

On 29 February 2024, the Board approved an extension to the share buyback programme of £200m.

## 38. Accounts and audit exemptions

The Pearson plc subsidiary companies listed below are exempt from the requirements of the Companies Act 2006 relating to the audit of individual financial statements by virtue of section 479A.

| | Company number |
|---|---|
| Aldwych Finance Limited | 04720439 |
| Education Development International plc | 03914767 |
| Faethm Limited | 11842984 |
| Longman Group (Overseas Holdings) Limited | 00690236 |
| Pearson Australia Finance Unlimited | 05578463 |
| Pearson Canada Finance Unlimited | 05578491 |
| Pearson Dollar Finance Limited | 05111013 |
| Pearson Dollar Finance Two Limited | 06507766 |
| Pearson Education Holdings Limited | 00210859 |
| Pearson Education Investments Limited | 08444933 |
| Pearson Education Limited | 00872828 |
| Pearson International Finance Limited | 02496206 |
| Pearson Loan Finance No. 3 Limited | 05052661 |
| Pearson Loan Finance No. 5 Limited | 12017252 |

| | Company number |
|---|---|
| Pearson Loan Finance No. 6 Limited | 12030662 |
| Pearson Loan Finance Unlimited | 05144467 |
| Pearson Management Services Limited | 00096263 |
| Pearson Nominees Limited | 00672908 |
| Pearson Overseas Holdings Limited | 00145205 |
| Pearson Pension Nominees Limited | 10809680 |
| Pearson Pension Trustee Services Limited | 10803853 |
| Pearson Professional Assessments Limited | 04904325 |
| Pearson Strand Limited | 08561316 |
| Pearson Services Limited | 01341060 |
| Pearson Shared Services Limited | 04623186 |
| Pearson Strand Finance Limited | 11091691 |
| PVNT Limited | 08038068 |
| TQ Global Limited | 07802458 |

# Company balance sheet

As at 31 December 2023

| All figures in £ millions | Notes | 2023 | 2022 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 2 | **6,702** | 6,738 |
| Amounts due from subsidiaries | | **2,074** | 1,667 |
| Deferred income tax assets | | **35** | 44 |
| Financial assets – derivative financial instruments | 5 | **32** | 43 |
| | | **8,843** | 8,492 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **277** | 526 |
| Current income tax assets | | **22** | 4 |
| Cash and cash equivalents (excluding overdrafts) | 4 | **5** | 240 |
| Financial assets – derivative financial instruments | 5 | **15** | 16 |
| Other assets | | **1** | 1 |
| | | **320** | 787 |
| **Total assets** | | **9,163** | 9,279 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Amounts due to subsidiaries | | **(3,287)** | (3,380) |
| Financial liabilities – derivative financial instruments | 5 | **(38)** | (54) |
| | | **(3,325)** | (3,434) |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | **(1,240)** | (1,383) |
| Other liabilities | | **(121)** | (1) |
| Financial liabilities – derivative financial instruments | 5 | **(5)** | (11) |
| | | **(1,366)** | (1,395) |
| **Total liabilities** | | **(4,691)** | (4,829) |
| **Net assets** | | **4,472** | 4,450 |

| All figures in £ millions | Notes | 2023 | 2022 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 6 | **174** | 179 |
| Share premium | 6 | **2,642** | 2,633 |
| Treasury shares | 7 | **(19)** | (15) |
| Capital redemption reserve | | **33** | 28 |
| Special reserve | | **447** | 447 |
| Retained earnings – including profit for the year of £467m (2022: £499m) | | **1,195** | 1,178 |
| **Total equity attributable to equity holders of the company** | | **4,472** | 4,450 |

These financial statements have been approved for issue by the Board of Directors on 13 March 2024 and signed on its behalf by

**Sally Johnson**
Chief Financial Officer

# Company statement of changes in equity

Year ended 31 December 2023

| All figures in £ millions | Share capital | Share premium | Treasury shares | Capital redemption reserve | Special reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of the company | | | | | | |
| At 1 January 2023 | **179** | **2,633** | **(15)** | **28** | **447** | **1,178** | **4,450** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **467** | **467** |
| Equity-settled transactions[1] | **–** | **–** | **–** | **–** | **–** | **40** | **40** |
| Issue of ordinary shares under share option schemes[1] | **–** | **9** | **–** | **–** | **–** | **–** | **9** |
| Purchase of treasury shares | **–** | **–** | **(35)** | **–** | **–** | **–** | **(35)** |
| Release of treasury shares | **–** | **–** | **31** | **–** | **–** | **(31)** | **–** |
| Buyback of equity | **(5)** | **–** | **–** | **5** | **–** | **(304)** | **(304)** |
| Dividends | **–** | **–** | **–** | **–** | **–** | **(155)** | **(155)** |
| **At 31 December 2023** | **174** | **2,642** | **(19)** | **33** | **447** | **1,195** | **4,472** |

| All figures in £ millions | Share capital | Share premium | Treasury shares | Capital redemption reserve | Special reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of the company | | | | | | |
| At 1 January 2022 | 189 | 2,626 | (12) | 18 | 447 | 1,184 | 4,452 |
| Profit for the year | – | – | – | – | – | 499 | 499 |
| Equity-settled transactions[1] | – | – | – | – | – | 38 | 38 |
| Issue of ordinary shares under share option schemes[1] | – | 7 | – | – | – | – | 7 |
| Purchase of treasury shares | – | – | (37) | – | – | – | (37) |
| Release of treasury shares | – | – | 34 | – | – | (34) | – |
| Buyback of equity | (10) | – | – | 10 | – | (353) | (353) |
| Dividends | – | – | – | – | – | (156) | (156) |
| **At 31 December 2022** | 179 | 2,633 | (15) | 28 | 447 | 1,178 | 4,450 |

The capital redemption reserve reflects the nominal value of shares cancelled in the Group's share buyback programme. The special reserve represents the cumulative effect of cancellation of the company's share premium account.

1. Full details of the share-based payment plans are disclosed in note 26 to the consolidated financial statements.

# Company cash flow statement

Year ended 31 December 2023

| All figures in £ millions | Notes | 2023 | 2022 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit | | **467** | 499 |
| **Adjustments for:** | | | |
| Income tax | | **6** | (15) |
| Net finance costs | | **(10)** | 48 |
| Share-based payment costs | | **40** | 38 |
| Impairment (reversals)/charges | | **(40)** | 5 |
| Amounts due to subsidiaries | | **(301)** | (97) |
| **Net cash generated from operations** | | **162** | 478 |
| Interest paid | | **(14)** | (44) |
| Tax (paid)/received | | **(15)** | 4 |
| **Net cash generated from operating activities** | | **133** | 438 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | 6 | **9** | 7 |
| Buyback of equity | | **(186)** | (353) |
| Purchase of treasury shares | | **(35)** | (37) |
| Proceeds from borrowings | | **285** | – |
| Repayment of borrowings | | **(285)** | – |
| Dividends paid to company's shareholders | | **(154)** | (156) |
| **Net cash used in financing activities** | | **(366)** | (539) |
| Effects of exchange rate changes on cash and cash equivalents | | **(2)** | 31 |
| **Net decrease in cash and cash equivalents** | | **(235)** | (70) |
| Cash and cash equivalents at beginning of year | | **240** | 310 |
| **Cash and cash equivalents at end of year** | 4 | **5** | 240 |

# Notes to the company financial statements

## 1. Accounting policies

The financial statements on pages 208-218 comprise the separate financial statements of Pearson plc.

These company financial statements have been prepared on the going concern basis and in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006. The company financial statements have also been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

The company 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.

As permitted by section 408 of the Companies Act 2006, the company income statement and statement of comprehensive income have not been presented.

The company has no employees (2022: nil).

The basis of preparation and accounting policies applied in the preparation of these company financial statements are the same as those set out in note 1a to the consolidated financial statements with the addition of the following:

### Investments

Investments in subsidiaries are stated at cost less provision for impairment, with the exception of certain hedged investments that are held in a foreign currency and revalued at each balance sheet date.

Lending to/from subsidiaries is considered to be an operating activity and any movements are classified as cash flows from operating activities in the cash flow statement.

### Amounts owed by subsidiaries

Amounts owed by subsidiaries generally mature within five years, but can be called upon on short notice, or are repayable on demand. Amounts owed by subsidiaries are classified as current if they mature within one year of the balance sheet date or if the company intends to call the loan within one year of the balance sheet date. All other amounts are classified as non-current. The company has assessed and concluded that these loans will be fully recovered. Therefore credit losses are considered to be immaterial.

### Parent company guarantees

The Company has guaranteed the repayment of bonds and certain other liabilities due by subsidiary undertakings primarily to third parties. Such guarantees are accounted for by the Company under IFRS 9. They are initially measured at fair value. Subsequently, they are measured at the higher of (i) the amount initially recognised less the cumulative amount of revenue recognised in accordance with IFRS 15, and (ii) the expected credit losses under IFRS 9. The Company has also entered into performance guarantees whereby in respect of contracts entered into by subsidiary undertakings, the Company will settle any claims for non-performance under the contract in the event that the subsidiary does not perform its responsibilities under the contract, and it does not pay out any amounts due to the third party in the event of non-performance. Such performance guarantees are accounted for as loan commitments under IFRS 9.

### New accounting standards

The Group adopted IFRS 17 'Insurance Contracts' for the first time in 2023. No other new standards were adopted in 2023. A number of other new pronouncements are effective from 1 January 2023 but they do not have a material impact on the company financial statements.

### Going concern

In assessing the Company's ability to continue as a going concern for the period to 30 June 2025, the Board reviewed management's five-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 2023, the Group had available liquidity of c.£1bn, comprising central cash balances and its undrawn $1bn Revolving Credit Facility (RCF). The company's subsidiary Pearson Funding plc has a debt maturity of €300m due within the going concern assessment period and it is assumed that this is refinanced ahead of time with a £250m bond or bank facility. In both the base case and severe but plausible scenario, the business has sufficient liquidity to repay this amount and does not rely on this refinancing in order to remain a going concern. 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 2024 and 2025, adjusted for probability weighting as well as other significant risks. For this and other downside scenarios tested, the net impact of the risks modelled was to reduce adjusted operating profit by around 40% in each year. Even under a severe downside case, the company would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment. That is, even before modelling the mitigating effect of actions that management would take if these downside risks were to crystalise.

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 2025. The model showed that operating losses were required in both 2024 and 2025 to breach covenants and in turn to exhaust liquidity. This significantly exceeded the severe but plausible downside scenario. The Directors consider this reverse stress test scenario to be remote.

The Directors have confirmed that there are no material uncertainties that cast doubt on the Company's going concern status and that they have a reasonable expectation that the Company has adequate resources to continue in operational existence beyond 30 June 2025. The Company financial statements have therefore been prepared on a going concern basis.

## 2. Investments in subsidiaries

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| At beginning of year | **6,738** | 6,632 |
| Distributions | **–** | (49) |
| Impairment reversal | **40** | – |
| Currency revaluations | **(76)** | 155 |
| **At end of year** | **6,702** | 6,738 |

## 2. Investments in subsidiaries continued

There were no impairments in 2023 or 2022. The recoverability of investments is tested annually for impairment in accordance with IAS 36 'Impairment of Assets'. The carrying value is compared to the asset's recoverable amount which is generally assessed on a value in use basis. Significant estimation is required to determine the recoverable amount. The value in use of the assets is calculated using a discounted cash flow methodology using financial information related to the subsidiaries including cash flow projections in conjunction with the goodwill impairment analysis performed by the Group. The key assumptions used in the cash flow projections are discount rates, perpetuity growth rates, forecast sales growth rates and forecast operating profits. See note 11 of the consolidated financial statements for further details.

## 3. Financial risk management

The company's financial instruments comprise amounts due to/from subsidiary undertakings, cash and cash equivalents, derivative financial instruments and current borrowings. Derivative financial instruments are held at fair value, with all other financial instruments held at amortised cost, which approximates fair value. The company's approach to the management of financial risks is consistent with the Group's treasury policy, as discussed in note 19 to the consolidated financial statements. The company believes the value of its financial assets to be fully recoverable.

The carrying value of the company's financial instruments is exposed to movements in interest rates and foreign currency exchange rates (primarily US dollars). The company estimates that a 1% increase in interest rates would result in a £11m increase (2022: £7m increase) in the carrying value of its financial instruments, with a 1% decrease in interest rates resulting in a £10m decrease (2022: £6m decrease) in their carrying value. The company also estimates that a 10% strengthening in sterling would decrease the carrying value of its financial instruments by £40m (2022: £136m), while a 10% weakening in the value of sterling would increase the carrying value by £48m (2022: £153m). These increases and decreases in carrying value would be recorded through the income statement. Sensitivities are calculated using estimation techniques such as discounted cash flow and option valuation models. Where modelling an interest rate decrease of 1% led to negative interest rates, these points on the yield curve were adjusted to 0%.

The following table analyses the company's derivative assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. 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.

| | Analysed by maturity | | | | Analysed by currency | | | |
|---|---|---|---|---|---|---|---|---|
| All figures in £ millions | 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 |
| **At 31 December 2023** | | | | | | | | |
| Rate derivatives – inflows | **(13)** | **(262)** | **–** | **(275)** | **(6)** | **(9)** | **(260)** | **(275)** |
| Rate derivatives – outflows | **5** | **268** | **–** | **273** | **178** | **89** | **6** | **273** |
| FX forwards – inflows | **(428)** | **–** | **–** | **(428)** | – | **(428)** | – | **(428)** |
| FX forwards – outflows | **421** | **–** | **–** | **421** | **421** | – | – | **421** |
| **Total** | **(15)** | **6** | **–** | **(9)** | **593** | **(348)** | **(254)** | **(9)** |
| At 31 December 2022 | | | | | | | | |
| 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) | 19 | – | 18 | 200 | 94 | (276) | 18 |

All cash flow projections shown above are on an undiscounted basis. 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. All derivative amounts are shown gross, although the company net settles these amounts wherever possible.

## Fair value hedge accounting

A foreign currency exposure arises from foreign exchange fluctuations on translation of the company's investments in subsidiaries denominated in USD into GBP. The hedged risk is the risk of changes in the GBP:USD spot rate that will result in changes in the value of the USD investments when translated into GBP. The hedged items are a portion of the company's equity investment in subsidiaries denominated in USD. The hedging instruments are a portion of the company's intercompany loans due from subsidiaries which are denominated in USD.

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 hedge and the hedged item in the hedge relationship. Hedge ineffectiveness would arise if the value of the hedged items fell below the value of the hedging instruments; however, this is unlikely as the value of the company's investments denominated in USD is significantly greater than the proposed fair value hedge programme.

The value of the hedged items and the hedging instruments is £1.4bn (2022: £1.4bn) and the change in value during the year which was used to assess hedge ineffectiveness was £77m (2022: £155m). There was no hedge ineffectiveness.

Cash flows from the €300m EUR 2025 bond are received by the company from its subsidiary creating a foreign currency exposure upon the translation from EUR to GBP. Changes in the GBP:EUR spot rate will result in changes to the value of amounts due from subsidiaries when translated into GBP. The hedged item is €100m of this amount due from subsidiaries denominated in EUR. The hedging instrument is a €100m 2025 cross-currency swap. It is expected that the change in value of these items will move in the opposite directions as a result of movements in the EUR:GBP exchange rate.

## Credit risk management

The company's main exposure to credit risk relates to lending to subsidiaries. Amounts due from subsidiaries are stated net of provisions for bad and doubtful debts. The credit risk of each subsidiary is influenced by the industry and country in which they operate; however, the company considers the credit risk of subsidiaries to be low as it has visibility of, and the ability to influence, their cash flows.

## 4. Cash and cash equivalents (excluding overdrafts)

| All figures in £ millions | 2023 | 2022 |
|---|---|---|
| Cash at bank and in hand | **5** | 240 |
| | **5** | 240 |

At the end of 2023, the currency split of cash and cash equivalents was US dollar 0% (2022: 79%), sterling 44% (2022: 18%) and other 56% (2022: 3%). Cash and cash equivalents have fair values that approximate their carrying amounts due to their short-term nature.

## 5. Derivative financial instruments

The company's outstanding derivative financial instruments are as follows:

| | | | 2023 | | | 2022 |
|---|---|---|---|---|---|---|
| All figures in £ millions | Gross notional amounts | Assets | Liabilities | Gross notional amounts | Assets | Liabilities |
| Interest rate derivatives | **430** | **14** | **(6)** | 437 | 19 | (11) |
| Cross-currency rate derivatives | **439** | **26** | **(32)** | 83 | 34 | (43) |
| FX derivatives | **894** | **7** | **(5)** | 916 | 6 | (11) |
| **Total** | **1,763** | **47** | **(43)** | 1,436 | 59 | (65) |
| **Analysed as expiring:** | | | | | | |
| In less than one year | **995** | **15** | **(5)** | 1,016 | 16 | (11) |
| Later than one year and not later than five years | **768** | **32** | **(38)** | 420 | 43 | (54) |
| **Total** | **1,763** | **47** | **(43)** | 1,436 | 59 | (65) |

The carrying value of the above derivative financial instruments equals their fair value. Derivatives are categorised as level 2 on the fair value hierarchy. Fair values are determined by using market data and the use of established estimation techniques such as discounted cash flow and option valuation models.

## 6. Share capital and share premium

| | Number of shares 000s | Share capital £m | Share premium £m |
|---|---|---|---|
| At 31 December 2021 | 756,802 | 189 | 2,626 |
| Issue of ordinary shares – share option schemes | 1,199 | – | 7 |
| Buyback of equity | (42,268) | (10) | – |
| **At 31 December 2022** | 715,733 | 179 | 2,633 |
| Issue of ordinary shares – share option schemes | **1,809** | **–** | **9** |
| Buyback of equity | **(20,243)** | **(5)** | **–** |
| **At 31 December 2023** | **697,299** | **174** | **2,642** |

The ordinary shares have a par value of 25p per share (2022: 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.

## 6. Share capital and share premium continued

On 20 September 2023, the Board approved a £300m share buyback programme in order to return capital to shareholders. During the year, approximately 20m shares were bought back and cancelled at a cost of £186m. The nominal value of these shares, £5m, was transferred to the capital redemption reserve, and the remainder of the purchase price is recorded within retained earnings. At 31 December 2023, a liability of £118m remained for those shares contracted to be repurchased but where the repurchases were still outstanding and associated costs.

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. During 2022, 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 was recorded within retained earnings.

## 7. Treasury shares

| | Number of shares 000s | £m |
|---|---|---|
| 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 |
| Purchase of treasury shares | **3,991** | **35** |
| Release of treasury shares | **(3,695)** | **(31)** |
| **At 31 December 2023** | **2,160** | **19** |

The company holds its own shares in trust to satisfy its obligations under its restricted share plans. These shares are treated as treasury shares for accounting purposes and have a par value of 25p per share.

The nominal value of the company's treasury shares amounts to £0.5m (2022: £0.5m). Dividends on treasury shares are waived.

At 31 December 2023, the market value of the company's treasury shares was £21m (2022: £18m). The gross book value of the shares at 31 December 2023 amounts to £19m (2022: £15m).

## 8. Contingencies

There are contingent 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. The total value of guarantees made by the company in relation to its subsidiaries is £912m (2022: £889m). In addition, there are contingent liabilities in respect of legal claims. None of these claims is expected to result in a material gain or loss to the company.

## 9. Audit fees

Statutory audit fees relating to the company were £40,700 (2022: £38,037).

## 10. Related party transactions

### Subsidiaries

The company transacts and has outstanding balances with its subsidiaries. Amounts due from subsidiaries and amounts due to subsidiaries are disclosed on the face of the company balance sheet.

These loans are generally unsecured and interest is calculated based on market rates. The company has interest payable to subsidiaries for the year of £188m (2022: £137m) and interest and guarantee fees receivable from subsidiaries for the year of £189m (2022: £105m). Management fees payable to subsidiaries in respect of centrally provided services amounted to £17m (2022: £16m). Management fees receivable from subsidiaries in respect of centrally provided services amounted to £31m (2022: £34m). Dividends received from subsidiaries were £448m (2022: £605m), which includes £nil (2022: £49m) of returns of capital distributed by subsidiaries.

### Associates

There were no related party transactions with associates in 2023 or 2022.

### Key management personnel

Key management personnel are deemed to be the members of the Pearson Executive Management team.

It is this Committee which had responsibility for planning, directing and controlling the activities of the company in 2023. Key management personnel compensation is disclosed in note 36 to the consolidated financial statements.

## 11. Group companies

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries, partnerships, associates, joint ventures and joint arrangements, the country of incorporation, the registered address and the effective percentage of equity owned, as at 31 December 2023, is disclosed below. Unless otherwise stated, the shares are all indirectly held by Pearson plc. Unless otherwise stated, all wholly-owned and partly-owned subsidiaries are included in the consolidation and all associated undertakings are included in the Group's financial statements using the equity method of accounting. Principal Group companies are identified in bold.

### Wholly-owned subsidiaries

| Registered company name | Country of Incorp. | Reg office |
|---|---|---|
| Addison Wesley Longman, Inc. | US | 3 |
| Addison-Wesley Educational Publishers Inc. | US | 4 |
| AEL (S) PTE Limited | SG | 73 |
| Aldwych Finance Limited | UK | 1 |
| ATI Professional Development LLC | US | 4 |
| ATI Studios A.P.P.S. SRL | RO | 78 |
| Atkey Finance Limited* | IE | 7 |
| Camsaw, Inc. | US | 4 |
| CAMSAWUSA, Inc. | US | 11 |
| Centro Cultural Americano Franquias e Comércio Ltda. | BR | 15 |
| Century Consultants Ltd. | US | 13 |
| Certiport China Holding, LLC | US | 4 |
| Certiport, Inc. | US | 4 |
| Clutch Learning, Inc. | US | 4 |
| Cogmed Systems AB | SE | 14 |
| Connections Academy of Florida, LLC | US | 20 |
| Connections Academy of Iowa, LLC | US | 24 |
| Connections Academy of Maine, LLC | US | 28 |
| Connections Academy of Maryland, LLC | US | 29 |
| Connections Academy of Nevada, LLC | US | 31 |
| Connections Academy of New Mexico, LLC | US | 32 |
| Connections Academy of Oregon, LLC | US | 37 |
| Connections Academy of Pennsylvania LLC | US | 38 |
| Connections Academy of Tennessee, LLC | US | 40 |
| Connections Academy of Texas LLC | US | 41 |
| Connections Education LLC | US | 4 |
| Connections Education of Florida, LLC | US | 20 |
| Connections Education, Inc. | US | 4 |
| Credly, Inc. | US | 4 |
| Dominie Press, Inc. | US | 17 |
| Dorian Finance Limited | IE | 7 |

| Registered company name | Country of Incorp. | Reg office |
|---|---|---|
| eCollege.com | US | 4 |
| Edexcel Limited†* | UK | 50 |
| Education Development International Plc† | UK | 1 |
| Education Resources (Cyprus) Limited | CY | 51 |
| Educational Management Group, Inc. | US | 52 |
| English Language Learning and Instruction System, Inc. | US | 54 |
| Faethm Holdings Pty. Limited | AU | 48 |
| Faethm IP Pty. Limited | AU | 48 |
| Faethm Ltd | UK | 1 |
| Faethm Pty. Limited | AU | 48 |
| Faethm USA LLC | US | 6 |
| Falstaff Holdco Inc. | US | 4 |
| Falstaff Inc. | US | 55 |
| FBH, Inc. | US | 4 |
| George (Shanghai) Commercial Information Consulting Co., Ltd | CN | 21 |
| Globe Fearon Inc. | US | 17 |
| Heinemann Educational Botswana (Publishers) Proprietary Limited | BW | 8 |
| IndiaCan Education Private Limited | IN | 2 |
| Integral 7, Inc. | US | 4 |
| INTELLIPRO, INC. | US | 13 |
| Knowledge Analysis Technologies, LLC | US | 18 |
| LCCIEB Training Consultancy., Ltd | CN | 64 |
| LessonLab, Inc. | US | 17 |
| Lignum Oil Company | US | 4 |
| LION SG PTE. LTD.* | SG | 23 |
| Longman (Malawi) Limited | MW | 65 |
| Longman Group(Overseas Holdings) Limited | UK | 1 |
| Longman Indochina Acquisition, L.L.C. | US | 4 |
| Longman Tanzania Limited* | TZ | 68 |
| Longman Zambia Educational Publishers Pty Ltd | ZM | 69 |
| Longman Zimbabwe (Private) Ltd | ZW | 47 |
| Longmaned Ecuador S.A. | EC | 71 |

| Registered company name | Country of Incorp. | Reg office |
|---|---|---|
| Lumerit Education, LLC | US | 41 |
| Major123 Limited* | UK | 50 |
| MeasureUp of Delaware, LLC | US | 4 |
| Modern Curriculum Inc. | US | 17 |
| Multi Treinamento e Editora Ltda | BR | 60 |
| MZ Development Inc. | US | 4 |
| National Computer Systems Japan Co. Ltd | JP | 74 |
| Navvy Education, LLC | US | 22 |
| NCS Information Technology Services (Beijing) Co Ltd | CN | 75 |
| NCS Pearson Pty Ltd | AU | 48 |
| NCS Pearson Puerto Rico, Inc. | PR | 76 |
| **NCS Pearson, Inc.** | US | 30 |
| Opinion Interactive LLC | US | 16 |
| Ordinate Corporation | US | 17 |
| Pearson (Beijing) Management Consulting Co., Ltd. | CN | 77 |
| Pearson America LLC | US | 4 |
| Pearson Amsterdam B.V. | NL | 79 |
| Pearson Australia Finance Unlimited | UK | 1 |
| Pearson Australia Group Pty Ltd | AU | 48 |
| Pearson Australia Holdings Pty Ltd | AU | 48 |
| Pearson Benelux B.V. | NL | 79 |
| Pearson Books Limited†* | UK | 50 |
| Pearson Brazil Finance Limited* | UK | 50 |
| Pearson Business Services Inc. | US | 4 |
| Pearson Canada Assessment Inc. | CA | 80 |
| Pearson Canada Finance Unlimited | UK | 1 |
| Pearson Canada Holdings Inc. | CA | 80 |
| Pearson Canada Inc. | CA | 80 |
| Pearson Central Europe Spółka z ograniczoną odpowiedzialnością | PL | 39 |
| Pearson DBC Holdings Inc. | US | 4 |
| Pearson Desarrollo y Capacitación Profesional Chile Limitada | CL | 81 |
| Pearson Deutschland GmbH | DE | 82 |

## 11. Group companies continued

| Registered company name | Country of Incorp. | Reg office |
|---|---|---|
| Pearson Digital Learning Puerto Rico, Inc. | PR | 76 |
| Pearson Dollar Finance Limited† | UK | 1 |
| Pearson Dollar Finance Two Limited | UK | 1 |
| Pearson Educacion de Chile Limitada | CL | 81 |
| Pearson Educacion de Colombia S.A.S. | CO | 84 |
| Pearson Educacion de Mexico, S.A. de C.V. | MX | 85 |
| Pearson Educacion de Panama SA | PA | 86 |
| Pearson Educacion de Peru S.A. | PE | 87 |
| Pearson Educacion SA | ES | 88 |
| Pearson Education Africa (Pty) Ltd | ZA | 47 |
| Pearson Education Asia Limited | HK | 53 |
| Pearson Education Botswana (Proprietary) Limited | BW | 8 |
| Pearson Education do Brasil Ltda | BR | 60 |
| Pearson Education Hellas SA | GR | 26 |
| Pearson Education Holdings Limited† | UK | 1 |
| Pearson Education Indochina Limited | TH | 89 |
| Pearson Education Investments Limited | UK | 1 |
| Pearson Education Korea Limited | KR | 90 |
| **Pearson Education Limited** | UK | 1 |
| Pearson Education Namibia (Pty) Limited | NA | 58 |
| Pearson Education Publishing Limited | NG | 44 |
| Pearson Education S.A. | UY | 5 |
| Pearson Education SA | AR | 67 |
| Pearson Education South Africa (Pty) Ltd | ZA | 47 |
| Pearson Education South Asia Pte. Ltd. | SG | 73 |
| Pearson Education Taiwan Ltd | TW | 9 |
| **Pearson Education, Inc.** | US | 4 |
| Pearson Educational Measurement Canada, Inc. | CA | 36 |
| Pearson Educational Publishers, LLC | US | 4 |
| Pearson Egitim Cozumleri Tikaret Limited Sirketi | TR | 61 |
| Pearson Falstaff (Holdings) Inc. | US | 4 |
| Pearson Falstaff Holdco LLC | US | 4 |
| Pearson Federal Holding Company, LLC | US | 4 |
| Pearson France | FR | 70 |
| Pearson Funding Four Limited†* | UK | 50 |
| Pearson Funding plc† | UK | 1 |
| Pearson Holdings Inc. | US | 4 |
| Pearson Holdings Southern Africa (Pty) Limited | ZA | 47 |
| Pearson Hungary LLC* | HU | 25 |
| Pearson India Education Services Private Limited | IN | 2 |
| Pearson International Finance Limited† | UK | 1 |
| Pearson Investment Holdings, Inc. | US | 4 |
| Pearson Israel (P.I.) Ltd | IL | 66 |
| Pearson Japan KK | JP | 49 |
| Pearson Lanka (Private) Limited | LK | 63 |
| Pearson Lanka Support Services (Private) Limited | LK | 12 |
| Pearson Lesotho (Pty) Ltd | LS | 62 |
| Pearson Loan Finance No. 3 Limited | UK | 1 |
| Pearson Loan Finance No. 4 Limited* | UK | 50 |
| Pearson Loan Finance No. 5 Limited | UK | 1 |
| Pearson Loan Finance No. 6 Limited | UK | 1 |
| Pearson Loan Finance Unlimited | UK | 1 |
| Pearson Longman Uganda Limited | UG | 43 |
| Pearson Malaysia Sdn. Bhd. | MY | 59 |
| Pearson Management Services Limited† | UK | 1 |
| Pearson Management Services Philippines Inc. | PH | 33 |
| Pearson Maryland, Inc. | US | 11 |
| Pearson Moçambique, Limitada | MZ | 42 |
| Pearson Netherlands B.V. | NL | 79 |
| Pearson Netherlands Holdings B.V. | NL | 79 |
| Pearson Nominees Limited† | UK | 1 |
| Pearson Online Tutoring LLC | US | 4 |
| Pearson Overseas Holdings Limited† | UK | 1 |
| Pearson PEM P.R., Inc. | PR | 19 |
| Pearson Phoenix Pty Ltd | AU | 48 |
| Pearson Professional Assessments Limited | UK | 1 |
| Pearson Real Estate Holdings Inc. | US | 4 |
| Pearson Real Estate Holdings Limited†* | UK | 50 |
| Pearson Regional Headquarters Arabia | SA | 57 |
| Pearson Schweiz AG | CH | 34 |
| Pearson Services Limited† | UK | 1 |
| Pearson Shared Services Limited† | UK | 1 |
| Pearson Strand Finance Limited† | UK | 1 |
| Pearson Strand Limited | UK | 1 |
| Pearson Sweden AB | SE | 14 |
| Pearson VUE Europe B.V. | NL | 79 |
| Pearson VUE Philippines, Inc. | PH | 27 |
| Penguin Capital, LLC | US | 4 |
| Personnel Decisions Research Institutes, LLC | US | 30 |
| PN Holdings Inc. | US | 4 |
| ProctorCam, Inc. | US | 4 |
| PT Efficient English Services | ID | 83 |
| PVNT Limited | UK | 1 |
| Reading Property Holdings LLC | US | 3 |
| Rebus Planning Associates, Inc. | US | 10 |
| Reston Publishing Company, Inc. | US | 4 |
| Rycade Capital Corporation | US | 4 |
| Shanghai AWL Education Software Ltd* | CN | 72 |
| Silver Burdett Ginn Inc. | US | 4 |
| Skylight Training and Publishing Inc. | US | 52 |
| Smarthinking, Inc. | US | 4 |
| Sound Holdings Inc. | US | 4 |
| Sparrow Phoenix Pty Ltd | AU | 48 |
| Spear Insurance Company Limited† | BM | 45 |
| The Waite Group, Inc. | US | 17 |
| TQ Catalis Limited* | UK | 50 |
| TQ Clapham Limited* | UK | 50 |
| TQ Education and Training Limited | UK | 1 |
| TQ Education and Training Limited | SA | 56 |
| TQ Global Limited | UK | 1 |
| TQ Group Limited | UK | 1 |
| TQ Holdings Limited | UK | 1 |
| VUE Testing Services Israel Ltd | IL | 46 |
| VUE Testing Services Korea Limited | KR | 35 |
| Williams Education GmbH | DE | 82 |

* In liquidation.
† Directly owned by Pearson plc.

## Subsidiary addresses

The following list includes all Pearson registered offices worldwide.

| | Registered office address |
|---|---|
| 1 | 80 Strand, London, WC2R 0RL, England |
| 2 | Featherlite, 'The Address', 5th Floor, Survey No 203/10B, 200 Ft MMRD Road, Zamin, Pallavaram, Chennai, TN 600044, India |
| 3 | C T Corporation System, 155 Federal St., Suite 700, Boston, MA, 02110, United States |
| 4 | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE, 19801, United States |
| 5 | Juan Benito Blanco 780 – Plaza Business Center, Montevideo, Uruguay |
| 6 | 340 Halsa Dr, Chattahoochee Hills, GA, GA 30268, United States |
| 7 | 1st Floor The Liffey Trust Centre, 117-126 Sheriff Street Upper, Dublin 1, Ireland |
| 8 | Dps Consulting Services Proprietary Limited, Plot 54513, Unit 6a, Courtyard, Village, Gaborone, Botswana |
| 9 | 10F, No 209, Sec. 1, Civic Blvd., Datong District, Taipei City, 10351, Taiwan (Province of China) |
| 10 | The Corporation Company, 40600 Ann Arbor Rd, E Suite 201, Plymouth, MI, 48170, United States |
| 11 | The Corporation Trust Incorporated, Suite 201, 2405 York Road, Lutherville Timonium, MD, 21093, United States |
| 12 | #1, 3, 5th Floor, East Tower, World Trade Centre, Echelon Square, Colombo, O1, Sri Lanka |
| 13 | 820, Bear Tavern Road, West Trenton, Mercer, NJ, 08628, United States |
| 14 | Gustavslundsvägen 137, 167 51 Bromma, Stockholm, Sweden |
| 15 | Avenida Francisco Matarazzo nº 1400 Edifício Milano – 7º andar, Conjunto 72 – Sala 25 de Março – Agua Branca, São Paulo, 05001 903, Brazil |
| 16 | 105 E Street #2A, Davis, CA, CA 95616, United States |
| 17 | C T Corporation System, 330 N Brand Blvd., Glendale, CA, 91203-2336 |
| 18 | The Corporation Company, 7700 E Arapahoe Rd, Suite 220, Centennial, CO, 80112-1268, United States |
| 19 | 500, 401, Calle de la Tanca Edificio Ochoa, San Juan, 00901-1969, Puerto Rico |
| 20 | C T Corporation System, 1200, South Pine Island Road, Plantation, FL, 33324, United States |
| 21 | Suite A7b, 3/F, No. 586 Longchang Road, Yangpu District, Shanghai, China |
| 22 | CT Corportion System, 289 S Culver St, Lawrenceville, GA, 30046-4805, United States |
| 23 | Kroll Pte. Limited, One Raffles Place, Tower 2, #10-62, Singapore, 048616, Singapore |
| 24 | C T Corporation System, 400 E Court Ave, Des Moines, IA, 50309, United States |
| 25 | 22 B, 13 em, Népfürdő utca, Budapest, 1138, Hungary |
| 26 | 4 Zalogou Str., 15343 Agia Paraskevi, Athens, Greece |
| 27 | 27/F Trident Tower, 312 Sen. Gil Puyat Avenue, Makati City, Metro Manila, Philippines |
| 28 | C T Corporation System, 100 Second Avenue, Augusta, ME, 04330, United States |
| 29 | CSC - Lawyers Incorporating Service Company, 7 St. Paul Street, Suite 820, Baltimore, MD, 21202, United States |
| 30 | C T Corporation System Inc., 1010 Dale Street North, St Paul, MN, 55117-5603, United States |
| 31 | The Corporation Trust Company of Nevada, 701 S Carson St, Suite 200, Carson City, NV, 89701, United States |

| | Registered office address |
|---|---|
| 32 | C T Corporation System, 206 S Coronado Ave, Espanola, NM, 87532-2792, United States |
| 33 | 7/F North Tower, Rockwell Business Center COR. Sheridan & United Street, Brgy. Highway Hills, Mandaluyong, Philippines |
| 34 | 10 Gewerbestrasse, Cham, 6330, Switzerland |
| 35 | 21, Mugyo-ro Jung-gu, Seoul, Republic of Korea |
| 36 | 199 Bay Street, Commerce Court West, Suite 2800, Toronto, ON, M5L1A9, Canada |
| 37 | C T Corporation System, 780 Commercial Street SE, STE 100, Salem, OR, OR 97301, United States |
| 38 | C T Corporation System, 600 N. 2nd Street, Suite 401, Harrisburg, PA, 17101-1071, United States |
| 39 | Ulica Szamocka 8 01-748, Warszawa, Poland |
| 40 | C T Corporation System, 300 Montvue Rd, Knoxville, TN, 37919-5546, United States |
| 41 | CT Corporation System, 1999 Bryan Street, Suite 900, Dallas, TX, 75201, United States |
| 42 | Numero 776, Avenida 24 de Julho, Maputo, Mozambique |
| 43 | Plot 8, Berkley Road, Old Kampala, Uganda |
| 44 | 8, Secretariat Road, Obafemi Awolowo Way, Alausa, Ikeja, Lagos State, Nigeria |
| 45 | Power House, 7 Par-la-ville Road, PO Box 1826, Hamilton, HM 11, Bermuda |
| 46 | Derech Ben Gurion 2, BSR Building 9th Floor, Ramat Gan, 52573, Israel |
| 47 | Auto Atlantic, 4th Floor, Corner Hertzog Boulevard and Heerengracht, Cape Town, 8001, South Africa |
| 48 | 459-471 Church Street, Richmond, Melbourne, VIC, 3121, Australia |
| 49 | 11F Kanda Square, 2-2-1 Kanda-Nishikicho, Chiyoda-ku, Tokyo, 101-0054, Japan |
| 50 | Kroll Advisory Ltd., The Shard, 32 London Bridge Street, London, SE1 9SG, England |
| 51 | 195, Archbishop Makarios III Avenue, Neocleous House, Limassol, 3030, Cyprus |
| 52 | Illinois Corporation Service Company, 700 S 2nd Street, Springfield, IL, 62703, United States |
| 53 | 18/F, 1063 King's Road, Quarry Bay, Hong Kong |
| 54 | 251, Little Falls Drive, Corporation Service Company, Wilmington, DE, 19808, United States |
| 55 | C T Corporation System, 28 Liberty Street, New York, NY, 10005, United States |
| 56 | King Fayad Road, Olaya, Riyadh, 58774, 11515, Saudi Arabia |
| 57 | Al Tawuniyya Towers, King Fahd Road, North Block, 2nd floor, Riyadh, Saudi Arabia |
| 58 | Unit 7 Kingland Park, 98 Nickel Street, Prosperita, Windhoek, Namibia |
| 59 | Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia |
| 60 | Avenida José Luiz Mazzali, nº 450, Sala H, Setor Módulo 03B, GLP Louveira I, Santo Antônio, Louveira, SP, CEP 13.290-000, Brazil |
| 61 | Nida Kule Kozyatagi, Kozyatagi Mahallesi, Degirmen Sokak No:18 Kat:6 D:15, Kadikoy, Istanbul, 34742, Turkey |
| 62 | 1st Floor Christie House, Orpen Road, Maseru, Lesotho |

| | Registered office address |
|---|---|
| 63 | MAGA ONE-Level 22, No. 200, Nawala Road, Narahenpita, Colombo 05, 11222, Sri Lanka |
| 64 | Room 305, Building 2, 6555 Shangchuan Road, Pudong District, Shanghai, China |
| 65 | AMG Global, Global House, Kristwick, Masauko Chipembere Highway, Blantyre, Malawi |
| 66 | Meitar Law Offices, 16 Abba Hillel Rd., Ramat Gan, 5250608, Israel |
| 67 | 498, Libertador Ave, City of Buenos Aires, 3rd floor, Buenos Aires, Argentina |
| 68 | P O Box 45, IPS Building, Maktaba Street, Dar es Salaam, Tanzania |
| 69 | Plot 1281, Lungwebungu Road, Rhodes Park, Lusaka, Zambia |
| 70 | 8 Rue des Pirogues de Bercy, 75012 Paris, France |
| 71 | Andalucía y cordero E12-35. Edificio CYEDE piso 1, Oficina 11, Sector "La Floresta", Quito, Pichincha, Ecuador |
| 72 | Suite 302-9,Block 3, No. 333 Weining Road, Changning District, Shanghai, China |
| 73 | 3 Temasek Avenue, #21-23 Centennial Tower, 039190, Singapore |
| 74 | Shiodome City Center 18F, 1-5-2, Higashi Shimbashi, Minato-Ku, Tokyo, 105-7118, Japan |
| 75 | Suite 1201, Tower 2, No. 36 North Third Ring East Road, Dongcheng District, Beijing, China |
| 76 | 268 Munoz Rivera Avenue, Suite 1400, San Juan, 00918, Puerto Rico |
| 77 | Room 902, Tower W2, Oriental Plaza, No. 1 East Chang'an Street, Dongcheng District, Beijing, 11, 100738, China |
| 78 | Str. Politehnicii 3, Braşov, 500019, Romania |
| 79 | Kabelweg 37, Amsterdam, 1014 BA, Netherlands |
| 80 | 357 Bay Street, 3rd Floor, Toronto, ON, M5H 4A6, Canada |
| 81 | Oficina N°117, edificio Casa Colorada, calle Merced N°838-A Santiago Centro, Santiago, Chile |
| 82 | c/o Pearson Deutschland GmbH, St.-Martin-Str. 82, Munich, 81541, Germany |
| 83 | 30th Floor, Ratu Plaza Office Tower, Jl. Jend. Sudirman Kav 9, Jakarta, 10270, Indonesia |
| 84 | Carrera 7 Nro 156 – 68, Piso 26, Bogota, Colombia |
| 85 | Calle Antonio Dovali jaime #70, Torre B, Piso 6, Col. Zedec ed Plaza Santa Fe, del. Álvaro Obregon, Ciudad de Mexico, CP 01210, Mexico |
| 86 | Punta Pacifica, Torres de las Americas, Torre A Piso 15 Ofic. 1517, Panama, 0832-0588, Panama |
| 87 | Cal. Los Halcones, no. 275, Urb. Limatombo, Lima, Perú |
| 88 | 85, Paseo de la Castellana, Planta 8, Madrid, 28046, Spain |
| 89 | 87/1 Capital Tower Building, All Seasons Place unit 1604 – 6 16th floor, Wireless Road, Lumpini, Pathumwan, Bangkok, Thailand |
| 90 | #512, 5th Floor, 12, Mapo-daero 10-gil, Mapo-gu, Seoul, Republic of Korea |

# Notes to the company financial statements *continued*

## 11. Group companies continued

### Partly-owned subsidiaries

| Registered company Name | Country of Incorp. | % Owned | Reg office |
|---|---|---|---|
| Certiport China Co Ltd | CN | 50.69 | 1 |
| Educational Publishers LLP | UK | 85 | 2 |
| GED Domains LLC | US | 70 | 3 |
| GED Testing Service LLC | US | 70 | 4 |
| Pearson Education Achievement Solutions (RF) (Pty) Limited | ZA | 97.3 | 5 |
| Pearson Pension Nominees Limited | UK | 50 | 2 |
| Pearson Pension Property Fund Limited | UK | 50 | 2 |
| Pearson Pension Trustee Limited | UK | 50 | 2 |
| Pearson Pension Trustee Services Limited | UK | 50 | 2 |

### Associated undertakings

| Registered company Name | Country of Incorp. | % Owned | Reg office |
|---|---|---|---|
| Academy of Pop LLC | US | 40 | 6 |
| Learn Capital Special Opportunities Fund I, L.P.‡ | US | 99.59 | 8 |
| Learn Capital Venture Partners II, L.P.‡ | US | 72.93 | 8 |
| Learn Capital Venture Partners IIIA, L.P.‡ | KY | 99 | 9 |
| Learn Capital Venture Partners, L.P.‡ | US | 99.15 | 8 |
| Peking University Pearson (Beijing) Cultural Development Co., Ltd | CN | 45 | 10 |
| Prepona Sistemas de Testagem e Avaliação S.A. | BR | 22.2 | 7 |
| Pui Man Publishing Limited | CN | 49 | 11 |
| Smashcut, Inc. | US | 25.93 | 12 |
| The Egyptian International Publishing Company-Longman | EG | 49 | 13 |

* In liquidation.

‡ Accounted for as an 'Other financial asset' within non-current assets.

### Partly-owned subsidiaries and associated undertakings company addresses

| | Registered office address |
|---|---|
| 1 | Suite 1804, No.99 Huichuan Road, Changning District, Shanghai City, China |
| 2 | 80 Strand, London, WC2R 0RL, England |
| 3 | C T Corporation System, 4701 Cox Road, Suite 285, Glen Allen, Henrico, VA, 23060-0000, United States |
| 4 | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE, 19801, United States |
| 5 | Auto Atlantic, 4th Floor, Corner Hertzog Boulevard and Heerengracht, Cape Town, 8001, South Africa |
| 6 | 251, Little Falls Drive, Corporation Service Company, Wilmington, DE, 19808, United States |
| 7 | SIS 1107A1112, 35 Rua Pedro Lessa, Centro, Rio de Janeiro, RJ, 20030-030, Brazil |
| 8 | Incorporating Services, Ltd. 3500 S Dupont Way, Dover, Kent, DE, United States |
| 9 | Campbells Corporate Services Limited, Floor 4, Willow House, Cricket Square, Grand Cayman, KY1-9010, Cayman Islands |
| 10 | Suite 216, No. 127-1 Zhongguancun North Street, Haidian District, Beijing, China |
| 11 | Rua de Pequim No. 230–246 17-L, Macau Finance Centre, Macau |
| 12 | C/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808, United States |
| 13 | 9 Rashdan St., Messaha Square, Dokki, Giza City, Egypt |