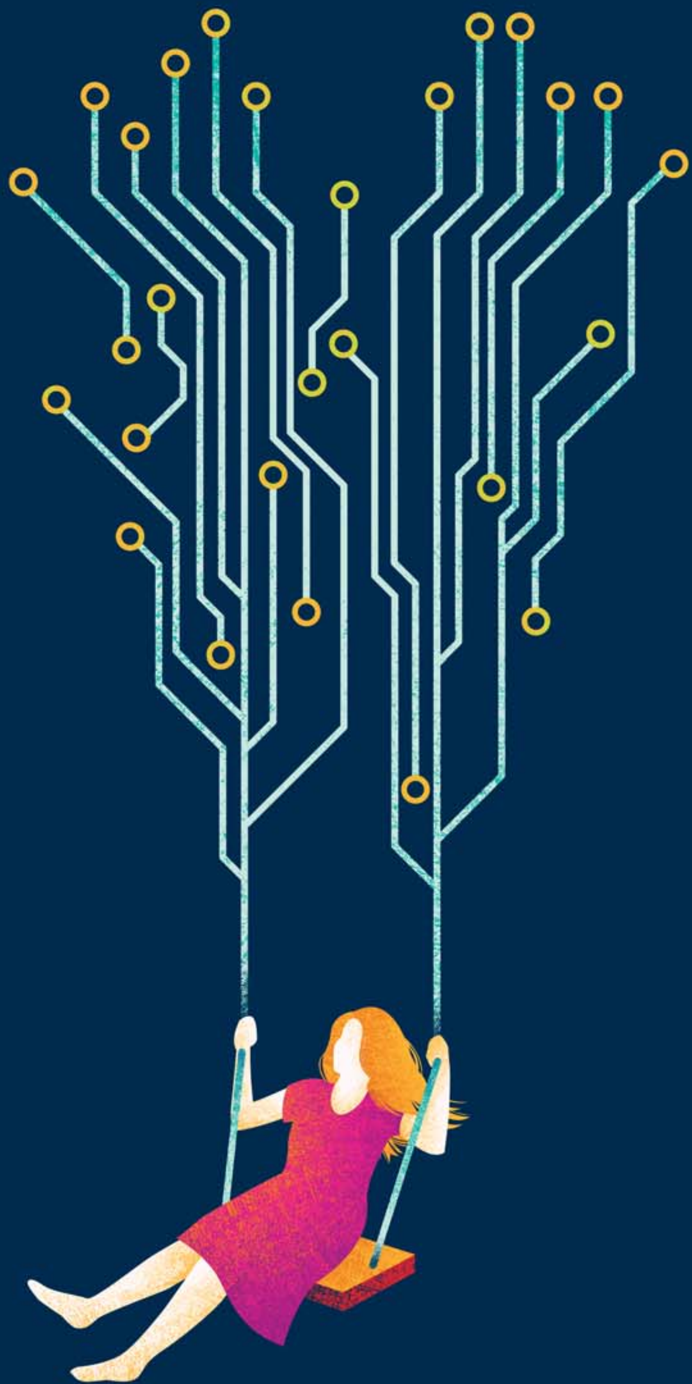


Financial statements

Consolidated financial statements

Notes to the consolidated financial statements

Notes to the consolidated financial statements continued

Company financial statements

Independent auditors' report to the members of Pearson plc

Report on the financial statements

Our opinion

In our opinion:

- Pearson plc's consolidated financial statements and company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the company's affairs as at 31 December 2015 and of the Group's profit and the Group's and the company's cash flows for the year then ended;
- The consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the consolidated financial statements comply with IFRSs as issued by the IASB.

What we have audited

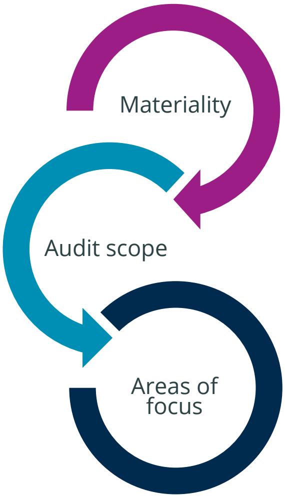
The financial statements, included within the annual report and accounts (the 'annual report'), comprise:

- The consolidated and company balance sheets as at 31 December 2015;
- The consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- The consolidated and company cash flow statements and statements of changes in equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the annual report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach Overview



- Overall Group materiality: £27m, which represents 4% of adjusted profit before tax as disclosed in note 8 to the financial statements. Refer to page 130 for further details.
- We conducted work in five key territories: US, UK, Brazil, China and South Africa. In addition we obtained an audit opinion on the financial information reported by the associate Penguin Random House (PRH).
- The territories where we conducted audit procedures, together with work performed at corporate functions, shared service centres and consolidated Group level, accounted for approximately: 68% of the Group's revenue; 104% of the Group's loss profit before tax; and 76% of the Group's adjusted profit before tax.
- We focused on:
  - Revenue recognition including risk of fraud
  - Carrying value of goodwill and intangible assets
  - Major transactions
  - Provision for uncertain tax liabilities
  - Returns provisions
  - Recoverability of pre-publication assets

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated and company financial statements. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as areas of focus in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the consolidated and company financial statements as a whole. Any comments we make on the results of our procedures should be read in this context. For each area of focus below, to the extent relevant, we evaluated the design and tested the operating effectiveness of key internal controls over financial reporting set in place by management, including testing the operation of IT systems from which financial information is generated. Each of the areas of focus below are also referred to in the audit committee report on pages 86 and 87 and in the accounting policies on pages 140 and 147. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Revenue recognition including risk of fraud	
Refer to note 1 to the consolidated financial statements There are two types of complex contracts that require significant judgements and estimates, which could be subject to either accidental errors or deliberate fraud: › Multiple element arrangements, such as the sale of physical textbooks accompanied by digital content or supplementary workbooks, where revenue is recognised for each element as if it were an individual contractual arrangement requiring the estimation of its relative fair value; and › Certain long-term contracts that span year end, where revenue is recognised using estimated percentage of completion based on costs. These include contracts to design, develop and deliver testing and accreditation and contracts to secure students and support the online delivery of their teaching. These complex contracts generate material deferred revenue and accrued income balances and are areas where misstatements in the underlying assumptions or estimation calculations could have a material effect on the financial statements. In addition there are material shipments towards the period end from major distribution locations giving rise to the potential risk of a cut-off error.	Where books are sold together with workbooks delivered later or companion digital materials available online we assessed the basis for allocation of the purchase price between each element and then tested the detailed calculations supporting these revenue deferrals. We found the revenue deferrals to be based on reasonable estimates of the relative fair value of each element and the methods used to calculate the deferrals properly calculated and consistently applied. For a selection of the larger, more judgemental and more recent long-term contracts, covering both testing activities and online delivery of teaching, we read the contracts and assessed the accounting methodologies being applied to calculate the proportion of revenue being recognised. We also tested costs incurred to date and management's estimates of forecast costs and revenues by reference to historical experience and current contract status, including examining correspondence where contracts are experiencing disputes. Our testing showed that revenue recognition practices are in accordance with Group policies and related accounting standards with appropriate methods for calculating the revenue recognised. See our work performed over the returns provisions which includes our work over the risk of cut-off.

Independent auditors' report to the members of Pearson plc continued

Area of focus	How our audit addressed the area of focus
Carrying values of goodwill and intangible assets	
Refer to note 11 to the consolidated financial statements The Group has £4,134m of goodwill and £1,030m of other intangible assets including software, acquired customer lists, contracts and relationships, acquired trademarks and brands and acquired publishing rights at 31 December 2015. During the year, the Group recognised an £826m goodwill impairment charge across six aggregated cash generating units (CGUs): North America (£282m); Brazil (£269m); China (£181m); South Africa (£48m); Other Growth (£9m); and Core (£37m). In addition, performance in specific businesses also resulted in a £23m intangibles impairment charge. The total impairment charge from these items is £849m. The carrying values of goodwill and intangible assets are dependent on future cash flows of the underlying CGUs and there is risk that if these cash flows do not meet management's expectations the assets will be impaired. This risk increases in periods when the Group's trading performance and projections do not meet prior expectations, such as in 2015. The impairment reviews performed by management contain a number of significant judgements and estimates including CGU identification, operating profit forecasts, cash conversion, perpetuity growth rates and discount rates. Changes in these assumptions can result in materially different impairment charges or available headroom.	We obtained management's goodwill impairment model and tested and agreed the reasonableness of key assumptions, including CGU identification, operating profit forecasts, perpetuity growth rates and discount rates. We tested the mathematical integrity of the forecasts and carrying values in management's impairment model and confirmed that management's estimate of each CGU's recoverable amount is appropriately based on the higher of fair value less cost of disposal and value-in-use. We agreed the forecast cash flows to board-approved budgets and market communications, assessed how these budgets are compiled and understood key judgements and estimates within them, including short-term growth rates, cost allocations and the inclusion of restructuring costs and benefits in a fair value less cost of disposal model. We compared short and long-term growth rates, including cash conversation, to historical trends and expectations. We also considered the accuracy of prior period forecasts. We used valuations specialists to assess the perpetuity growth rate and discount rate for each CGU by comparison to third party information, past performance, the Group's cost of capital and relevant risk factors. We performed our own sensitivity analyses to understand the impact of reasonable changes in the key assumptions. We agree with management's decision to provide additional disclosures in note 11 of the financial statements given that reasonably possible changes in the assumptions could materially impact the impairment charges or available headroom. We checked for additional impairment triggers by reading board minutes, holding regular discussions with Group and local management, and examining the performance of recently acquired businesses to identify underperforming operations. We did not identify any further impairments. As a result of our work, we determined that the impairment charge recognised in 2015 was reasonably calculated and recorded at materially appropriate exchange rates. For those CGUs where management determined that no impairment charge was required and that no additional sensitivity disclosures should be given, we consider these judgements to be well supported by reasonable assumptions that would require significant downside changes before an impairment charge was necessary.
Major transactions	
Refer to note 31 to the consolidated financial statements In July 2015 Pearson completed the sale of PowerSchool to Vista Equity Partners for cash consideration of £222m, resulting in a net pre-tax impact of £30m within continuing operations (after related write downs of £70m). In October 2015 Pearson completed the first tranche of the sale of its 50% stake in The Economist Group to Exor S.p.A. and to The Economist Group itself for cash consideration of £377m and remeasurement of the retained 11% investment of £92m, resulting in a pre-tax gain on disposal of £473m presented in discontinued operations. The Group's remaining 11% investment does not constitute significant influence so is being held as an available for sale investment at fair value until the second tranche completes In November 2015 Pearson completed the sale of the Financial Times Group (FT) to Nikkei Inc. for cash consideration of £858m, resulting in a pre-tax gain on disposal of £711m presented in discontinued operations. These amounts are highly material and include judgements in areas such as the write downs related to PowerSchool and the retained investment in The Economist Group.	We obtained the sales documents and related contracts and agreed the elements of the gain calculations to them. We agreed the cash consideration to bank statements, any retained investment or assets to the contracts and verified the underlying carrying value before disposal to financial records. We agreed the remeasurement of the retained investment of the Economist to fair value implied by the contract. We reperformed the calculations for mathematical accuracy, considered the appropriateness of the disposal costs and related write downs and vouched them to supporting evidence. We assessed the presentation of each disposed business (as continuing or discontinued) by reference to its size and nature. We also considered the related tax judgements and recoverability of linked pre-publication assets. No material misstatements were identified by our testing. We were satisfied that the presentation of each gain, and the related write downs, was supportable and we found that appropriate disclosures were included in the annual report.

Area of focus	How our audit addressed the area of focus
Provision for uncertain tax liabilities	
Refer to notes 7 and 13 to the consolidated financial statements The Group is subject to several tax regimes due to the geographical diversity of its businesses. Management is required to exercise significant judgement in determining the appropriate amount to provide in respect of potential tax exposures and uncertain tax provisions. The most significant of these relate to US tax. Changes in assumptions about the views that might be taken by tax authorities can materially impact the level of provisions recorded in the financial statements and there are significant judgements in estimating the amount of any provision required.	We engaged with our tax experts and obtained an understanding of the Group's tax strategy to identify tax risks relating to business and legislative developments. To assess the adequacy of the Group's tax provisions we first recalculated the valuation of tax provisions and determined whether the treatments adopted were in line with the Group's tax policies and had been applied consistently. We then evaluated the key underlying assumptions, particularly in the US and in territories with new cross-border tax structures. In doing this we considered the status of recent and current tax authority audits and enquiries, the outturn of previous claims, judgemental positions taken in tax returns and current year estimates including those arising from significant disposals, and developments in the tax environment. We also evaluated the consistency of management's approach to establishing or changing provision estimates. We were satisfied that management's provision estimates for uncertain tax positions were consistent with our own assessment of the related risks and correspondence with the relevant tax authorities.
Returns provisions	
Refer to note 22 to the consolidated financial statements There are material, judgemental provisions for anticipated book returns on the balance sheet as at 31 December 2015, particularly in US Higher Education. As the Group transitions from print to digital the returns profile will change with a corresponding impact on returns provisions.	We performed testing over returns provisions in a number of locations, including US Higher Education. We tested the calculation of the provisions, assessing judgements for reasonableness against historical experience and the impact on returns of the ongoing business transition from print to digital. We also performed detailed testing of shipment and returns provisioning. This included checking cut-off at year end and evaluating whether any changes in shipping volumes around year end might increase the risk of returns. No misstatements were identified. We evaluated changes in estimates to check they were not indicators of management bias. We found the estimates used by management in the determination of the returns provisions to appropriately reflect both past experience and changes in the business.
Recoverability of pre-publication assets	
Refer to note 20 to the consolidated financial statements The Group has £841m of pre-publication assets at 31 December 2015. Pre-publication assets represent direct costs incurred in the development of education platforms, programmes and titles prior to their public release. The PowerSchool disposal caused management to assess the carrying value of a series of pre-publication and platform investments and consequently record a write down of £70m. Judgement is required to assess the recoverability of the carrying value of these assets; this is further complicated by the transition to digital as the Group invests in new, less proven, inter-linked digital content and platforms.	We first assessed the appropriateness of capitalisation policies and then selected a sample of costs deferred to the balance sheet as pre-publication assets to test their magnitude and appropriateness for capitalisation. We then assessed the amortisation profiles of pre-publication assets against cash flows to test that the existing amortisation profiles remained appropriate in light of the transition towards digital products. We challenged the carrying value of certain pre-publication assets where products are yet to be launched, are less proven, or where sales are lower than originally anticipated. We assessed forecast cash flows against historical experience and obtained supporting evidence for management's explanations. We compared short and long-term growth rates to historical trends and expectations. We challenged the life of the assets compared to similar Pearson products and found the Group's policies to be appropriate and consistently applied. While the carrying value of some assets depends on considerable future sales growth, overall we considered the year end carrying values to be reasonable.

Independent auditors' report to the members of Pearson plc continued

How we tailored our audit scope

We tailored our audit scope to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is organised into three reportable segments, being North America, Core and Growth, plus the associate investment in associate Penguin Random House. Each segment comprises a number of reporting units. The consolidated financial statements comprise these reporting units plus the Group's centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

During the year members of the Group engagement team visited each of the US, Brazilian, Chinese and South African component audit teams; held a planning meeting attended by partners from the Group engagement team and our UK and US component teams; and had regular dialogue with component teams throughout the year.

We identified two reporting units in the US and UK that required an audit of their complete financial information due to their financial significance, plus a further 13 reporting units in the US, UK, Brazil, China and South Africa that required either an audit or specified procedures on certain transactions and balances. We also obtained an audit opinion from PwC Germany on the financial information of the associate Penguin Random House. The Group consolidation, financial statement disclosures and corporate functions were audited by the Group engagement team. This included our work over derivative financial instruments, hedge accounting, goodwill and intangible assets impairment reviews, litigation, pensions and share-based payments.

The reporting units where we performed audit work, together with work performed at corporate functions, shared service centres and consolidated Group level, accounted for approximately 68% of the Group's revenue, 104% of the Group's loss before tax and 76% of the Group's adjusted profit before tax. This provided the evidence we needed for our opinion on the consolidated financial statements taken as a whole.

Materiality The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£27m (2014: 26m).
How we determined it	4% of adjusted profit before tax of £677m.
Rationale for benchmark applied	Note 8 of the financial statements explains that the Group's principal measure of performance is adjusted operating profit (£723m), which excludes one-off gains and losses and acquired intangible asset amortisation, in order to present results from operating activities on a consistent basis. From adjusted operating profit we deducted net finance costs of £46m (see note 8) because these mainly reflect recurring finance charges. To the resulting adjusted profit before tax we then applied 4% (rather than the usual 5%) as our materiality calculation was based on an adjusted measure.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £3m and £24m.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £2m (2014: £2m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern Under the Listing Rules we are required to review the directors' statement, set out on page 118, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- The information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Governance Report set out on pages 69 to 93 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the annual report is: – materially inconsistent with the information in the audited financial statements; – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
The explanation given by the directors on page 119, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), as to why the annual report does not include a statement that they consider the annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and company acquired in the course of performing our audit.	We have no exceptions to report.
The section of the annual report on pages 82 to 87, as required by provision C.3.8 of the Code, describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.	We have no exceptions to report.

Independent auditors' report to the members of Pearson plc continued

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

› The directors' confirmation on pages 40 and 118 of the annual report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
› The disclosures in the annual report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
› The directors' explanation on pages 40 and 118 of the annual report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

› We have not received all the information and explanations we require for our audit; or

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

› The company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Other Companies Act 2006 reporting Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 120, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Stuart Newman
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

4 March 2016

Consolidated income statement

Year ended 31 December 2015

All figures in £ millions	Notes	2015	2014 restated
Sales	2	**4,468**	4,540
Cost of goods sold	4	**(1,981)**	(2,021)
Gross profit		**2,487**	2,519
Operating expenses	4	**(2,094)**	(2,125)
Impairment of intangible assets	11	**(849)**	(77)
Share of results of joint ventures and associates	12	**52**	31
Operating (loss)/profit	2	**(404)**	348
Finance costs	6	**(100)**	(140)
Finance income	6	**71**	47
(Loss)/profit before tax		**(433)**	255
Income tax	7	**81**	(56)
(Loss)/profit for the year from continuing operations		**(352)**	199
Profit for the year from discontinued operations	3	**1,175**	271
Profit for the year		**823**	470
Attributable to:			
Equity holders of the company		**823**	471
Non-controlling interest		**–**	(1)
Earnings per share for profit from continuing and discontinued operations attributable to equity holders of the company during the year (expressed in pence per share)			
– basic	8	**101.2p**	58.1p
– diluted	8	**101.2p**	58.0p
(Loss)/earnings per share for (loss)/profit from continuing operations attributable to equity holders of the company during the year (expressed in pence per share)			
– basic	8	**(43.3)p**	24.7p
– diluted	8	**(43.3)p**	24.6p

Consolidated statement of comprehensive income

Year ended 31 December 2015

All figures in £ millions	Notes	2015	2014
Profit for the year		**823**	470
Items that may be reclassified to the income statement			
Net exchange differences on translation of foreign operations – Group		**(85)**	150
Net exchange differences on translation of foreign operations – associates		**16**	25
Currency translation adjustment disposed – Group		**(10)**	(2)
Attributable tax	7	**5**	(6)
Items that are not reclassified to the income statement			
Remeasurement of retirement benefit obligations – Group	25	**110**	23
Remeasurement of retirement benefit obligations – associates		**8**	(15)
Attributable tax	7	**(24)**	(1)
Other comprehensive income for the year		**20**	174
Total comprehensive income for the year		**843**	644
Attributable to:			
Equity holders of the company		**845**	645
Non-controlling interest		**(2)**	(1)

Consolidated balance sheet

As at 31 December 2015

All figures in £ millions	Notes	2015	2014
Assets			
Non-current assets			
Property, plant and equipment	10	**320**	334
Intangible assets	11	**5,164**	6,310
Investments in joint ventures and associates	12	**1,103**	1,118
Deferred income tax assets	13	**276**	295
Financial assets – derivative financial instruments	16	**78**	90
Retirement benefit assets	25	**337**	190
Other financial assets	15	**143**	54
Trade and other receivables	22	**115**	82
		7,536	8,473
Current assets			
Intangible assets – pre-publication	20	**841**	820
Inventories	21	**211**	224
Trade and other receivables	22	**1,284**	1,310
Financial assets – derivative financial instruments	16	**32**	24
Financial assets – marketable securities	14	**28**	16
Cash and cash equivalents (excluding overdrafts)	17	**1,703**	530
		4,099	2,924
Total assets		**11,635**	11,397
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	18	**(2,048)**	(1,883)
Financial liabilities – derivative financial instruments	16	**(136)**	(73)
Deferred income tax liabilities	13	**(560)**	(714)
Retirement benefit obligations	25	**(139)**	(163)
Provisions for other liabilities and charges	23	**(71)**	(82)
Other liabilities	24	**(356)**	(310)
		(3,310)	(3,225)

Consolidated balance sheet continued

As at 31 December 2015

All figures in £ millions	Notes	2015	2014
Current liabilities			
Trade and other liabilities	24	**(1,390)**	(1,601)
Financial liabilities – borrowings	18	**(282)**	(342)
Financial liabilities – derivative financial instruments	16	**(29)**	(1)
Current income tax liabilities		**(164)**	(190)
Provisions for other liabilities and charges	23	**(42)**	(53)
		(1,907)	(2,187)
Total liabilities		**(5,217)**	(5,412)
Net assets		**6,418**	5,985
Equity			
Share capital	27	**205**	205
Share premium	27	**2,590**	2,579
Treasury shares	28	**(72)**	(75)
Translation reserve		**(7)**	70
Retained earnings		**3,698**	3,200
Total equity attributable to equity holders of the company		**6,414**	5,979
Non-controlling interest		**4**	6
Total equity		**6,418**	5,985

These financial statements have been approved for issue by the board of directors on 4 March 2016 and signed on its behalf by

Coram Williams
Chief financial officer

Consolidated statement of changes in equity

Year ended 31 December 2015

All figures in £ millions	Equity attributable to equity holders of the company Share capital	Share premium	Treasury shares	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2015	205	2,579	(75)	70	3,200	5,979	6	5,985
Profit for the year	–	–	–	–	823	823	–	823
Other comprehensive income	–	–	–	(77)	99	22	(2)	20
Total comprehensive income	–	–	–	(77)	922	845	(2)	843
Equity-settled transactions	–	–	–	–	26	26	–	26
Tax on equity-settled transactions	–	–	–	–	(1)	(1)	–	(1)
Issue of ordinary shares under share option schemes	–	11	–	–	–	11	–	11
Purchase of treasury shares	–	–	(23)	–	–	(23)	–	(23)
Release of treasury shares	–	–	26	–	(26)	–	–	–
Changes in non-controlling interest	–	–	–	–	–	–	–	–
Dividends	–	–	–	–	(423)	(423)	–	(423)
At 31 December 2015	205	2,590	(72)	(7)	3,698	6,414	4	6,418

All figures in £ millions	Equity attributable to equity holders of the company Share capital	Share premium	Treasury shares	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2014	205	2,568	(98)	(103)	3,128	5,700	6	5,706
Profit for the year	–	–	–	–	471	471	(1)	470
Other comprehensive income	–	–	–	173	1	174	–	174
Total comprehensive income	–	–	–	173	472	645	(1)	644
Equity-settled transactions	–	–	–	–	32	32	–	32
Tax on equity-settled transactions	–	–	–	–	(3)	(3)	–	(3)
Issue of ordinary shares under share option schemes	–	11	–	–	–	11	–	11
Purchase of treasury shares	–	–	(9)	–	–	(9)	–	(9)
Release of treasury shares	–	–	32	–	(32)	–	–	–
Changes in non-controlling interest	–	–	–	–	–	–	2	2
Dividends	–	–	–	–	(397)	(397)	(1)	(398)
At 31 December 2014	205	2,579	(75)	70	3,200	5,979	6	5,985

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. Changes in non-controlling interest in 2014 relate to the disposal of a non-controlling interest in a Chinese business.

Consolidated cash flow statement

Year ended 31 December 2015

All figures in £ millions	Notes	2015	2014
Cash flows from operating activities			
Net cash generated from operations	32	**518**	704
Interest paid		**(75)**	(86)
Tax paid		**(232)**	(163)
Net cash generated from operating activities		**211**	455
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	30	**(9)**	(448)
Acquisition of joint ventures and associates		**(11)**	(12)
Purchase of investments		**(7)**	(3)
Purchase of property, plant and equipment		**(86)**	(75)
Purchase of intangible assets		**(161)**	(107)
Disposal of subsidiaries, net of cash disposed	31	**1,030**	327
Proceeds from sale of associates		**379**	39
Proceeds from sale of investments		**13**	9
Proceeds from sale of property, plant and equipment	32	**2**	9
Proceeds from sale of intangible assets		**1**	2
Proceeds from sale of liquid resources		**17**	12
Loans repaid by/(advanced to) related parties		**7**	(10)
Loans advanced		**–**	(2)
Investment in liquid resources		**(29)**	(22)
Interest received		**24**	13
Dividends received from joint ventures and associates		**162**	120
Net cash received from/(used in) investing activities		**1,332**	(148)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	27	**11**	11
Purchase of treasury shares	28	**(23)**	(9)
Proceeds from borrowings		**372**	404
Repayment of borrowings		**(300)**	(538)
Finance lease principal payments		**(1)**	(4)
Dividends paid to company's shareholders	9	**(423)**	(397)
Dividends paid to non-controlling interest		**–**	(1)
Net cash used in financing activities		**(364)**	(534)
Effects of exchange rate changes on cash and cash equivalents		**(19)**	(2)
Net increase/(decrease) in cash and cash equivalents		**1,160**	(229)
Cash and cash equivalents at beginning of year		**511**	740
Cash and cash equivalents at end of year	17	**1,671**	511

The consolidated cash flow statement includes discontinued operations (see note 3).

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, and consumer publishing through its associate interest in Penguin Random House.

The company is a public limited company incorporated and domiciled in England. 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 4 March 2016.

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

a. Basis of preparation

These consolidated financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. In respect of the accounting standards applicable to the Group there is no difference between EU-adopted and IASB-adopted IFRS.

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) to fair value through profit or loss.

The prior year financial statements have been restated to reflect the classification of FT Group as a discontinued operation.

1. Interpretations and amendments to published standards effective 2015 The following amendments and interpretations were adopted in 2015:

- Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans - Employee Contributions'
- Amendments to IFRS 2 'Share based Payment: Definition of vesting conditions'
- Amendments to IFRS 3 'Business Combinations: Accounting for contingent consideration in a business combination and scope exemptions for joint ventures'
- Amendments to IFRS 8 'Operating Segments: Aggregation of operating segments and reconciliation of segment assets to entity's assets'
- Amendments to IAS 24 'Related Party Disclosures: Key management personnel'
- Amendments to IFRS 13 ' Fair Value Measurement: Short term receivables and payables'

The adoption of these new pronouncements from 1 January 2015 does not have a material impact on the consolidated financial statements.

2. Standards, interpretations and amendments to published standards that are not yet effective
The Group has not early adopted the following new pronouncements that are not yet effective:

IFRS 9 'Financial Instruments', effective for annual reporting periods beginning on or after 1 January 2018. The new standard details the requirements for the classification, measurement and recognition of financial assets and liabilities. The Group is yet to assess the full impact of IFRS 9.

IFRS 15 'Revenue from Contracts with Customers', effective for annual reporting periods beginning on or after 1 January 2018. The new standard specifies how and when an entity will recognise revenue, and requires more detailed disclosure. Adoption of the new standard is likely to have an impact on the Group and management is currently assessing the impact.

IFRS 16 'Leases', effective for annual reporting periods beginning on or after 1 January 2019. The new standard details the requirements for the classification, measurement and recognition of lease arrangements. Adoption of the new standard is likely to have an impact on the Group and management is currently assessing the impact.

In June 2015 the IASB issued an exposure draft ED/2015/5 'Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed Amendments to IAS 19 and IFRIC 14).' Management are currently evaluating these proposals and although the proposals have not yet been finalised, it should be noted that the current draft, if adopted, may restrict the Group's ability to recognise a pension asset in respect of pension surpluses in its UK defined benefit pension plan.

1. Accounting policies continued

a. Basis of preparation continued

In addition, the current draft may require certain elements of committed minimum funding contributions to be recognised as a liability on the balance sheet.

3. Critical accounting assumptions and judgements
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are discussed in the relevant accounting policies under the following headings and in the notes to the accounts where appropriate:

Consolidation: Business combinations – classification of investments
Consolidation: Business combinations – determination of fair values
Intangible assets: Goodwill
Intangible assets: Pre-publication assets
Taxation
Revenue recognition
Employee benefits: Pensions

b. 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 and contingent 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.

See note 1e(1) 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.

Management exercises judgement in determining the classification of its investments in its businesses, in line with the following:

2. Subsidiaries Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

3. Transactions with non-controlling interests
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. Any surplus or deficit arising from disposals to a non-controlling interest is recorded in equity. For purchases from a non-controlling interest, the difference between consideration paid and the relevant share acquired of the carrying value of the subsidiary is recorded in equity.

4. Joint ventures and associates Joint ventures are entities in which the Group holds an interest on a long-term basis and has rights to the net assets through contractually agreed sharing of control. Associates are entities over which the Group has significant influence but not the power to control the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

b. Consolidation continued

The Group's share of its joint ventures' and associates' results is recognised as a component of operating profit as these operations form part of the core publishing business of the Group and are an integral part of existing wholly-owned businesses. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture or associate equals or exceeds its interest in the joint venture or associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the joint venture or associate.

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.

c. 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:

i) Assets and liabilities are translated at the closing rate at the date of the balance sheet

ii) Income and expenses are translated at average exchange rates

iii) 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 \$1.53 (2014: \$1.65) and the year end rate was \$1.47 (2014: \$1.56).

d. 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.

e. 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

1. Accounting policies continued

e. Intangible assets continued

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 and significant management judgement. A description of the key assumptions and sensitivities is included in note 11. Goodwill is allocated to aggregated cash-generating units for the purpose of impairment testing. The allocation is made to those aggregated cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations before the date of transition to IFRS.

2. Acquired software Software separately acquired for internal use is capitalised at cost. Software acquired in material business combinations is capitalised at its fair value as determined by an independent valuer. 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 eight years.

4. Acquired intangible assets Acquired intangible assets include customer lists, contracts and relationships, trademarks and brands, publishing rights, content, technology and software rights. These assets are capitalised on acquisition at cost and included in intangible assets. Intangible assets acquired in material business combinations are capitalised at their fair value as determined by an independent valuer. Intangible assets are amortised over their estimated useful lives of between two and 20 years, using an amortisation method that reflects the pattern of their consumption.

5. Pre-publication assets Pre-publication 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. Pre-publication assets are amortised upon publication of the title over estimated economic lives of five years or less, being an estimate of the expected operating life cycle of the title, with a higher proportion of the amortisation taken in the earlier years.

The investment in pre-publication assets has been disclosed as part of cash generated from operations in the cash flow statement (see note 32).

The assessment of the recoverability of pre-publication assets and the determination of the amortisation profile involve a significant degree of judgement based on historical trends and management estimation of future potential sales. An incorrect amortisation profile could result in excess amounts being carried forward as intangible assets that would otherwise have been written off to the income statement in an earlier period.

Reviews are performed regularly to estimate recoverability of pre-publication assets. The carrying amount of pre-publication assets is set out in note 20.

f. Other financial assets

Other financial assets, designated as available for sale investments, are non-derivative financial assets measured at estimated fair value. Changes in the fair value are recorded in equity in the fair value reserve. On the subsequent disposal of the asset, the net fair value gains or losses are taken to the income statement.

g. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made for slow moving and obsolete stock.

Notes to the consolidated financial statements continued

1. Accounting policies continued

h. 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 judgement 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.

i. 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. Movements on these financial instruments 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.

j. 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.

k. 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. Interest on borrowings is expensed in the income statement as incurred.

l. 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. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of its bonds (fair value hedges) or hedges of net investments in foreign operations (net investment hedges).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges are recognised in other comprehensive income. Gains and losses accumulated in equity are included in the income statement when the corresponding foreign operation is disposed of. Gains or losses relating to the ineffective portion are recognised immediately in finance income or finance costs in the income statement.

Certain derivatives do not qualify or are not designated as hedging instruments. Such derivatives are classified at fair value and any movement in their fair value is recognised immediately in finance income or finance costs in the income statement.

1. Accounting policies continued

m. Taxation

Current tax is recognised on 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 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 other than where it is intended that those undistributed earnings will not be remitted in the foreseeable future.

Current and deferred tax are recognised in the income statement, except when the tax relates to items charged or credited directly to equity or other comprehensive income, in which case the tax is also recognised in equity or other comprehensive income.

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the estimates in relation to the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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 in determining the amounts to be recognised. In particular, significant judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income together with any future tax planning strategies.

n. Employee benefits

1. Pensions The retirement benefit asset and obligation recognised in the balance sheet represents 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.

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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

n. Employee benefits continued

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.

o. 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.

The Group recognises a provision for deferred consideration at fair value. Where this is contingent on future performance or a future event, judgement is exercised in establishing the fair value.

The Group recognises a provision for onerous lease contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

The provision is based on the present value of future payments for surplus leased properties under non-cancellable operating leases, net of estimated sub-leasing income.

p. 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, including sistemas in Brazil and English language teaching centres around the world as well as the provision of online learning services in partnership with universities and other academic institutions.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services net of sales taxes, rebates and discounts, and after eliminating sales within the Group.

Revenue from the sale of books is recognised when title passes. A provision for anticipated returns is made based primarily on historical return rates. If these estimates do not reflect actual returns in future periods then revenues could be understated or overstated for a particular period.

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. Where software is provided under a term licence, revenue is recognised on a straight-line basis over the period of the license.

Revenue from the provision of services to academic institutions, such as programme development, student acquisition, education technology and student support services, is recognised as performance occurs.

Revenue from multi-year contractual arrangements, such as contracts to process qualifying tests for individual professions and government departments, is recognised as performance occurs. The assumptions, risks, and uncertainties inherent to long-term contract accounting can affect the amounts and timing of revenue and related expenses reported. Certain of these arrangements, either as a result of a single service spanning more than one reporting period or where the contract requires the provision of a number of services that together constitute a single project, are treated as long-term contracts with revenue recognised on a percentage of completion basis. Percentage of completion is calculated on a cost basis using the proportion of the total estimated costs incurred to date. Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated total costs of the contract exceed the estimated total revenues that will be generated.

Where a contractual arrangement consists of two or more separate elements that can be provided to customers either on a stand-alone basis or as an optional extra, such as the provision of supplementary materials or online access with textbooks and multiple deliverables within testing or service contracts, revenue is recognised for each element as if it were an individual contractual arrangement.

1. Accounting policies continued

p. Revenue recognition continued

On certain contracts, where the Group acts as 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.

Circulation and advertising revenue is recognised when the newspaper or other publication is published. Subscription revenue is recognised on a straight-line basis over the life of the subscription.

q. Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in financial liabilities – borrowings. The interest element of the finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases by the lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

r. Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the company's shareholders.

s. 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.

Discontinued operations are presented in the income statement as a separate line and are shown net of tax.

t. 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.

u. Trade receivables

Trade receivables are stated at fair value after provision for bad and doubtful debts and anticipated future sales returns (see also note 1p).

2. Segment information

The primary segments for management and reporting are geographies as outlined below. In addition, the Group separately discloses the results from the Penguin Random House (PRH) associate.

The chief operating decision-maker is the Pearson Executive.

Continuing operations:

North America School, Higher Education and Professional businesses in US and Canada.

Growth School, Higher Education and Professional businesses in emerging markets which are investment priorities, including Brazil, China, India and South Africa.

Core School, Higher Education and Professional businesses in more mature markets including UK, Australia and Italy.

The results of the FT Group segment (to 30 November 2015) and Mergermarket (to 4 February 2014) are shown as discontinued in the relevant periods.

Notes to the consolidated financial statements continued

2. Segment information continued

For more detail on the services and products included in each business segment refer to the strategic report.

All figures in £ millions	Notes	North America	Core	Growth	PRH	Corporate	Discontinued operations	Group
								2015
Continuing operations								
Sales		2,940	836	692	–	–	–	4,468
Adjusted operating profit/(loss)		480	114	(12)	90	–	–	672
Intangible charges		(386)	(79)	(583)	(41)	–	–	(1,089)
Other net gains and losses		19	(5)	–	(1)	–	–	13
Operating (loss)/profit		113	30	(595)	48	–	–	(404)
Finance costs	6							(100)
Finance income	6							71
Loss before tax								(433)
Income tax	7							81
Loss for the year from continuing operations								(352)
Segment assets		6,399	1,573	719	–	1,841	–	10,532
Joint ventures	12	1	–	3	–	–	–	4
Associates	12	–	6	–	1,093	–	–	1,099
Total assets		6,400	1,579	722	1,093	1,841	–	11,635
Other segment items								
Share of results of joint ventures and associates	12	(9)	–	(3)	64	–	16	68
Capital expenditure	10, 11	85	33	110	–	–	15	243
Pre-publication investment	20	218	63	66	–	–	–	347
Depreciation	10	42	9	18	–	–	6	75
Amortisation	11, 20	338	95	109	–	–	15	557
Impairment	11	282	37	530	–	–	–	849

2. Segment information continued

All figures in £ millions	Notes	North America	Core	Growth	PRH	Corporate	Discontinued operations	2014 restated Group
Continuing operations								
Sales		2,906	910	724	–	–	–	4,540
Adjusted operating profit		444	122	32	69	–	–	667
Intangible charges		(108)	(21)	(132)	(54)	–	–	(315)
Acquisition costs		(2)	(1)	(3)	–	–	–	(6)
Other net gains and losses		2	–	–	–	–	–	2
Operating profit/(loss)		336	100	(103)	15	–	–	348
Finance costs	6							(140)
Finance income	6							47
Profit before tax								255
Income tax	7							(56)
Profit for the year from continuing operations								199
Segment assets		6,580	1,426	1,394	–	660	219	10,279
Joint ventures	12	1	–	3	–	–	9	13
Associates	12	1	8	–	1,095	–	1	1,105
Total assets		6,582	1,434	1,397	1,095	660	229	11,397
Other segment items								
Share of results of joint ventures and associates	12	–	(1)	(3)	35	–	20	51
Capital expenditure	10, 11	97	32	49	–	–	16	194
Pre-publication investment	20	209	77	72	–	–	–	358
Depreciation	10	41	10	16	–	–	7	74
Amortisation	11, 20	306	99	121	–	–	16	542
Impairment	11	–	–	77	–	–	–	77

For further information on adjusted measures above, see note 8.

There were no material inter-segment sales in either 2014 or 2015.

Included in other net gains and losses within continuing operations in 2015 in the North America segment is the profit on disposal of PowerSchool of £30m, net of small losses on other investments. In the Core segment the loss on disposal relates to adjustments to prior year disposals.

Included in other net gains and losses in continuing operations in 2014 are gains on the sale of joint venture interests in Safari Books Online and CourseSmart (£40m) and a loss on disposal of an investment in Nook Media (£38m).

Both operating profit and adjusted operating profit in 2015 are stated after the following restructuring charges: North America £24m (2014: £37m); Core £nil (2014: £21m); Growth £11m, (2014: £6m); Penguin Random House £12m (2014: £19m).

Notes to the consolidated financial statements continued

2. Segment information continued

Corporate costs are allocated to business segments including discontinued operations on an appropriate basis depending on the nature of the cost; therefore the segment result is equal to the Group operating profit. Segment assets consist of property, plant and equipment, intangible assets, inventories, receivables, deferred taxation and other financial assets and exclude cash and cash equivalents and derivative assets. Corporate assets comprise cash and cash equivalents, marketable securities and derivative financial instruments. Capital expenditure comprises additions to property, plant and equipment and software (see notes 10 and 11).

Property, plant and equipment and intangible assets acquired through business combination were £1m (2014: £263m) (see note 30).

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 test development, processing and scoring services provided to governments, educational institutions, corporations and professional bodies. Services includes the operation of schools, colleges and universities, including sistemas in Brazil and English language teaching centres around the world as well as the provision of online learning services in partnership with universities and other academic institutions. School Systems includes PowerSchool and Family Education Network, both of which were disposed during 2015.

				2015
All figures in £ millions	**North America**	**Core**	**Growth**	**Group**
Courseware				
School Courseware	406	186	104	696
Higher Education Courseware	1,207	96	55	1,358
English Courseware	22	84	79	185
	1,635	366	238	2,239
Assessments				
School and Higher Education Assessments	420	301	15	736
Clinical Assessments	126	32	–	158
Professional Certification	269	82	36	387
	815	415	51	1,281
Services				
School Services	209	1	47	257
Higher Education Services	223	26	70	319
English Services	18	28	286	332
School Systems	40	–	–	40
	490	55	403	948
Total	2,940	836	692	4,468

2. Segment information continued

All figures in £ millions	North America	Core	Growth	2014 restated Group
Courseware				
School Courseware	389	214	120	723
Higher Education Courseware	1,179	114	66	1,359
English Courseware	22	92	75	189
	1,590	420	261	2,271
Assessments				
School and Higher Education Assessments	416	312	14	742
Clinical Assessments	115	34	–	149
Professional Certification	228	93	19	340
	759	439	33	1,231
Services				
School Services	253	–	56	309
Higher Education Services	215	22	90	327
English Services	20	29	284	333
School Systems	69	–	–	69
	557	51	430	1,038
Total	2,906	910	724	4,540

Notes to the consolidated financial statements continued

2. Segment information continued

The Group operates in the following main geographic areas:

All figures in £ millions	Sales 2015	Sales 2014 restated	Non-current assets 2015	Non-current assets 2014
Continuing operations				
UK	**421**	444	**991**	1,056
Other European countries	**246**	281	**121**	180
US	**2,800**	2,762	**5,000**	5,243
Canada	**107**	109	**235**	288
Asia Pacific	**590**	565	**211**	416
Other countries	**304**	379	**144**	661
Total continuing	**4,468**	4,540	**6,702**	7,844
Discontinued operations				
UK	**134**	170	**–**	–
Other European countries	**64**	66	**–**	–
US	**72**	68	**–**	–
Canada	**2**	1	**–**	–
Asia Pacific	**35**	34	**–**	–
Other countries	**5**	4	**–**	–
Total discontinued	**312**	343	**–**	–
Total	**4,780**	4,883	**6,702**	7,844

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 property, plant and equipment, intangible assets, investments in joint ventures and associates and trade and other receivables.

3. Discontinued operations

Discontinued operations relate to FT Group, Penguin and Mergermarket. An analysis of the results and cash flows of discontinued operations is as follows:

All figures in £ millions	2015 FT Group	2015 Total	2014 restated Penguin	2014 restated Mergermarket	2014 restated FT Group	2014 restated Total
Sales	**312**	**312**	–	9	334	343
Operating profit	**48**	**48**	–	2	50	52
Finance income	**–**	**–**	–	–	–	–
Profit before tax	**48**	**48**	–	2	50	52
Income tax	**(8)**	**(8)**	–	(1)	(7)	(8)
Profit after tax	**40**	**40**	–	1	43	44
Profit on disposal of Penguin	**–**	**–**	29	–	–	29
Profit on disposal of The Economist	**473**	**473**	–	–	–	–
Profit on disposal of Financial Times	**711**	**711**	–	–	–	–
Attributable tax expense	**(49)**	**(49)**	–	–	–	–
Profit on disposal of Mergermarket	**–**	**–**	–	244	–	244
Attributable tax expense	**–**	**–**	–	(46)	–	(46)
Profit for the year from discontinued operations	**1,175**	**1,175**	29	199	43	271
Operating cash flows	**31**	**31**	–	2	24	26
Investing cash flows	**3**	**3**	–	–	(5)	(5)
Financing cash flows	**–**	**–**	–	–	–	–
Total cash flows	**34**	**34**	–	2	19	21

4. Operating expenses

All figures in £ millions	2015	2014 restated
By function:		
Cost of goods sold	**1,981**	2,021
Operating expenses		
Distribution costs	**80**	84
Selling, marketing and product development costs	**895**	931
Administrative and other expenses	**1,195**	1,168
Restructuring costs	**35**	64
Other net gains and losses	**(13)**	(2)
Other income	**(98)**	(120)
Total net operating expenses	**2,094**	2,125
Impairment of intangible assets	**849**	77
Total	**4,924**	4,223

Included in other income is service fee income from Penguin Random House of £16m (2014: £41m). Included in administrative and other expenses are research and efficacy costs of £33m (2014: £22m). In addition to the restructuring costs shown above there were restructuring costs in Penguin Random House of £12m (2014: £19m) and in discontinued operations of £nil (2014: £1m).

Notes to the consolidated financial statements continued

4. Operating expenses continued

All figures in £ millions	Notes	2015	2014 restated
By nature:			
Royalties expensed		**249**	242
Other product costs		**566**	620
Employee benefit expense	5	**1,742**	1,832
Contract labour		**182**	183
Employee related expense		**127**	136
Promotional costs		**163**	149
Depreciation of property, plant and equipment	10	**69**	67
Amortisation of intangible assets – pre-publication	20	**281**	292
Amortisation of intangible assets – software	11	**61**	51
Amortisation of intangible assets – other	11	**199**	184
Impairment of intangible assets	11	**849**	77
Property and facilities		**219**	204
Technology and communications		**153**	123
Professional and outsourced services		**262**	253
Other general and administrative costs		**132**	121
Capitalised costs		**(219)**	(195)
Acquisition costs		**–**	6
Other net gains and losses		**(13)**	(2)
Other income		**(98)**	(120)
Total		**4,924**	4,223

During the year the Group obtained the following services from the Group's auditors:

All figures in £ millions	2015	2014
The audit of parent company and consolidated financial statements	**4**	5
The audit of the company's subsidiaries	**2**	2
Total audit fees	**6**	7
Other assurance services	**2**	1
Other non-audit services	**1**	–
Total other services	**3**	1
Tax compliance services	**1**	1
Tax advisory services	**–**	–
Total tax services	**1**	1
Total non-audit services	**4**	2
Total	**10**	9

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4. Operating expenses continued

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

All figures in £ millions	2015	2014
Group audit fees including fees for attestation under section 404 of the Sarbanes-Oxley Act	**6**	7
Non-audit fees	**4**	2
Total	**10**	9

Fees for attestation under section 404 of the Sarbanes-Oxley Act are allocated between fees payable for the audits of consolidated and subsidiary accounts.

Included in non-audit fees are amounts related to carve out audits for disposals of £1m.

5. Employee information

All figures in £ millions	Notes	2015	2014 restated
Employee benefit expense			
Wages and salaries (including termination benefits and restructuring costs)		**1,507**	1,607
Social security costs		**124**	122
Share-based payment costs	26	**26**	32
Retirement benefits – defined contribution plans	25	**66**	61
Retirement benefits – defined benefit plans	25	**19**	21
Other post-retirement benefits	25	**–**	(11)
Total		**1,742**	1,832

The details of the emoluments of the directors of Pearson plc are shown in the report on directors' remuneration.

Average number employed	2015	2014 restated
Employee numbers		
North America	**19,951**	20,927
Core	**5,936**	6,139
Growth	**11,114**	11,406
Other	**264**	182
Continuing operations	**37,265**	38,654

The employee benefit expense relating to discontinued operations was £132m (2014: £151m) and the average number employed was 2,282 (2014: 2,295).

Notes to the consolidated financial statements continued

6. Net finance costs

All figures in £ millions	Notes	2015	2014 restated
Interest payable		**(61)**	(81)
Net foreign exchange losses		**(36)**	(53)
Derivatives not in hedging relationships		**(3)**	(6)
Finance costs		**(100)**	(140)
Interest receivable		**15**	17
Net finance income in respect of retirement benefits	25	**4**	1
Net foreign exchange gains		**43**	17
Derivatives not in hedging relationships		**9**	12
Finance income		**71**	47
Net finance costs		**(29)**	(93)
Analysed as:			
Net interest payable reflected in adjusted earnings		**(46)**	(64)
Other net finance income/(costs)		**17**	(29)
Total net finance costs		**(29)**	(93)

Included in interest receivable is £1m (2014: £1m) of interest receivable from related parties. There was a net movement of £nil on fair value hedges in 2015 (2014: £nil), comprising a gain of £22m (2014: loss of £27m) on the underlying bonds, offset by a loss of £22m (2014: gain of £27m) on the related derivative financial instruments.

For further information on adjusted measures above, see note 8.

7. Income tax

All figures in £ millions	Notes	2015	2014 restated
Current tax			
Charge in respect of current year		**(155)**	(96)
Adjustments in respect of prior years		**42**	30
Total current tax charge		**(113)**	(66)
Deferred tax			
In respect of temporary differences		**185**	8
Other adjustments in respect of prior years		**9**	2
Total deferred tax credit	13	**194**	10
Total tax credit/(charge)		**81**	(56)

The adjustments in respect of prior years in both 2015 and 2014 mainly relate to changes in estimates arising from uncertain tax positions following agreement of historical tax positions.

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the UK tax rate as follows:

All figures in £ millions	2015	2014 restated
(Loss)/profit before tax	**(433)**	255
Tax calculated at UK rate (2015: 20.25%, 2014: 21.5%)	**88**	(55)
Effect of overseas tax rates	**52**	(10)
Joint venture and associate income reported net of tax	**10**	7
Net expense not subject to tax	**(66)**	(11)
Gains and losses on sale of businesses not subject to tax	**(32)**	–
Unutilised tax losses	**(22)**	(19)
Adjustments in respect of prior years	**51**	32
Total tax credit/(charge)	**81**	(56)
UK	**(25)**	–
Overseas	**106**	(56)
Total tax credit/(charge)	**81**	(56)
Tax rate reflected in earnings	**18.7%**	22.0%

Notes to the consolidated financial statements continued

7. Income tax continued

The tax rate reflected in adjusted earnings is calculated as follows:

All figures in £ millions	2015	2014 restated
(Loss)/profit before tax	(433)	255
Adjustments:		
Other net gains and losses	(13)	(2)
Acquisition costs	–	6
Intangible charges	1,089	315
Other net finance (income)/costs	(17)	29
Adjusted profit before tax – continuing operations	626	603
Adjusted profit before tax – discontinued operations	51	55
Total adjusted profit before tax	677	658
Total tax credit/(charge)	81	(56)
Adjustments:		
Tax charge on other net gains and losses	40	1
Tax benefit on acquisition costs	–	(1)
Tax benefit on intangible charges	(257)	(72)
Tax charge/(benefit) on other net finance costs	7	(5)
Tax amortisation benefit on goodwill and intangibles	33	24
Adjusted income tax charge – continuing operations	(96)	(109)
Adjusted income tax charge – discontinued operations	(9)	(9)
Total adjusted income tax charge	(105)	(118)
Tax rate reflected in adjusted earnings	15.5%	17.9%

For further information on adjusted measures above, see note 8.

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

All figures in £ millions	2015	2014
Net exchange differences on translation of foreign operations	5	(6)
Remeasurement of retirement benefit obligations	(24)	(1)
	(19)	(7)

A tax charge of £1m (2014: tax charge £3m) relating to share-based payments has been recognised directly in equity.

8. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the company 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

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.

All figures in £ millions	Notes	2015	2014 restated
(Loss)/profit for the year from continuing operations		(352)	199
Non-controlling interest		–	1
Earnings from continuing operations		(352)	200
Profit for the year from discontinued operations	3	1,175	271
Earnings		823	471
Weighted average number of shares (millions)		813.3	810.9
Effect of dilutive share options (millions)		–	1.0
Weighted average number of shares (millions) for diluted earnings		813.3	811.9
Earnings per share from continuing and discontinued operations			
Basic		101.2p	58.1p
Diluted		101.2p	58.0p
(Loss)/earnings per share from continuing operations			
Basic		(43.3)p	24.7p
Diluted		(43.3)p	24.6p
Earnings per share from discontinued operations			
Basic		144.5p	33.4p
Diluted		144.5p	33.4p

Adjusted

In order to show results from operating activities on a consistent basis, an adjusted earnings per share is presented. The company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

Adjusted earnings includes the results from continuing and discontinued operations. The following items are excluded from adjusted earnings:

Other net gains and losses represent profits and losses on the acquisition and disposal of subsidiaries, joint ventures, associates and other financial assets that are included within continuing or discontinued operations but which distort the performance of the Group.

Amortisation and impairment of acquired intangibles, acquisition costs and movements in contingent acquisition consideration are also excluded from adjusted earnings as these items are not considered to be fully reflective of the underlying performance of the Group.

Notes to the consolidated financial statements continued

8. Earnings per share continued

Other net finance income/costs include finance costs in respect of retirement benefits, finance costs of deferred consideration and foreign exchange and other gains and losses. Finance costs relating to retirement benefits are excluded as the consolidated income statement presentation under IAS 19 does not reflect the economic substance of the underlying assets and liabilities. Finance costs of put options and deferred consideration are excluded as they relate to future earn outs and similar payments on acquisitions and do not reflect cash expended. Foreign exchange and other gains and losses are excluded as they represent short-term fluctuations in market value and are subject to significant volatility. Other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity. Other net finance costs of Group companies are included in finance costs or finance income as appropriate. Other net finance costs of joint ventures and associates are included within the share of results of joint ventures and associates within operating profit.

Tax on the above items is excluded from adjusted earnings. Where relevant the Group also excludes the benefit from recognising previously unrecognised pre-acquisition and capital losses. The tax benefit from tax deductible goodwill and intangibles is added to the adjusted income tax charge as this benefit more accurately aligns the adjusted tax charge with the expected rate of cash tax payments.

Non-controlling interest for the above items is excluded from adjusted earnings. The following tables reconcile statutory earnings to adjusted earnings.

								2015
All figures in £ millions	Statutory income statement	Discontinued operations	Other net gains and losses	Acquisition costs	Intangible charges	Other net finance income/ costs	Tax amortisation benefit	Adjusted income statement
Operating (loss)/profit	(404)	51	(13)	–	1,089	–	–	723
Net finance costs	(29)	–	–	–	–	(17)	–	(46)
(Loss)/profit before tax	(433)	51	(13)	–	1,089	(17)	–	677
Income tax	81	(9)	40	–	(257)	7	33	(105)
(Loss)/profit for the year from continuing operations	(352)	42	27	–	832	(10)	33	572
Profit for the year from discontinued operations	1,175	(42)	(1,135)	–	2	–	–	–
Profit for the year	823	–	(1,108)	–	834	(10)	33	572
Non-controlling interest	–	–	–	–	–	–	–	–
Earnings	823	–	(1,108)	–	834	(10)	33	572
Weighted average number of shares (millions)	813.3							813.3
Weighted average number of shares (millions) for diluted earnings	813.3							813.3
Earnings per share (basic)	101.2p							70.3p
Earnings per share (diluted)	101.2p							70.3p

8. Earnings per share continued

2014 restated

All figures in £ millions	Statutory income statement	Discontinued operations	Other net gains and losses	Acquisition costs	Intangible charges	Other net finance income/costs	Tax amortisation benefit	Adjusted income statement
Operating profit	348	55	(2)	6	315	–	–	722
Net finance costs	(93)	–	–	–	–	29	–	(64)
Profit before tax	255	55	(2)	6	315	29	–	658
Income tax	(56)	(9)	1	(1)	(72)	(5)	24	(118)
Profit for the year from continuing operations	199	46	(1)	5	243	24	24	540
Profit for the year from discontinued operations	271	(46)	(227)	–	2	–	–	–
Profit for the year	470	–	(228)	5	245	24	24	540
Non-controlling interest	1	–	–	–	–	–	–	1
Earnings	471	–	(228)	5	245	24	24	541
Weighted average number of shares (millions)	810.9							810.9
Weighted average number of shares (millions) for diluted earnings	811.9							811.9
Earnings per share (basic)	58.1p							66.7p
Earnings per share (diluted)	58.0p							66.6p

9. Dividends

All figures in £ millions	2015	2014
Final paid in respect of prior year 34.0p (2014: 32.0p)	**277**	259
Interim paid in respect of current year 18.0p (2014: 17.0p)	**146**	138
	423	397

The directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 34.0p per share which will absorb an estimated £277m of shareholders' funds. It will be paid on 6 May 2016 to shareholders who are on the register of members on 8 April 2016. These financial statements do not reflect this dividend.

Notes to the consolidated financial statements continued

10. Property, plant and equipment

All figures in £ millions	Land and buildings	Plant and equipment	Assets in course of construction	Total
Cost				
At 1 January 2014	375	568	32	975
Exchange differences	11	17	–	28
Additions	10	58	19	87
Disposals	(9)	(46)	(2)	(57)
Acquisition through business combination	–	2	–	2
Disposal through business disposal	–	(1)	–	(1)
Reclassifications	1	3	(4)	–
Transfer to software	–	–	(16)	(16)
At 31 December 2014	388	601	29	1,018
Exchange differences	**8**	**10**	**1**	**19**
Additions	**15**	**42**	**25**	**82**
Disposals	**(20)**	**(86)**	**–**	**(106)**
Acquisition through business combination	**–**	**–**	**–**	**–**
Disposal through business disposal	**(48)**	**(76)**	**–**	**(124)**
Reclassifications	**16**	**17**	**(33)**	**–**
At 31 December 2015	**359**	**508**	**22**	**889**

10. Property, plant and equipment continued

All figures in £ millions	Land and buildings	Plant and equipment	Assets in course of construction	Total
Depreciation				
At 1 January 2014	(210)	(423)	–	(633)
Exchange differences	(7)	(15)	–	(22)
Charge for the year	(23)	(51)	–	(74)
Disposals	9	36	–	45
At 31 December 2014	(231)	(453)	–	(684)
Exchange differences	**(5)**	**(12)**	**–**	**(17)**
Charge for the year	**(22)**	**(53)**	**–**	**(75)**
Disposals	**18**	**82**	**–**	**100**
Disposal through business disposal	**48**	**59**	**–**	**107**
At 31 December 2015	**(192)**	**(377)**	**–**	**(569)**
Carrying amounts				
At 1 January 2014	165	145	32	342
At 31 December 2014	157	148	29	334
At 31 December 2015	**167**	**131**	**22**	**320**

Depreciation expense of £19m (2014: £16m) has been included in the income statement in cost of goods sold and £50m (2014: £51m) in operating expenses. In 2015 £6m (2014: £7m) relates to discontinued operations.

The Group leases certain equipment under a number of finance lease agreements. The net carrying amount of leased plant and equipment included within property, plant and equipment was £8m (2014: £13m).

Notes to the consolidated financial statements continued

11. Intangible assets

All figures in £ millions	Goodwill	Software	Acquired customer lists, contracts and relationships	Acquired trademarks and brands	Acquired publishing rights	Other intangibles acquired	Total
Cost							
At 1 January 2014	4,666	469	855	237	198	398	6,823
Exchange differences	198	17	34	5	–	14	268
Impairment	(67)	–	–	–	–	–	(67)
Additions – internal development	–	54	–	–	–	–	54
Additions – purchased	–	53	–	–	–	–	53
Disposals	–	(7)	–	–	–	–	(7)
Acquisition through business combination	238	–	5	69	–	186	498
Disposal through business disposal	(5)	(5)	–	(3)	(1)	–	(14)
Transfer from PPE	–	16	–	–	–	–	16
At 31 December 2014	5,030	597	894	308	197	598	7,624
Exchange differences	**105**	**17**	**25**	**(17)**	**(7)**	**(40)**	**83**
Impairment	**(826)**	–	–	–	–	–	**(826)**
Additions – internal development	–	**125**	–	–	–	–	**125**
Additions – purchased	–	**36**	–	–	–	–	**36**
Disposals	–	**(18)**	–	**(4)**	**(10)**	**(29)**	**(61)**
Acquisition through business combination	–	–	–	–	–	**1**	**1**
Disposal through business disposal	**(175)**	**(138)**	**(59)**	**(6)**	**–**	**(21)**	**(399)**
At 31 December 2015	**4,134**	**619**	**860**	**281**	**180**	**509**	**6,583**

11. Intangible assets continued

All figures in £ millions	Goodwill	Software	Acquired customer lists, contracts and relationships	Acquired trademarks and brands	Acquired publishing rights	Other intangibles acquired	Total
Amortisation							
At 1 January 2014	–	(316)	(249)	(93)	(148)	(216)	(1,022)
Exchange differences	–	(13)	(11)	(3)	–	(12)	(39)
Impairment	–	–	(6)	(2)	–	(2)	(10)
Charge for the year	–	(63)	(83)	(25)	(12)	(67)	(250)
Disposals	–	5	–	–	–	–	5
Disposal through business disposal	–	1	–	1	–	–	2
At 31 December 2014	–	(386)	(349)	(122)	(160)	(297)	(1,314)
Exchange differences	–	**(14)**	**(8)**	**1**	**6**	**(6)**	**(21)**
Impairment	–	–	**(13)**	**(1)**	**(9)**	–	**(23)**
Charge for the year	–	**(74)**	**(99)**	**(40)**	**(10)**	**(53)**	**(276)**
Disposals		**18**	–	**4**	**10**	**29**	**61**
Disposal through business disposal	–	**99**	**39**	**3**	–	**13**	**154**
At 31 December 2015	–	**(357)**	**(430)**	**(155)**	**(163)**	**(314)**	**(1,419)**
Carrying amounts							
At 1 January 2014	4,666	153	606	144	50	182	5,801
At 31 December 2014	5,030	211	545	186	37	301	6,310
At 31 December 2015	**4,134**	**262**	**430**	**126**	**17**	**195**	**5,164**

Goodwill

The goodwill carrying value of £4,134m 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 and the goodwill on each acquisition 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.

Other intangible assets

Other intangibles acquired include content, technology and software rights.

Intangible assets are valued separately for each acquisition and the primary method of valuation used is the discounted cash flow method. The majority of acquired intangibles are amortised 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. The Group keeps the expected pattern of consumption under review.

Amortisation of £13m (2014: £12m) is included in the income statement in cost of goods sold and £247m (2014: £223m) in operating expenses. In 2015, £16m (2014: £15m) of amortisation relates to discontinued operations.

Notes to the consolidated financial statements continued

11. Intangible assets continued

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

Class of intangible asset	2015 Useful economic life
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:

All figures in £ millions	2015 One to five years	Six to ten years	More than ten years	Total
Class of intangible asset				
Acquired customer lists, contracts and relationships	268	122	40	430
Acquired trademarks and brands	56	47	23	126
Acquired publishing rights	15	2	–	17
Other intangibles acquired	146	43	6	195

Impairment tests for cash-generating units (CGUs) containing goodwill

Impairment tests have been carried out where appropriate as described below.

Following a reorganisation of the business effective 1 January 2014 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. The carrying value of the goodwill in each of the CGUs, after the impact of impairments, is summarised below:

All figures in £ millions	2015	2014
North America	3,155	3,422
Core	635	618
Growth (includes Brazil, China, India and South Africa)	–	612
Pearson VUE	344	327
Financial Times Group	–	51
Total	**4,134**	5,030

The recoverable amount of each aggregated cash generating unit (CGU) is based on fair value less costs of disposal or value in use calculations as appropriate. Goodwill is tested at least annually for impairment. Other than goodwill there are no intangible assets with indefinite lives. The goodwill is generally denominated in the currency of the relevant cash flows and therefore the impairment review is not materially sensitive to exchange rate fluctuations.

11. Intangible assets continued

Impairment tests for cash-generating units containing goodwill continued

Following significant economic and market deterioration in the Group's operations in emerging markets and ongoing cyclical and policy-related pressures in the Group's mature market operations, management's expectations of future returns were revised down in the course of 2015. It was determined during the impairment review that the fair value less costs of disposal of the Growth, North America and Core CGUs no longer supported the carrying value of the goodwill. An impairment of £507m was booked in respect of the Group's Growth operations, representing impairments of £269m in the Brazil CGU, £181m in the China CGU, £48m in the South Africa CGU and £9m in the Other Growth CGU, thereby bringing the carrying value of goodwill in those CGUs down to £nil. Impairments of £10m and £13m were also booked in respect of other acquired intangibles in the South Africa and Other Growth CGUs respectively, bringing their carrying value down to £nil. Impairments of £282m and £37m were also booked in respect of the North America and Core CGUs respectively, bringing the carrying value of the goodwill in those CGUs down to fair value less costs of disposal. Fair value less costs of disposal was determined using post-tax discount rates of 17.4% for Brazil, 11.0% for China, 13.6% for South Africa, 12.8% for Other Growth, 8.6% for North America and 8.7% for Core. Following the above impairments, the recoverable amounts of the Growth, North America and Core CGUs are £350m, £4,750m and £926m respectively.

Key assumptions

For the purpose of estimating the fair value less costs of disposal of the CGUs, management has used an income approach based on present value techniques. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period, management's best estimate about future developments and market assumptions. The fair value less costs of disposal measurement is categorised as Level 3 on the fair value hierarchy. The key assumptions used by management in the fair value less costs of disposal calculations were:

Discount rates The discount rate is based on the risk-free rate for government bonds, adjusted for a risk premium to reflect the increased risk in investing in equities. The risk premium adjustment is assessed for each specific CGU. The average post-tax discount rates range from 7.2% to 17.4%. Discount rates are lower for those businesses which operate in more mature markets with low inflation and higher for those operating in emerging markets with higher inflation.

Perpetuity growth rates A perpetuity growth rate of 2.0% (2014: 2.0%) was used for cash flows subsequent to the approved budget period for CGUs operating 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. CGU growth rates between 5.0% and 8.5% were used for cash flows subsequent to the approved budget period for CGUs operating in emerging markets with high inflation. These growth rates are also below the long-term historical growth rates in these markets.

The key assumptions used by management in setting the financial budgets for the initial five-year period 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 factors include USA and UK college enrolment rates, assessment growth rates, the success of new product launches, growth rates and economic conditions in emerging markets and the rate of growth in new services businesses. The five-year sales forecasts use average nominal growth rates between 1.1% and 1.6% for mature markets and between 0.1% and 5.6% for emerging markets with high inflation.

Operating profits Operating profits are forecast based on historical experience of operating margins, adjusted for the impact of changes to product costs and cost saving initiatives, including the impact of the global restructuring programme planned in 2016.

Cash conversion Cash conversion is the ratio of operating cash flow to operating profit. Management forecasts cash conversion rates based on historical experience, adjusted for the impact of product investment priorities and the shift to digital and service based business.

Notes to the consolidated financial statements continued

11. Intangible assets continued

Sensitivities

The Group's impairment review is sensitive to a change in assumptions used, most notably the discount rates and the perpetuity growth rates. As the carrying value of goodwill in the Growth market CGUs has been written down to £nil, the value of other intangible assets in Brazil and China is sensitive to any increase in discount rates or reduction in perpetuity growth rates. In the North America and Core CGUs goodwill has been written down to fair value less costs of disposal and any further increase in discount rates or reduction in perpetuity growth rates would give rise to further impairment. A 0.1% increase in discount rates would cause the fair value less costs of disposal of the Brazil, China, North America and Core CGUs to reduce by £3m, £5m, £120m and £25m respectively. A 0.1% reduction in perpetuity growth rates would cause the fair value less costs of disposal of the Brazil, China, North America and Core CGUs to reduce by £2m, £5m, £100m and £21m respectively. All CGUs which have been written down to fair value less costs of disposal are highly sensitive to any reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 5% reduction in total annual operating profits, spread evenly across all CGUs, would give rise to an impairment of £29m in the Growth CGUs, £241m in the North America CGU and £62m in the Core CGU.

2014 impairment tests

In 2014 following deterioration in the market conditions for the Group's online tutoring business based in India, it was determined in the course of the impairment review that the value in use of the India CGU no longer supported the carrying value of the goodwill in that CGU. An impairment of £67m was booked, thereby bringing the carrying value of goodwill in the India CGU down to £nil. An impairment of £10m was also booked in respect of other acquired intangibles in that CGU, bringing their carrying value to £nil. The India CGU incorporates all the Group's trading operations in India. A pre-tax discount rate of 13.6% was used to determine the value in use of the India CGU. No previous assessment had been made of the value in use of that CGU as the Group's India operations, prior to the 1 January 2014 reorganisation, were previously part of a larger Emerging Markets aggregated CGU.

12. Investments in joint ventures and associates

The amounts recognised in the balance sheet are as follows:

All figures in £ millions	2015	2014
Associates	1,099	1,105
Joint ventures	4	13
Total	**1,103**	1,118

The amounts recognised in the income statement are as follows:

All figures in £ millions	2015	2014
Associates	72	54
Joint ventures	(4)	(3)
Total	68	51

Included within the 2015 results are discontinued operations consisting of £17m profit from associates (2014: £21m profit) and £1m loss from joint ventures (2014: £1m loss). For further information on discontinued operations and the profit on sale of associates and joint ventures, see notes 3 and 31.

12. Investments in joint ventures and associates continued

Investment in associates

On 16 October 2015, the Group sold 39% of its 50% stake in The Economist (see note 31 for further information). As at 31 December 2015, the Group holds an 11% stake in The Economist which has been classified as an 'Other financial asset' (see note 15).

The Group has the following material associates:

	Principal place of business	Ownership interest	Nature of relationship	Measurement method
Penguin Random House Ltd	UK/Global	47%	See below	Equity
Penguin Random House LLC	US	47%	See below	Equity

On 1 July 2013 Penguin Random House was formed, upon the completion of an agreement between Pearson and Bertelsmann to merge their respective trade publishing companies, Penguin and Random House, with the parent companies owning 47% and 53% of the combined business respectively. The shareholder agreement includes protection rights for Pearson as the minority shareholder, including rights to dividends. Management considers ownership percentage, board composition and the additional protective rights, and exercises judgement to determine that Pearson has significant influence over Penguin Random House and Bertelsmann has the power to direct the relevant activities and therefore control. Penguin Random House does not have a quoted market price.

The summarised financial information of the material associates is detailed below:

	2015		2014	
All figures in £ millions	**Penguin Random House**	**The Economist**	Penguin Random House	The Economist
Assets				
Current assets	**1,354**	**–**	1,355	110
Non-current assets	**1,244**	**–**	1,429	166
Liabilities				
Current liabilities	**(1,034)**	**–**	(1,113)	(190)
Non-current liabilities	**(358)**	**–**	(424)	(86)
Net assets	**1,206**	**–**	1,247	–
Sales	**2,453**	**276**	2,416	320
Profit from continuing operations	**136**	**–**	74	–
Profit from discontinued operations	**–**	**34**	–	42
Other comprehensive income/(expense)	**51**	**–**	42	(20)
Total comprehensive income	**187**	**34**	116	22
Dividends received from associate	**142**	**20**	95	21

The information above reflects the amounts presented in the financial statements of the associates, adjusted for fair value and similar adjustments. Amounts presented for The Economist cover the period up until the date of the partial disposal. The tax on Penguin Random House LLC is settled by the partners. For the purposes of clear and consistent presentation, the tax has been shown in the associate line items in the consolidated income statement and consolidated balance sheet, recording the Group's share of profit after tax consistently for the Penguin Random House associates.

Notes to the consolidated financial statements continued

12. Investments in joint ventures and associates continued

Investment in associates continued

A reconciliation of the summarised financial information to the carrying value of the material associates is shown below:

All figures in £ millions	2015 Penguin Random House	2015 The Economist	2014 Penguin Random House	2014 The Economist
Opening net assets	**1,247**	**–**	1,232	16
Exchange differences	**(1)**	**–**	(1)	–
Profit for the period	**136**	**34**	74	42
Other comprehensive income/(expense)	**51**	**–**	42	(20)
Dividends, net of tax paid	**(229)**	**(40)**	(100)	(42)
Additions	**2**	**–**	–	–
Distribution from associate in excess of carrying value	**–**	**–**	–	4
Reversal of distribution from associate in excess of carrying value	**–**	**(3)**	–	–
Disposal	**–**	**9**	–	–
Closing net assets	**1,206**	**–**	1,247	–
Share of net assets	**567**	**–**	586	–
Goodwill	**526**	**–**	509	–
Carrying value of associate	**1,093**	**–**	1,095	–

Information on other individually immaterial associates is detailed below:

All figures in £ millions	2015	2014
Loss from continuing operations	**(9)**	(2)
Other comprehensive income	**–**	–
Total comprehensive expense	**(9)**	(2)

Transactions with material associates

The Group has loans to Penguin Random House which are unsecured and interest is calculated based on market rates. The amount outstanding at 31 December 2015 was £47m (2014: £54m). The loans are provided under a working capital facility and fluctuate during the year. The loan outstanding at 31 December 2015 was repaid in its entirety in January 2016.

The Group also has a current asset receivable of £27m (2014: £41m) from Penguin Random House arising from the provision of services. Included in other income (note 4) is £16m (2014: £41m) of service fees.

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12. Investments in joint ventures and associates continued

Investment in joint ventures

Information on joint ventures, all of which are individually immaterial, is detailed below:

All figures in £ millions	2015	2014
Loss from continuing operations	(3)	(3)
Loss from discontinued operations	(1)	–
Other comprehensive income	–	–
Total comprehensive expense	**(4)**	(3)

13. Deferred income tax

All figures in £ millions	2015	2014
Deferred income tax assets	276	295
Deferred income tax liabilities	(560)	(714)
Net deferred income tax	**(284)**	(419)

Substantially all of the deferred income tax assets are expected to be recovered after more than one year.

Deferred income tax assets and liabilities may be offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. At 31 December 2015 the Group has unrecognised deferred income tax assets of £nil (2014: £4m) in respect of UK losses, £11m (2014: £14m) in respect of US losses and approximately £70m (2014: £44m) in respect of losses in other territories. The US losses relate to state taxes and therefore have expiry periods of between five and 20 years.

The recognition of the deferred income tax assets is supported by management's forecasts of the future profitability of the relevant business units.

The movement on the net deferred income tax account is as follows:

All figures in £ millions	Notes	2015	2014
At beginning of year		(419)	(362)
Exchange differences		(26)	(22)
Income statement benefit	7	196	10
Disposal through business disposal		1	(1)
Tax charge to other comprehensive income or equity		(36)	(18)
Transfer to current tax		–	(26)
At end of year		**(284)**	(419)

Included in the income statement above for 2015 is a £2m benefit (2014: £nil) relating to discontinued operations.

Notes to the consolidated financial statements continued

13. Deferred income tax continued

The movement in deferred income tax assets and liabilities during the year is as follows:

All figures in £ millions	Trading losses	Returns provisions	Retirement benefit obligations	Other	Total
Deferred income tax assets					
At 1 January 2014	15	39	42	154	250
Exchange differences	1	2	4	5	12
Acquisition through business combination	2	–	–	–	2
Income statement benefit	10	3	7	35	55
Tax benefit/(charge) to other comprehensive income or equity	–	–	10	(7)	3
Transfer to current tax	–	–	–	(26)	(26)
Disposal through business disposal	–	–	(1)	–	(1)
At 31 December 2014	28	44	62	161	295
Exchange differences	**5**	**3**	**4**	**9**	**21**
Income statement charge	**(14)**	**(4)**	**(3)**	**(15)**	**(36)**
Tax charge to other comprehensive income or equity	**–**	**–**	**(4)**	**–**	**(4)**
At 31 December 2015	**19**	**43**	**59**	**155**	**276**

Other deferred income tax assets include temporary differences on goodwill, deferred income, share-based payments, inventory and other provisions.

All figures in £ millions	Goodwill and intangibles	Other	Total
Deferred income tax liabilities			
At 1 January 2014	(584)	(28)	(612)
Exchange differences	(30)	(4)	(34)
Acquisition through business combination	(2)	–	(2)
Income statement benefit/(charge)	18	(63)	(45)
Tax charge to other comprehensive income or equity	–	(21)	(21)
At 31 December 2014	(598)	(116)	(714)
Exchange differences	**(41)**	**(6)**	**(47)**
Income statement benefit	**180**	**52**	**232**
Disposal through business disposal	**1**	**–**	**1**
Tax charge to other comprehensive income or equity	**–**	**(32)**	**(32)**
At 31 December 2015	**(458)**	**(102)**	**(560)**

Other deferred income tax liabilities include temporary differences in respect of depreciation and royalty advances.

14. Classification of financial instruments

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

		2015							
					Fair value	Amortised cost			
All figures in £ millions	Notes	Available for sale	Derivatives deemed held for trading	Derivatives in hedging relationships	Other liabilities	Loans and receivables	Other liabilities	Total carrying value	Total market value
Investments in listed securities	15	–	–	–	–	–	–	–	–
Investments in unlisted securities	15	143	–	–	–	–	–	143	143
Cash and cash equivalents	17	–	–	–	–	1,703	–	1,703	1,703
Marketable securities		28	–	–	–	–	–	28	28
Derivative financial instruments	16	–	29	81	–	–	–	110	110
Trade receivables	22	–	–	–	–	963	–	963	963
Total financial assets		171	29	81	–	2,666	–	2,947	2,947
Derivative financial instruments	16	–	(36)	(129)	–	–	–	(165)	(165)
Trade payables	24	–	–	–	–	–	(319)	(319)	(319)
Bank loans and overdrafts	18	–	–	–	–	–	(38)	(38)	(38)
Borrowings due within one year	18	–	–	–	–	–	(244)	(244)	(244)
Borrowings due after more than one year	18	–	–	–	–	–	(2,048)	(2,048)	(2,009)
Total financial liabilities		–	(36)	(129)	–	–	(2,649)	(2,814)	(2,775)

Notes to the consolidated financial statements continued

14. Classification of financial instruments continued

									2014
					Fair value	Amortised cost			
All figures in £ millions	Notes	Available for sale	Derivatives deemed held for trading	Derivatives in hedging relationships	Other liabilities	Loans and receivables	Other liabilities	Total carrying value	Total market value
Investments in listed securities	15	9	–	–	–	–	–	9	9
Investments in unlisted securities	15	45	–	–	–	–	–	45	45
Cash and cash equivalents	17	–	–	–	–	530	–	530	530
Marketable securities		16	–	–	–	–	–	16	16
Derivative financial instruments	16	–	6	108	–	–	–	114	114
Trade receivables	22	–	–	–	–	989	–	989	989
Total financial assets		70	6	108	–	1,519	–	1,703	1,703
Derivative financial instruments	16	–	(33)	(41)	–	–	–	(74)	(74)
Trade payables	24	–	–	–	–	–	(329)	(329)	(329)
Bank loans and overdrafts	18	–	–	–	–	–	(42)	(42)	(42)
Borrowings due within one year	18	–	–	–	–	–	(305)	(305)	(319)
Borrowings due after more than one year	18	–	–	–	–	–	(1,878)	(1,878)	(1,888)
Total financial liabilities		–	(33)	(41)	–	–	(2,554)	(2,628)	(2,652)

Certain of the Group's derivative financial instruments are classified as held for trading either as they do not meet the hedge accounting criteria specified in IAS 39 'Financial Instruments: Recognition and Measurement' or as the Group has chosen not to seek hedge accounting for these instruments. None of these derivatives are held for speculative trading purposes. Transactions in derivative financial instruments are only undertaken to manage risks arising from underlying business activity, in accordance with the Group's treasury policy as described in note 19.

The Group designates certain qualifying derivative financial instruments as hedges of the fair value of its bonds (fair value hedges). Changes in the fair value of these derivative financial instruments are recorded in the income statement, together with any change in the fair value of the hedged liability attributable to the hedged risk.

The Group also designates certain of its borrowings and derivative financial instruments as hedges of its investments in foreign operations (net investment hedges). Movements in the fair value of these financial instruments (to the extent they are effective) are recognised in other comprehensive income.

None of the Group's financial assets or liabilities are designated at fair value through the income statement upon initial recognition.

More detail on the Group's accounting for financial instruments is included in the Group's accounting policies. The Group's approach to managing risks in relation to financial instruments is described in note 19.

15. Other financial assets

All figures in £ millions	2015	2014
At beginning of year	**54**	94
Exchange differences	**3**	6
Acquisition of investments	**101**	12
Disposal of investments	**(15)**	(58)
At end of year	**143**	54

Other financial assets comprise listed securities of £nil (2014: £9m) and unlisted securities of £143m (2014: £45m). Acquisition of investments includes the remaining 11% stake in The Economist, see note 31 for further information.

16. Derivative financial instruments

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:

	2015			2014		
All figures in £ millions	Gross notional amounts	Assets	Liabilities	Gross notional amounts	Assets	Liabilities
Interest rate derivatives – in a fair value hedge relationship	**1,952**	**70**	**(10)**	1,607	84	(5)
Interest rate derivatives – not in a hedge relationship	**848**	**–**	**(6)**	673	–	(7)
Cross-currency rate derivatives – in a hedge relationship	**1,879**	**10**	**(119)**	889	24	(36)
Cross-currency rate derivatives – not in a hedge relationship	**120**	**30**	**(30)**	451	6	(26)
Total	**4,799**	**110**	**(165)**	3,620	114	(74)
Analysed as expiring:						
In less than one year	**324**	**32**	**(29)**	200	24	(1)
Later than one year and not later than five years	**1,255**	**44**	**(4)**	1,386	67	(8)
Later than five years	**3,220**	**34**	**(132)**	2,034	23	(65)
Total	**4,799**	**110**	**(165)**	3,620	114	(74)

Notes to the consolidated financial statements continued

16. Derivative financial instruments continued

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

At the end of 2015, the currency split of the mark-to-market values of rate derivatives, including the exchange of principal on cross-currency rate derivatives, was US dollar £(917)m, sterling £102m, euro £759m and Brazilian real £nil (2014: US dollar £(607)m, sterling £214m, euro £430m and Brazilian real £4m).

The fixed interest rates on outstanding rate derivative contracts at the end of 2015 range from 1.10% to 14.48% (2014: 1.10% to 14.48%) and the floating rates are based on LIBOR in US dollar, euro and sterling.

The Group's portfolio of rate 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.

Derivative financial assets and liabilities subject to offsetting arrangements are as follows:

			2015			2014
All figures in £ millions	**Gross derivative assets**	**Gross derivative liabilities**	**Net derivative assets/ liabilities**	Gross derivative assets	Gross derivative liabilities	Net derivative assets/ liabilities
Counterparties in an asset position	**50**	**(22)**	**28**	94	(28)	66
Counterparties in a liability position	**60**	**(143)**	**(83)**	20	(46)	(26)
Total as presented in the balance sheet	**110**	**(165)**	**(55)**	114	(74)	40

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. Offset arrangements in respect of cash balances are shown 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 risk to any one counterparty. No single derivative transaction had a market value (positive or negative) at the balance sheet date that exceeded 3% of the Group's consolidated total equity.

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' the Group has reviewed all of its material contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements, and has concluded that there are no material embedded derivatives.

17. Cash and cash equivalents (excluding overdrafts)

All figures in £ millions	2015	2014
Cash at bank and in hand	**627**	483
Short-term bank deposits	**1,076**	47
	1,703	530

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

At the end of 2015 the currency split of cash and cash equivalents was US dollar 23% (2014: 18%), sterling 57% (2014: 13%), euro 2% (2014: 3%), renminbi 8% (2014: 28%) and other 10% (2014: 38%).

Cash and cash equivalents have fair values that approximate to their carrying value due to their short-term nature. Cash and cash equivalents include the following for the purpose of the cash flow statement:

All figures in £ millions	2015	2014
Cash and cash equivalents – continuing operations	**1,703**	530
Bank overdrafts – continuing operations	**(32)**	(19)
	1,671	511

The Group has the following cash pooling arrangements in US dollars, sterling, euro and canadian dollars where both the company and the bank have a legal right of offset.

	2015			2014		
All figures in £ millions	Offset asset	Offset liability	Net offset asset	Offset asset	Offset liability	Net offset asset
US dollars	**446**	**(442)**	**4**	267	(266)	1
Sterling	**290**	**(289)**	**1**	430	(427)	3
Euro	**5**	**(3)**	**2**	9	(8)	1
Canadian dollars	**36**	**(10)**	**26**	10	–	10
Total for continuing operations as presented in the balance sheet			**33**			15

Offset arrangements in respect of derivatives are shown in note 16.

Notes to the consolidated financial statements continued

18. Financial liabilities – borrowings

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

All figures in £ millions	2015	2014
Non-current		
4.0% US dollar notes 2016 (nominal amount $350m)	–	231
6.25% Global dollar bonds 2018 (nominal amount $550m)	403	390
4.625% US dollar notes 2018 (nominal amount $300m)	218	210
1.875% Euro notes 2021 (nominal amount €500m)	386	408
3.75% US dollar notes 2022 (nominal amount $500m)	342	319
3.25% US dollar notes 2023 (nominal amount $500m)	336	315
1.375% Euro notes 2025 (nominal amount €500m)	359	–
Bank loans and overdrafts	–	5
Finance lease liabilities	4	5
	2,048	1,883
Current		
Due within one year or on-demand:		
6.0% Sterling bonds 2015 (nominal amount £300m)	–	300
4.0% US dollar notes 2016 (nominal amount $350m)	240	–
Bank loans and overdrafts	38	37
Finance lease liabilities	4	5
	282	342
Total borrowings	2,330	2,225

Included in the non-current borrowings above is £15m of accrued interest (2014: £13m). Included in the current borrowings above is £1m of accrued interest (2014: £1m).

The maturity of the Group's non-current borrowing is as follows:

All figures in £ millions	2015	2014
Between one and two years	3	239
Between two and five years	622	602
Over five years	1,423	1,042
	2,048	1,883

18. Financial liabilities – borrowings continued

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

All figures in £ millions	2015 Effective interest rate	2015 Carrying value	2015 Market value	2014 Effective interest rate	2014 Carrying value	2014 Market value
Bank loans and overdrafts	n/a	38	38	n/a	42	42
6.0% Sterling bonds 2015	–	–	–	6.27%	300	314
4.0% US dollar notes 2016	4.26%	240	240	4.26%	231	233
6.25% Global dollar bonds 2018	6.46%	403	405	6.46%	390	397
4.625% US dollar notes 2018	4.69%	218	213	4.69%	210	205
1.875% Euro notes 2021	2.04%	386	380	2.04%	408	407
3.75% US dollar notes 2022	3.94%	342	335	3.94%	319	327
3.25% US dollar notes 2023	3.36%	336	322	3.36%	315	314
1.375% Euro notes 2025	1.44%	359	350	n/a	–	–
Finance lease liabilities	n/a	8	8	n/a	10	10
		2,330	2,291		2,225	2,249

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 are denominated in the following currencies:

All figures in £ millions	2015	2014
US dollar	1,563	1,491
Sterling	1	303
Euro	759	408
Other	7	23
	2,330	2,225

Notes to the consolidated financial statements continued

18. Financial liabilities – borrowings continued

The Group has the following undrawn capacity on its committed borrowing facilities as at 31 December:

All figures in £ millions	2015	2014
Floating rate		
– expiring within one year	–	–
– expiring beyond one year	**1,187**	1,122
	1,187	1,122

In addition to the above facilities, 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 finance lease obligations, the rights to the leased asset revert to the lessor in the event of default.

The maturity of the Group's finance lease obligations is as follows:

All figures in £ millions	2015	2014
Finance lease liabilities – minimum lease payments		
Not later than one year	**4**	5
Later than one year and not later than two years	**3**	3
Later than two years and not later than three years	**1**	1
Later than three years and not later than four years	–	1
Later than four years and not later than five years	–	–
Later than five years	–	–
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	**8**	10

The present value of finance lease liabilities is as follows:

All figures in £ millions	2015	2014
Not later than one year	**4**	5
Later than one year and not later than five years	**4**	5
Later than five years	–	–
	8	10

The carrying amounts of the Group's lease obligations approximate their fair value.

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

The Group holds financial instruments for two principal purposes: to finance its operations and to manage the interest rate and currency risks arising from its operations and its sources of finance. The Group finances its operations by a mixture of cash flows from operations, short-term borrowings from banks and commercial paper markets, and longer-term loans from banks and capital markets. The Group borrows principally in US dollars, euros and sterling, at both floating and fixed rates of interest, using derivative financial instruments ('derivatives'), where appropriate, to generate the desired currency profile and interest rate basis. The derivatives used for this purpose are principally rate swaps, rate caps and collars, currency rate swaps and forward foreign exchange contracts. The main risks arising from the Group's financial instruments are interest rate risk, liquidity and refinancing risk, counterparty risk and foreign currency risk. These risks are managed by the chief financial officer under policies approved by the board, which are summarised in this note. All the key treasury policies remained unchanged throughout the year, except for revisions to the Group's bank counterparty risk limits and clarifications in respect of the Group's approach to compliance with laws and regulations.

The audit committee receives regular reports on the Group's treasury activities, policies and procedures. The treasury department is not a profit centre and its activities are subject to regular internal audit.

Liquidity and refinancing risk management

The Group's objective is to secure continuity of funding at a reasonable cost. To do this it seeks to arrange committed funding for a variety of maturities from a diversity of sources. The Group's policy objective is to maintain the weighted average maturity of its core gross borrowings (treating short-term advances as having the final maturity of the facilities available to refinance them) to be between three and ten years. At the end of 2015 the average maturity of gross borrowings was 5.1 years (2014: 4.7 years) of which bonds represented 98% (2014: 97%) of these borrowings.

The Group believes that ready access to different funding markets also helps to reduce its liquidity risk, and that published credit ratings and published financial policies improve such access. At the year end, the long-term ratings were Baa1 from Moody's and BBB+ from Standard & Poor's, and the short-term ratings were P2 and A2 respectively. All of the Group's credit ratings remained unchanged during the year, although in October 2015, Standard & Poor's changed the outlook on their long-term rating from 'Stable' to 'Negative'. In February 2016, Moody's changed Pearson's long-term rating from Baa1 (negative) to Baa2 (stable). In March 2016, Standard & Poor's changed Pearson's long-term rating from BBB+ (Negative) to BBB (Stable). The short-term ratings from Moody's and Standard & Poor's remain unchanged at P2 and A2. The Group's policy is to strive to maintain a rating of Baa1/BBB+ over the long term. The Group also uses a range of ratios to monitor and manage its finances internally. These include interest cover, net debt to operating profit and cash flow to debt measures. The Group also maintains undrawn committed borrowing facilities. At the end of 2015 the committed facilities amounted to $1,750m (£1,187m) and their weighted average maturity was 4.6 years.

Interest rate risk management

The Group's exposure to interest rate fluctuations on its borrowings is managed by borrowing on a fixed rate basis and by entering into rate swaps, rate caps and forward rate agreements. The Group also aims to avoid undue exposure to a single interest rate setting. Reflecting this objective, the Group has predominantly swapped its fixed rate bond issues to floating rate at their launch. This creates a group of derivatives, under which the Group is a receiver of fixed rates and a payer of floating rates.

The Group's policy objective has continued to be to set a target proportion of its forecast borrowings (taken at the year end, with cash netted against floating rate debt and before certain adjustments for IAS 39) to be hedged (i.e. fixed or capped at the year end) over the next four years, subject to a maximum of 65% and a minimum that starts at 40% and falls by 10% at each year end. At the end of 2015 the fixed to floating hedging ratio, on the above basis, was approximately 90%:10%. The higher than policy ratio is a result of higher cash balances due to divestments in 2015. Our policy is to not close out contracts where we anticipate reverting to compliance with the policy over the longer term. A simultaneous 1% change on 1 January 2016 in the Group's variable interest rates in US dollar and sterling, taking into account forecast seasonal debt, would have a £6m effect on profit before tax.

Notes to the consolidated financial statements continued

19. Financial risk management continued

Interest rate risk management continued
The policy described above creates a further group of derivatives, under which the Group is a payer of fixed rates and a receiver of floating rates. The Group's accounting objective in relation to its use of interest rate derivatives is to minimise the impact on the income statement of changes in the mark-to-market value of its derivative portfolio as a whole. It uses duration calculations to estimate the sensitivity of the derivatives to movements in market rates. The Group also identifies which derivatives are eligible for fair value hedge accounting (which reduces the income statement impact of changes in the market value of a derivative). The Group then balances the total portfolio between hedge-accounted and pooled segments, so that the expected movement on the pooled segment is minimal.

Financial counterparty risk management
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 ratings 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.

Foreign currency risk management
Although the Group is based in the UK, it has its most significant investment in overseas operations. The most significant currency for the Group is the US dollar. The Group's policy on routine transactional conversions between currencies (for example, the collection of receivables, and the settlement of payables or interest) remains that these should be transacted at the relevant spot exchange rate. The majority of the Group's operations are domestic within their country of operation. No unremitted profits are hedged with foreign exchange contracts, as the company judges it inappropriate to hedge non cash flow translational exposure with cash flow instruments. However, the Group does seek to create a natural hedge of this exposure through its policy of aligning approximately the currency composition of its core net borrowings (after the impact of cross-currency rate derivatives) with its forecast operating profit before depreciation and amortisation. This policy aims to soften the impact of changes in foreign exchange rates on consolidated interest cover and earnings. The policy above applies only to currencies that account for more than 15% of Group operating profit before depreciation and amortisation, which currently is only the US dollar. The Group still borrows small amounts in other currencies, typically for seasonal working capital needs. The Group policy does not require existing currency debt to be terminated to match declines in that currency's share of Group operating profit before depreciation and amortisation. In addition, currencies that account for less than 15% of Group operating profit before depreciation and amortisation can be included in the above hedging process at the request of the chief financial officer.

Included within year end net debt, the net borrowings/(cash) in the hedging currencies above (taking into account the effect of cross-currency swaps) were: US dollar £1,345m and sterling £(385)m.

Use of currency debt and currency derivatives
The Group uses both currency denominated debt and derivative instruments to implement the above policy.

Its intention is that gains/losses on the derivatives and debt offset the losses/gains on the foreign currency assets and income. Each quarter the value of hedging instruments is monitored against the assets in the relevant currency and, where practical, a decision is made whether to treat the debt or derivative as a net investment hedge (permitting foreign exchange movements on it to be taken to reserves) for the purposes of IAS 39.

19. Financial risk management continued

Analysis of Group debt, including the impact of derivatives

The following tables analyse the Group's sources of funding and the impact of derivatives on the Group's debt instruments.

The Group's net debt position is set out below:

All figures in £ millions	2015	2014
Cash and cash equivalents	**1,703**	530
Marketable securities	**28**	16
Derivative financial instruments	**(55)**	40
Bank loans, overdrafts and loan notes	**(38)**	(42)
Bonds	**(2,284)**	(2,173)
Finance lease liabilities	**(8)**	(10)
Net debt	**(654)**	(1,639)

The split of net debt between fixed and floating rate, stated after the impact of rate derivatives, is as follows:

All figures in £ millions	2015	2014
Fixed rate	**577**	597
Floating rate	**77**	1,042
Total	**654**	1,639

Gross borrowings, after the impact of cross-currency rate derivatives, analysed by currency are as follows:

All figures in £ millions	2015	2014
US dollar	**2,308**	2,099
Sterling	**1**	104
Other	**21**	22
Total	**2,330**	2,225

As at 31 December 2015 the exposure of the borrowings of the Group to interest rate changes when the borrowings re-price is as follows:

All figures in £ millions	Less than one year	One to five years	More than five years	Total
Re-pricing profile of borrowings	**282**	**625**	**1,423**	**2,330**
Effect of rate derivatives	**1,449**	**(33)**	**(1,416)**	**–**
Total	**1,731**	**592**	**7**	**2,330**

Notes to the consolidated financial statements continued

19. Financial risk management continued

The maturity of contracted cash flows associated with the Group's financial liabilities is as follows:

All figures in £ millions	USD	GBP	Other	Total 2015
Not later than one year	470	58	73	601
Later than one year and not later than five years	705	–	–	705
Later than five years	1,578	–	–	1,578
Total	2,753	58	73	2,884
Analysed as:				
Bonds	1,745	–	829	2,574
Rate derivatives – inflows	(335)	(858)	(919)	(2,112)
Rate derivatives – outflows	1,155	858	90	2,103
Trade payables	188	58	73	319
Total	2,753	58	73	2,884

All figures in £ millions	USD	GBP	Other	Total 2014
Not later than one year	398	160	99	657
Later than one year and not later than five years	877	–	–	877
Later than five years	1,126	–	–	1,126
Total	2,401	160	99	2,660
Analysed as:				
Bonds	1,711	318	439	2,468
Rate derivatives – inflows	(379)	(656)	(537)	(1,572)
Rate derivatives – outflows	893	444	98	1,435
Trade payables	176	54	99	329
Total	2,401	160	99	2,660

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 Group net settles these amounts wherever possible.

Any amounts drawn under revolving credit facilities and commercial paper are assumed to mature at the maturity date of the relevant facility, with interest calculated as payable in each calendar year up to and including the date of maturity of the facility.

19. Financial risk management continued

Financial instruments – fair value measurement

The following table provides an analysis of those financial instruments that are measured subsequently to initial recognition at fair value, grouped into levels 1 to 3, based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

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).

				2015				2014
All figures in £ millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets at fair value								
Derivative financial assets	**–**	**110**	**–**	**110**	–	114	–	114
Marketable securities	**–**	**28**	**–**	**28**	–	16	–	16
Available for sale financial assets								
Investments in listed securities	**–**	**–**	**–**	**–**	–	9	–	9
Investments in unlisted securities	**–**	**–**	**143**	**143**	–	–	45	45
Financial liabilities at fair value								
Derivative financial liabilities	**–**	**(165)**	**–**	**(165)**	–	(74)	–	(74)
Total	**–**	**(27)**	**143**	**116**	–	65	45	110

The following table analyses the movements in level 3 fair value measurements:

	2015	2014
All figures in £ millions	**Investments in unlisted securities**	Investments in unlisted securities
At beginning of year	**45**	94
Exchange differences	**3**	6
Additions	**101**	3
Fair value movements	**–**	–
Disposals	**(6)**	(58)
At end of year	**143**	45

The fair value of the 11% stake in The Economist is valued by reference to the disposal transaction terms. The fair value of the remaining investments in unlisted securities is determined by reference to the financial performance of the underlying asset and amounts realised on the sale of similar assets.

Notes to the consolidated financial statements continued

19. Financial risk management continued

Financial instruments – sensitivity analysis

As at 31 December 2015 the sensitivity of the carrying value of the Group's financial instruments to fluctuations in interest rates and exchange rates is as follows:

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 listed securities	–	–	–	–	–
Investments in unlisted securities	143	–	–	(4)	5
Cash and cash equivalents	1,703	–	–	(67)	82
Marketable securities	28	–	–	–	–
Derivative financial instruments	(55)	(93)	99	14	(18)
Bonds	(2,284)	97	(103)	208	(254)
Other borrowings	(46)	–	–	5	(6)
Other net financial assets	644	–	–	(57)	68
Total financial instruments	133	4	(4)	99	(123)

The table shows the sensitivities of the fair values of each class of financial instruments to an isolated change in either interest rates or foreign exchange rates. The class 'Other net financial assets' comprises trade receivables less trade payables.

The sensitivities of derivative instruments are calculated using established 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%. A large 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 hedge treatment. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

20. Intangible assets – Pre-publication

All figures in £ millions	2015	2014
Cost		
At beginning of year	2,138	1,933
Exchange differences	66	80
Additions	347	358
Disposal through business disposal	(90)	–
Disposals	(260)	(234)
Acquisition through business combination	–	1
At end of year	2,201	2,138
Amortisation		
At beginning of year	(1,318)	(1,216)
Exchange differences	(47)	(60)
Charge for the year	(281)	(292)
Disposal through business disposal	26	–
Disposals	260	234
Transfer to receivables	–	16
At end of year	(1,360)	(1,318)
Carrying amounts		
At end of year	841	820

Included in the above are pre-publication assets amounting to £580m (2014: £546m) which will be realised in more than one year.

Amortisation is included in the income statement in cost of goods sold. There was no amortisation within discontinued operations in either year.

Disposal through business disposal amounts relate to the disposal of PowerSchool, see note 31 for further information.

21. Inventories

All figures in £ millions	2015	2014
Raw materials	8	9
Work in progress	8	10
Finished goods	195	205
	211	224

The cost of inventories relating to continuing operations recognised as an expense and included in the income statement in cost of goods sold amounted to £331m (2014: £379m). In 2015, £33m (2014: £38m) of inventory provisions was charged in the income statement. None of the inventory is pledged as security.

Notes to the consolidated financial statements continued

22. Trade and other receivables

All figures in £ millions	2015	2014
Current		
Trade receivables	**938**	963
Royalty advances	**20**	18
Prepayments and accrued income	**118**	107
Other receivables	**208**	222
	1,284	1,310
Non-current		
Trade receivables	**25**	26
Royalty advances	**13**	8
Prepayments and accrued income	**43**	30
Other receivables	**34**	18
	115	82

Trade receivables are stated at fair value, net of provisions for bad and doubtful debts and anticipated future sales returns. The movements on the provision for bad and doubtful debts are as follows:

All figures in £ millions	2015	2014
At beginning of year	**(73)**	(58)
Exchange differences	**3**	–
Income statement movements	**(31)**	(21)
Utilised	**32**	17
Acquisition through business combination	**–**	(11)
Disposal through business disposal	**5**	–
At end of year	**(64)**	(73)

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 trade receivables is as follows:

All figures in £ millions	2015	2014
Within due date	**754**	869
Up to three months past due date	**253**	203
Three to six months past due date	**58**	40
Six to nine months past due date	**19**	15
Nine to 12 months past due date	**13**	15
More than 12 months past due date	**16**	11
Total trade receivables	**1,113**	1,153
Less: provision for sales returns	**(150)**	(164)
Net trade receivables	**963**	989

The Group reviews its bad debt provision at least twice a year following a detailed review of receivable balances and historical payment profiles. Management believes all the remaining receivable balances are fully recoverable.

23. Provisions for other liabilities and charges

All figures in £ millions	Deferred consideration	Property	Disposals and closures	Legal and other	Total
At 1 January 2015	57	7	20	51	135
Exchange differences	**3**	**–**	**–**	**(4)**	**(1)**
Charged to income statement	**–**	**–**	**–**	**12**	**12**
Released to income statement	**(1)**	**–**	**–**	**(4)**	**(5)**
Disposal through business disposal	**–**	**(1)**	**–**	**(1)**	**(2)**
Utilised	**(6)**	**–**	**–**	**(20)**	**(26)**
At 31 December 2015	**53**	**6**	**20**	**34**	**113**

Analysis of provisions:

					2015
All figures in £ millions	**Deferred consideration**	**Property**	**Disposals and closures**	**Legal and other**	**Total**
Current	**5**	**3**	**15**	**19**	**42**
Non-current	**48**	**3**	**5**	**15**	**71**
	53	**6**	**20**	**34**	**113**
					2014
Current	7	4	20	22	53
Non-current	50	3	–	29	82
	57	7	20	51	135

Deferred consideration primarily relates to the formation of a venture in a North America business in 2011. Disposals and closures include liabilities related to the disposal of Penguin. Legal and other includes legal claims, contract disputes and potential contract losses.

Notes to the consolidated financial statements continued

24. Trade and other liabilities

All figures in £ millions	2015	2014
Trade payables	319	329
Social security and other taxes	22	21
Accruals	371	501
Deferred income	766	801
Interest payable	19	28
Other liabilities	249	231
	1,746	1,911
Less: non-current portion		
Accruals	20	22
Deferred income	262	201
Interest payable	–	19
Other liabilities	74	68
	356	310
Current portion	1,390	1,601

The carrying value of the Group's trade and other liabilities approximates its fair value.

The deferred income balance comprises principally multi-year obligations to deliver workbooks to adoption customers in school businesses; advance payments in assessment, testing and training businesses; subscription income in school and college businesses; and obligations to deliver digital content in future periods.

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 Group 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 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 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 Group Pension Trustee Limited.

At 31 December 2015 the UK Group plan has approximately 25,000 members, analysed in the following table:

All figures in %	Active	Deferred	Pensioners	Total
Defined benefit	1	27	34	62
Defined contribution	14	24	–	38
Total	15	51	34	100

25. Retirement benefit and other post-retirement obligations continued

Background continued

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 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.

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.

	2015			2014		
All figures in %	**UK Group plan**	**Other plans**	**PRMB**	UK Group plan	Other plans	PRMB
Inflation	**3.1**	**2.5**	**2.5**	3.0	2.5	2.5
Rate used to discount plan liabilities	**3.7**	**4.0**	**4.0**	3.6	3.7	3.7
Expected rate of increase in salaries	**3.6**	**3.0**	**3.0**	3.5	3.9	4.0
Expected rate of increase for pensions in payment and deferred pensions	**1.9 to 5.10**	**–**	**–**	1.9 to 5.05	–	–
Initial rate of increase in healthcare rate	**–**	**–**	**7.0**	–	–	7.0
Ultimate rate of increase in healthcare rate	**–**	**–**	**5.0**	–	–	5.0

The UK discount rate is based on corporate bond yields adjusted to reflect the duration of liabilities. The US discount rate is set by reference to a US bond portfolio matching model.

The inflation rate for the UK Group plan of 3.1% 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 2.1% has been used.

The expected rate of increase in salaries has been set at 3.6% for 2015 with a short-term assumption of 2.0% for three years.

For the UK plan, the mortality base table assumptions have been derived from the SAPS 'all pensioners' tables for males and the SAPS 'normal health pensioners' tables for 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 model is applied for both males and females.

For the US plans, the mortality table (RP – 2014) and 2014 Improvement scale (MP – 2014) with no adjustments have been adopted from 2014, reflecting the mortality assumption most prevalent in the US.

Notes to the consolidated financial statements continued

25. Retirement benefit and other post-retirement obligations continued

Assumptions continued

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:

	UK		US	
All figures in years	**2015**	2014	**2015**	2014
Male	**23.5**	24.4	**21.2**	21.6
Female	**25.6**	24.5	**23.2**	23.8

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:

	UK		US	
All figures in years	**2015**	2014	**2015**	2014
Male	**25.5**	26.6	**22.9**	23.3
Female	**27.8**	26.4	**24.9**	25.5

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.

Financial statement information

The amounts recognised in the income statement are as follows:

						2015
All figures in £ millions	**UK Group plan**	**Defined benefit other**	**Sub-total**	**Defined contribution**	**PRMB**	**Total**
Current service cost	**20**	**2**	**22**	**74**	**–**	**96**
Curtailments	**(3)**	**–**	**(3)**	**–**	**–**	**(3)**
Administration expenses	**5**	**–**	**5**	**–**	**–**	**5**
Total operating expense	**22**	**2**	**24**	**74**	**–**	**98**
Interest on plan assets	**(98)**	**(5)**	**(103)**	**–**	**–**	**(103)**
Interest on plan liabilities	**90**	**7**	**97**	**–**	**2**	**99**
Net finance (income)/expense	**(8)**	**2**	**(6)**	**–**	**2**	**(4)**
Net income statement charge	**14**	**4**	**18**	**74**	**2**	**94**

25. Retirement benefit and other post-retirement obligations continued

Financial statement information continued

All figures in £ millions	UK Group plan	Defined benefit other	Sub-total	Defined contribution	PRMB	Total
						2014
Current service cost	20	2	22	69	2	93
Curtailments	(5)	–	(5)	–	(13)	(18)
Administration expenses	4	–	4	–	–	4
Total operating expense	19	2	21	69	(11)	79
Interest on plan assets	(103)	(7)	(110)	–	–	(110)
Interest on plan liabilities	98	8	106	–	3	109
Net finance (income)/expense	(5)	1	(4)	–	3	(1)
Net income statement charge/(income)	14	3	17	69	(8)	78

Included within the 2015 results are discontinued operations consisting of a £5m charge (2014: £nil) relating to defined benefit schemes and a £8m charge (2014: £8m charge) relating to defined contribution schemes.

The amounts recognised in the balance sheet are as follows:

All figures in £ millions	**UK Group plan**	**Other funded plans**	**Other unfunded plans**	**Total**	UK Group plan	Other funded plans	Other unfunded plans	Total
				2015				2014
Fair value of plan assets	**2,803**	**135**	**–**	**2,938**	2,714	164	–	2,878
Present value of defined benefit obligation	**(2,466)**	**(157)**	**(18)**	**(2,641)**	(2,524)	(196)	(23)	(2,743)
Net pension asset/(liability)	**337**	**(22)**	**(18)**	**297**	190	(32)	(23)	135
Other post-retirement medical benefit obligation				**(76)**				(81)
Other pension accruals				**(23)**				(27)
Net retirement benefit asset				**198**				27
Analysed as:								
Retirement benefit assets				**337**				190
Retirement benefit obligations				**(139)**				(163)

Notes to the consolidated financial statements continued

25. Retirement benefit and other post-retirement obligations continued

Financial statement information continued

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

All figures in £ millions	2015	2014
Amounts recognised for defined benefit plans	104	36
Amounts recognised for post-retirement medical benefit plans	6	(13)
Total recognised in year	110	23

The fair value of plan assets comprises the following:

	2015			2014		
All figures in %	UK Group plan	Other funded plans	Total	UK Group plan	Other funded plans	Total
Equities	12	2	14	26	2	28
Bonds	8	2	10	42	3	45
Property	9	–	9	9	–	9
Qualifying investment fund	50	–	50	–	–	–
Other	17	–	17	17	1	18

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 UK Group plan assets into additional categories and those assets which have a quoted market price in an active market and those that do not:

	2015		2014	
All figures in %	Quoted market price	No quoted market price	Quoted market price	No quoted market price
UK equities	–	1	5	1
Non-UK equities	11	2	20	2
Fixed-interest securities	6	–	19	–
Index-linked securities	4	–	26	–
Property	–	9	–	9
Qualifying investment fund	50	–	–	–
Other	–	17	–	18
Total	71	29	70	30

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

All figures in %	2015	2014
Liquid – call <1 month	73	72
Less liquid – call 1–3 months	2	2
Liquid – call >3 months	25	26

25. Retirement benefit and other post-retirement obligations continued

Financial statement information continued

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

	2015			2014		
All figures in £ millions	UK Group plan	Other plans	Total	UK Group plan	Other plans	Total
Fair value of plan assets						
Opening fair value of plan assets	**2,714**	**164**	**2,878**	2,353	156	2,509
Exchange differences	**–**	**2**	**2**	–	4	4
Interest on plan assets	**98**	**5**	**103**	103	7	110
Return on plans assets excluding interest	**(8)**	**(4)**	**(12)**	286	9	295
Contributions by employer	**72**	**5**	**77**	62	4	66
Contributions by employee	**2**	**–**	**2**	2	–	2
Benefits paid	**(95)**	**(17)**	**(112)**	(92)	(16)	(108)
Transfer	**20**	**(20)**	**–**	–	–	–
Closing fair value of plan assets	**2,803**	**135**	**2,938**	2,714	164	2,878
Present value of defined benefit obligation						
Opening defined benefit obligation	**(2,524)**	**(219)**	**(2,743)**	(2,267)	(191)	(2,458)
Exchange differences	**–**	**(3)**	**(3)**	–	(5)	(5)
Current service cost	**(20)**	**(2)**	**(22)**	(20)	(2)	(22)
Administration expenses	**(5)**	**–**	**(5)**	(4)	–	(4)
Curtailments	**3**	**–**	**3**	5	–	5
Interest cost	**(90)**	**(7)**	**(97)**	(98)	(8)	(106)
Actuarial gains/(losses) – experience	**107**	**2**	**109**	11	(1)	10
Actuarial gains/(losses) – demographic	**(33)**	**1**	**(32)**	–	(8)	(8)
Actuarial gains/(losses) – financial	**33**	**6**	**39**	(241)	(20)	(261)
Contributions by employee	**(2)**	**–**	**(2)**	(2)	–	(2)
Transfer	**(30)**	**30**	**–**	–	–	–
Benefits paid	**95**	**17**	**112**	92	16	108
Closing defined benefit obligation	**(2,466)**	**(175)**	**(2,641)**	(2,524)	(219)	(2,743)

The weighted average duration of the defined benefit obligation is 17.1 years for the UK and 8.7 years for the US.

Notes to the consolidated financial statements continued

25. Retirement benefit and other post-retirement obligations continued

Financial statement information continued

Changes in the value of the US PRMB are as follows:

All figures in £ millions	2015	2014
Opening defined benefit obligation	**(81)**	(77)
Exchange differences	**(3)**	(4)
Current service cost	**–**	(2)
Curtailments	**–**	13
Interest cost	**(2)**	(3)
Actuarial gains/(losses) – experience	**2**	–
Actuarial gains/(losses) – demographic	**2**	(7)
Actuarial gains/(losses) – financial	**2**	(6)
Benefits paid	**4**	5
Closing defined benefit obligation	**(76)**	(81)

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 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 2015 and this valuation revealed a technical provisions funding shortfall of £27m which was eliminated by contributions paid during 2015.

As a consequence of the disposal of the FT Group, an agreement has been made between Pearson and the Plan Trustee to accelerate the funding of the plan so that it becomes fully funded on a 'self-sufficiency' basis in the near future. This is a much higher level of funding than technical provisions. As a result the 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 Pearson. A commitment has also been made to maintain that level of funding in future years. In addition to a substantial company contribution following the Penguin Random House merger (to be paid before July 2017), an upfront contribution will be made to the plan following the disposal of the FT Group. This is expected to be approximately £90m and there will be further annual contributions to eliminate any remaining shortfall in the self-sufficiency funding.

At 31 December 2015, assets of the plan are divided into two elements: matching assets, which 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 (UK Bonds, interest rate/inflation swaps and other derivative instruments), inflation-linked property and infrastructure; and return seeking assets, which 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 equities, property and alternative asset classes. During the fourth quarter of 2015 the plan's long-term investment strategy was updated to an allocation of 84.2% Matching Assets and 15.8% Return Seeking Assets as at 31 December 2015.

Regular contributions to the plan in respect of the defined benefit sections are estimated to be £8m for 2016.

The Group expects to contribute $10m in 2016 and $10m in 2017 to its US defined benefit pension plans.

25. Retirement benefit and other post-retirement obligations continued

Sensitivities

The effect of a one percentage point increase and decrease in the discount rate on the defined benefit obligation and the total pension expense is as follows:

All figures in £ millions	2015 1% increase	2015 1% decrease
Effect:		
(Decrease)/increase in defined benefit obligation – UK Group plan	**(372)**	**495**
(Decrease)/increase in defined benefit obligation – US plan	**(16)**	**19**

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

All figures in £ millions	2015 1 year increase	2015 1 year decrease
Effect:		
Increase/(decrease) in defined benefit obligation – UK Group plan	**100**	**(96)**
Increase/(decrease) in defined benefit obligation – US plan	**7**	**(7)**

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

All figures in £ millions	2015 0.5% increase	2015 0.5% decrease
Effect:		
Increase/(decrease) in defined benefit obligation – UK Group plan	**113**	**(103)**
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	2015	2014
Pearson plans	**26**	32

Share-based payment charges included in discontinued operations amounted to £3m (2014: £3m). The Group operates the following equity-settled employee option and share plans:

Worldwide Save for Shares Plan Since 1994, the Group has operated a Save-As-You-Earn plan for UK employees. In 1998, the Group introduced a Worldwide Save for Shares Plan. Under these plans, employees can save a portion of their monthly salary over periods of three or five 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.

Notes to the consolidated financial statements continued

26. Share-based payments continued

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 ADRs with their accumulated funds at a purchase price equal to 85% of the lower of the market price prevailing at the beginning or end of the period.

Long-Term Incentive Plan This plan was first introduced in 2001, renewed in 2006 and again in 2011. 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 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 senior management in May 2014 and May 2015 vest dependent on relative total shareholder return, return on invested capital and earnings per share growth. Restricted shares awarded to senior management in November 2014 vest dependent on earnings per share growth. Other restricted shares awarded in 2014 and 2015 vest depending on continuing service over a three-year period.

The number and weighted average exercise prices of share options granted under the Group's plans are as follows:

	2015		2014	
	Number of share options 000s	**Weighted average exercise price £**	Number of share options 000s	Weighted average exercise price £
Outstanding at beginning of year	**3,507**	**8.48**	2,792	8.73
Granted during the year	**1,024**	**11.49**	1,985	8.11
Exercised during the year	**(578)**	**8.78**	(727)	8.24
Forfeited during the year	**(696)**	**9.12**	(538)	8.76
Expired during the year	**(7)**	**8.85**	(5)	7.43
Outstanding at end of year	**3,250**	**9.24**	3,507	8.48
Options exercisable at end of year	**138**	**8.89**	43	8.24

Options were exercised regularly throughout the year. The weighted average share price during the year was £11.86 (2014: £11.41). Early exercises arising from redundancy, retirement or death are treated as an acceleration of vesting and the Group therefore recognises in the income statement the amount that otherwise would have been recognised for services received over the remainder of the original vesting period.

The options outstanding at the end of the year have weighted average remaining contractual lives and exercise prices as follows:

	2015		2014	
Range of exercise prices £	**Number of share options 000s**	**Weighted average contractual life Years**	Number of share options 000s	Weighted average contractual life Years
0–5	**–**	**–**	–	–
5–10	**2,361**	**2.08**	3,507	2.68
>10	**889**	**3.26**	–	–
	3,250	**2.40**	3,507	2.68

In 2015 and 2014 options were granted under the Worldwide Save for Shares Plan. The weighted average estimated fair value for the options granted was calculated using a Black-Scholes option pricing model.

26. Share-based payments continued

The weighted average estimated fair values and the inputs into the Black-Scholes model are as follows:

	2015 Weighted average	2014 Weighted average
Fair value	**£1.99**	£2.41
Weighted average share price	**£13.37**	£11.09
Weighted average exercise price	**£11.49**	£8.11
Expected volatility	**23.00%**	21.27%
Expected life	**3.7 years**	3.9 years
Risk-free rate	**0.90%**	1.3%
Expected dividend yield	**4.44%**	4.33%
Forfeiture rate	**3.2%**	3.4%

The expected volatility is based on the historical volatility of the company's share price over the previous three to seven years depending on the vesting term of the options.

The following shares were granted under restricted share arrangements:

	2015		2014	
	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £
Long-Term Incentive Plan	**1,942**	**12.27**	5,875	11.44

The fair value of shares granted under the Long-Term Incentive Plan that vest unconditionally is determined using the share price at the date of grant. The number of shares expected to vest is adjusted, based on historical experience, to account for potential forfeitures. Restricted shares granted under the Annual Bonus Share Matching Plan are valued using the share price at the date of grant. Participants under both 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.

Notes to the consolidated financial statements continued

27. Share capital and share premium

	Number of shares 000s	Ordinary shares £m	Share premium £m
At 1 January 2014	818,580	205	2,568
Issue of ordinary shares – share option schemes	1,303	–	11
At 31 December 2014	819,883	205	2,579
Issue of ordinary shares – share option schemes	**1,185**	**–**	**11**
At 31 December 2015	**821,068**	**205**	**2,590**

The ordinary shares have a par value of 25p per share (2014: 25p per share). All issued shares are fully paid. All shares have the same rights.

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

	Pearson plc	
	Number of shares 000s	£m
At 1 January 2014	9,282	98
Purchase of treasury shares	907	9
Release of treasury shares	(2,997)	(32)
At 31 December 2014	7,192	75
Purchase of treasury shares	**1,987**	**23**
Release of treasury shares	**(2,474)**	**(26)**
At 31 December 2015	**6,705**	**72**

The Group holds Pearson plc shares in trust to satisfy its obligations under its restricted share plans (see note 26). These shares, representing 0.8% (2014: 0.9%) 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 £1.7m (2014: £1.8m).

At 31 December 2015 the market value of Pearson plc treasury shares was £49.3m (2014: £85.6m).

29. Other comprehensive income

All figures in £ millions	Attributable to equity holders of the company – Translation reserve	Attributable to equity holders of the company – Retained earnings	Attributable to equity holders of the company – Total	Non-controlling interest	Total 2015
Items that may be reclassified to the income statement					
Net exchange differences on translation of foreign operations – Group	(83)	–	(83)	(2)	(85)
Net exchange differences on translation of foreign operations – associate	16	–	16	–	16
Currency translation adjustment disposed – subsidiaries	(10)	–	(10)	–	(10)
Attributable tax	–	5	5	–	5
Items that are not reclassified to the income statement					
Remeasurement of retirement benefit obligations – Group	–	110	110	–	110
Remeasurement of retirement benefit obligations – associate	–	8	8	–	8
Attributable tax	–	(24)	(24)	–	(24)
Other comprehensive expense for the year	(77)	99	22	(2)	20

All figures in £ millions	Attributable to equity holders of the company – Translation reserve	Attributable to equity holders of the company – Retained earnings	Attributable to equity holders of the company – Total	Non-controlling interest	Total 2014
Items that may be reclassified to the income statement					
Net exchange differences on translation of foreign operations – Group	150	–	150	–	150
Net exchange differences on translation of foreign operations – associate	25	–	25	–	25
Currency translation adjustment disposed – subsidiaries	(2)	–	(2)	–	(2)
Attributable tax	–	(6)	(6)	–	(6)
Items that are not reclassified to the income statement					
Remeasurement of retirement benefit obligations – Group	–	23	23	–	23
Remeasurement of retirement benefit obligations – associate	–	(15)	(15)	–	(15)
Attributable tax	–	(1)	(1)	–	(1)
Other comprehensive expense for the year	173	1	174	–	174

Notes to the consolidated financial statements continued

30. Business combinations

There were no significant acquisitions in 2015. On 11 February 2014, the Group acquired 100% of Grupo Multi, the leading adult English language training company in Brazil. Fair values for the assets and liabilities arising from the Grupo Multi acquisition and other smaller acquisitions completed in the year are set out below.

Fair values for the assets and liabilities arising from acquisitions completed in the year are as follows:

All figures in £ millions	Notes	2015 Total fair value	2014 Total fair value
Property, plant and equipment	10	–	2
Intangible assets	11	1	260
Intangible assets – pre-publication	20	–	1
Inventories		–	4
Trade and other receivables		–	36
Cash and cash equivalents (excluding overdrafts)		–	3
Financial liabilities – borrowings		–	(49)
Provisions for other liabilities and charges	23	–	(14)
Trade and other liabilities		–	(24)
Current income tax liabilities		–	(20)
Net assets acquired at fair value		1	199
Goodwill	11	–	238
Total		1	437
Satisfied by:			
Cash		(1)	(437)
Total consideration		(1)	(437)

The goodwill arising on these acquisitions results from cost and revenue synergies and from assets and benefits that cannot be separately recognised.

There is no goodwill arising on 2015 acquisitions. Goodwill of £240m arising on 2014 acquisitions is expected to be deductible for tax purposes.

Intangible assets acquired in 2014 have the following useful economic lives: customer lists, contracts and relationships four years; trademarks and brands 20 years, and other acquired intangibles 12 years.

All figures in £ millions	2015	2014
Cash flow on acquisitions		
Cash – current year acquisitions	(1)	(437)
Deferred payments for prior year acquisitions and other items	(6)	(5)
Cash and cash equivalents acquired	–	3
Acquisition costs and other acquisition liabilities paid	(2)	(9)
Net cash outflow	(9)	(448)

31. Disposals including business closures

All figures in £ millions	2015 FT Group	2015 PowerSchool	2015 Other	2015 Total	2014 Mergermarket	2014 Penguin	2014 Other	2014 Total
Disposal of subsidiaries								
Property, plant and equipment	**(15)**	**(2)**	**–**	**(17)**	(2)	–	(1)	(3)
Intangible assets	**(46)**	**(19)**	**(5)**	**(70)**	(12)	–	–	(12)
Investments in joint ventures and associates	**(8)**	**–**	**–**	**(8)**	–	–	–	–
Intangible assets – pre-publication	**–**	**(64)**	**–**	**(64)**	–	–	–	–
Inventories	**(1)**	**–**	**–**	**(1)**	–	–	–	–
Trade and other receivables	**(72)**	**(16)**	**(3)**	**(91)**	(23)	–	(2)	(25)
Cash and cash equivalents (excluding overdrafts)	**(29)**	**–**	**(4)**	**(33)**	(19)	–	(11)	(30)
Net deferred income tax (assets)/liabilities	**(2)**	**–**	**3**	**1**	1	–	–	1
Retirement benefit obligations	**7**	**–**	**–**	**7**	–	–	–	–
Provisions for other liabilities and charges	**2**	**–**	**–**	**2**	4	–	–	4
Trade and other liabilities	**109**	**35**	**6**	**150**	69	–	12	81
Current income tax liabilities	**1**	**–**	**–**	**1**	6	–	–	6
Non-controlling interest	**–**	**–**	**–**	**–**	–	–	(2)	(2)
Attributable goodwill	**(50)**	**(119)**	**(6)**	**(175)**	(156)	–	(1)	(157)
Cumulative translation adjustment	**4**	**6**		**10**	2	–		2
Net assets disposed	**(100)**	**(179)**	**(9)**	**(288)**	(130)	–	(5)	(135)
Cash received	**858**	**222**	**9**	**1,089**	375	–	–	375
Deferred proceeds	**–**	**–**	**–**	**–**	–	–	6	6
Costs	**(47)**	**(13)**	**(9)**	**(69)**	(1)	29	(2)	26
Gain/(loss) on disposal	**711**	**30**	**(9)**	**732**	244	29	(1)	272

All figures in £ millions	2015	2014
Cash flow from disposals		
Cash – current year disposals	**1,089**	375
Cash and cash equivalents disposed	**(33)**	(30)
Costs and other disposal liabilities paid	**(26)**	(18)
Net cash inflow	**1,030**	327

Included in the gain on sale of PowerSchool is the write down of related software assets of £70m. The write down of the software assets reflects the reduced market opportunity for software which was to be integrated with PowerSchool and the recognition that adoption of such software in US schools is now unlikely to occur at the rate originally envisaged.

Disposal of associates

On 16 October 2015, the Group sold 39% of its 50% stake in The Economist resulting in a gain on disposal of £473m. The gain comprises proceeds of £377m, gain on revaluation of remaining 11% investment to fair value of £92m and liabilities disposed of £4m.

Notes to the consolidated financial statements continued

32. Cash generated from operations

All figures in £ millions	Notes	2015	2014
Profit		**823**	470
Adjustments for:			
Income tax		**(24)**	110
Depreciation	10	**75**	74
Amortisation and impairment of acquired intangibles and goodwill	11	**1,051**	264
Amortisation of software	11	**74**	63
Net finance costs		**29**	93
Share of results of joint ventures and associates	12	**(68)**	(51)
Profit on disposal of subsidiaries, associates, investments and fixed assets		**(1,194)**	(272)
Acquisition costs		**–**	6
Net foreign exchange adjustment from transactions		**22**	27
Share-based payment costs	26	**26**	32
Pre-publication		**(57)**	(52)
Inventories		**10**	6
Trade and other receivables		**(99)**	(69)
Trade and other liabilities		**(80)**	72
Retirement benefit obligations		**(57)**	(58)
Provisions for other liabilities and charges		**(13)**	(11)
Net cash generated from operations		**518**	704
Dividends from joint ventures and associates		**162**	120
Purchase of property, plant and equipment		**(86)**	(75)
Purchase of intangible assets		**(161)**	(107)
Proceeds from sale of property, plant and equipment		**2**	9
Proceeds from sale of intangible assets		**1**	2
Finance lease principal payments		**(1)**	(4)
Operating cash flow		**435**	649
Operating tax paid		**(129)**	(163)
Net operating finance costs paid		**(51)**	(73)
Operating free cash flow		**255**	413
Non operating tax paid		**(103)**	–
Free cash flow		**152**	413
Dividends paid (including to non-controlling interests)		**(423)**	(398)
Net movement of funds from operations		**(271)**	15
Acquisitions and disposals		**1,395**	(137)
Loans repaid/(advanced) (including to related parties)		**7**	(12)
Purchase of treasury shares	28	**(23)**	(9)
New equity		**11**	11
Other movements on financial instruments		**(1)**	15
Net movement of funds		**1,118**	(117)
Exchange movements on net debt		**(133)**	(143)
Total movement in net debt		**985**	(260)

32. Cash generated from operations continued

Net cash generated from operations is translated at an exchange rate approximating the rate at the date of cash flow. The difference between this rate and the average rate used to translate profit gives rise to a currency adjustment in the reconciliation between net profit and net cash generated from operations. This adjustment reflects the timing difference between recognition of profit and the related cash receipts or payments.

Operating cash flow, operating free cash flow and total free cash flow are non-GAAP measures and have been disclosed as they are part of Pearson's corporate and operating measures.

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

All figures in £ millions	2015	2014
Net book amount	6	12
Loss on sale of property, plant and equipment	(4)	(3)
Proceeds from sale of property, plant and equipment	**2**	9

33. Contingencies

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 legal claims, contract disputes, royalties, copyright fees, permissions and other rights. None of these claims are expected to result in a material gain or loss to the Group.

34. Commitments

At the balance sheet date there were no commitments for capital expenditure contracted for but not yet incurred.

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Group also leases various plant and equipment under operating lease agreements, also with varying terms. Lease expenditure charged to the income statement was £156m (2014: £157m).

The future aggregate minimum lease payments in respect of operating leases are as follows:

All figures in £ millions	2015	2014
Not later than one year	164	161
Later than one year and not later than two years	146	150
Later than two years and not later than three years	143	126
Later than three years and not later than four years	130	122
Later than four years and not later than five years	123	115
Later than five years	685	701
	1,391	1,375

Notes to the consolidated financial statements continued

35. Related party transactions

Joint ventures and associates

Amounts advanced to joint ventures and associates during the year and at the balance sheet date are set out in note 12. Apart from transactions with the Group's joint ventures and associates, there were no other material related party transactions.

Key management personnel

Key management personnel are deemed to be the members of the Pearson Executive (see page 7). It is this committee which had responsibility for planning, directing and controlling the activities of the Group in 2015. Key management personnel compensation is disclosed below:

All figures in £millions	2015	2014
Short-term employee benefits	7	10
Retirement benefits	1	1
Share-based payment costs	1	2
Total	**9**	13

There were no other material related party transactions. No guarantees have been provided to related parties.

36. Events after the balance sheet date

In January 2016, Pearson announced that it was embarking on a restructuring programme to simplify the business, reduce costs and position the company for growth in its major markets. The majority of the programme is expected to be complete by mid-year 2016 and will involve implementation costs in 2016 of approximately £320m.

37. 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 accounts by virtue of section 479A.

	Company number
Aldwych Finance Limited	04720439
ASET Limited	04231636
ASET Group Limited	03964551
ASET Management Limited	03139404
Blue Wharf Limited	04344573
Burmedia Investments Limited	03060487
Edexcel Limited	04496750
Education Development International plc	03914767
Embankment Finance Limited	04460625
EQL Assessment Limited	05224778
Green Wharf Limited	07009228
Icodeon Limited	05068195
Longman Group (Overseas Holdings) Limited	00690236
Midlands Educational Technology Limited	01448842
Pearson Affordable Learning Fund Limited	08038068
Pearson Amsterdam Finance Limited	03041245
Pearson Australia Finance Unlimited	05578463
Pearson Books Limited	02512075
Pearson Brazil Finance Ltd	08848874
Pearson Canada Finance Unlimited	05578491
Pearson Dollar Finance plc	05111013
Pearson Dollar Finance Two plc	06507766
Pearson Education Holdings Limited	00210859
Pearson Education Investments Limited	08444933

	Company number
Pearson Education Limited	00872828
Pearson Funding Four plc	07970304
Pearson Funding One plc	02911143
Pearson Funding Two plc	07210654
Pearson Heinemann Limited	03099304
Pearson in Practice ATA Limited	07679091
Pearson in Practice Holdings Limited	06337129
Pearson in Practice Skills Based Learning Limited	03755464
Pearson in Practice Technology Limited	03786989
Pearson International Finance Limited	02496206
Pearson Loan Finance No. 2 Unlimited	05632021
Pearson Loan Finance No. 3 Limited	05052661
Pearson Loan Finance No. 4 Limited	02635107
Pearson Loan Finance Unlimited	05144467
Pearson Management Services Limited	00096263
Pearson Overseas Holdings Limited	00145205
Pearson PRH Holdings Limited	08561316
Pearson Services Limited	01341060
Pearson Shared Services Limited	04623186
Testchange Limited	02496240
The Coaching Space Limited	05333023
TQ Catalis Limited	07307943
TQ Clapham Limited	07307925
TQ Global Limited	07802458

Company balance sheet

As at 31 December 2015

All figures in £ millions	Notes	2015	2014
Assets			
Non-current assets			
Investments in subsidiaries	2	7,744	8,740
Amounts due from subsidiaries		3,953	27
Financial assets – derivative financial instruments	6	78	84
Other financial assets	7	92	–
		11,867	8,851
Current assets			
Amounts due from subsidiaries		446	5,220
Amounts due from related parties		47	54
Current income tax assets		–	28
Financial assets – derivative financial instruments	6	3	24
Cash and cash equivalents (excluding overdrafts)	4	1,168	13
Other assets		–	2
		1,664	5,341
Total assets		13,531	14,192
Liabilities			
Non-current liabilities			
Amounts due to subsidiaries		(3,760)	(2,346)
Financial liabilities – borrowings	5	(218)	(210)
Financial liabilities – derivative financial instruments	6	(136)	(73)
		(4,114)	(2,629)
Current liabilities			
Amounts due to subsidiaries		(1,431)	(4,414)
Current income tax liabilities		(108)	–
Financial liabilities – borrowings	5	(580)	(629)
Financial liabilities – derivative financial instruments	6	(29)	(1)
Other liabilities		(12)	(2)
		(2,160)	(5,046)
Total liabilities		(6,274)	(7,675)
Net assets		7,257	6,517
Equity			
Share capital	8	205	205
Share premium	8	2,590	2,579
Treasury shares	9	(27)	1
Special reserve		447	447
Retained earnings		4,042	3,285
Total equity attributable to equity holders of the company		7,257	6,517

These financial statements have been approved for issue by the board of directors on 4 March 2016 and signed on its behalf by

Coram Williams
Chief financial officer

Company statement of changes in equity

Year ended 31 December 2015

All figures in £ millions	Equity attributable to equity holders of the company					
	Share capital	Share premium	Treasury shares	Special reserve	Retained earnings	Total
At 1 January 2015	205	2,579	1	447	3,285	6,517
Profit for the year	–	–	–	–	1,206	1,206
Issue of ordinary shares under share option schemes*	–	11	–	–	–	11
Purchase of treasury shares	–	–	(23)	–	–	(23)
Contribution refund to subsidiaries	–	–	(31)	–	–	(31)
Release of treasury shares	–	–	26	–	(26)	–
Dividends	–	–	–	–	(423)	(423)
At 31 December 2015	205	2,590	(27)	447	4,042	7,257

All figures in £ millions	Equity attributable to equity holders of the company					
	Share capital	Share premium	Treasury shares	Special reserve	Retained earnings	Total
At 1 January 2014	205	2,568	(22)	447	2,447	5,645
Profit for the year	–	–	–	–	1,267	1,267
Issue of ordinary shares under share option schemes*	–	11	–	–	–	11
Purchase of treasury shares	–	–	(9)	–	–	(9)
Release of treasury shares	–	–	32	–	(32)	–
Dividends	–	–	–	–	(397)	(397)
At 31 December 2014	205	2,579	1	447	3,285	6,517

The special reserve represents the cumulative effect of cancellation of the company's share premium account.

Included within retained earnings is an amount of £162m (2014: £131m) relating to profit on intra-Group disposals that is not distributable.

* 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 2015

All figures in £ millions	Notes	2015	2014
Cash flows from operating activities			
Net profit		1,206	1,267
Adjustments for:			
Income tax		(154)	(9)
Net finance costs		68	24
Impairment charges		736	–
Profit on disposals		(279)	–
Amounts due to subsidiaries		(909)	(1,058)
Net cash generated from operations		668	224
Interest paid		(56)	(73)
Tax received		289	6
Net cash generated from operating activities		901	157
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		747	–
Loans repaid by/(advanced to) related parties		7	(10)
Interest received		11	15
Net cash received from investing activities		765	5
Cash flows from financing activities			
Proceeds from issue of ordinary shares	8	11	11
Net purchase of treasury shares		(53)	(9)
Proceeds from/(repayment of) borrowings		17	(250)
Dividends paid to company's shareholders		(423)	(397)
Net cash used in financing activities		(448)	(645)
Effects of exchange rate changes on cash and cash equivalents		(14)	(15)
Net increase/(decrease) in cash and cash equivalents		1,204	(498)
Cash and cash equivalents at beginning of year		(616)	(118)
Cash and cash equivalents at end of year	4	588	(616)

Notes to the company financial statements

1. Accounting policies

The financial statements on pages 208 to 221 comprise the separate financial statements of Pearson plc.

As permitted by section 408 of the Companies Act 2006, only the consolidated income statement and statement of comprehensive income have been presented.

The company has no employees.

The accounting policies applied in the preparation of these company financial statements are the same as those set out in note 1 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.

2. Investments in subsidiaries

All figures in £ millions	2015	2014
At beginning of year	8,740	8,537
Subscription for share capital in subsidiaries	120	138
Disposals/liquidations	(444)	–
Impairments	(736)	–
Currency revaluations	64	65
At end of year	**7,744**	8,740

Impairments relate to the carrying value of intermediate holding company investments following impairment reviews, and subsequent impairment of assets, in emerging markets.

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 and non-current borrowings. Derivative financial instruments are held at fair value, with all other financial instruments held at amortised cost. 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 company designates certain qualifying derivative financial instruments as hedges of the fair value of its bonds (fair value hedges). Changes in the fair value of these derivative financial instruments are recorded in the income statement, together with any change in the fair value of the hedged liability attributable to the hedged risk.

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 £93m decrease in the carrying value of its financial instruments, with a 1% decrease in interest rates resulting in a £99m increase in their carrying value. The company also estimates that a 10% strengthening in sterling would decrease the carrying value of its financial instruments by £182m, while a 10% weakening in the value of sterling would increase the carrying value by £100m. 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%.

Notes to the company financial statements continued

3. Financial risk management continued

The maturity of contracted cash flows on the company's borrowings and all of its derivative financial instruments are as follows:

				2015
All figures in £ millions	**USD**	**GBP**	**Other**	**Total**
Not later than one year	**70**	**–**	**(60)**	**10**
Later than one year and not later than five years	**202**	**–**	**(48)**	**154**
Later than five years	**853**	**–**	**(769)**	**84**
Total	**1,125**	**–**	**(877)**	**248**
Analysed as:				
Bonds	**227**	**–**	**–**	**227**
Rate derivatives – inflows	**(257)**	**(858)**	**(919)**	**(2,034)**
Rate derivatives – outflows	**1,155**	**858**	**42**	**2,055**
Total	**1,125**	**–**	**(877)**	**248**

				2014
All figures in £ millions	USD	GBP	Other	Total
Not later than one year	172	(212)	(16)	(56)
Later than one year and not later than five years	224	–	(97)	127
Later than five years	418	–	(403)	15
Total	814	(212)	(516)	86
Analysed as:				
Bonds	224	–	–	224
Rate derivatives – inflows	(303)	(656)	(537)	(1,496)
Rate derivatives – outflows	893	444	21	1,358
Total	814	(212)	(516)	86

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.

Any amounts drawn under revolving credit facilities and commercial paper are assumed to mature at the maturity date of the relevant facility, with interest calculated as payable in each calendar year up to and including the date of maturity of the facility.

4. Cash and cash equivalents (excluding overdrafts)

All figures in £ millions	2015	2014
Cash at bank and in hand	98	2
Short-term bank deposits	1,070	11
	1,168	13

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

At the end of 2015 the currency split of cash and cash equivalents was US dollar 10% (2014: 33%), sterling 90% (2014: 54%) and other 0% (2014: 13%).

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

Cash and cash equivalents include the following for the purpose of the cash flow statement:

All figures in £ millions	2015	2014
Cash and cash equivalents	1,168	13
Bank overdrafts	(580)	(629)
	588	(616)

5. Financial liabilities – borrowings

All figures in £ millions	2015	2014
Non-current		
4.625% US dollar notes 2018 (nominal amount $300m)	218	210
	218	210
Current		
Due within one year or on-demand:		
Bank loans and overdrafts	580	629
	580	629
Total borrowings	798	839

Notes to the company financial statements continued

5. Financial liabilities – borrowings continued

The maturity of the company's non-current borrowings is as follows:

All figures in £ millions	2015	2014
Between one and two years	–	–
Between two and five years	218	210
Over five years	–	–
	218	210

As at 31 December 2015 the exposure to interest rate changes of the borrowings and amounts due to subsidiaries when the borrowings re-price is as follows:

All figures in £ millions	Less than one year	One to five years	More than five years	Total
Re-pricing profile of borrowings	580	218	–	798
Amounts due to subsidiaries	1,431	1,868	1,892	5,191
Effect of rate derivatives	1,449	(33)	(1,416)	–
	3,460	2,053	476	5,989

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

	2015			2014		
All figures in £ millions	Effective interest rate	Carrying amount	Market value	Effective interest rate	Carrying amount	Market value
Bank loans and overdrafts	n/a	580	580	n/a	629	629
4.625% US dollar notes 2018	4.69%	218	213	4.69%	210	205
		798	793		839	834

The market values 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 company's borrowings are denominated in the following currencies:

All figures in £ millions	2015	2014
US dollar	660	477
Sterling	136	354
Euro	2	8
	798	839

6. Derivative financial instruments

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

	2015			2014		
All figures in £ millions	**Gross notional amounts**	**Assets**	**Liabilities**	Gross notional amounts	Assets	Liabilities
Interest rate derivatives – in a fair value hedge relationship	**203**	**70**	**(10)**	192	18	–
Interest rate derivatives – not in a hedge relationship	**2,597**	**–**	**(6)**	2,404	67	(31)
Cross-currency derivatives	**1,924**	**11**	**(149)**	952	23	(43)
Total	**4,724**	**81**	**(165)**	3,548	108	(74)
Analysed as expiring:						
In less than one year	**249**	**3**	**(29)**	200	24	(1)
Later than one year and not later than five years	**1,255**	**44**	**(4)**	1,314	61	(8)
Later than five years	**3,220**	**34**	**(132)**	2,034	23	(65)
Total	**4,724**	**81**	**(165)**	3,548	108	(74)

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

7. Other financial assets

Other financial assets comprise unlisted securities of £92m (2014: £nil).

8. Share capital and share premium

	Number of shares 000s	Ordinary shares £m	Share premium £m
At 1 January 2014	818,580	205	2,568
Issue of ordinary shares – share option schemes	1,303	–	11
At 31 December 2014	819,883	205	2,579
Issue of ordinary shares – share option schemes	**1,185**	**–**	**11**
At 31 December 2015	**821,068**	**205**	**2,590**

The ordinary shares have a par value of 25p per share (2014: 25p per share). All issued shares are fully paid. All shares have the same rights.

Notes to the company financial statements continued

9. Treasury shares

	Number of shares 000s	£m
At 1 January 2014	9,282	22
Purchase of treasury shares	907	9
Release of treasury shares	(2,997)	(32)
At 31 December 2014	7,192	(1)
Purchase of treasury shares	**1,987**	**23**
Refund of contribution to subsidiaries	**–**	**31**
Release of treasury shares	**(2,474)**	**(26)**
At 31 December 2015	**6,705**	**27**

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 £1.7m (2014: £1.8m). At 31 December 2015 the market value of the company's treasury shares was £49.3m (2014: £85.6m). The gross book value of the shares at 31 December 2015 amounts to £72m. This value has been netted off with contributions received from operating companies of £45m, resulting in a net debit value of £27m.

10. 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. In addition there are contingent liabilities in respect of legal claims. None of these claims are expected to result in a material gain or loss to the company.

11. Audit fees

Statutory audit fees relating to the company were £35,000 (2014: £35,000).

12. 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 £150m (2014: £143m) and interest receivable from subsidiaries for the year of £82m (2014: £73m). Management fees payable to subsidiaries in respect of centrally provided services amounted to £80m (2014: £19m). Management fees receivable from subsidiaries in respect of centrally provided services amounted to £70m (2014: £nil). Dividends received from subsidiaries were £1,555m (2014: £1,300m).

Associates

Amounts due from related parties, disclosed on the face of the company balance sheet, relate to loans to Penguin Random House, an associate of the Group. These loans are unsecured and interest is calculated based on market rates. The amount outstanding at 31 December 2015 was £47m (2014: £54m). The loans are provided under a working capital facility and fluctuate during the year. The loan outstanding at 31 December 2015 was repaid in its entirety in January 2016.

Key management personnel

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

It is this committee which had responsibility for planning, directing and controlling the activities of the company in 2015. Key management personnel compensation is disclosed in note 35 to the consolidated financial statements.

There were no other material related party transactions. No guarantees have been provided to related parties.

13. 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 and the effective percentage of equity owned, as at 31 December 2015 is disclosed below. Unless otherwise stated the shares are indirectly held by Pearson plc. All wholly-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

Company name	Country of Inc.
A Plus Education Solutions Private Limited	India
Addison Wesley Longman Australia Pty Limited[1]	Australia
Addison Wesley Longman, Inc.	US
Addison-Wesley Educational Publishers Inc.	US
AEL (S) PTE Limited	Singapore
Aldwych Finance Limited	UK
America's Choice, Inc.	US
ASET Group Limited	UK
ASET Limited	UK
ASET Management Limited	UK
ASET Solutions Limited[4]	UK
ATI Professional Development LLC	US
Atkey Finance Limited	Ireland
Aulis Verwaltungs GmbH	Germany
Axis Finance Inc.	US
Beijing Global Education & Technology Co., Ltd.	China
Beijing Wall Street English Training Centre Company Limited	China
Berrisford Finance Limited	Ireland
Blue Wharf Limited	UK
Burmedia Investments Limited[2]	UK
CA of Michigan, LLC	US
Camsaw College Publishing Company, Inc.	US
Camsaw, Inc.	US
CAMSAWUSA, Inc.	US
Casapsi Livraria e Editora Ltda	Brazil
Centro Cultural Americano Franquias e Comércio Ltda.	Brazil
Century Consultants, Ltd.	US
Certiport China Holding, LLC	US
Certiport, Inc.	US
Cogmed Systems AB	Sweden
Connections Academy of Alaska, LLC	US
Connections Academy of Arizona, LLC	US
Connections Academy of Arkansas, LLC	US
Connections Academy of California, LLC	US
Connections Academy of Colorado, LLC	US
Connections Academy of DC, LLC	US
Connections Academy of Florida, LLC	US
Connections Academy of Georgia, LLC	US
Connections Academy of Idaho, LLC	US

Company name	Country of Inc.
Connections Academy of Indiana, LLC	US
Connections Academy of Iowa, LLC	US
Connections Academy of Kansas, LLC	US
Connections Academy of Kentucky, LLC	US
Connections Academy of Louisiana, LLC	US
Connections Academy of Maine, LLC	US
Connections Academy of Maryland, LLC	US
Connections Academy of Massachusetts, LLC	US
Connections Academy of Minnesota, LLC	US
Connections Academy of Missouri, LLC	US
Connections Academy of Nevada, LLC	US
Connections Academy of New Jersey, LLC	US
Connections Academy of New Mexico, LLC	US
Connections Academy of New York, LLC	US
Connections Academy of North Carolina, LLC	US
Connections Academy of Ohio, LLC	US
Connections Academy of Oklahoma, LLC	US
Connections Academy of Oregon, LLC	US
Connections Academy of Pennsylvania LLC	US
Connections Academy of South Carolina, LLC	US
Connections Academy of Tennessee, LLC	US
Connections Academy of Texas, LLC	US
Connections Academy of Utah, LLC	US
Connections Academy of Virginia LLC	US
Connections Academy of Washington LLC	US
Connections Academy of Wisconsin LLC	US
Connections Academy of Wyoming, LLC	US
Connections Education, LLC	US
Connections Education, Inc.	US
CTI Education Group (Pty) Limited	South Africa
Dale Seymour Publications, Inc.	US
Dominie Press Inc	US
Dorian Finance Limited	Ireland
Dorling Kindersley Australasia Pty Limited	Australia
E Q L Assessment Limited	UK
EBNT Canada Holdings ULC	Canada
EBNT Holdings Limited	Canada
EBNT USA Holdings Inc.	US
eCollege.com	US
Edexcel Limited[2]	UK

Notes to the company financial statements continued

13. Group companies continued

Wholly-owned subsidiaries continued

Company name	Country of Inc.
Edexcel South Africa Pty Ltd	South Africa
Éditions Du Renouveau Pédagogique Inc.	Canada
Education by Association (Pty) Ltd	South Africa
Education Development International Plc[2]	UK
Education Resources (Cyprus) Limited	Cyprus
Educational Management Group Inc	US
Educational Resources (HK) Limited	Hong Kong
Educational Resources Pte Ltd	Singapore
Educomp Higher Initiatives Pte Ltd	Singapore
Embanet ULC	Canada
Embanet-Compass Knowledge Group, Inc.	US
Embankment Finance Limited	UK
English Language Learning and Instruction System, Inc.	US
eNVQ Limited[1]	UK
Escape Studios Limited	UK
Falstaff Holdco Inc.	US
Falstaff Inc.	US
FastExpress Centro de Idiomas Ltda	Brazil
FBH, Inc.	US
Florida Connections Academy, L.L.C.	US
Franchise Support & Services, SL	Spain
Gamma Master China, Limited	Hong Kong
Global Education & Technology (HK) Limited	Hong Kong
Global Education & Technology Group Limited	Cayman Is
Global Elite Education & Technology (Shanghai) Co. Limited	China
GlobalEnglish Asia, Inc.	US
GlobalEnglish Brasil Ltda.	Brazil
GlobalEnglish France SARL	France
GlobalEnglish Germany GmbH	Germany
GlobalEnglish Hong Kong Limited	Hong Kong
GlobalEnglish India Private Limited	India
Global English-Mexico S. de R.L.	Mexico
Globe Fearon Inc.	US
GOAL Limited[1]	UK
Green Wharf Limited	UK
Guangzhou Crescent Software Co., Ltd	China
Heinemann Educational Botswana (Publishers) (Pty) Limited	Botswana
Heinemann Lesotho(Pty) Ltd	Lesotho
Heinemann Publishers (Pty) Ltd	South Africa
Icodeon Limited	UK
IndiaCan Education Private Limited	India
Integral 7, Inc.	US
Intellipro, Inc.	US
JM Soluções Exportação e Importação Ltda.	Brazil

Company name	Country of Inc.
Joint Examining Board Limited[1]	UK
Kagiso Education Pty Ltd	South Africa
Knowledge Analysis Technologies, LLC	US
LCCI International Qualifications (Malaysia) Sdn. Bhd.	Malaysia
LCCIEB Training Consultancy., Ltd	China
LessonLab, Inc.	US
Lignum Oil Company	US
Linx Brasil Distribuidora Ltda.	Brazil
Longman (Malawi) Limited	Malawi
Longman Australasia Pty Ltd	Australia
Longman Group (Overseas Holdings) Limited	UK
Longman Indochina Acquisition, L.L.C.	US
Longman Kenya Limited	Kenya
Longman Mocambique Ltda	Mozambique
Longman Swaziland (Pty) Limited	Swaziland
Longman Tanzania Limited	Tanzania
Longman Zambia Educational Publishers Pty Ltd	Zambia
Longman Zambia Limited	Zambia
Longman Zimbabwe (Private) Ltd	Zimbabwe
Longmaned Ecuador S.A.	Ecuador
Maskew Miller Longman (Pty) Limited	South Africa
MeasureUp, LLC	US
Midlands Educational Technology Limited	UK
Midrand Graduate Institute Pty Ltd	South Africa
Modern Curriculum Inc.	US
Multi Treinamento e Editora Ltda.	Brazil
Multilingua Limited[1]	UK
National Computer Systems Japan Co. Ltd	Japan
NCS Information Services Technology (Beijing) Co Ltd	China
NCS Pearson Pty Ltd	Australia
NCS Pearson Puerto Rico, Inc.	Puerto Rico
NCS Pearson, Inc.	US
Ordinate Corporation	US
P.Ed. Aust Pty Ltd	Australia
Pearson (Beijing) Management Consulting Co., Ltd.	China
Pearson (Guizhou) Education Technology Co., Ltd.	China
Pearson (Singapore) Pte. Ltd.	Singapore
Pearson Affordable Learning Fund Limited	UK
Pearson America LLC	US
Pearson Amsterdam B.V.	Netherlands
Pearson Amsterdam Finance Limited[2]	UK
Pearson Assessment & Information B.V.	Netherlands
Pearson Assessment and Information GmbH	Germany

13. Group companies continued

Wholly-owned subsidiaries continued

Company name	Country of Inc.
Pearson Australia Finance Unlimited	UK
Pearson Australia Group Pty Ltd	Australia
Pearson Australia Holdings Pty Ltd	Australia
Pearson Australia Pty Ltd	Australia
Pearson Benelux B.V.	Netherlands
Pearson Books Limited[2]	UK
Pearson Brazil Finance Limited	UK
Pearson Business (Asia Pacific) Pte. Ltd	Singapore
Pearson Business Services Inc.	US
Pearson Canada Assessment Inc	Canada
Pearson Canada Finance Unlimited	UK
Pearson Canada Holdings Inc	Canada
Pearson Canada Inc.	Canada
Pearson Central Europe sp. z o.o.	Poland
Pearson Charitable Foundation	US
Pearson College Limited	UK
Pearson DBC Holdings Inc.	US
Pearson Desarrollo y Capacitación Profesional Chile Limitada	Chile
Pearson Deutschland GmbH	Germany
Pearson Digital Learning Puerto Rico, Inc.	Puerto Rico
Pearson Dollar Finance plc[2]	UK
Pearson Dollar Finance Two plc	UK
Pearson Educacion de Chile Limitada	Chile
Pearson Educacion de Colombia S A S	Colombia
Pearson Educacion de Mexico, S.A. de C.V.	Mexico
Pearson Educacion de Panama S.A.	Panama
Pearson Educacion de Peru S.A.	Peru
Pearson Educacion de Venezuela C.A.	Venezuela
Pearson Educacion S.A.	Spain
Pearson Education (Singapore) Pte Ltd	Singapore
Pearson Education Africa (Pty) Ltd	South Africa
Pearson Education and Assessment, Inc.	US
Pearson Education Asia Limited	Hong Kong
Pearson Education Botswana (Pty) Limited	Botswana
Pearson Education do Brasil S.A	Brazil
Pearson Education Hellas S.A.	Greece
Pearson Education Holdings Inc.	US
Pearson Education Holdings Limited[2]	UK
Pearson Education Indochina Limited	Thailand
Pearson Education Investments Limited	UK
Pearson Education Korea Limited	South Korea
Pearson Education Limited	UK
Pearson Education Namibia (Pty) Limited	Namibia
Pearson Education Publishing Limited	Nigeria
Pearson Education S.A.	Uruguay
Pearson Education S.A.	Argentina

Company name	Country of Inc.
Pearson Education South Africa (Pty) Ltd	South Africa
Pearson Education South Asia Pte. Ltd.	Singapore
Pearson Education, Inc.	US
Pearson Educational Measurement Canada, Inc.	Canada
Pearson Educational Publishers, LLC	US
Pearson Egitim Cozumleri Tikaret Limited Sirketi	Turkey
Pearson English (Shanghai) Software Technology Co., Ltd.	China
Pearson English Corporation	US
Pearson English KK	Japan
Pearson Falstaff (Holdings) Inc.	US
Pearson France SAS	France
Pearson Funding Five plc[2]	UK
Pearson Funding Four plc[2]	UK
Pearson Funding One plc[2]	UK
Pearson Funding Two plc[2]	UK
Pearson Group FURBS Trustee Limited[2]	UK
Pearson Group Pension Trustee Limited	UK
Pearson Heinemann Limited	UK
Pearson Holdings Inc.	US
Pearson Holdings Southern Africa (Pty) Limited	South Africa
Pearson in Practice ATA Limited	UK
Pearson in Practice Holdings Limited	UK
Pearson in Practice Skills Based Learning Limited	UK
Pearson in Practice Technology Limited	UK
Pearson Inc.	US
Pearson India Education Services Private Limited	India
Pearson International Finance Limited[2]	UK
Pearson Investment Holdings, Inc.	US
Pearson Ioki sp. z o.o.	Poland
Pearson Italia S.p.A	Italy
Pearson Japan KK	Japan
Pearson Lanka (Private) Limited	Sri Lanka
Pearson Learning China (HK) Limited	Hong Kong
Pearson Lesotho (Pty) Ltd	Lesotho
Pearson Loan Finance No. 3 Limited	UK
Pearson Loan Finance No. 4 Limited	UK
Pearson Loan Finance No.2 Unlimited	UK
Pearson Loan Finance Unlimited	UK
Pearson Longman LLC	US
Pearson Longman Uganda Limited	Uganda
Pearson Luxembourg No. 2. Sarl	Luxembourg
Pearson Malaysia Sdn. Bhd.	Malaysia
Pearson Management Services Limited[2]	UK
Pearson Management Services Philippines Inc.	Philippines
Pearson Netherlands B.V.	Netherlands
Pearson Netherlands Holdings B.V.	Netherlands

Notes to the company financial statements continued

13. Group companies continued

Wholly-owned subsidiaries continued

Company name	Country of Inc.
Pearson New Zealand Limited[1]	New Zealand
Pearson Nominees Limited[2]	UK
Pearson Online Tutoring LLC	US
Pearson Overseas Holdings Limited[2]	UK
Pearson PEM P.R., Inc.	Puerto Rico
Pearson Pension Property Fund Limited	UK
Pearson PRH Holdings Limited	UK
Pearson Professional Assessments Limited	UK
Pearson Publications Inc.	US
Pearson Real Estate Holdings Inc.	US
Pearson Real Estate Holdings Limited	UK
Pearson Schweiz AG	Switzerland
Pearson Services Limited[2]	UK
Pearson Shared Services Limited[2]	UK
Pearson Sweden AB	Sweden
Pearson VUE Philippines, Inc.	Philippines
Peisheng Yucai (Beijing) Technology Development Limited	China
Penguin Capital, LLC	US
Peter Honey Publications Ltd[1]	UK
Phumelela Publishers (Pty) Ltd	South Africa
PN Holdings Inc.	US
Prentice-Hall Hispanoamericana S.A. de C.V.	Mexico
Prentice-Hall Holdings B.V.	Netherlands
ProctorCam, Inc.	US
PT Efficient English Services	Indonesia
Reading Property Holdings LLC	US
Rebus Planning Associates Inc	US
Regents Publishing Co., Inc.	US
Reston Publishing Co., Inc	US
Rycade Capital Corporation	US
Sector Training Limited[1]	UK
Servicios Administrativos Pearson Educacion S.A. de C.V.	Mexico
Shanghai AWL Education Software Ltd	China
Silver Burdett Ginn Inc.	US
Skylight Training and Publishing Inc	US
Smarthinking, Inc.	US

Company name	Country of Inc.
Sound Holdings Inc.	US
Spear Insurance Company Limited[2]	Bermuda
Stark Holding GmbH	Germany
Stark Verlagsgesellschaft mbH & Co. KG	Germany
Stark Verwaltungsgesellschaft mbH	Germany
Sunnykey International Holdings Limited (BVI)	BVI
Tecquipment Services Limited	UK
Testchange Limited[2]	UK
Texas Connections Academy at Houston, LLC	US
The Assessment Company Limited	UK
The Coaching Space Limited	UK
The Learning Edge International pty Ltd	Australia
The SIOP Institute, LLC	US
The Waite Group Inc	US
TQ Catalis Limited	UK
TQ Clapham Limited	UK
TQ Education and Training Limited	UK
TQ Global Limited	UK
TQ Group Limited	UK
TQ Holdings Limited	UK
TQ Training Limited[1]	UK
TQ Training Services Limited[1]	UK
TQ Trustees Limited[1]	UK
Training for Advancement Holdings Limited[1]	UK
Training for Advancement Limited[1]	UK
Vue Testing Services Israel Ltd	Israel
Wall Street English Training Centre (Shanghai) Co., Ltd.	China
Wall Street Institute Kft	Hungary
Wall Street Institute Master Italia Srl	Italy
WP Group Pension Trustees Limited	UK
WSE Education Brazil Licenciamentos e Cursos de Idiomas Ltda.	Brazil
WSE Training Centre (Guangdong) Co., Ltd.	China
WSI Education GmbH	Germany
WSI International, Inc.	US
WSI Korea, Inc.	South Korea

13. Group companies continued

Subsidiaries where the effective interest is less than 100%

Company name	Country of Inc.	% Pearson-Owned
Certiport China Co. Ltd.	China	50.69%
CG Manipal Schools Private Limited (in Deregistration)	Nepal	51.00%
Chongqing WSE Training Centre Co Ltd	China	95.00%
Educational Publishers LLP	UK	85.00%
GED Domains LLC	US	70.00%
GED Testing Service LLC	US	70.00%
Heilongjiang WSE Training Centre Co Ltd	China	95.00%
Learn Capital Venture Partners II, L.P.	US	81.00%
LRTE VOXY, LLC	US	50.00%
LRTE Voxy, L.P.	US	83.33%
Pearson Education Achievement Solutions (RF) (Pty) Ltd	South Africa	90.00%
Pearson Education Taiwan Ltd	Taiwan	99.80%
Pearson South Africa (Pty) Ltd (formerly Pearson Marang (Pty) Ltd)	South Africa	90.00%
Revolution Pearson Special	US	99.50%
Revolution Learning Capital Partners, L.P.	US	99.00%
TQ Education and Training Limited	Saudi Arabia	90.00%

Associated undertakings

Company name	Country of Inc.	% Pearson-Owned
ACT Aspire LLC	US	50.00%
Affordable Private Education Centre Inc	Philippines	40.00%
Avanti Learning Centres Private Limited	India	20.90%
eAdvance Pty Limited	South Africa	40.00%
Gazelle Transform Limited	UK	33.66%
Institute for Private Education & Training KSCC[4]	Kuwait	49.00%
Intellus Learning, Inc.[3]	US	14.14%
Karadi Path Education Company Private Limited	India	26.25%
Omega Schools Franchise Limited	Ghana	49.50%
Peking University Pearson (Beijing) Cultural Development Co., Ltd.	China	45.00%
Penguin Random House Limited	UK	47.00%
Penguin Random House LLC	US	47.00%
Scala Higher Education , S.C.	Mexico	45.00%
Scala Latin America S.A.P.I. de C.V.	Mexico	45.00%
Scala Student, S.A. de C.V.	Mexico	45.00%
The Egyptian International Publishing Company-Longman	Egypt	49.00%
Zaya Learning Labs Private Limited	India	20.00%

Notes
1 In liquidation
2 Directly owned by Pearson plc
3 Significant influence is based on mangement's assessment
4 In liquidation

Five-year summary

All figures in £ millions	2011	2012	2013	2014	2015
Sales: By geography*					
North America			3,008	2,906	**2,940**
Core			1,008	910	**836**
Growth			712	724	**692**
Continuing	4,390	4,615	4,728	4,540	**4,468**
Discontinued	1,472	1,497	962	343	**312**
Total sales	5,862	6,112	5,690	4,883	**4,780**
Sales: By line of business*					
School			2,303	2,027	**1,880**
Higher Education			1,664	1,695	**1,736**
Professional			761	818	**852**
Continuing	4,390	4,615	4,728	4,540	**4,468**
Discontinued	1,472	1,497	962	343	**312**
Total sales	5,862	6,112	5,690	4,883	**4,780**
Adjusted operating profit: By geography*					
North America			464	444	**480**
Core			103	122	**114**
Growth			35	32	**(12)**
Penguin Random House			50	69	**90**
Continuing	751	785	652	667	**672**
Discontinued	187	147	84	55	**51**
Total adjusted operating profit	938	932	736	722	**723**
Adjusted operating profit: By line of business*					
School			268	236	**183**
Higher Education			295	309	**354**
Professional			39	53	**45**
Penguin Random House	–	–	50	69	**90**
Continuing	751	785	652	667	**672**
Discontinued	187	147	84	55	**51**
Total adjusted operating profit	938	932	736	722	**723**

* Periods prior to 2013 have not been restated to reflect the new organisation structure as there is no appropriate basis for restatement of those periods. 2011 onwards reflect the adoption of IAS 19 revised and have been restated, as appropriate. Prior periods have not been restated.

All figures in £ millions	2011	2012	2013	2014	2015
Operating margin – continuing	17.1%	17.0%	13.8%	14.7%	**15.0%**
Adjusted earnings					
Total adjusted operating profit	938	932	736	722	**723**
Net finance costs	(55)	(65)	(72)	(64)	**(46)**
Income tax	(196)	(200)	(97)	(118)	**(105)**
Non-controlling interest	1	(3)	(1)	1	**–**
Adjusted earnings	688	664	566	541	**572**
Weighted average number of shares (millions)	800.2	804.3	807.8	810.9	**813.3**
Adjusted earnings per share	86.0p	82.6p	70.1p	66.7p	**70.3p**

All figures in £ millions	2011	2012	2013	2014	2015
Cash flow					
Operating cash flow	983	788	588	649	**435**
Operating cash conversion	105%	85%	80%	90%	**60%**
Operating free cash flow	772	657	324	413	**255**
Operating free cash flow per share	96.5p	81.7p	40.1p	50.9p	**31.4p**
Total free cash flow	772	657	269	413	**152**
Total free cash flow per share	96.5p	81.7p	33.3p	50.9p	**18.7p**
Net assets	5,962	5,710	5,706	5,985	**6,418**
Net debt	499	918	1,379	1,639	**654**
Return on invested capital (gross basis)					
Total adjusted operating profit	938	932	736	722	**723**
Cash tax paid	(151)	(65)	(191)	(163)	**(129)**
Return	787	867	545	559	**594**
Average invested capital	8,731	9,578	10,130	9,900	**10,317**
Return on invested capital	9.0%	9.1%	5.4%	5.6%	**5.8%**
Dividend per share	42.0p	45.0p	48.0p	51.0p	**52.0p**

Corporate and operating measures

Sales – underlying and constant exchange rate movement

Underlying sales movements exclude the impact of acquisitions/disposals, movements in exchange rates and changes in revenue recognition policies.

All figures in £ millions	2015
Underlying decrease	(80)
Portfolio changes	(129)
Exchange differences	137
Total sales decrease	**(72)**
Underlying decrease	(2)%
Constant exchange rate decrease	(5)%

Adjusted income statement

Reconciliation of the consolidated income statement to the adjusted numbers presented as non-GAAP measures in the financial statements.

	2015							
All figures in £ millions	Statutory income statement	Discontinued operations	Other net gains and losses	Acquisition costs	Intangible charges	Other net finance income/ costs	Tax amortisation benefit	Adjusted income statement
Operating (loss)/profit	(404)	51	(13)	–	1,089	–	–	723
Net finance costs	(29)	–	–	–	–	(17)	–	(46)
(Loss)/profit before tax	(433)	51	(13)	–	1,089	(17)	–	677
Income tax	81	(9)	40	–	(257)	7	33	(105)
(Loss)/profit for the year from continuing operations	(352)	42	27	–	832	(10)	33	572
Profit for the year from discontinued operations	1,175	(42)	(1,135)	–	2	–	–	–
Profit for the year	823	–	(1,108)	–	834	(10)	33	572
Non-controlling interest	–	–	–	–	–	–	–	–
Earnings	823	–	(1,108)	–	834	(10)	33	572

Adjusted income statement continued

All figures in £ millions	Statutory income statement	Discontinued operations	Other net gains and losses	Acquisition costs	Intangible charges	Other net finance income/ costs	Tax amortisation benefit	Adjusted income statement
								2014
Operating profit	398	2	(2)	6	318	–	–	722
Net finance costs	(93)	–	–	–	–	29	–	(64)
Profit before tax	305	2	(2)	6	318	29	–	658
Income tax	(63)	(1)	1	(1)	(73)	(5)	24	(118)
Profit for the year from continuing operations	242	1	(1)	5	245	24	24	540
Profit for the year from discontinued operations	228	(1)	(227)	–	–	–	–	–
Profit for the year	470	–	(228)	5	245	24	24	540
Non-controlling interest	1	–	–	–	–	–	–	1
Earnings	471	–	(228)	5	245	24	24	541

Adjusted operating profit – underlying and constant exchange rate movement

Operating profit movement excluding the impact of acquisitions, disposals and movements in exchange rates.

All figures in £ millions	**2015**
Underlying decrease	**(12)**
Portfolio changes	**(9)**
Exchange differences	**22**
Total adjusted operating profit increase	**1**
Underlying decrease	**(2)%**
Constant exchange rate decrease	**(3)%**

Corporate and operating measures continued

Free cash flow per share

Operating cash flow for continuing and discontinued operations before tax and finance charges, divided by the weighted average number of shares in issue.

All figures in £ millions	2015	2014
Adjusted operating profit	**723**	722
Cash conversion	**60%**	90%
Operating cash flow	**435**	649
Operating tax paid	**(129)**	(163)
Net operating finance costs paid	**(51)**	(73)
Total operating free cash flow	**255**	413
Non operating tax paid	**(103)**	–
Total free cash flow	**152**	413
Weighted average number of shares in issue (millions)	**813.3**	810.9
Operating free cash flow per share	**31.4p**	50.9p
Total free cash flow per share	**18.7p**	50.9p

Return on invested capital

	Invested capital	
All figures in £ millions	2015	2014
Total adjusted operating profit	**723**	722
Operating tax paid	**(129)**	(163)
Return	**594**	559
Average goodwill and other intangibles	**8,715**	8,557
Average net operating assets	**1,602**	1,343
Average invested capital	**10,317**	9,900
Return on invested capital	**5.8%**	5.6%

Return on invested capital is calculated as total adjusted operating profit less operating cash tax paid expressed as a percentage of average invested capital. Invested capital includes the original unamortised goodwill and intangibles.

Shareholder information

Pearson ordinary shares are listed on the London Stock Exchange and on the New York Stock Exchange in the form of American Depositary Receipts.

Corporate website

The investors' section of our corporate website www.pearson.com/investors provides a wealth of information for shareholders. It is also possible to sign up to receive e-mail alerts for reports and press releases relating to Pearson at www.pearson.com/news/newsletter-subscribe.html

Shareholder information online

Shareholder information can be found on our website www.pearson.com/investors/investor-information.html

Our registrar, Equiniti, also provides a range of shareholder information online. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk. For more information, please contact our registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0371 384 2233* or, for those shareholders with hearing difficulties, textphone number 0371 384 2255*.

Information about the Pearson share price

The company's share price can be found on our website at www.pearson.com. It also appears in the financial columns of the national press.

2015 dividends

	Payment date	Amount per share
Interim	11 September 2015	18 pence
Final	6 May 2016	34 pence

Payment of dividends to mandated accounts

Should you elect to have your dividends paid through BACS, this can be done directly into a bank or building society account, with the tax voucher sent to the shareholder's registered address. Equiniti can be contacted for information on 0371 384 2043*.

Dividend reinvestment plan (DRIP)

The DRIP gives shareholders the right to buy the company's shares on the London stock market with their cash dividend. For further information, please contact Equiniti on 0371 384 2268*.

Individual Savings Accounts (ISAs)

Equiniti offers ISAs in Pearson shares. For more information, please go to www.shareview.co.uk/dealing or call customer services on 0345 300 0430*.

Share dealing facilities

Equiniti offers telephone and internet services for dealing in Pearson shares. For further information, please contact their telephone dealing helpline on 03456 037 037* or, for online dealing, log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate.

A postal dealing service is also available through Equiniti. Please telephone 0371 384 2248* for details or log on to www.shareview.co.uk to download a form.

ShareGift

Shareholders with small holdings of shares, whose value makes them uneconomic to sell, may wish to donate them to ShareGift, the share donation charity (registered charity number 1052686). Further information about ShareGift and the charities it has supported may be obtained from their website, www.ShareGift.org or by contacting them at ShareGift, PO Box 72253, London, SW1P 9LQ.

American Depositary Receipts (ADRs)

Pearson's ADRs are listed on the New York Stock Exchange and traded under the symbol PSO. Each ADR represents one ordinary share. For enquiries regarding registered ADR holder accounts and dividends, please contact Bank of New York Mellon, Shareholder Correspondence (ADR), PO Box 30170, College Station, TX 77842-3170, telephone 1 (866) 259 2289 (toll free within the US) or 001 201 680 6825 (outside the US). Alternatively, you may e-mail shrrelations@cpushareownerservices.com

Voting rights for registered ADR holders can be exercised through Bank of New York Mellon, and for beneficial ADR holders (and/or nominee accounts) through your US brokerage institution. Pearson will file with the Securities and Exchange Commission a Form 20-F.

*Lines open 8.30am to 5.30pm Monday to Friday (excluding UK public holidays).

Shareholder information continued

Share register fraud: protecting your investment

Pearson does not contact its shareholders directly to provide recommendation advice and neither does it appoint third parties to do so. As required by law, our shareholder register is available for public inspection but we cannot control the use of information obtained by persons inspecting the register. Please treat any approaches purporting to originate from Pearson with caution.

For more information, please log on to our website at www.pearson.com/investors/investor-information.html

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and shred any unwanted documentation.
- Inform our registrar, Equiniti, promptly when you change address.
- Be aware of dividend payment dates and contact the registrar if you do not receive your dividend cheque or better still, make arrangements to have the dividend paid directly into your bank account.
- Consider holding your shares electronically in a CREST account via a nominee.

2016 financial calendar

Ex-dividend date	**7 April**
Record date	**8 April**
Last date for dividend reinvestment election	**14 April**
Annual General Meeting	**29 April**
Payment date for dividend and share purchase date for dividend reinvestment	**6 May**
Interim results	**tbc***
Payment date for interim dividend	**tbc***

* to be announced during 2016.

Reliance on this document

The intention of this document is to provide information to shareholders and is not designed to be relied upon by any other party or for any other purpose.

Forward-looking statements

Except for the historical information contained herein, the matters discussed in this document include forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated costs savings and synergies and the execution of Pearson's strategy, are forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in future. They are based on numerous assumptions regarding Pearson's present and future business strategies and the environment in which it will operate in the future. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including a number of factors outside Pearson's control. These include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in Pearson's publicly-filed documents and you are advised to read, in particular, the risk factors set out in this document. Any forward-looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based. No reliance should be placed on forward-looking statements.

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