Impairment of intangible assets. 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, consistent with our outlook for 2018, resulting in the impairment of intangible assets in North America of £282m, in Core markets of £37m and in Growth markets of £530m. In 2014 impairments of £77m related to India.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates increased by £21m to £52m in 2015 from £31m in 2014. The increase is mainly due to Penguin Random House where there was an improved operating performance coupled with a reduced amortization charge.

Operating loss / profit

In 2015 there was an operating loss on a continuing basis of £404m compared to an operating profit on a continuing basis of £348m in 2014. The reduction in profit is entirely due to the impairment of intangible assets outlined above.

Net finance costs

Net finance costs reduced by £64m, from £93m in 2014 to £29m in 2015. Net interest payable in 2015 was £46m, compared to £64m in 2014. The majority of the movement in net interest payable is due to the release of accrued interest following agreement of historical tax positions. For our debt portfolio, our fixed rate policy reduces the impact of changes in market interest rates, however we were still able to benefit from low average US dollar interest rates during the year as the majority of the Group's debt is US dollar denominated. Year-on-year, average three month US dollar LIBOR rose by 0.1% to 0.3%. This slight increase in floating market interest rates, along with the impact of changes in our debt portfolio, foreign exchange translation and the effect of slightly lower levels of average net debt in the period led to little change in the year-on-year interest charge on debt. Interest receivable on cash balances held overseas was reduced from the prior year due mainly to the weakening of emerging market currencies against sterling. The Group's average net debt fell by £61m, largely as a result of disposals in the fourth quarter of 2015 offsetting the translation of our predominantly US dollar debt. These combined factors contributed to the overall decrease in the Group's average net interest payable from 3.6% to 2.7%.

Other net finance costs are finance income and costs on retirement benefits, finance costs on related to deferred consideration associated with acquisitions, foreign exchange and other gains and losses. In 2015, the total of these items was a gain of £17m compared to a loss of £29m in 2014. Both the gain in 2015 and the loss in 2014 mainly relate to foreign exchange differences on unhedged cash and cash equivalents and other financial instruments. For a more detailed discussion of our borrowings and interest expenses see "— Liquidity and Capital Resources — Capital Resources" and "— Borrowings" below and "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

Taxation

The total tax benefit in 2015 of £81m represents 18.7% of pre-tax losses and compares to a charge of £56m or 22.0% of pre-tax profits in 2014. Our overseas profits, which arise mainly in the US, are largely subject to tax at higher rates than that in the UK (which had an effective statutory rate of 20.25% in 2015 and 21.5% in 2014). The reduced rate in 2015 reflects the lack of tax relief on some of our goodwill impairments offset in part by adjustments arising from agreement of historical tax positions. Both these items were more significant in 2015 than they had been in 2014.

Discontinued operations

Profit from discontinued operations in 2015 was £1,175m compared to £271m in 2014 with the difference being due primarily to gains on disposals in the respective years.

On 16 October 2015, Pearson substantially completed the sale of its 50% interest in the Economist to EXOR and on 30 November 2015 Pearson completed the sale of the Financial Times to Nikkei. The pre-tax gains on these sales were £473m and £711m respectively. We expect both of these transactions to qualify for substantial shareholder exemption in the UK and therefore there was no tax on the Economist gain and tax on the Financial Times sale amounted to £49m. The gains on these transactions and the results for both 2014 and 2015 to the respective sale dates have been included in discontinued operations.

The sale of Mergermarket to BC partners was completed on 4 February 2014 and resulted in a gain of £244m before tax. The gain on sale and the results for 2014 to the date of sale have been included in discontinued operations. Also included in discontinued operations in 2014 is a gain of £29m relating to adjustments to liabilities arising on the formation of the Penguin Random House group. Although this transaction completed in 2013 there were subsequent adjustments relating to the potential transfer of pension liabilities and tax.

Profit for the year

The profit for the financial year in 2015 was £823m compared to a profit in 2014 of £470m. The 2015 profit includes the gains on the sale of the Financial Times and Economist partly offset by significant impairment charges in the year. The net of these items were more significant than disposal gains and impairment charges had been in 2014.

Earnings per ordinary share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 101.2p in 2015 compared to 58.1p in 2014 based on a weighted average number of shares in issue of 813.3m in 2015 and 810.9m in 2014. The increase in earnings per share was due to the increase in profit for 2015 described above and was not significantly affected by the movement in the weighted average number of shares.

A diluted earnings per ordinary share was not calculated in 2015 as a result of the loss from continuing operations in 2015. The diluted earnings per share of 58.0p in 2014 was not significantly different from the basic earnings per share in that year as the effect of dilutive share options was again not significant.

Exchange rate fluctuations

Currency movement increased sales by £137m and had only a small impact on operating profit. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk” for a discussion regarding our management of exchange rate risks.

Sales and operating profit by segment

The following tables summarize our sales and adjusted operating profit for each of Pearson’s business segments. Adjusted operating profit is a non-GAAP financial measure and is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments.

In our adjusted operating profit we have excluded other net gains and losses, acquisition costs and amortization and impairment of acquired intangibles. The intangible charges relate to intangible assets acquired through business combinations and acquisition costs are the direct costs of acquiring those businesses. Neither of these charges are considered to be fully reflective of the underlying performance of the Group. Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are also excluded from adjusted operating profit as they distort the performance of the Group.

Adjusted operating profit enables management to more easily track the underlying operational performance of the Group. A reconciliation of operating profit to adjusted operating profit for continuing operations is included in the tables below:

	Year Ended December 31, 2015						
£m	North America	Core	Growth	PRH	Continuing	Discontinued	Total
Sales	2,940	836	692	—	4,468	312	4,780
	66%	*19%*	*15%*	—	*100%*		
Total operating profit	113	30	(595)	48	(404)	1,232	828
	89%	*32%*	*(25%)*	*4%*	*100%*		
Add back:							
Other net gains and losses	(19)	5	—	1	(13)	(1,184)	(1,197)
Acquisition costs	—	—	—	—	—	—	—
Intangible charges	386	79	583	41	1,089	3	1,092
Adjusted operating profit: continuing operations	480	114	(12)	90	672	—	672
Adjusted operating profit: discontinued operations	—	—	—	—	—	51	51
Total adjusted operating profit	480	114	(12)	90	672	51	723
	66%	*16%*	*(2%)*	*13%*	*93%*	*7%*	*100%*

	Year Ended December 31, 2014						
£m	North America	Core	Growth	PRH	Continuing	Discontinued	Total
Sales	2,906	910	724	—	4,540	343	4,883
	64%	*20%*	*16%*	—	*100%*		
Total operating profit	336	100	(103)	15	348	325	673
	97%	*29%*	*(30%)*	*4%*	*100%*		
Add back:							
Other net gains and losses	(2)	—	—	—	(2)	(273)	(275)
Acquisition costs	2	1	3	—	6	—	6
Intangible charges	108	21	132	54	315	3	318
Adjusted operating profit: continuing operations	444	122	32	69	667	—	667
Adjusted operating profit: discontinued operations	—	—	—	—	—	55	55
Total adjusted operating profit	444	122	32	69	667	55	722
	61%	*17%*	*4%*	*10%*	*92%*	*8%*	*100%*

North America

North America sales increased by £34m or 1% from £2,906m to £2,940m and adjusted operating profit increased by £36m, or 8%, from £444m in 2014 to £480m in 2015. The increase in headline terms was a result of currency movements due to the strengthening of the US dollar against sterling. At constant exchange and after taking account of the contribution from acquisitions and disposals and adjustments made in respect of Connections Education, sales declined by 1% and adjusted profits increased by 1%, mainly reflecting sales declines in US Higher Education partially offset at a profit level by year-on-year cost savings.

In our statutory results in 2015 we recognized an impairment to our US goodwill of £282m following ongoing cyclical and policy related pressures in our main US markets and we also realized a gain on sale of

PowerSchool of £30m net of the write down of related software assets. In addition to the gain on PowerSchool there were also small losses on the sale and write down of smaller investments of £11m. In 2014 we recognized a £38m loss on disposal of our 5% stake in Nook Media and a £40m gain on the disposal of our stakes in Safari Books Online and CourseSmart.

Overall adjusted operating margins in the North America business improved in 2015 to 16.3% compared to 15.3% in 2014 as a result of cost savings and the absence of restructuring costs following restructuring in 2014 and the benefit from list sales in 2015.

North America — School

In School, strong enrolment growth in Connections Education, good growth in Clinical Assessments and market share gains in courseware were offset by the impact of a smaller textbook adoptions market and weakness in the open territories in K-12 courseware, and a change in revenue model at Connections Education which records revenue for services charged at cost on a net basis.

Connections Education, our virtual school business served over 68,000 full time equivalent students through full-time virtual and blended school programs in 2015, up 11% from 2014 as a result of underlying growth and a new state-wide school in North Carolina. Connections manages 30 virtual public schools with three new full-time state-wide virtual public schools approved for the 2016-17 school year to serve students in Arkansas, Washington and New Mexico. In its annual Parent Satisfaction Survey 93% of parents of students enrolled in full-time online partner schools “recommend” Connections to other families.

In courseware, revenue declined year on year despite strong market share performance primarily due to a smaller overall adoption market as compared to 2014. Overall market share increased slightly driven by a strong performance in new adoption markets where we won 31% (2014: 25%) of new adoptions competed for, or 29% (2014: 25%) of the total new adoption market of $730m in 2015 (2014: $910m), led by a strong performance in Grades K-6 Social Studies in Texas and Indiana and in Grades K-6 Science in Oklahoma. We expanded iLit, our digital reading intervention program, covering a broader range of students including English Language Learners. Research studies show that students using iLit gain two or more years of reading growth in a year using this tablet based program (http://pear.sn/PErhf). We launched ReadyGEN, a K-6 reading series and enVisionMATH2.0, the newest offering in the highly successful enVisionMATH K-6 math program.

In State and National Assessments, revenues for the full year declined due to contract losses. High-stakes online test volumes grew strongly, up 130% on 2014 to 26.4 million, as customers transitioned to computer based testing. Paper based high stakes test volumes grew 3% to 32.7 million. Pearson successfully delivered English Language Arts and Math PARCC assessments to over 4.8 million students across 11 states and the District of Columbia. ACT Aspire delivered Common Core aligned college and career readiness assessments to 1.3 million students up 67% from 2014 and was chosen for three new state-wide deployments in 2016. The states of Arkansas, Mississippi and Ohio will discontinue PARCC assessments in 2016. We were awarded contracts to deliver the Indiana Statewide Test of Educational Progress (ISTEP); renewed the Puerto Rican Tests of Academic Achievement (PPAA) and parts of the assessments contract awarded by the Texas Education Agency; and extended our contracts to administer the Mississippi Science Test and Mississippi Subject Area Testing Program. We ceased to administer the majority of the current Texas STAAR contract in September 2015. Pearson extended its partnership with the College Board for the SAT assessment with the award of a five-year contract for processing of the redesigned SAT and PSAT assessments. Pearson will continue to provide the essay-scoring component for the SAT until March 2016.

Clinical Assessment grew well benefiting from continued growth of the fifth edition of the *Wechsler Intelligence Scale for Children* (WISC-V), strong growth in *Behavior Assessment for Children 3e* (BASC) and rapid growth in Q-Interactive, Pearson’s digital solution for Clinical assessment administration with geographic expansion and continued strong growth in active users to over 9,000 from 4,000 in 2014 with test administrations up over 400% to 1.3 million sub-tests.

North America — Higher Education

In Higher Education, market share gains in courseware were offset by lower enrolments (total US College enrolments fell 1.7%, with combined two-year public and four-year for-profit enrolments declining 4.4%, affected by a rising employment rate and regulatory change affecting the for-profit and developmental learning sectors), higher textbook returns and list sales. Strong enrolment growth at Pearson Online Services was offset by lower revenues from Learning Studio, a higher education Learning Management System (LMS) that we are retiring, and the impact of a change in revenue model.

Gross courseware revenues fell 1.5% (compared to industry gross revenue declines of 2.7%) due to lower college enrolments offset by market share gains. Net revenues declined 5.7% (compared to industry net declines of 7.5%) reflecting the impact of higher returns. Our market share in courseware benefited from strong performance from key titles including: Hubbard *Economics 5e*, Hibbeler *Engineering Mechanics 14e* and Marieb *Human Anatomy & Physiology 10e*.

Global digital registrations of MyLab and related products grew 3% to nearly 13 million. In North America, digital registrations grew 3% to almost 11 million with good growth in Science, Business & Economics, Statistics, REVEL and skills applications like Pearson Writer, offset by softness in developmental Mathematics. Faculty generated case studies indicate that the use of MyLab programs, as part of a broader course redesign, can support improvements in student test scores and lower institutional cost (http://pear.sn/IZxLE). We launched a suite of features that include Adaptive Practice in our MyLabs to personalize subjects including mathematics and nursing practice, Predictive Analytics Early Alerts in Mastering to help science instructors support at-risk students, gamification features in Business and rich learning analytics dashboards in numerous products that offer deep insight into students’ progress, performance and engagement.

In Pearson Online Services, our Higher Education Online Program Management (OPM) business, course enrolments grew strongly, up 25% to over 265,000, boosted by strong growth in Arizona State University Online where we renewed our partnership at the start of 2015. We extended our collaboration with Maryville University to launch a Bachelor and Master’s in Cybersecurity and a Doctorate in Leadership. Ohio University is partnering with Pearson to launch a Master’s in Financial Economics and Public Relations. University of Nevada Reno is partnering to increase access to the Master of Social Work degree program online. Pearson launched a new managed programs service model with Cincinnati State Technical and Community College, adapting traditional OPM services to the Community College market signing a landmark 10-year agreement to provide marketing, recruiting, admission, and retention services both to online and ground-based programs.

In enterprise solutions, Pearson signed significant large-scale, enterprise adoptions of cross-discipline digital content, where content is purchased via an upfront course fee and integrated with university IT systems, with Jones County College, National University, Algonquin College and the University of Missouri system. We signed an expanded strategic partnership agreement with Southern New Hampshire University’s (SNHU) College of Online and Continuing Education (COCE). Pearson will support curriculum development, online tutoring, enterprise wide content and data integration, eBooks with a print-on-demand option and data and analytics services which will provide greater visibility into students’ achievement of learning outcomes. The Charles A. Dana Center at The University of Texas at Austin is collaborating with Pearson to provide web-based course resources to Community Colleges across Texas that dramatically shorten the time it takes for students to earn college credit in mathematics as part of the New Mathways Project. Three courses were launched in 2015: Foundations Mathematical Reasoning, Statistics Reasoning and Quantitative Reasoning, with more planned in 2016. Pearson was named as the premier US Green Building Council Education Partner and will offer curriculum and course services to universities, associations, training companies, corporations, and workforce education and apprenticeship programs. We are partnering with Broward College to launch new competency-based workforce certification pathways focused on IT and Healthcare. Pearson will support Broward’s strategy by providing 12 industry certifications with existing workforce education courseware, as well as curriculum development services to build new courses towards certification and the Acclaim badging platform.

North America — Professional

In Professional, revenues grew strongly at VUE due to higher volumes of professional certification assessments. VUE global test volumes grew 11% year on year to 14.2 million, boosted by continued growth in IT, Professional and GED, with increased volumes from Microsoft Certified Professional (MCP) Program globally, National Council of State Boards of Nursing and US teacher certification programs. VUE renewed the Certiport Microsoft Office Specialists and Microsoft Technology Associate programs for an additional year and extended our partnership with Cisco Systems for three and half years.

Core

Sales in our Core markets decreased by £74m, or 8%, from £910m in 2014 to £836 in 2015 while adjusted operating profit decreased by £8m, or 7%, from £122m in 2014 to £114m in 2015. At constant exchange there was a decline in sales of 5% and a decline in profits of 2%. Acquisitions and disposals were not significant in the Core segment in either 2015 or 2014. Growth in Pearson Online Services in Australia, Wall Street English in Italy, Clinical Assessment in Germany and the Pearson Test of English in Australia was more than offset by revenue declines in UK qualifications as the business nears the end of a period of policy change, revenue declines at VUE, phasing and market weakness in Australian Higher Education courseware and the focusing of our UK school courseware on products that directly support Pearson Qualifications. Adjusted operating profit declines were due to lower revenue offset by tight cost control.

In our statutory results in 2015 we recognized an impairment to our goodwill of £37m mainly related to our English language teaching businesses in Europe.

Core — School

In the UK, qualifications have been impacted by government policy, where changes to accountability measures have led to a further 20% decline in BTEC registrations in 2015. GCSE and GCE entries for summer 2015 grew modestly compared with 2014 resulting from increases in GCSE registrations in Sport, ICT and Business and strength in iGCSE entries. We successfully delivered the National Curriculum Test for 2015, marking 4 million scripts from 1.7 million students and successfully transitioned the marking of the test to an online-only model.

In courseware, UK school revenue fell with growth in primary school more than offset by declines in secondary as the vocational market contracted and our upper secondary revenues were impacted by lower market participation as we focus on products that directly support our qualifications. More than 5,400 UK Schools now subscribe to at least one Bug Club service, our primary school blended reading program, representing growth of nearly 16% in the year. There are over 1.8 million pupils, more than 9,000 schools and 152,000 teachers currently using a service on ActiveLearn Primary. Italy revenues declined slightly with market share gains in primary offset by market weakness and a lower share in upper secondary. Australia revenues declined, with growth and increased market share in primary more than offset by a weaker secondary market.

Clinical assessment grew well with Germany benefiting from strong growth in Kaufman *Assessment Battery for Children* (K-ABC), partly offset by declines in Australia after a strong year in 2014 driven by the release of Wechsler *Primary and Preschool Scale of Intelligence IV*.

Core — Higher Education

In courseware, UK revenues declined, primarily due to a weak market. In Australia, revenues declined significantly due to phasing and market weakness. In online services, our Australian University Partnerships business grew strongly with combined course enrolments of nearly 4,000 up 380% from 2014. The growth of our partnership with Monash University was led by the Graduate Diploma in Psychology, which is now one of Monash’s largest postgraduate courses. Our new partnership with Griffith University started very strongly seeing consistent demand for the MBA program and the launch of two further courses. Kings College London partnered with Pearson to launch online postgraduate degree programs in Psychology and Law. Total enrolled students at Pearson College doubled to 232.

Core — Professional

The Pearson Test of English Academic (PTEA) saw strong growth in test volumes and revenues after gaining approval from the Australian Department of Immigration and Border Protection to administer a broad range of language tests linked to visa applications. Wall Street English revenues fell slightly with strong growth in Italy offset by declines in Germany.

Growth

Growth sales decreased by £32m, or 4%, to £692m in 2015 from £724m in 2014. Adjusted operating profit decreased by £44m to a loss of £12m in 2015 from a £32m profit in 2014. At constant exchange there was decline in sales of 1%. In China, revenues grew modestly reflecting strong sales of premium services in our direct delivery English Language Learning businesses offset by list disposals. In Brazil, revenues were stable with good growth in private sistemas and language schools offset by declines in government funded sistemas and language schools. In South Africa, revenues declined significantly due to a smaller textbook adoption cycle and lower enrolments at CTI, due to a reduction in the number of qualified students graduating from high school and tightening consumer credit affecting re-enrolment rates. In the Middle East, our business was impacted by the withdrawal from the Saudi Colleges of Excellence contracts.

Adjusted operating profit decreased due to the strengthening of Sterling against key Emerging Market currencies, revenue declines in South Africa, a contract termination charge arising from the transition of our three Saudi Arabian Colleges of Excellence to new providers, cost inflation and additional investment in China; partially offset by the benefits of restructuring and integration in Brazil.

In our statutory results, reflecting the significant economic and market deterioration in the Group’s operations in emerging markets, we wrote down the balance sheet value of our goodwill and intangibles for businesses in Growth markets by £530m. This represented impairments of £269m for Brazil, £181m for China, £58m for South Africa and £22m for other Growth markets. In 2014 we impaired intangible assets in our Indian business by £77m largely reflecting the reduced value of online tutoring which was primarily focused on the US market.

Growth — School

In South Africa, there was continued pressure on Government spending on textbooks due to budget pressures, which resulted in the value of the textbook market falling 60% from a peak of R2.9bn in 2013 to an estimated R1.15bn in 2015. We continued to perform well competitively and maintained a leading market share.

In Brazil, sistemas revenues grew well with strong growth in private sistemas partly offset by declines in NAME, our public sistema, following the cancellation of a large contract as a result of government spending cuts. Overall sistema enrolments fell 7% to nearly 449,000 with declines in NAME partly offset by growth in our three private sistemas, led by our largest sistema, COC. More than half of COC schools that participated in the High School National Exam (ENEM) ranked among the top 3 schools in their municipalities.

In India, enrolments at our managed schools grew 14% to nearly 27,000 students and we launched a pilot in more than 60 schools of MyPedia, an inside service ‘sistema’ solution for schools comprising print and digital content, assessments and academic support services. Middle East school courseware and professional development revenues grew strongly on improved distribution.

Growth — Higher Education

In South Africa, after strong growth over a number of years, student enrolments at CTI universities fell by 16% to 11,300 driven by a 13% decline in qualified graduating high school students and tightening consumer credit affecting re-enrolment rates. In Mexico, our fully accredited online university partnership, UTEL, increased the number of students enrolled by 34% to nearly 12,600. In India, Higher Education courseware revenues grew strongly. Cornell University partnered with Pearson to launch the Cornell-ILR Experienced Managers Program in India, with a blended learning approach combining online and in-person instruction.

In the Middle East, our three-year partnership with Taibah University in Saudi Arabia, to enable its transformation to a fully blended and personalized learning model, is progressing with over 4,000 students enrolled in our solution in 2015. Our partnership with the Preparatory Year Deanship at Um Al Qura University (PYP-UQU) to provide online learning and assessment technology has delivered 13,000 MyMathLab, MyITLab and MasteringPhysics licences. We withdrew from an agreement to run three Saudi Colleges of Excellence, with the colleges transitioning to new providers from 30 June 2015. This resulted in a termination charge.

Growth — Professional

In Pearson English, good growth in direct delivery in China, private expenditure in language schools in Brazil, and English Language Teaching (ELT) was partly offset by the impact of lower public expenditure in language schools in Brazil.

In China, Wall Street English (WSE) achieved strong revenue growth, reflecting success in the premium segment and the growth in VIP branded offerings. Overall enrolments grew modestly to over 67,000 with new enrolments growing strongly. We launched the New Student Experience (NSE) in six pilot centers during December 2015. The NSE delivers a major upgrade to the Wall Street English service with adaptive, personalized learning incorporating Pearson’s Global Scale of English. Global Education achieved moderate revenue growth as the market shifted to more intensive premium courses with smaller class sizes and new products, which resulted in enrolments declining 6.5% to 85,110.

We launched around 30 new MyEnglishLab products including *Top Notch 3e* and *Progress*. MyTOEFLLab and the second edition of MyIELTSLab successfully launched in China in WSE and Global Education. Global student registrations for MyEnglishLab and other ELT digital courseware grew 14% to 739,000. Pearson Test of English grew strongly in India.

Grupo Multi in Brazil saw strong revenue growth at Wizard, our consumer facing franchised English language learning business, but this was offset by declines in government orders due to public spending cuts. We opened 40 new school-in-school units for Multi English franchises in K-12 sistemas partner schools.

Penguin Random House

Pearson owns 47% of Penguin Random House the first truly global consumer book publishing company. Our share of Penguin Random House adjusted operating profits were £90m compared to £69m for 2014.

Penguin Random House had a strong performance in 2015, boosted by publication of hundreds of Adult and Children’s bestsellers across its territories, including the fiction mega-successes of *Grey* and *The Girl on the Train*, which each sold over 7 million copies.

The U.S. business published 584 *New York Times* print and e-book bestsellers in 2015 (2014: 760, based on a broader New York Times title count than 2015). The division benefited from the multi-million copy successes of *Grey* by E L James and the Adult debut novel *The Girl on the Train* by Paula Hawkins. Children’s authors who extended their outstanding sales in 2015 include Dr. Seuss, John Green, R.J. Palacio, James Dashner, Rick Yancey, Drew Daywalt, and Oliver Jeffers. Additional notable Adult titles include *The Life-Changing Magic of Tidying Up* by Marie Kondo; *Rogue Lawyer* by John Grisham; *Lost Ocean* by Johanna Basford; *Between The World and Me* by Ta-Nehisi Coates; and the movie tie-in paperback *The Martian* by Andy Weir.

The UK business published 201 titles on the *Sunday Times* bestseller lists (2014: 206). The division enjoyed outstanding sales for *Grey* and *The Girl on the Train*, which each sold more than 2 million copies, and for Harper Lee's *Go Set A Watchman* and Jamie Oliver's *Everyday Super Food*. Great demand continued for Jeff Kinney's *Diary of a Wimpy Kid* and John Green's titles, and for DK Publishing's Star Wars publications. Penguin Random House's promising 2016 publishing lists include new titles from Lisa Brennan-Jobs, Bill Bryson, Lee Child, Harlan Coben, Phil Collins, Janet Evanovich, Ina Garten, John Grisham, Jazz Jennings, Jeff Kinney, Marie Kondo, John le Carré, Jojo Moyes, Jamie Oliver, James Patterson, Nathaniel Philbrick, Pope Francis, Nora Roberts, John Sandford, Danielle Steel and Star Wars.

Penguin Random House completed the sale of Author Solutions, its supported self-publishing services company, to an affiliate of Najafi Companies, an international private-investment firm, on 31 December 2015, and sold its Australian online bookseller Bookworld to online retailer Booktopia in August 2015.

The integration of Penguin and Random House continued to provide net benefits through organizational alignments and systems and warehouse combinations in 2015, as well as for 2016 and thereafter. The North America warehouse consolidation was completed in February 2015, and in December, the UK business announced it will be gradually closing its Rugby distribution center and relocating its inventory to two other locations. The integration in Spain and Latin America of Santillana with Grupo Editorial Penguin Random House remains on course.

Results of operations

Year ended December 31, 2014 compared to year ended December 31, 2013

Consolidated results of operations

Sales

Our total sales from continuing operations decreased by £188m, or 4%, from £4,728m in 2013, to £4,540m in 2014. The overall decrease reflected growth on a constant exchange rate basis of 2% together with additional contributions from acquisitions, which was more than offset by the impact of currency movements. The 2014 sales, translated at 2013 average exchange rates, would have been £269m more at £4,809m.

North America sales declined by £102m or 3% from £3,008m to £2,906m, due to the strengthening of sterling against the US dollar. We estimate that after excluding acquisitions and disposals and the impact of exchange, North America sales growth was 2% in 2014 compared to 2013. North America continued to be the most significant source of our sales and as a proportion of sales contributed 64% in both 2014 and 2013. Revenue growth in Connections Education, VUE, Clinical and Higher Education was partially offset by declines in School courseware and State assessments.

Core sales declined by £98m or 10% from £1,008m in 2013 to £910m in 2014. We estimate that after excluding acquisitions and disposals and the impact of exchange, Core sales declined by 6%. Modest growth in Italy and good growth at VUE was offset by declines in UK assessment revenues, due to the impact of policy changes on our UK school qualifications business and reduction in partner market revenues, due to divestments and a move to distributor models implemented in 2013.

Growth sales increased by £12m or 2% from £712m in 2013 to £724m in 2014, despite the strength of sterling against key emerging market currencies. We estimate that after excluding both the impact of exchange rates sales grew by 12%, benefiting from the acquisition of Grupo Multi, and after excluding the impact of exchange rates and acquisitions and disposals were flat primarily due to the phasing of purchasing and a stronger school textbook adoption in South Africa in 2013. Growing English Language Learning enrolments in China and college enrolments in Saudi Arabia and South Africa were offset by a smaller school textbook market in South Africa, lower revenues in Brazil from sistemas, and ELT and higher education textbooks.

Cost of goods sold and operating expenses

The following table summarizes our cost of sales and net operating expenses:

	Year Ended December 31	
	2014	2013
	£m	£m
Cost of goods sold	2,021	2,123
Operating expenses		
Distribution costs	84	88
Selling, marketing and product development costs	931	995
Administrative and other expenses	1,168	1,056
Restructuring costs	64	162
Other net gains and losses	(2)	16
Other income	(120)	(115)
Total net operating expenses	2,125	2,202
Impairment of intangible assets	77	—
Total expenses	4,223	4,325

Cost of goods sold. Cost of sales consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs, royalty charges, the cost of service provision in the assessment and testing business and the cost of teaching and facilities in direct delivery businesses. Our cost of sales decreased by £102m, or 5%, from £2,123m in 2013, to £2,021m in 2014. The decrease corresponds primarily to the decrease in sales, with cost of sales at 44.5% of sales in 2014 compared to 44.9% in 2013.

Distribution costs. Distribution costs consist primarily of shipping costs, postage and packing. Distribution costs decreased due to the shift to digital and services products.

Selling, marketing and product development costs. Our selling, marketing and product development costs decreased by £64m or 6% from £995m in 2013 to £931m in 2014. As a percentage of sales these costs were relatively consistent at 20.5% in 2014 and 21.0% in 2013, reflecting some benefits of restructuring and the effect of foreign exchange.

Administrative and other expenses. Our administrative and other expenses increased by £112m or 11% from £1,056m in 2013 to £1,168m in 2014 due to increased intangible amortization and increased IT costs.

Restructuring costs. Restructuring costs decreased to £64m in 2014 compared with £162m in 2013. In 2013 the Group began a significant transformation and restructuring program which incurred significant upfront costs primarily related to redundancies and property rationalization. These costs decreased in 2014 as the program reached completion.

Other net gains and losses. Included in other net gains and losses in 2014 are gains on the sale of joint venture interests in Safari Books Online and CourseSmart totaling £40m and a loss on the disposal of an investment in Nook Media of £38m. Included in 2013 is a loss on the disposal of the Japanese school and local publishing assets.

Other income. Other operating income mainly consists of freight recharges, sub-rights and licensing income and distribution commissions, together with the service fee income from Penguin Random House. Other operating income increased to £120m in 2014 compared to £115m in 2013 due to a full year of Penguin Random House service fee income of £41m in 2014 compared with a half year of income of £28m in 2013, offset by a decrease in gains on minor asset disposals in 2014 compared with 2013.

Impairment. In 2014 we impaired intangible assets in our Indian business by £77m largely reflecting the reduced value of online tutoring which was primarily focused on the US market.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates increased by £3m to £31m in 2014 from £28m in 2013. The increase is due to a full year contribution from Penguin Random House partly offset by intangible amortization.

Operating profit

Operating profit decreased by £83m or 19% from £431m in 2013 to £348m in 2014. In 2014 our operating profit included a £77m write down of the balance sheet value of intangibles in our Indian business, a £38m loss on disposal of our stake in Nook Media and a £40m gain on the disposal of our stake in Safari Books Online and CourseSmart. Currency movements adversely affected operating profit, and we estimate that operating profit would have been approximately £49m higher if translated at constant 2013 exchange rates.

Net finance costs

Net finance costs increased from £73m in 2013 to £93m in 2014. Net interest payable decreased from £71m in 2013 to £64m in 2014. Although our fixed rate policy reduces the impact of changes in market interest rates, we were still able to benefit from low average US dollar and sterling interest rates during the year. Year-on-year, average three month LIBOR (weighted for the Group’s net borrowings in US dollars and sterling at each year end) fell by 0.1% to 0.2%. This decrease in floating market interest rates, along with the impact of foreign exchange translation and additional interest receivable on cash balances held overseas, more than offset the effect of higher levels of average net debt in the period. These factors contributed to the overall decrease in the Group’s average net interest payable from 4.8% to 3.6%. The Group’s average net debt rose by £260m, largely as a result of net acquisition activity and the translation of our predominantly US dollar debt.

Other net finance costs are finance income and costs on retirement benefits, finance costs on put options and deferred consideration associated with acquisitions, foreign exchange and other gains and losses. In 2014 the total of these items was a loss of £29m compared to a loss of £2m in 2013. Both the losses in 2014 and 2013 mainly relate to foreign exchange differences on un-hedged cash and cash equivalents and other financial instruments. For a more detailed discussion of our borrowings and interest expenses see “— Liquidity and Capital Resources — Capital Resources” and “— Borrowings” below and “Item 11. Quantitative and Qualitative Disclosures about Market Risk”.

Taxation

The total tax charge in 2014 of £56m represents 22.0% of pre-tax profits compared to a charge of £88m or 24.6% of pre-tax profits in 2013. Our overseas profits, which arise mainly in the US, are largely subject to tax at higher rates than that in the UK (which had an effective statutory rate of 21.5% in 2014 and 23.25% in 2013). The decrease in the tax rate is mainly due to tax benefits arising on the increase in intangible charges partly offset by adjustment arising from settlements with tax authorities.

Discontinued operations

In October 2012, Pearson and Bertelsmann announced an agreement to create a new consumer publishing business by combining Penguin and Random House. The transaction completed on July 1, 2013 and from that point, Pearson no longer controlled the Penguin Group of companies and has equity accounted for its 47% associate interest in Penguin Random House.

The loss of control resulted in the Penguin business being classified as held for sale on the Pearson balance sheet June 30, 2013 and a subsequent gain on sale of £202m was reported in the second half of 2013. Included in the gain reported in 2013 was a provision for amounts payable to Bertelsmann upon settlement of the transfer of pension liabilities to Penguin Random House. During 2014 it was decided that this transfer would not go ahead as planned and the costs have been credited back in the £29m gain reported against the disposal in 2014.

The results for Penguin in the first half of 2013 and the gains reported in both 2013 and 2014 have been included in discontinued operations. The share of results from the associate interest in Penguin Random House arising in the second half of 2013 and in 2014 has been included in operating profit in continuing operations.

On November 29, 2013 we announced the sale of the Mergermarket Group to BC Partners. The sale was completed on February 4, 2014 and resulted in a gain of £198m after tax. The gain on sale and the results for the Mergermarket business for 2013 and 2014 have been included in discontinued operations.

On 16 October 2015, Pearson substantially completed the sale of its 50% interest in the Economist to EXOR and on 30 November 2015 Pearson completed the sale of the Financial Times to Nikkei. The results of the Economist and the Financial Times are included in discontinued operations in 2013 and 2014.

Profit for the year

The profit for the financial year in 2014 was £470m compared to a profit in 2013 of £539m. The 2014 profit includes a gain on sale of Mergermarket of £198m and the 2013 profit includes a gain on the sale of Penguin of £202m, as described above.

Earnings per ordinary share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 58.1p in 2014 compared to 66.6p in 2013 based on a weighted average number of shares in issue of 810.9m in 2014 and 807.8m in 2013. The decrease in earnings per share was due to the decrease in profit for 2014 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 58.0p in 2014 and 66.5p in 2013 was not significantly different from the basic earnings per share in those years as the effect of dilutive share options was again not significant.

Exchange rate fluctuations

Currency movement reduced sales by £269m and reduced operating profit by £49m. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk” for a discussion regarding our management of exchange rate risks.

Sales and operating profit by segment

The following tables summarize our sales and adjusted operating profit for each of Pearson’s business segments. Adjusted operating profit is a non-GAAP financial measure and is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments.

In our adjusted operating profit we have excluded other net gains and losses, acquisition costs and amortization and impairment of acquired intangibles. The intangible charges relate to intangible assets acquired through business combinations and acquisition costs are the direct costs of acquiring those businesses. Neither of these charges are considered to be fully reflective of the underlying performance of the Group. Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are also excluded from adjusted operating profit as they distort the performance of the Group.

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Adjusted operating profit enables management to more easily track the underlying operational performance of the Group. A reconciliation of operating profit to adjusted operating profit for continuing operations is included in the tables below:

	Year Ended December 31, 2014						
£m	North America	Core	Growth	PRH	Continuing	Discontinued	Total
Sales	2,906	910	724	—	4,540	343	4,883
	64%	*20%*	*16%*	—	*100%*		
Total operating profit	336	100	(103)	15	348	325	673
	97%	*29%*	*(30%)*	*4%*	*100%*		
Add back:							
Other net gains and losses	(2)	—	—	—	(2)	(273)	(275)
Acquisition costs	2	1	3	—	6	—	6
Intangible charges	108	21	132	54	315	3	318
Adjusted operating profit: continuing operations	444	122	32	69	667	—	667
Adjusted operating profit: discontinued operations	—	—	—	—	—	55	55
Total adjusted operating profit	444	122	32	69	667	55	722
	61%	*17%*	*4%*	*10%*	*92%*	*8%*	*100%*

	Year Ended December 31, 2013						
£m	North America	Core	Growth	PRH	Continuing	Discontinued	Total
Sales	3,008	1,008	712	—	4,728	962	5,690
	64%	*21%*	*15%*	—	*100%*		
Total operating profit	358	58	(5)	20	431	79	510
	83%	*13%*	*(1%)*	*5%*	*100%*		
Add back:							
Other net gains and losses	—	16	—	—	16	—	16
Acquisition costs	2	3	7	—	12	—	12
Intangible charges	104	26	33	30	193	5	198
Adjusted operating profit: continuing operations						—	
Adjusted operating profit: discontinued operations	—	—	—	—	—	84	84
Total adjusted operating profit	464	103	35	50	652	84	736
	63%	*14%*	*5%*	*7%*	*89%*	*11%*	*100%*

North America

North America sales declined by £102m, or 3%, from £3,008m in 2013, to £2,906m in 2014 and adjusted operating profit decreased by £20m, or 4%, from £464m in 2013 to £444m in 2014. The decline in headline terms was a result of currency movements due to the strengthening of sterling against the US dollar. At constant exchange and after taking account of the contribution from acquisitions, sales grew by 2% and adjusted profits by 3% reflecting revenue mix, lower returns provision, reduced US pension costs and lower restructuring charges.

In our statutory results, we recognized a £38m loss on disposal of our 5% stake in Nook Media and a £40m gain on the disposal of our stakes in Safari Books Online and CourseSmart.

Overall adjusted operating margins in the North America business were consistent in 2014 at 15.3% compared to 15.4% in 2013.

North America — School

In school, good growth in Connections Education, our virtual schools business, was offset by declines in our State Assessments business due to the impact of legislative change in Texas and California, and in courseware due to some loss of market share, revenue deferral on blended programs and softness in the Open Territories.

Connections Education served over 62,000 Full Time Equivalent students in 2014 through full-time virtual and blended programs, up more than 15% from 2013. Three new full-time virtual public schools were launched in 2014 and an additional one will launch in 2015. At full-time virtual schools supported by Connections Education, virtual students consistently outperform their virtual school peers on state standardized tests. Students at College Park Academy, a blended school in Maryland using the Connections Education curriculum, scored significantly higher than their in-state peers in reading and math in the Maryland School Assessment (MSA) for 6th and 7th Grades.

In State and National Assessments, high stakes online test volumes grew strongly, up 40% on 2013 to 11 million, as customers transitioned to computer-based testing. Paper-based high stakes test volumes declined 17% to 32 million, in part due to the growth of computer-based testing, but also the impact of legislative changes in Texas and California. We were awarded contract to administer Partnership for Assessment of Readiness for College and Careers (PARCC) assessments in 11 states and extended our contracts to administer Virginia Standards of Learning (SOL) Assessments and the Maryland High School Assessment. We will continue to administer the Florida Comprehensive Assessment Test (FCAT) until summer 2016.

Clinical Assessment grew strongly, benefiting from the launch of the fifth edition of the Wechsler Intelligence Scale for Children (WISC-V) and strong growth in Q-Interactive, where early studies are showing good improvements in mental health professional productivity and student engagement levels.

Courseware revenues declined due to the impact of revenue deferrals from blended digital programs and a loss of market share, with a weaker performance in Grades 6-8 Science and Math in Texas, and Grades 6-12 Literature and Grades 6-8 Math in Florida only partly offset by a stronger performance in K-6 Math in Texas, Grades 6-12 Social Studies in Tennessee and Grades K-6 Math in California. We won an estimated 25% of the total new adoptions market (of $910m in 2014). enVisionMATH, which now has the largest installed base of elementary students in the US, continues to drive significant improvements in student computation and problem solving.

North America — Higher Education

In Higher Education, total college enrolments fell by 1.3%. Career enrolments in two-year public (community) and four-year-for-profit colleges declined 3%, with rising employment rates and regulatory change affecting the for-profit and developmental learning sectors.

Courseware grew modestly, primarily due to market share gains, continued growth in digital courseware registrations, a stronger new edition cycle and less pronounced seasonality. MyLab registrations in North America grew 3% to almost 11 million. Lecturer generated case studies indicate that the use of MyLab programs, as part of a broader course redesign, can support improvements in student test scores. We launched REVEL, which combines trusted content with interactive videos, quizzes, a mobile user interface, study tools, assignment calendar and performance dashboard for 17 humanities and social sciences subjects. The launch of REVEL is the first of numerous product lines taking advantage of our new cloud-based mobile-ready, and data analytics capabilities. New editions launched in 2014 included Tro, *The Structures and Properties of Chemistry*; Acemoglu, Laibson and List, *Economics*; and Pearson *Writer*, an application built for mobile devices that helps students in developing writing skills. We published a range of digital titles for The Boy Scouts of America and implemented a new digital curriculum incorporating enhanced Merit Badge programs in subjects including Robotics, Digital Technology and First Aid for the organization’s 2.7 million youth members.

Pearson On Line Services, where we run fully online undergraduate and graduate learning programs and earn certain revenues based on the success of the students and the institution, grew course enrolments by 22% during the year with continued strong growth in programs at Arizona State University Online and University of Florida Online. We signed new programs with Bradley University, to create five online graduate degree programs in nursing and counselling, and University of Texas at Austin, Dana Center where we are partnering for the web delivery of math courses for its New Mathways Project (NMP), which will become part of a state-wide reform initiative in a collaboration between Dana Center and the Texas Association of Community Colleges. We expanded our collaboration with the American Health Information Management Association (AHIMA) to administer its online education business, which serves AHIMA’s 71,000 members including 10,000 higher education students each year. We now provide our learning management system hosting 100 courses based on AHIMA content; technical support; a next generation Virtual Lab Product; and are launching a Coding Basics course combining AHIMA and Pearson content.

North America — Professional

At VUE, global test volumes grew 9% year-on-year to almost 13 million boosted by continued growth in IT, State Regulatory and Professional certifications. New contracts include a deal to administer the Microsoft Certified Professional (MCP) Program globally, which significantly expands our existing partnership with Microsoft through Certiport’s Microsoft Office Specialist (MOS) and Microsoft Technology Associate (MTA) exams.

Core

Sales in our Core markets decreased by £98m, or 10%, from £1,008m in 2013 to £910m in 2014 while adjusted operating profit increased by £19m, or 19%, from £103m in 2013 to £122m in 2014. At constant exchange and after taking account of the contribution from acquisitions there was decline in sales of 6%. At constant exchange and after taking account of the contribution from acquisitions there was growth in profits of 24% driven by the benefits of restructuring actions taken over the last two years in all markets. Overall adjusted operating margins in the Core markets increased from 10.2% in 2013 to 13.4% in 2014.

Core — School

In the UK, qualifications have been impacted by government policy, where changes to accountability measures and a shift to end of course assessments in GCSE have led to a 21% decline in BTECs and 11% decline in General Qualifications in the year. We marked almost four million National Curriculum Tests (NCT), up 24% on 2013. Our contract to administer the NCT was extended to 2017. More than 4,600 schools, with almost 850,000 children, now subscribe to at least one of the Bug Club services, our primary school blended reading program.

In Australia, we benefited from a stronger adoption year and the launch of the locally standardized version of the Wechsler Pre and Primary Scales of Intelligence (fourth edition). In Italy, we gained share in both primary and secondary with new titles combined with professional development and online cross-curricula support. In primary, we developed Top Secret and adapted Our Discovery Island English Language Learning programs. In secondary, we extended our market leadership in the Humanities.

Revenues declined significantly in our partner markets due to challenging market conditions in Africa and Scandinavia and with the move to a distributor model in certain markets. We disposed of our local schools lists in the Caribbean as we continue to focus on our largest global geographic opportunities.

Core — Higher Education

In the UK, our courseware revenues declined, primarily due to enrolment contraction following policy changes in the vocational markets. We continue to invest to build Pearson College and graduated our first 32 students during the year. Pearson College was one of only four private colleges to pass Quality Assurance Agency review the first time.

In Australia, courseware revenues grew modestly benefiting from growth in core subjects, such as Biology, and direct-to-institution sales of digital learning products offset by our exit from vocational publishing. Monash Online, our collaboration with Monash University, continues to show good growth and will launch additional courses in the second half of 2015. In addition we collaborated with another leading university in Australia to provide course development, recruitment, enrolment, and student support services for post-graduate courses.

Core — Professional

At VUE, test volumes grew strongly following the successful launch of a new contract with CPA Australia to deliver Professional exams and continued good growth in the UK Driving Theory test volumes. We will continue to deliver our UK contract to administer the Driving Theory test for DVSA until September 2016. VUE entered into ten year partnerships with the Chartered Institute of Management Accountants (CIMA) and the Association of Chartered Certified Accountants (ACCA) in the UK to transform a selection of their exams from pen and paper to computer-based testing.

Growth

Growth sales increased by £12m, or 2%, to £724m in 2014 from £712m in 2013. Adjusted operating profit decreased by £3m or 9% to £32m in 2014, from £35m in 2013. This reflected a benefit from the acquisition of Grupo Multi offset by a slower adoption year in South Africa, launch costs associated with our new vocational colleges and a contract provision in Saudi Arabia, and weaker revenues and restructuring costs in Brazil.

In our statutory results we wrote down the balance sheet value of our Indian business by £77m largely reflecting the reduced value of online tutoring which was primarily focused on the US market.

Overall adjusted operating margins in the Growth markets were lower at 4.4% in 2014 compared to 4.9% in 2013.

Growth — School

In South Africa we performed well, competitively maintaining our market share of the School textbook market, but volumes declined significantly to more normal levels following a large adoption year, and significant share gains, in 2013.

In Brazil, enrolments in our sistemas were down 3% to 481,000 with growth in our public sistemas (NAME) offset by declines in our private sistemas as we combined our three sales forces into one. 72% of the municipalities that adopted NAME for lower secondary education showed improvement in their IDEB score, Brazil’s federally established measure of educational quality.

Growth — Higher Education

In South Africa student enrolments in CTI/MGI our private network of higher education institutions, grew by 15% to 13,400 across 13 campuses.

In Mexico, our fully accredited online university partnership, UTEL, increased the number of students enrolled from under 5,000 last year to more than 9,000 in 2014 as a result of improved consumer marketing efforts and better student retention.

In India, higher education revenues declined due to higher levels of returns.

Growth — Professional

In Pearson English, good growth in direct delivery in China and inside services in Brazil due to the acquisition of Grupo Multi was partly offset by declines in courseware in Brazil and Mexico. Global student registrations for MyEnglishLab grew 15% to more than 460,000 with strong growth in Latin America.

We launched the Global Scale of English, a new global standard for scoring English language proficiency on a precise, numeric, universal scale for businesses, governments and academic institutions. The scale is being embedded into all Pearson English products and services.

In China, English direct delivery enrolments grew at both Wall Street English (WSE), up 2% to 66,000 and Global Education, up 7% to 117,000. To support long-term growth, we consolidated our ERP systems in China and deployed a Salesforce.com CRM system in WSE. We divested our online vocational training operations.

In Brazil, we completed the acquisition of Grupo Multi, the largest provider of private language schools in Brazil. We successfully integrated the business despite challenging market conditions and disruption caused by the World Cup and Presidential elections.

Penguin Random House

In the twelve months to December 31, 2014 our share of Penguin Random House adjusted operating profits were £69m, compared with the six months from July 1, 2013 to December 31, 2013 of £50m.

Pearson owns 47% of Penguin Random House. Penguin Random House was reported post-tax for the full year in 2014 compared to only the second half in 2013 following the combination of Penguin with Random House on July 1, 2013, which resulted in a £7m reduction in the contribution to operating income with an equal benefit to our tax charge.

Penguin Random House performed well in 2014, benefiting particularly from a strong publishing performance in Children’s around the world and multi-million-copy film and television tie ins.

The US business published 760 *New York Times* print and ebook bestsellers in 2014 (2013 full year pro forma: 790), enjoying exceptional success in children’s publishing with John Green’s *The Fault in Our Stars* (29 weeks at number one on the *New York Times* bestsellers list and nearly eight million copies sold) and four million copies of his backlist titles, tie-in titles from Disney’s *Frozen* film (more than 17 million copies sold), Dashner’s *The Maze Runner,* Forman’s *If I Stay* and continued strong sales of LEGO® movie tie-in titles. Notable Adult titles included Grisham’s *Gray Mountain*, Child’s *Personal*, Monk Kidd’s *The Invention of Wings*, Follett’s *Edge of Eternity,* Bush’s *41:A Portrait of My Father,* along with strong film and television tie-ins such as Flynn’s *Gone Girl*, Hillenbrand’s *Unbroken,* and Martins’ *Song of Fire and Ice* novels.

The UK business published 206 *Sunday Times* bestsellers (2013 full year pro forma: 207), also enjoying outstanding sales of John Green, along with the continued strength of Kinney’s *Wimpy Kid* franchise. Key Adult titles included Brown’s *Inferno,* Oliver’s *Jamie’s Comfort Food* and *Girl Online* by YouTube sensation Zoella, which became the fastest-selling debut UK novel ever.

Liquidity and capital resources

Cash flows and financing

Net cash generated from operations decreased by £186m (or 26%) to £518m in 2015 from £704m in 2014 reflecting the impact of lower sales, higher returns in US Higher Education and increased debtor days, primarily in North America. Net cash generated from operations increased by £20m (or 3%) to £704m in 2014 from £684m in 2013 reflecting some stabilization in the underlying trading environment with some offset from continued product investment. Cash spend on restructuring was level with 2013. The average working capital to sales ratio increased to 15.4% in 2015 from 12.3% in 2014 and 13.4% in 2013 reflecting the disposal of businesses with a lower working capital profile, higher returns, increased debtor days, increased product development investment, lower incentive accruals in 2015 and lower sales. Average working capital is the average month end balance in the year of inventory (including pre-publication), receivables and payables (including deferred revenue).

Net interest paid in 2015 was lower than 2014 at £51m reflecting lower interest on bonds (following repayments), lower average net debt and higher interest income on cash balances held in emerging markets. Net interest paid in 2014 was level with 2013 at £73m with higher average net debt levels and debt issue costs offset by currency translation gains.

Capital expenditure on property, plant and equipment and software intangibles was £247m in 2015, £182m in 2014 and £182m in 2013. The increase in 2015 was entirely due to investment in software and technology platforms as the Group sought to harmonize and expand its technology capabilities.

The acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £20m in 2015 against £460m in 2014 and £58m in 2013. There were no major acquisitions in 2015. The major acquisition in 2014 was of Grupo Multi for £437m. There were no major acquisitions in 2013, with the cash outflow relating to various minor acquisitions and costs associated with prior period acquisitions.

The sale of subsidiaries and associates produced a net cash inflow of £1,409m in 2015 compared to an inflow of £366m in 2014 and an outflow of £130m in 2013. The cash inflow in 2015 relates to the proceeds on the sale of the *Financial Times* of £858m, the proceeds on the sale of The Economist Group of £377m and proceeds on the sale of PowerSchool £222m. The cash inflow in 2014 primarily relates to the proceeds on sale of Mergermarket of £375m, less associated costs. The cash outflow in 2013 primarily relates to the cash disposed with Penguin upon formation of Penguin Random House.

The cash outflow from financing of £364m in 2015 reflects a further 7% increase in the dividend, the repayment of a £300m Sterling bond, offset in part by the proceeds from the issue of a €500m Euro note. The cash outflow from financing of £534m in 2014 reflects a 7% increase in the dividend, the repayment of a $400m US dollar bond and a £250m sterling bond, offset in part by proceeds from the issue of a €500m Euro note. The cash outflow from financing of £395m in 2013 reflects a 7% increase in the dividend, the repayment of a $350m US Dollar note during the year and the buy-out of various non-controlling interests, with some offset from the proceeds of a $500m US Dollar note issued in the year.

Capital resources

Our borrowings fluctuate by season due to the effect of the school year on the working capital requirements in the educational materials business. Assuming no acquisitions or disposals, our maximum level of net debt normally occurs in July, and our minimum level of net debt normally occurs in December. Based on a review of historical trends in working capital requirements and of forecast monthly balance sheets for the next 12 months, we believe that we have sufficient funds available for the Group’s present requirements, with an appropriate level of headroom given our portfolio of businesses and current plans. Our ability to expand and grow our business in accordance with current plans and to meet long-term capital requirements beyond this 12-month period will depend on many factors, including the rate, if any, at which our cash flow changes and the availability of public and private debt and equity financing, including our ability to secure bank lines of credit. We cannot be certain that additional financing, if required, will be available on terms favorable to us, if at all.

At December 31, 2015, our net debt was £654m compared to net debt of £1,639m at December 31, 2014 reflecting the business disposals completed during 2015. Net debt is defined as all short-term, medium-term and long-term borrowing (including finance leases), less all cash, cash equivalents and liquid resources. Cash equivalents comprise short-term deposits with a maturity of up to 90 days, while liquid resources comprise short-term deposits with maturities of more than 90 days and other marketable instruments which are readily realizable and held on a short-term basis. Total Short-term, medium-term and long-term borrowing amounted to £2,330m at December 31, 2015, compared to £2,225m at December 31, 2014 reflecting repayment of a £300m Sterling bond, offset by the issue of a €500m Euro note and exchange movements (primarily the strengthening of the US dollar against Sterling). At December 31, 2015, total cash and liquid resources were £1,703m, compared to £530m at December 31, 2014. This increase reflects the proceeds from the business disposals completed during 2015.

Contractual obligations

The following table summarizes the maturity of our borrowings, our obligations under non-cancelable leases, and pension funding obligations, exclusive of anticipated interest payments. Due to the variability of future interest payments, these have been excluded from the table below.

	At December 31, 2015				
	Total	Less than one year	One to two years	Two to five years	After five years
	£m	£m	£m	£m	£m
Gross borrowings:					
Bank loans, overdrafts and commercial paper	38	38	—	—	—
Bonds	2,284	240	—	621	1,423
Finance lease obligations………………	8	4	3	1	—
Operating lease obligations	1,391	164	146	396	685
UK Pension funding obligations	90	90	—	—	—
Total	3,811	536	149	1,018	2,108

At December 31, 2015 the Group had capital commitments for fixed assets, including finance leases already under contract, of £8m (2014: £13m). There are contingent liabilities in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries and associates. In addition there are contingent liabilities in respect of legal and royalty claims. None of these claims or guarantees is expected to result in a material gain or loss.

In 2014, the Group negotiated a new $1,750m committed revolving credit facility with an initial maturity date of August 2019. During 2015, the Group extended the maturity date of this facility by 1 year to August 2020. The facility requires the Group to pay an annual commitment fee of 0.1225%, payable quarterly, on the unused amount of the facility.

Off-Balance sheet arrangements

The Group does not have any off-balance sheet arrangements, as defined by the SEC for the purposes of From 20-F, that have or are reasonably likely to have a material current or future effect on the Group’s financial position or results of operations.

Borrowings

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.

We have in place a committed revolving credit facility of $1.75bn, which matures in August 2020. At December 31, 2015, the full $1.75bn was available under this facility. This credit facility contains two key covenants measured for each 12 month period ending June 30 and December 31:

We must maintain the ratio of our profit before interest, tax and amortization to our net interest payable at no less than 3:1; and

We must maintain the ratio of our rolling 12 month average net debt to our EBITDA, which we explain below, at no more than 4:1.

"EBITDA" refers to earnings before interest, taxes, depreciation and amortization. We are currently in compliance with these covenants.

See note 18 of "Item 18. Financial Statements" for information on our longer term loans from banks and capital markets.

Treasury policy

Our treasury policy is described in note 19 of "Item 18. Financial Statements". For a more detailed discussion of our borrowing and use of derivatives, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

Related parties

There were no significant or unusual related party transactions in 2015, 2014 or 2013. Refer to note 36 in "Item 18. Financial Statements".

Accounting principles

For a description of our principal accounting policies used refer to note 1 in "Item 18. Financial Statements".