Financial review

"We expect ongoing headwinds in our US higher education courseware business to be offset by improving conditions in our other businesses."

Coram Williams
Chief Financial Officer

Profit and loss statement

In 2017, Pearson's sales decreased by £39m in headline terms to £4,513m. Adjusted operating profit fell £59m to £576m (2016: £635m).

Currency movements, primarily from the depreciation of Sterling against the US Dollar and other currencies during the period, increased sales by £126m and operating profits by £23m.

The effect of disposals reduced sales by £54m and continuing adjusted operating profits by £24m.

Stripping out the impact of portfolio changes and currency movements, revenues were down 2% in underlying terms while adjusted operating profit fell £58m or 9%.

Trading contributed £58m to this decline in adjusted operating profit, other operating factors including increased amortisation expense and staff incentive contributed £95m to the decline and cost inflation, an estimated £55m. This was partly offset by a £150m year-on-year benefit from restructuring savings.

Net interest payable in 2017 was £79m, compared with £59m in 2016. The increase was primarily due to additional charges relating to the early redemption of various bonds during the year and higher US interest rates.

Our adjusted tax rate in 2017 was 11.1% (2016: 16.5%). The decrease in tax rate was primarily due to uncertain tax position provision releases following the expiry of the relevant statutes of limitation.

Adjusted earnings per share were 54.1p (2016: 58.8p).

Cash generation

Operating cash flow rose by 1% in headline terms, despite a decrease in adjusted operating profit, driven by a strong cash conversion of 116% driven by tight working capital control, strong collections and high Penguin Random House cash dividends.

Return on invested capital

On a gross basis ROIC decreased from 5.0% in 2016 to 4.3% in 2017 and from 7.2% in 2016 to 6.2% in 2017 on a net basis. The movement largely reflects lower profit in the year and increased tax payments.

Statutory results

Our statutory profit from continuing operations of £451m in 2017 compares with a loss of £2,497m in 2016. The loss in 2016 is mainly attributable to an impairment charge to North American goodwill and the higher level of restructuring spend.

Financial summary

Business performance

£ millions	2017	2016	Headline growth	CER growth	Under-lying growth
Sales	**4,513**	4,552	(1)%	(4)%	(2)%
Adjusted operating profit	**576**	635	(9)%	(13)%	(9)%
Operating cash flow	**669**	663	1%		
Adjusted earnings per share	**54.1p**	58.8p	(8)%		
Dividend per share	**17p**	52p	(67)%		
Net debt	**(432)**	(1,092)	60%		

Growth rates stated on a headline basis are calculated by comparing the reported results. Growth rates on a constant exchange rate (CER) basis are calculated after excluding the effect of exchange. Underlying growth rates exclude both the effect of exchange and portfolio changes arising from acquisitions and disposals.

Statutory results

£ millions	2017	2016	Headline growth	CER growth	Under-lying growth
Sales	**4,513**	4,552	(1)%	(4)%	(2)%
Operating profit/(loss)	**451**	(2,497)	n/a		
Profit/(loss) for the year	**408**	(2,335)	n/a		
Cash generated from operations	**462**	552	(11)%		
Basic earnings/(loss) per share	**49.9p**	(286.8)p	n/a		

The business performance measures include our adjusted performance measures which are non-GAAP measures. An explanation of these measures is included in this financial review section and full reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section on p192–195.

Financial review

Capital allocation

Our capital allocation policy remains unchanged: to maintain a strong balance sheet and a solid investment grade rating, to continue to invest in the business, to have a sustainable and progressive dividend policy, and to return surplus cash to our shareholders.

Balance sheet

Net debt to EBITDA was 0.6x (or 2.1x on a simplified credit agency view adjusting for leases and other items). Net debt decreased to £432m (2016: £1,092m) reflecting disposal proceeds, operating cash flow and a benefit from the weakening of the US Dollar relative to Sterling, partially offset by restructuring costs, pension contributions, including amounts related to agreements regarding the disposals of the FT and Penguin, interest, tax, dividend payments and the share buyback.

During 2017, we took steps to reduce our level of gross debt and optimise our balance sheet, successfully executing market tenders repurchasing $383m of our $500m 3.75% US Dollar Notes due 2022 and $406m of our $500m 3.25% US Dollar Notes due 2023. In addition, we redeemed the $300m 4.625% Senior Notes due June 2018 and the $550m 6.25% Notes due May 2018.

During January 2018, we also successfully repurchased a total of $569m of debt at an average interest rate of around 2.5% by tendering for €250m of our Euro 1.875% Notes due May 2021 and €200m of our Euro 1.375% Notes due May 2025 and cancelling the associated currency swaps.

Pension plan

The overall surplus on the UK Group Pension Plan of £158m at the end of 2016 has increased to a surplus of £545m at the end of 2017. This has arisen due to increased contributions, including £227m as part of the agreements relating to the Penguin Random House merger in 2013 and FT Group sale in 2015, together with the impact of favourable movements in assumptions.

The UK Group Pension Plan used its strong funding position to purchase two insurance buy-in policies with Legal & General and Aviva, covering approximately £1.2bn (one-third) of its total liabilities. This put the Plan in an even stronger position and substantially reduced Pearson's future pension funding risk, at no further cost to the company.

Dividend

In line with our policy, the Board is proposing a final dividend of 12p (2016: 34p) which results in an overall dividend of 17p (2016: 52p) subject to shareholder approval.

Share buyback

We launched a £300m share buyback, beginning on 18 October 2017 utilising part of the proceeds from the disposal of a 22% stake in Penguin Random House. We completed the programme on 16 February 2018.

Businesses held for sale

Following the decision to sell both WSE and the K-12 school courseware business in the US, the assets and liabilities of those businesses have been classified as held for sale on the balance sheet at 31 December 2017.

2018 outlook

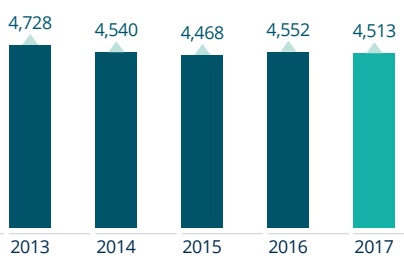
2017 was a year of progress for Pearson, delivering adjusted operating profit at the top end of our guidance range and continuing to invest in the digital transformation and simplification of the company. We expect to make further progress in 2018, with underlying profit growth, reporting adjusted operating profit of between £520m and £560m and adjusted earnings per share of 49p to 53p. This reflects our portfolio and exchange rates as at 31 December 2017 and the factors outlined overleaf.

Key performance indicators *Maintain long-term growth*

See a summary of all our KPIs on p2–3

Sales (£m)

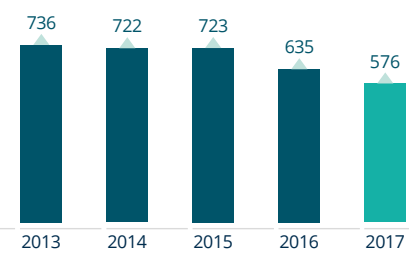
£4,513m
-1%



Sales decreased in headline terms by £39m or 1% and fell by 4% in CER terms and 2% in underlying terms. The underlying decline was due to a 4% decline in North America, partially offset by stabilisation in Core and Growth. Over the last five years, revenues have benefited from growth in digital and the relative strength of the dollar but this has been offset by pressure on print revenues, cyclical and policy factors and adverse currency movements in some of our markets.

Adjusted operating profit (£m)

£576m
-9%



Adjusted operating profit fell by 9% in headline terms with the impact of lower sales, other operating factors, including increased amortisation and staff incentives, and cost inflation offsetting the benefit from restructuring savings. Over the last five years, adjusted operating profit has declined due to the pressure on revenues in higher margin businesses, portfolio changes and increased investment in digital, partially offset by benefits from restructuring.

Financial review

Trading

We expect ongoing headwinds in our US higher education courseware business to be offset by improving conditions in our other businesses.

Portfolio changes

We completed the sale of a 22% stake in Penguin Random House and our Chinese English test preparation business GEDU in 2017. The annualised impact of these disposals will reduce 2018 operating profit by £44m. We expect to complete the disposal of WSE and our stake in Mexican joint venture Utel in the first half of 2018 and have announced that we have concluded the strategic review of our US K-12 courseware business and have classified the business as held for sale. WSE contributed £195m to 2017 sales and WSE and Utel contributed £5m to 2017 adjusted operating profit and £5m to statutory profit. US K-12 courseware is expected to contribute £385m to 2018 sales and around £11m to 2018 adjusted and statutory profit.

Other operational factors, incentives and inflation

Our 2018 guidance incorporates cost inflation of around £50m together with other operational factors and incentives of £30m.

Restructuring benefits

We expect incremental in-year benefits from the 2017–2019 restructuring programme of £80m in 2018. Exceptional restructuring costs of £90m will be excluded from adjusted operating profit in line with our recent practice.

Interest and tax

We expect a 2018 net interest charge of around £45m and a tax rate of 20%.

Currency

In 2017, Pearson generated approximately 61% of its sales in the US, 7% in Greater China, 5% in the Eurozone, 3% in Brazil, 3% in Canada, 3% in Australia, 2% in South Africa and 1% in India and our guidance is based on exchange rates at 31 December 2017.

We calculate that a 5 cent move in the US Dollar exchange rate to Sterling would impact adjusted earnings per share by between 2p and 2.5p.

Adjusted performance measures

The Group's adjusted performance measures are non-GAAP financial measures and are included as they are key financial measures used by management to evaluate performance and allocate resources to business segments. The measures also enable investors to more easily, and consistently, track the underlying operational performance of the Group and its business segments by separating out those items of income and expenditure relating to acquisition and disposal transactions, and major restructuring programmes.

The Group's definition of adjusted performance measures may not be comparable to other similarly titled measures reported by other companies. A reconciliation of the adjusted measures to their corresponding statutory reported figures is shown in summary below and in more detail on p192–195.

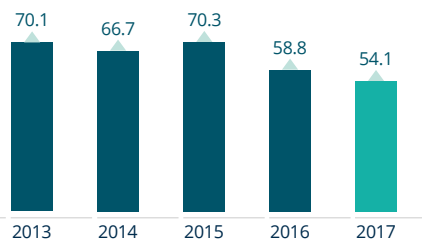
Key performance indicators *Deliver sustainable returns*

See a summary of all our KPIs on p2–3

Performance over the last five years reflects the market pressures we have faced. But we are building a strong future returns potential.

Adjusted earnings per share (£m headline)

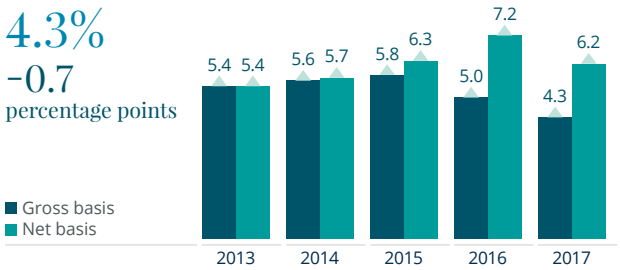
54.1p
-8%



Adjusted earnings per share (EPS) is down 8% in 2017, reflecting lower adjusted operating profit and increased interest charges partially offset by a decrease in the tax rate. Over the last five years EPS has declined in line with the decline in adjusted operating profit.

Return on invested capital (% headline)

4.3%
-0.7
percentage points



Return on invested capital (ROIC) fell by 0.7 percentage points to 4.3% in 2017 mainly due to lower adjusted operating profit and higher cash tax paid. We have also presented ROIC on a net basis after removing impaired goodwill from the invested capital balance. The net approach assumes that goodwill which has been impaired is treated in a similar way to goodwill disposed as it is no longer being used to generate returns.

Financial review

Adjusted operating profit

Adjusted operating profit includes the operating profit from the total business, including the results of discontinued operations when relevant. There were no discontinued operations in either 2016 or 2017. A reconciliation of the statutory measure to the adjusted measure is shown below:

£ millions	2017	2016
Operating profit/(loss)	**451**	(2,497)
Add back: Cost of major restructuring	**79**	338
Add back: Other net (gains) and losses	**(128)**	25
Add back: Intangible charges	**166**	2,769
Add back: Impact of US tax reform	**8**	–
Adjusted operating profit	**576**	635

In January 2016, the Group 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 costs of this 2016 restructuring programme in 2016 were significant enough to exclude from the adjusted operating profit measure so as to better highlight underlying performance. A new restructuring programme, the 2017-2019 restructuring programme announced in May 2017, began in the second half of 2017 and is expected to drive further significant cost savings. This new programme has also been excluded from the adjusted operating profit measure.

These major restructuring costs are analysed below:

£ millions	2016
2016 restructuring programme	
Combining into one single product organisation	77
Integrating our assessment operations	33
Reducing exposure to large-scale direct delivery	67
Making efficiency improvements in enabling functions	110
Rationalising our property portfolio and consolidating major supplier agreements	51
Total major restructuring cost	338

£ millions	2017
2017-2019 restructuring programme	
Adjusting the cost base in our US higher education courseware business	**23**
Further efficiency improvements in enabling functions through back office change programmes in Human Resources, Finance and Technology	**23**
Further rationalisation of property and supplier agreements	**33**
Total major restructuring cost	**79**

Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are excluded from adjusted operating profit as it is important to highlight their impact on operating profit, as reported, in the period in which the disposal transaction takes place in order to understand the underlying trend in the performance of the Group. Other gains of £128m in 2017 largely relate to the sale of the test preparation business in China which resulted in a profit on sale of £44m and the part sale of the Group's share in Penguin Random House which resulted in a profit of £96m. In 2016, the losses mainly relate to the closure of the English language schools in Germany and the sale of the Pearson English Business Solutions business in North America.

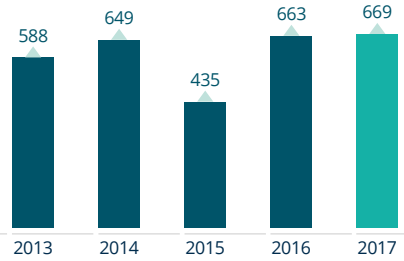
Charges relating to acquired intangibles and acquisitions are also excluded from adjusted operating profit when relevant as these items reflect past acquisition activity and do not necessarily reflect the current year performance of the Group. In 2016, intangible charges included an impairment of goodwill in our North American business of £2,548m.

Key performance indicators *Manage cash effectively*

See a summary of all our KPIs on p2–3

Operating cash flow (£m headline)

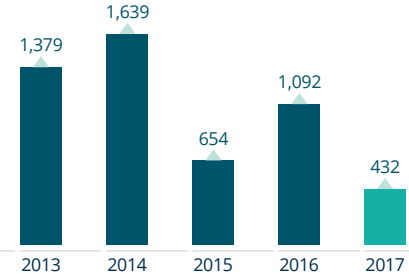
£669m
+1%



Operating cash flow increased by 1% in 2017, despite the reduction in adjusted operating profit, reflecting continued tight working capital control, strong cash collections and higher dividends from Penguin Random House.

Net debt (£m headline)

£432m
+60%



The Group's net debt decreased from £1,092m at the end of 2016 to £432m at the end of 2017 as the proceeds from disposals, operating cash flow and the positive effect of exchange rate movements more than offset restructuring spend, tax, interest, pension and dividend payments.

Financial review

As a result of US tax reform, the reported tax charge on a statutory basis includes a benefit from revaluation of deferred tax balances to the reduced federal rate of £5m and a repatriation tax charge of £6m. In addition to the impact on the reported tax charge, the Group's share of profit from associates was adversely impacted by £8m. These adjustments have been excluded from adjusted operating profit and the adjusted tax charge as they are considered to be transition adjustments that are not expected to recur in the near future.

Adjusted earnings per share

Adjusted earnings includes adjusted operating profit and adjusted finance and tax charges. A reconciliation to the statutory profit is shown below:

£ millions	2017	2016
Profit/(loss) for the year	**408**	(2,335)
Non-controlling interest	**(2)**	(2)
Add back: Cost of major restructuring	**79**	338
Add back: Other net (gains) and losses	**(128)**	25
Add back: Intangible charges	**166**	2,769
Add back: Other net finance (income)/costs	**(49)**	1
Add back: Impact of US tax reform on profit from associate	**8**	–
Tax benefit relating to items added back	**(42)**	(317)
Adjusted earnings	**440**	479
Weighted average number of shares (millions)	**813.4**	814.8
Adjusted earnings per share	**54.1p**	58.8p

Net finance costs classified as other net finance costs or income are excluded in the calculation of adjusted earnings.

Finance income relating to retirement benefits are excluded as management believes the presentation does not reflect the economic substance of the underlying assets and liabilities. Finance costs relating to acquisition transactions are also excluded as these relate to future earn-outs or acquisition expenses and are not part of the underlying financing.

Foreign exchange and other gains and losses are also 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.

In 2017, the total of these net finance cost items excluded from adjusted earnings was a gain of £49m compared with a loss of £1m in 2016. Finance income relating to retirement benefits decreased from £11m in 2016 to £3m in 2017, but this decrease was more than offset by foreign exchange gains on unhedged cash and cash equivalents and other financial instruments that generated losses in 2016.

The adjusted income tax charge excludes the tax benefit or charge on items that are excluded from the profit or loss before tax. In addition, 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.

Operating cash flow

Operating cash flow is presented in order to align the cash flows with corresponding adjusted operating profit measures. A reconciliation to operating cash flow from net cash generated from operations, the equivalent statutory measure, is shown below:

£ millions	2017	2016
Net cash generated from operations	**462**	522
Dividends from joint ventures and associates	**146**	131
Capital expenditure on property, plant, equipment and software	**(237)**	(247)
Add back: Cost of major restructuring paid	**71**	167
Add back: Special pension contribution paid	**227**	90
Operating cash flow	**669**	663

In addition to the dividends received from associates above, there were dividends from Penguin Random House in 2017 of £312m relating to the recapitalisation of Penguin Random House following the sale of part of the Group's interest in the venture.

This cash flow is not related to the underlying trading of the business and has not been included in the adjusted operating cash measure.

Costs of major restructuring paid in 2017 include cash flow from both the 2016 restructuring programme (£44m) and the 2017–2019 programme (£27m).

Special pension contributions of £227m in 2017 were made as part of the agreements relating to the Penguin Random House merger in 2013 (£202m) and the sale of the FT Group in 2015 (£25m). In 2016, special pension contributions of £72m (net of tax) relate to the sale of the FT Group.

Return on invested capital (ROIC)

ROIC is a non-GAAP measure and has been disclosed as it is part of Pearson's key business performance measures. ROIC is used to track investment returns and to help inform capital allocation decisions within the business. Average values for total invested capital are calculated as the average monthly balance for the year.

For the first time in 2017, we have presented ROIC on a net basis after removing impaired goodwill from the invested capital balance. The net approach assumes that goodwill that has been impaired is treated in a similar fashion to goodwill disposed as it is no longer being used to generate returns.

	2017	2016	2017	2016
£ millions	Gross basis		Net basis	
Adjusted operating profit	**576**	635	**576**	635
Operating cash tax paid	**(75)**	(63)	**(75)**	(63)
Return	**501**	572	**501**	572
Average invested capital	**11,568**	11,464	**8,126**	7,906
ROIC	**4.3%**	5.0%	**6.2%**	7.2%

Financial review

Other financial information

Net finance costs

£ millions	2017	2016
Net interest payable	(79)	(59)
Finance income in respect of retirement benefits	3	11
Other net finance income/(costs)	46	(12)
Net finance costs	(30)	(60)

Net interest payable was £79m in 2017, compared with £59m in 2016. The increase was primarily due to higher US interest rates in 2017, additional charges relating to the early redemption of various bonds during the year and some additional interest on tax provisions. In March and November 2017 respectively, the Group redeemed the $550m 6.25% global Dollar bonds and the $300m 4.625% US Dollar notes, both originally due in 2018. In addition, in August 2017, the Group redeemed $383m out of the $500m 3.75% US Dollar notes due in 2022 and $406m out of the 3.25% US Dollar notes due in 2023. Although there is a charge in respect of the early redemptions, there are partial year interest savings as a result which have flowed through the income statement in the period since redemption, with the full annualised savings coming through in 2018.

In 2017, the total of other net finance income excluded from adjusted earnings was a gain of £49m compared with a loss of £1m in 2016. Finance income relating to retirement benefits decreased from £11m in 2016 to £3m in 2017 reflecting the comparative funding position of the plans at the beginning of each year. This decrease was more than offset by foreign exchange gains on unhedged cash and cash equivalents and other financial instruments that generated losses in 2016.

Capital risk

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern and retain financial flexibility by maintaining a strong balance sheet
- To maintain a solid investment grade credit rating
- To provide returns for shareholders.

The Group is currently rated BBB (negative outlook) by Standard and Poor's and Baa2 (negative outlook) by Moody's.

Net debt

The net debt position of the Group is set out below:

£ millions	2017	2016
Cash and cash equivalents	645	1,459
Marketable securities	8	10
Derivative financial instruments	–	(93)
Bank loans and overdrafts	(15)	(39)
Bonds	(1,062)	(2,420)
Finance lease liabilities	(8)	(9)
Net debt	(432)	(1,092)

Net debt was reduced during the year following the partial disposal and recapitalisation of the Group's stake in Penguin Random House.

Bond debt was reduced to £1.1bn from £2.4bn through debt repayments of £1.3bn which reduced cash balances. The Group holds Dollar debt as a natural hedge of the Group's largest earnings generating region, North America.

Despite the low balance sheet gearing, the Group has significant operating lease liabilities of around £1.2bn which are not currently included as balance sheet liabilities but are included by the credit rating agencies within debt.

Liquidity and funding

The Group had a strong liquidity position at 31 December 2017, with over £600m of cash and an undrawn US Dollar denominated Revolving Credit Facility due in 2021 of $1.75bn (at 31 December 2016, the Group had cash of over £1.4bn and an undrawn Revolving Credit Facility due 2021 of $1.75bn). To ensure efficient use of the Group's cash balances, the Group repaid €450m (around £400m) of bond debt in January 2018 at a premium broadly equivalent to interest due for 2018, which will result in a reduced interest charge from 2019.

Taxation

The effective tax rate on adjusted earnings in 2017 was 11.1% compared with an effective rate of 16.5% in 2016. The decrease in tax rate was primarily due to uncertain tax position provision releases due to the expiry of relevant statutes of limitation.

The reported tax charge on a statutory basis in 2017 was £13m (3.1%) compared with a benefit of £222m (8.7%) in 2016. The statutory tax benefit in 2016 was mainly due to the release of deferred tax liabilities relating to tax deductible goodwill that was impaired. Operating tax paid in 2017 was £75m compared with £63m in 2016.

As a result of US tax reform, the reported tax charge on a statutory basis includes a benefit from revaluation of deferred tax balances to the reduced federal rate of £5m and a repatriation tax charge of £6m. The Group continues to analyse the detail of the new legislation and this may result in revisions to these impacts. In addition to the impact on the reported tax charge, the Group's share of profit from associates was adversely impacted by £8m.

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The loss on translation of £262m in 2017 compares with a gain in 2016 of £913m and has arisen due to the relative weakness of the US Dollar compared with Sterling. A significant proportion of the Group's operations are based in the US and the US Dollar weakened in 2017 from an opening rate of £1:$1.23 to a closing rate at the end of 2017 of £1:$1.35. At the end of 2016 most of the currencies that Pearson is exposed to had strengthened relative to Sterling following the Brexit vote. In 2016, the US Dollar had strengthened in comparison with the opening rate moving from £1:$1.47 to £1:$1.23.

Also included in other comprehensive income in 2017 is an actuarial gain of £182m in relation to post-retirement plans of the Group and our share of the post-retirement plans of Penguin Random House. The gain arises from the impact of favourable movements in mortality assumptions, discount rates, member options on retirement and asset returns which offset the impact of the UK Group plan's purchase of insurance buy-in policies. The gain in 2017 compares with an actuarial loss in 2016 of £276m.

Financial review

Post-retirement benefits

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

The charge to profit in respect of worldwide pensions and retirement benefits amounted to £72m in 2017 (2016: £70m) of which a charge of £75m (2016: £81m) was reported in adjusted operating profit and an income of £3m (2016: £11m) was reported against other net finance costs.

The overall surplus on the UK Group pension plan of £158m at the end of 2016 increased to a surplus of £545m at the end of 2017. The increase has arisen principally due to the impact of favourable movements in assumptions discussed above but also due to increased contributions, including £227m as part of the agreements relating to the Penguin Random House merger in 2013 and FT Group sale in 2015.

In total, our worldwide net position in respect of pensions and other post-retirement benefits increased from a net asset of £19m at the end of 2016 to a net asset of £441m at the end of 2017.

Dividends

The dividend accounted for in our 2017 financial statements totalling £318m represents the final dividend in respect of 2016 (34.0p) and the interim dividend for 2017 (5.0p). We are proposing a final dividend for 2017 of 12p, bringing the total paid and payable in respect of 2017 to 17p. This final 2017 dividend, which was approved by the Board in February 2018, is subject to approval at the forthcoming AGM and will be charged against 2018 profits. For 2017, the dividend is covered 3.2 times by adjusted earnings and, after excluding the contribution from Penguin Random House, the dividend is covered 2.5 times.

Share buyback

The £300m share buyback programme announced in October 2017 was completed on 16 February 2018. At 31 December 2017, 21m shares at a value of £153m had been purchased. Cash payments of £149m had been made in respect of the purchases with the outstanding £4m settlement made at the beginning of January 2018. This £4m together with the remaining value of the buyback programme (£147m) was recorded as a liability on the balance sheet at 31 December 2017. A further 22m shares were repurchased under the programme in 2018.

Businesses held for sale

Following the decision to sell both our Wall Street English language teaching business and the K-12 school courseware business in the US, the assets and liabilities of those businesses have been classified as held for sale on the balance sheet at 31 December 2017.

Goodwill and intangible assets

Amortisation and impairment charges in 2017 were £166m compared with a charge of £2,769m in 2016. The 2016 charge includes an impairment charge to North American goodwill of £2,548m. This charge arose following trading in the final quarter of 2016 and the consequent revision to strategic plans which reflected underlying issues in the US higher education courseware market that were more severe than had previously been anticipated. These issues related to declining student enrolments, changes in buying patterns of students and correction of inventory levels by distributors and bookshops.

Acquisitions and disposals

There were no significant acquisitions in 2017 or 2016. In 2017, disposals in total gave rise to a profit of £128m. These disposals included the sale of our test preparation business in China (GEDU) which resulted in a profit on sale of £44m and the sale of a portion of our stake in Penguin Random House to our venture partner, Bertelsmann, resulting in a reduction in our interest from 47% to 25% and a profit on sale of £96m. In 2016, we closed our English language schools in Germany and also sold the Pearson English Business Solutions business. These two disposals, together with other smaller disposal related items, gave rise to an aggregate loss of £25m.

Related party transactions

Transactions with related parties are shown in note 36 of the consolidated financial statements.

Post-balance sheet events

During January 2018, Pearson successfully executed market tenders to repurchase €250m of its €500m Euro 1.875% Notes due May 2021 and €200m of its €500m Euro 1.375% Notes due May 2025.

On 16 February 2018, Pearson completed its £300m share buyback programme. In aggregate between 18 October 2017 and 16 February 2018, Pearson repurchased 42,835,577 shares, including 21,839,676 repurchased since 31 December 2017, at a cost of £151m.

Coram Williams
Chief Financial Officer

Financial review

Helping create the future of learning

An interview with Alvaro Castro, Product Management Analyst, Pearson Test of English

What excites you most about the work you do at Pearson?

AC

In Pearson I have the amazing opportunity to work with different geographies all over the world. PTE Academic is delivered in over 50 countries and part of my job is really to understand the singularities of each market. I particularly enjoy engaging with the geographies and providing them with data insights that can inform their business strategy.

What is your main goal for 2018?

AC

To support the growth of the PTE Academic test, our main goal as a team is to improve the operational infrastructure around the test, and to redevelop the customer journey. My role is to help the team achieve this goal by analysing operational performance, identifying areas of improvement and working with stakeholders to make them.

How are you helping Pearson in its transition to digital?

AC

PTE Academic is a computer-based test and I have been involved in the operational and technology improvements of the product. As with every digital product, we can generate valuable operational data that can turn into evidence based decision-making.

What is your biggest win at Pearson to date?

AC

I am proud of my work producing genuine data reporting that has been used by teams, colleagues and management. In addition to providing valuable insight and informing decision-making at all levels, I have been able to introduce a data-driven culture within the team and with the geographies. These reporting capabilities have also served to provide accurate forecasting and a robust test centre capacity plan, which has been instrumental for supporting the growth of the test.

Pearson Test of English *in one minute*

The Pearson Test of English Academic is the computer-based English test trusted by universities, colleges and governments around the world.

250 centres around the world

"The test is a *true reflection* of what's required in communicating ... Reading, Writing, Speaking and Listening"

Elizabeth Karanja, Australia, October 2017

Differentiated consumer experience drove c.70% volume growth

+c.70%

"I introduced a *data-driven culture*. More accurate forecasting has supported the growth of the test."

AC Alvaro Castro
Product Management Analyst