Financial review

We expect to make further progress in 2019, with adjusted operating profit between £610m and £660m.[1]

Coram Williams
Chief Financial Officer

Profit and loss statement

In 2018, sales decreased by £384m in headline terms to £4,129m (2017: £4,513m) with portfolio changes reducing sales by £216m and currency movements decreasing revenue by £134m. Stripping out the impact of portfolio changes (including the adoption of new accounting standards) and currency movements, revenue was down 1% in underlying terms. Revenue in North America declined 1%, Core was flat and Growth up 1%.

The 2018 adjusted operating profit of £546m (2017: £576m) reflects a £130m year on year benefit from restructuring, offset by £50m of cost inflation, £22m of other operational factors, £15m negative contribution from trading and a £73m negative impact from currency movements and portfolio changes. Excluding the impact of currency movements and portfolio changes (including accounting changes) underlying adjusted operating profit grew 8%.

Net interest payable was £24m, compared to £79m in 2017. The decrease was primarily due to a reduction in gross debt achieved through the early redemption of bonds in 2017. Charges relating to early redemptions increased finance charges in 2017 but were not as significant in 2018. Additionally, there was a reduction in interest on tax provisions following reassessment of those provisions in 2018.

The effective tax rate on adjusted earnings in 2018 was a credit of 5.2% compared to an effective rate charge of 11.1% in 2017. The decrease in tax rate reflects several one-off benefits in 2018 including provision releases due to the expiry of relevant statutes of limitation and due to the reassessment of historical positions, as well as a one-off benefit from a reassessment of the tax treatment of certain items of income and expenditure.

Adjusted earnings per share of 70.3p (2017: 54.1p) included a c.20p one-off tax benefit and a lower finance charge.

Cash generation

Operating cashflow declined by £156m from £669m in 2017 to £513m in 2018 in headline terms. The decrease reflects lower dividends from Penguin Random House, following our divestment of a 22% stake in the business in 2017, higher incentive payments in 2018 relating to 2017 performance and movements in working capital. The equivalent statutory measure, net cash generated from operations, was £547m in 2018 compared to £462m in 2017. The main reason for the improvement in cash generated from operations was the absence of special pension contributions in 2018 which were £227m in 2017.

Financial summary

Business performance

£ millions	2018	2017	Headline growth	CER growth	Underlying growth
Sales	**4,129**	4,513	(9)%	(6)%	(1)%
Adjusted operating profit	**546**	576	(5)%	(2)%	8%
Operating cash flow	**513**	669			
Adjusted earnings per share	**70.3p**	54.1p			
Dividend per share	**18.5p**	17p			
Net debt	**(143)**	(432)			

Statutory results

£ millions	2018	2017	Headline growth	CER growth	Underlying growth
Sales	**4,129**	4,513	(9)%	(6)%	(1)%
Operating profit	**553**	451			
Profit for the year	**590**	408			
Cash generated from operations	**547**	462			
Basic earnings per share	**75.6p**	49.9p			

a) Growth rates are stated on an underlying basis unless otherwise stated. Underlying growth rates exclude both currency movements, portfolio changes and accounting changes, b) CER refers to Constant Exchange Rates, and c) The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section on p222–225.

1 Guidance includes impact of IFRS 16.

Return on invested capital

On a gross basis, ROIC increased from 4.3% in 2017 to 4.7% in 2018 and from 6.2% in 2017 to 6.7% in 2018 on a net basis. The movement largely reflects lower invested capital following disposals and decreased tax payments which were more than enough to offset the effect of lower adjusted operating profits primarily due to the disposal of a 22% stake in Penguin Random House and currency movements.

Statutory results

Our statutory profit was £553m in 2018 compared to a profit of £451m in 2017. The increase in 2018 is largely due to the increase in gains on disposal and reduced intangible charges which more than offset increased restructuring charges, the lost contribution from businesses disposed of and the impact of currency movements.

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 where appropriate.

Balance sheet

Net debt to EBITDA was 0.2x. Net debt decreased to £143m (2017: £432m) reflecting disposal proceeds and operating cash flow, partially offset by the strengthening of the US Dollar relative to Sterling, dividend payments and the share buyback.

In January 2018, the Group repurchased €250m of its €500m Euro 1.875% notes due May 2021 and €200m of its €500m Euro 1.375% notes due May 2025. Borrowings at 31 December 2018 include drawings on the Group's revolving credit facility (RCF) of £nil (2017: £nil).

Pension plan

In 2018, our UK Pension Plan completed a new triennial valuation as at 1 January 2018 and re-confirmed the Plan as being well funded. The Plan has recently used this funding position to purchase a further insurance buy-in policy with Legal & General, amounting to approximately £500m. Together with the two policies purchased in 2017, around 50% of the Plan's total liabilities are now insured. This has put the Plan in an even stronger position and further reduced Pearson's future pension funding risk, at no additional cost to Pearson.

Dividend

In line with our policy, the Board is proposing a final dividend of 13p (2017: 12p), an increase of 8%, which results in an overall dividend of 18.5p (2017: 17p) 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 our US K12 Courseware business, the assets and liabilities of that business were classified as held for sale on the balance sheet at 31 December 2018. We announced the agreement to sell this business on 18 February 2019.

2019 outlook

2018 has been a year of progress for Pearson, delivering adjusted operating profit within our guidance range and continuing to invest in the digital transformation and simplification of the company. We expect to make further progress in 2019, with adjusted operating profit between £590m and £640m and adjusted earnings per share of 56.5p to 62.0p on a pre-IFRS 16 basis. This reflects our portfolio and exchange rates as at 31 December 2018 and the following factors:

Currency movement and portfolio changes

Adjusting for currency movement improves profit by £26m. We completed the sale of WSE in March 2018. WSE contributed £42m to 2018 revenue and £4m to 2018 adjusted operating profit. US K12 Courseware contributed £364m to 2018 sales and around £20m to 2018 operating profit.

Inflation and other operational factors.

Our 2019 guidance incorporates cost inflation of c.£50m together with other operational factors of £33m due to increased investment in our strategic growth areas and the expectation of a lower contribution from Penguin Random House.

Restructuring benefits

We expect incremental in-year benefits from the 2017-2019 restructuring programme of £130m in 2019. Exceptional restructuring costs of £150m will continue to be excluded from adjusted operating profit.

Interest and tax

We expect a 2019 net interest charge of c.£30m and a tax rate of 21%.

Currency

In 2018, Pearson generated approximately 64% of its sales in the US, 3% 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 2018.

We calculate that a 5c move in the US Dollar exchange rate to Sterling would impact adjusted EPS by around 2p to 2.5p.

IFRS 16

Including IFRS 16, we expect to report adjusted operating profit of between £610m and £660m, a net interest charge of c.£60m and adjusted earnings per share of 55.5p to 61.0p for 2019.

Financial review

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 over time by separating out those items of income and expenditure relating to acquisition and disposal transactions, major restructuring programmes and certain other items that are also not representative of underlying performance.

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 p222–225.

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 2017 or 2018. A reconciliation of the statutory measure to the adjusted measure is shown below:

£ millions	2018	2017
Operating profit	553	451
Add back: Cost of major restructuring	102	79
Add back: Other net (gains) and losses	(230)	(128)
Add back: Intangible charges	113	166
Add back: Impact of GMP equalisation	8	–
Add back: Impact of US tax reform on profit from associate	–	8
Adjusted operating profit	546	576

In May 2017, we announced a restructuring programme, to run between 2017 and 2019, to drive significant cost savings. This programme began in the second half of 2017 and net costs incurred were £79m in 2017 and £102m in 2018 and relate to delivery of cost efficiencies in our enabling functions and US Higher Education Courseware business together with further rationalisation of the property and supplier portfolio. The restructuring costs in 2018 relate predominantly to staff redundancies and the net cost of property rationalisation. Included in the property rationalisation in 2018 is the impact of the consolidation of our property footprint in London which resulted in a charge for onerous leases of £91m partially offset by profit from the sale of property of £81m. The onerous lease provisions are the main driver for the overall increase in provisions on the balance sheet at 31 December 2018.

These major restructuring costs are analysed below:

£ millions	2018	2017
Adjusting the cost base in our Higher Education Courseware business	21	23
Further efficiency improvements in enabling functions through back office change programmes in Human Resources, Finance and Technology	48	23
Further rationalisation of property and supplier agreements	21	33
Associate restructuring	12	–
Total	102	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 net gains (before tax) of £230m in 2018 relate to the sale of the Wall Street English language teaching business (WSE), realising a gain of £207m, the disposal of the equity interest in UTEL, the online University partnership in Mexico, realising a gain of £19m, and various other smaller disposal items for a net gain of £4m. 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 share in PRH which resulted in a profit of £96m.

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 2018, intangible charges declined from £166m in 2017 to £113m in 2018. This decline reflects the reduction in acquisition activity in recent years.

In 2018, the impact of adjustments arising from clarification of guaranteed minimum pension (GMP) equalisation legislation in the UK have been excluded from adjusted operating profit as outlined below in the section on post-retirement benefits.

As a result of US tax reform at the end of 2017, the reported tax charge in that year on a statutory basis included 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 were excluded from adjusted operating profit and the adjusted tax charge as they were considered as transition adjustments that were not expected to recur in the near future.

Underlying growth rates

Sales decreased on a headline basis by £384m or 9% from £4,513m in 2017 to £4,129m in 2018 and adjusted operating profit decreased by £30m or 5% from £576m in 2017 to £546m in 2018.

The headline basis simply compares the reported results for 2018 with the reported results for 2017. The Group also presents sales and profits on an underlying basis which excludes the effects of foreign exchange, the effect of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. The portfolio change is calculated by taking account of the contribution from acquisitions and by excluding sales and profits made by businesses disposed in either 2017 or 2018. In 2017, portfolio changes mainly relate to the sale of the test preparation business in China and reduction in the equity interest in PRH. This reduction in equity interest is reflected in the reduction in share of results of joint ventures and associates. In 2018, portfolio changes mainly relate to the sale of our Wall Street English language teaching business. Acquisitions were not significant in either 2017 or 2018.

In 2018, the underlying basis excludes the impact of IFRS 15 'Revenue from Contracts with Customers'. This new standard was adopted on 1 January 2018 but the comparative figures for 2017 have not been restated. On 1 January 2018, the Group also adopted IFRS 9 'Financial Instruments' but this did not have a material impact on profit in 2018. The impact of adopting these standards is discussed further below and in note 1 of the financial statements.

On an underlying basis, sales decreased by 1% in 2018 compared to 2017 and adjusted operating profit increased by 8%. Currency movements decreased sales by £134m and adjusted operating profit by £21m. Portfolio changes decreased sales by £225m and adjusted operating profit by £61m. The impact of adopting IFRS 15 on the results for 2018 was to increase sales by £9m and adjusted operating profit by £9m.

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	2018	2017
Profit for the year	**590**	408
Non-controlling interest	**(2)**	(2)
Add back: Cost of major restructuring	**102**	79
Add back: Other net (gains) and losses	**(230)**	(128)
Add back: Intangible charges	**113**	166
Add back: Other net finance (income)/costs	**31**	(49)
Add back: Impact of GMP equalisation	**8**	–
Add back: Impact of US tax reform on profit from associate	**–**	8
Tax benefit relating to items added back	**(65)**	(42)
Adjusted earnings	**547**	440
Weighted average number of shares (millions)	**778.1**	813.4
Adjusted earnings per share	**70.3p**	54.1p

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 is excluded as management believe 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 2018, the total of these net finance cost items excluded from adjusted earnings was a loss of £31m compared to a gain of £49m in 2017. Finance income relating to retirement benefits increased from £3m in 2017 to £11m in 2018 but this increase was more than offset by foreign exchange losses on unhedged cash and cash equivalents and other financial instruments that generated gains in 2017.

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	2018	2017
Net cash generated from operations	**547**	462
Dividends from joint ventures and associates	**67**	146
Capital expenditure on property, plant, equipment and software	**(204)**	(237)
Proceeds from sale of property, plant, equipment and software	**128**	–
Add back: Net (proceeds from) /costs paid on major restructuring projects	**(25)**	71
Add back: Special pension contribution paid	**–**	227
Operating cash flow	**513**	669

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In addition to the dividends received from associates above there were dividends from PRH in 2018 of £50m and in 2017 of £312m relating to the recapitalisation of PRH 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.

Major restructuring costs paid in 2017 included cash flow from both the 2016 restructuring programme (£44m) and the 2017-2019 programme (£27m). In 2018, restructuring costs paid were offset by proceeds from the sale of property as part of the restructuring programme to give a net cash inflow from restructuring of £25m.

Special pension contributions of £227m in 2017 were made as part of the agreements relating to the PRH merger in 2013 (£202m) and the sale of the FT Group in 2015 (£25m). There were no special pension contributions in 2018.

Return on invested capital (ROIC)

ROIC is a non-GAAP measure and has been disclosed as it is one 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.

ROIC is presented on a gross and net basis. The net basis is calculated 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.

	2018	2017	2018	2017
£ millions	Gross basis		Net basis	
Adjusted operating profit	**546**	576	**546**	576
Operating cash tax paid	**(43)**	(75)	**(43)**	(75)
Return	**503**	501	**503**	501
Average invested capital	**10,672**	11,568	**7,544**	8,126
ROIC	**4.7%**	4.3%	**6.7%**	6.2%

Other financial information

Net finance costs

£ millions	2018	2017
Net interest payable	**(24)**	(79)
Finance income in respect of retirement benefits	**11**	3
Other net finance (costs)/income	**(42)**	46
Net finance costs	**(55)**	(30)

Net interest payable was £24m, compared to £79m in 2017. The decrease was primarily due to a reduction of gross debt achieved through the early redemption of bonds in 2017. Charges relating to early redemptions increased finance charges in 2017 but were not as significant in 2018. Additionally there was a reduction in interest on tax provisions following reassessment of those provisions in 2018. In February 2018, the Group bought back an aggregate nominal amount of €450,000,000 of 2021 and 2025 notes. There was a charge in respect of these early redemptions however there were partial year savings as a result which have flowed through the income statement in the period since redemption.

In 2018, the total of other items excluded from adjusted earnings was a loss of £31m compared to a gain of £49m in 2017. Finance income relating to retirement benefits increased from £3m in 2017 to £11m in 2018 reflecting the comparative funding position of the plans at the beginning of each year. This increase was more than offset by foreign exchange losses on unhedged cash and cash equivalents and other financial instruments that generated gains in 2017.

Capital risk

The Group's objectives when managing capital are:

- To maintain a strong balance sheet and a solid investment grade rating;
- To continue to invest in the business;
- To have a sustainable and progressive dividend policy, and;
- To return surplus cash to our shareholders where appropriate.

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

Net debt

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

£ millions	2018	2017
Cash and cash equivalents	**568**	645
Marketable securities	**–**	8
Derivative financial instruments	**9**	–
Bank loans and overdrafts	**(43)**	(15)
Bonds	**(672)**	(1,062)
Finance lease liabilities	**(5)**	(8)
Net debt	**(143)**	(432)

Net debt was reduced during the year following the sale of property, repayment of loans to PRH and proceeds from disposals.

Bond debt was reduced to £672m from £1.1bn through a combination of debt repayments. The Group holds a portion of its debt in US dollars as a natural hedge of the Group's largest earnings generating region, North America.

Despite the low year end balance sheet net debt, the Group has significant operating lease liabilities which are not currently included as balance sheet liabilities but are included by the credit rating agencies and will be included during 2019 as the group adopts IFRS16, increasing net debt by c£0.7bn. The Group's cash flow is also seasonal and so we would typically see higher net debt at the half-year results than at a year-end.

Liquidity and funding

The Group had a strong liquidity position at 31 December 2018, with over £500m of cash and an undrawn Revolving Credit Facility due in 2021 of $1.75bn (at 31 December 2017, the Group had cash of over £600m and an undrawn Revolving Credit Facility due in 2021 of $1.75bn). In March 2019, the Group announced the refinancing of the Revolving Credit Facility with a new Facility of $1.19bn due in 2024.

Taxation

The effective tax rate on adjusted earnings in 2018 was a credit of 5.2% compared to an effective rate charge of 11.1% in 2017. The decrease in tax rate reflects several one-off benefits in 2018 including provision releases due to the expiry of relevant statutes of limitation and due to the reassessment of historical positions (£86m), as well as a one-off benefit from a reassessment of the tax treatment of certain items of income and expenditure (£25m).

The reported tax credit on a statutory basis in 2018 was £92m (18.5%) compared to a charge of £13m (3.1%) in 2017. The statutory tax credit in 2018 was primarily due to the items above, provision releases and credits related to previous business disposals (£31m) and tax credits on restructuring charges.

Operating tax paid in 2018 was £43m compared to £75m paid in 2017 mainly due to refunds received in the US. Tax provision releases were the primary reason for the reduction in current tax liabilities on the balance sheet whilst net deferred tax remained consistent year on year.

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The gain on translation of £90m in 2018 compares to a loss in 2017 of £262m. The gain in 2018 mainly arises from the strength of the US dollar. A significant proportion of the Group's operations are based in the US and the US dollar strengthened in 2018 from an opening rate of £1:$1.35 to a closing rate at the end of 2018 of £1:$1.27. At the end of 2017, the US dollar had weakened from an opening rate of £1:$1.23 to a closing rate of £1:$1.35 and this movement was the main reason for the loss in 2017.

Also included in other comprehensive income in 2018 is an actuarial gain of £25m in relation to the retirement benefit obligations of the Group and our share of the retirement benefit obligations of PRH. The gain arises from the favourable impact of changes in the assumptions used to value the net assets in the plans and in particular movements in the discount rate. The gain in 2018 compares to an actuarial gain in 2017 of £182m.

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 £56m in 2018 (2017: £72m) of which a charge of £67m (2017: £75m) was reported in statutory operating profit and income of £11m (2017: £3m) was reported against other net finance costs. The decrease in the operating charge in 2018 is partly explained by a past service credit of £11m relating to changes made to the US post-retirement medical plan in the year and reduced administration costs. This credit was partially offset by a past service charge of £8m relating to guaranteed minimum pension (GMP) equalisation in the UK.

The GMP equalisation charge arises from the ruling in the Lloyds Bank High Court case in October 2018 that provided clarity on how pension plans should equalise GMP between males and females. The case ruling results in an income statement charge, an additional liability and the potential requirement to make back-payments to pensioners who may have been retired for some years. This charge has been excluded from our adjusted earnings as this relates to historical circumstances. The charge is an estimate based on available data and revisions to these estimates in future years will be treated as assumption changes and recorded in other comprehensive income rather than the income statement.

The overall surplus on UK pension plans of £545m at the end of 2017 has increased to a surplus of £571m at the end of 2018. The increase has arisen principally due to favourable movements in assumptions used to value the liabilities offsetting some decline in asset values.

In total, our worldwide net position in respect of pensions and other post-retirement benefits increased from a net asset of £441m at the end of 2017 to a net asset of £471m at the end of 2018.

Adoption of new accounting standards in 2018

The adoption of IFRS 15 and IFRS 9 has impacted both the income statement as described on p47 and has had an impact on certain lines in the balance sheet. Although the impact of IFRS 9 was not significant, the restatements in relation to IFRS 15 are the main reason for increases in 2018 in balances for inventories, trade and other receivables, trade and other liabilities and held for sale assets and liabilities. The full impact of the adoption of both standards is outlined in note 1 of the financial statements.

Dividends

The dividend accounted for in the 2018 financial statements totalling £136m represents the final dividend in respect of 2017 (12.0p) and the interim dividend for 2018 (5.5p). The Board are proposing a final dividend for 2018 of 13.0p bringing the total paid and payable in respect of 2018 to 18.5p. This final 2018 dividend which was approved by the Board in February 2019, is subject to approval at the forthcoming AGM and will be charged against 2019 profits. For 2018, the dividend is covered 3.8 times by adjusted earnings. After excluding the one-off tax benefit in adjusted earnings of c.20p the dividend is covered 2.7 times.

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Share buyback

The share buyback programme announced in October 2017 was completed on 16 February 2018. In 2017, our brokers purchased 21m shares and in 2018 purchased a further 22m shares. Cash payments for these purchases and related costs were £149m in 2017 and £153m in 2018. The shares bought back were cancelled and the nominal value of these shares was transferred to a capital redemption reserve. The nominal value of shares cancelled under the programme was £11m. A liability for the share buy-back payments due in 2018 was recorded in trade and other liabilities on the 2017 balance sheet.

Businesses held for sale

Following the decision in 2017 to sell both our Wall Street English language teaching business and the US K12 Courseware business, the assets and liabilities of those businesses were classified as held for sale on the balance sheet at 31 December 2017. During 2018, the Wall Street business was sold and the US K12 Courseware business remains on the balance sheet as a held for sale asset prior to the disposal announced in February 2019.

Goodwill and intangible assets

Amortisation and impairment charges relating to acquired intangible assets in 2018 were £113m compared to a charge of £166m in 2017. There were no impairments to goodwill and intangibles in 2018 or 2017 following impairment charges in preceding years.

Acquisitions and disposals

There were no significant acquisitions in 2018 or 2017. In 2018, the Group disposed of the Wall Street English language teaching business (WSE), realising a gain of £207m, and the equity interest in UTEL, the online University partnership in Mexico, realising a gain of £19m. Various other smaller disposal items resulted in a net gain of £4m in 2018. In 2017, disposals included the sale of the test preparation business in China (GEDU) which resulted in a profit on sale of £44m and the sale of a portion of the stake in PRH to the venture partner, Bertelsmann, resulting in a reduction in the Group's interest from 47% to 25% and a profit on sale of £96m.

Related party transactions

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

Post-balance sheet events

On 18 February 2019, the Group announced the sale of the US K12 Courseware business to Nexus Capital Management LP for headline consideration of $250m comprising an initial cash payment of $25m and an unconditional vendor note for $225m expected to be repaid in three to seven years. Following the repayment of the vendor note, the Group is entitled to 20% of all future cash flows to equity holders and 20% of net proceeds if the business is sold. The transaction is expected to complete in the first half of 2019.

Also in February 2019, the UK Group pension plan purchased a further pensioner buy-in policy valued at approximately £500m with Legal & General. As a result of this latest transaction, 95% of the UK Group plan's pensioner liabilities are now matched with buy-in policies which significantly reduces longevity risk of the Group. The buy-in will be accounted for in 2019 and is expected to reduce the retirement benefit asset on the balance sheet but is not expected to have a material impact on the income statement.

On 6 March 2019, the Group announced a tender offer for up to €75m of its €500m 1.875% notes due 2021 of which €250m were outstanding at 31 December 2018. In addition, the Group also announced the refinancing of its bank facility with a new $1.19bn Revolving Credit Facility due to mature in February 2024.

Coram Williams
Chief Financial Officer