Other income.

Other income includes freight income and sublet income. Included in administrative and other expenses are research and efficacy costs of £10m (2021: £12m). Other operating income increased to £49m in 2022 compared to £37m in 2021.

Other net gains and losses. Other net gains and losses in 2022 relate to the gains on the disposal of our international courseware local publishing businesses in Europe, French-speaking Canada and Hong Kong and a gain arising on a decrease in the deferred consideration payable on prior year acquisitions, offset by a loss on disposal of our international courseware local publishing businesses in South Africa, due to the recycling of currency translation adjustments, and costs related to disposals and acquisitions. In 2021, other net gains and losses largely related to gains from the disposal of PIHE and the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethm and the wind down of certain strategic review businesses.

Operating profit

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – operating results” on page 21.

Net finance costs

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – net finance costs” on page 23.

Taxation

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – taxation” on page 23.

Discontinued operations

There were no discontinued operations in either 2022 or 2021.

Profit for the year

The profit for the financial year in 2022 was £244m compared to a profit in 2021 of £178m. The increase in 2022 is mainly due increased operating profits, and a reduction in net finance costs.

Earnings per ordinary share

See the information set out in the following section of the Pearson Annual Report and Accounts 2022, which is included within Exhibit 15.3:

- “Financial Review – earnings per share” on page 23.

Sales and operating profit by segment

See the information set out in the following sections of the Pearson Annual Report and Accounts 2022, which are included within Exhibit 15.3:

- Note 2 “Segment information” of the financial statements on pages 148 to 150; and

- "Financial Review – divisional results" on pages 22 to 23.

Results of operations

Year ended December 31, 2021 compared to year ended December 31, 2020

Consolidated results of operations

Sales

The Group's total sales increased to £3,428m in 2021 from £3,397m in 2020, an increase of £31m or 1%. The year on year increase was impacted by currency movements, primarily the comparative strength of the US dollar relative to sterling during the year. In 2021, currency movements decreased sales by £206m when compared to the equivalent figures at constant 2020 rates. When measured at 2020 constant exchange rates, the Group's sales increased by 7%. There is also a £27m decrease in sales as a result of portfolio changes. Portfolio changes are calculated by taking account of the additional sales (at constant exchange rates) from acquisitions made in the current year, such as Faethm. Sales made by businesses disposed in either the current year or the prior year are also excluded, such as PIHE and the K12 Sistemas business in Brazil. On an underlying basis, sales increased by 8% in 2021 compared to 2020.

Cost of goods sold and operating expenses

The following table summarizes the Group's cost of sales, net operating expense and other net gains and losses:

	Year ended December 31	
	2021	2020
	£m	£m
Cost of goods sold	1,747	1,767
Operating expenses:		
Distribution costs	62	59
Selling, marketing and product development costs	521	572
Administrative and other expenses	802	816
Restructuring costs	214	—
Other income	(37)	(45)
Total net operating expenses	1,562	1,402
Other net gains	(63)	(178)
Total continuing operations	3,246	2,991

Cost of goods sold. Cost of goods sold 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. The Group's cost of goods sold decreased by £20m, or 1%, from £1,767m in 2020, to £1,747m in 2021. The decrease largely reflects favorable foreign exchange movements. On a constant exchange rate basis cost of goods sold have increased due to sales growth in Virtual Learning and sales recovery in Assessment & Qualifications and English Language Learning, partially offset by sales decline in Higher Education and the absence of costs from businesses disposed. In addition, cost of goods sold as a percentage of sales decreased largely as a result of improvements in the operating leverage particularly in Assessment & Qualifications. Cost of goods sold was 51.0% of sales in 2021 compared to 52.0% in 2020.

Distribution costs. Distribution costs consist primarily of shipping costs, postage and packing. Distribution costs increased by £3m primarily reflecting sales increases partially offset by the decrease in physical print sales.

Selling, marketing and product development costs. The Group's selling, marketing and product development costs decreased by £51m or 9% from £572m in 2020 to £521m in 2021. The decrease is explained by the absence of costs from businesses disposed, benefits from restructuring programs and favorable foreign exchange movements. As a percentage of sales, these costs decreased in 2021 from 16.8% in 2020 to 15.2% in 2021.

Administrative and other expenses. The Group's administrative and other expenses decreased by £14m or 2% from £816m in 2020 to £802m in 2021. The decrease is primarily explained by the impact of lower intangible charges, benefits from restructuring programs and favorable foreign exchange movements, partially offset by an increase in costs as the business returned to 'normal' post COVID-19.

Restructuring costs. In March 2021, the Group announced a major restructuring programme to run primarily in 2021. The programme includes the reorganisation of the Group into five global business divisions and the simplification of the Group's property portfolio. The restructuring costs in 2021 of £214m mainly relate to the impairment of right of use property assets, the write-down of product development assets and staff redundancies. There were no costs of major restructuring in 2020.

Other income. Other operating income mainly consists of freight recharges, sub-rights and licensing income, distribution commissions, investment income and gains on minor asset disposals together with service fee income from Penguin Random House. Other operating income decreased to £37m in 2021 compared to £45m in 2020.

Other net gains and losses. Other net gains and losses in 2021 largely relate to gains from the disposal of PIHE and the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethm and the wind down of certain strategic review businesses. In 2020, other net gains and losses largely relate to the sale of the remaining interest in Penguin Random House.

Operating profit

The operating profit of £183m in 2021 compares to a profit of £411m in 2020. The decrease in 2021 is mainly due to the gain on sale of Penguin Random House recognized in 2020 and restructuring costs in 2021 offset by improved trading profits, reduced intangible charges and gains on the 2021 business disposals

After stripping out the effect of the portfolio changes, intangible charges, restructuring costs and the impact of currency movements, profits from trading increased by £103m or 33%. This underlying trading increase was primarily due to operating leverage on our revenue growth and cost savings, offset by inflation and investment to drive future growth. At a divisional level, you can see more normalised margins as the businesses recovered post- COVID.

Net finance costs

Net finance costs decreased by £25m from £31m in 2020 to £6m in 2021. The Group's net interest payable reflected in adjusted earnings decreased from £61m in 2020 to £57m in 2021. The decrease is mainly due a reduction in interest payable on lease liabilities following the disposal of PIHE. In 2021, the total of items excluded from adjusted earnings was income of £51m compared to income of £30m in 2020. Net finance income relating to retirement benefits decreased from £6m in 2020 to £4m in 2021 reflecting the comparative funding position of the plans at the beginning of each year and higher prevailing discount rates. Fair value gains on investments in unlisted securities were £20m in 2021 compared to £26m in 2020. In 2021, finance income of £6m relating to the revaluation of the US K-12 disposal proceeds was recorded and there were gains on long- term interest rate hedges and foreign exchange gains on unhedged inter-company loans and cash and cash equivalents in 2021 compared to 2020.

For a more detailed discussion of the Group's 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 reported tax credit in 2021 was £1m (0.6%) compared to a charge of £50m (13.2%) in 2020. The principal reasons for reduction in the tax charge are the benefit received from the revaluation of deferred tax assets following the increase in the UK tax rate from 19% to 25% together with a benefit from a change in Italian tax law.

The UK Budget in March 2021 announced an increase in the UK corporation tax rate to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. The UK corporation tax rate increase has resulted in an increase of £27m in the UK deferred tax liability associated with the UK Group pension plan asset position, which has been recognized in other comprehensive income, together with a £25m increase in UK deferred tax assets, which has been recognized in the income statement. The UK corporation tax rate change is beneficial to the Group’s statutory tax as it increases the value of certain UK tax attributes of the Group such as tax losses and, as noted above, reduces the overall statutory tax charge.

In February 2021, the Group received charging notices requiring payment of materially all of the alleged State Aid. Payments totalling £105m (comprising tax and interest) were made during 2021. The Group expects to recover the funds in due course.

Discontinued operations

There were no discontinued operations in either 2020 or 2021.

Profit for the year

The profit for the financial year in 2021 was £178m compared to a profit in 2020 of £330m. The decrease in 2021 is mainly due to a reduction in the operating profit as a result of the gain on sale of Penguin Random House recognized in 2020 and restructuring costs in 2021 offset by improved trading profits, reduced intangible charges and gains on the 2021 business disposals. In addition, there were higher finance costs and tax charges in 2020.

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 23.5p in 2021 compared to 43.7p in 2020. The decrease in 2021 is mainly due to a reduction in the operating profit as a result of the gain on sale of Penguin Random House recognized in 2020 and restructuring costs in 2021 offset by improved trading profits, reduced intangible charges and gains on the 2021 business disposals. In addition there were higher finance costs and tax charges in 2020.

The diluted earnings per ordinary share was 23.3p in 2021 and 43.7p in 2020, with the dilutive effect of options being minimal.

Sales and operating profit by segment

The following tables summarize the Group’s sales and adjusted operating profit for each of the Group’s business segments. Adjusted operating profit is included as it is the key financial measure used by management to evaluate the performance of the Group and allocate resources to business segments over time by separating out those items of income and expenditure relating to acquisitions and disposals, major restructuring programs and certain other items that are not representative of underlying performance. Reconciliations of adjusted operating profit to consolidated operating profit are included below and in note 2 within Item 18 — Financial Statements.

The Group’s adjusted operating profit, excludes other net gains and losses, amortization and impairment of acquired intangibles and the cost of major restructuring programs. The intangible charges relate only to intangible assets acquired through business combinations and intangibles relating to associates. These intangible charges are excluded as they reflect past acquisition activity and do not necessarily reflect the current year performance of the Group. Other net gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets. Other net gains and losses also includes costs related to business closures and acquisitions. Other net gains and losses are excluded from adjusted operating profit as it is important to highlight their impact on operating profit in the period in which the transactions take place. The costs related to major restructuring programmes are excluded from adjusted operating profit as they do not necessarily reflect the current year performance of the Group.

Comparative figures for 2021 and 2020 have been restated to reflect the move between segments, resulting in £34m of sales being transferred from the Strategic Review division to the Assessment & Qualifications division in 2021 and £36m in 2020. A reconciliation of operating profit to adjusted operating profit for continuing operations is included in the tables below:

all figures in £ millions	**Assessments & Qualifications**	**Virtual learning**	**English Language Learning**	**Workforce Skills**	**Higher Education**	**Strategic Review**	**PRH**	**Total**
				2021				
Sales	1,238	713	238	172	849	218	—	**3,428**
	36%	*21%*	*7%*	*5%*	*25%*	*6%*	—	***100%***
Operating profit /(loss)	158	(41)	(15)	(10)	8	83	—	**183**
Cost of majorrestructuring	48	48	27	28	63	—	—	**214**
Intangible charges	13	25	3	7	2	1	—	**51**
Other net gains and losses	—	—	—	2	—	(65)	—	**(63)**
Adjusted operating profit	219	32	15	27	73	19	—	**385**
				2020				
Sales	1,118	692	218	163	956	250	—	**3,397**
	33%	*20%*	*6%*	*5%*	*28%*	*8%*	—	***100%***
Operating profit / (loss)	118	(1)	(6)	18	90	11	181	**411**
Cost of major restructuring	—	—	—	—	—	—	—	**—**
Intangible charges	29	30	7	8	3	3	—	**80**
Other net gains and losses	—	—	—	—	—	2	(180)	**(178)**
Adjusted operating profit	147	29	1	26	93	16	1	**313**

1. Comparative amounts have been represented to reflect the move between operating segments.

Assessment & Qualifications

Assessment & Qualifications sales increased from £1,118m in 2020 to £1,238m in 2021, an increase of £120m or 11%. The Group estimates that after excluding the impact of exchange rates and the contribution from portfolio changes, Assessment & Qualifications sales increased by 17% in 2021 compared to 2020. Professional Certification (VUE) revenue was up 19%, with OnVUE continuing to benefit from growth in the IT sector. US Student Assessment revenue was up 17% and Clinical Assessment revenue was up 30% with strong product launches in the year. Pearson VUE and Clinical Assessment revenues have now grown in comparison to 2019, showing more than post-COVID-19 recovery.

Adjusted operating profit increased 61% in underlying and 49% in headline terms due to the operating leverage on revenue growth partly offset by currency movements.

Pearson VUE revenue grew 19% in underlying terms with test volumes increasing 30% to 16.8m due to COVID-19 recovery, new client launches and growth in existing programmes. We renewed 99% of our expiring contract base and fully resumed exam deliveries in our testing centres. Volumes in OnVUE, Pearson’s online proctoring service, grew 46% to 3m reflecting continuing demand for remote testing and as a complementary expansion to our test center-based delivery options.

In US Student Assessment, revenue increased 17% in underlying terms due to new contract wins and a return to state testing in 2021, following 2020 COVID-19-related cancellations.

In Clinical Assessment, revenue increased 30% in underlying terms due to new product releases and a backlog of demand for mental health services as in-person assessments resumed and schools reopened. Revenue growth continued for our digitally delivered assessments as they have become more widely accepted.

The Assessment & Qualifications results also include intangible charges of £13m in 2021 compared to £29m in 2020 reflecting impairments made in 2020. Major restructuring costs were £48m in 2021 and £nil in 2020.

Virtual Learning

Virtual Learning sales increased from £692m in 2020 to £713m in 2021, an increase of £21m or 3%. The Group estimates that after excluding the impact of exchange rates, Virtual Learning’s sales increased by 11% in 2021 compared to 2020. Revenue growth reflects strong enrolment growth in Virtual Schools in the 2020/2021 academic year, with good underlying enrolment growth in OPM.

Adjusted operating profit grew 28% in underlying terms, due to operating leverage and efficiency improvements in OPM more than offsetting the investment in our Virtual Schools’ platform and customer care support, as well as margin impact in OPM due to discontinued programs. Headline profit grew 10% with good growth in adjusted operating profit partially offset by currency movements.

Virtual Schools performed strongly driven by 43% enrolment growth in new and existing schools for the 2020/2021 academic year. We opened five new full-time, online partner schools in Florida, Rhode Island, Colorado, South Carolina, and Oregon. We also announced our first Connections Academy in the state of Virginia, which begins enrolment in March 2022, one school in New Mexico moved from a partner school to district programme. This brings the 2021/2022 total number of partner schools to 47 in 30 states. Enrolments in the 2021/2022 academic year grew by 2% despite a significant unwinding of the “covid cohort”.

In OPM, we saw good underlying enrolment growth of 7% as Maryville University extended its OPM partnership for online degrees in the high-demand field of Nursing through to 2033 and Northeastern University added a new online master’s degree and certificate programs in Nursing and Healthcare. We ended the year with a total of 477 programs across 31 partners with the addition of 43 new programs in North America across 21 partners, and 7 new programs internationally where underlying enrolments grew by more than 80%.

The Virtual Learning results also include intangible charges of £25m in 2021 compared to £30m in 2020 reflecting the impact of historical acquisition activity. Major restructuring costs were £48m in 2021 and £nil in 2020.

English Language Learning

English Language Learning sales increased from £218m in 2020 to £238m in 2021, an increase of £20m or 9%. The Group estimates that after excluding the impact of exchange rates, English Language Learning’s sales increased by 17% in 2021 compared to 2020. Revenue growth is due to COVID-19 recovery in both International courseware and Pearson Test of English (PTE) where volumes grew 25% compared to 2020.

Adjusted operating profit increased in underlying and headline terms due to increased revenue.

The English Language Learning results also include intangible charges of £3m in 2021 compared to £7m in 2020 reflecting the impact of historical acquisition activity. Major restructuring costs were £27m in 2021 and £nil in 2020.

Workforce Skills

Workforce Skills sales increased from £163m in 2020 to £172m in 2021, an increase of £9m or 6%. The Group estimates that after excluding the impact of exchange rates and the contribution from portfolio changes, Workforce Skills sales increased by 6% in 2021 compared to 2020. This was predominantly driven by strong growth in GED and TalentLens due to a recovery from COVID-19 and further expansion of their enterprise sales. GED test volumes increased by 43%, enabled by the provision of online proctored testing, launched in June 2020, which grew by 200%. BTEC and Apprenticeship sales grew by 4%, with strong international growth partially offset by lower growth in the UK, as registrations declined as a result of COVID-19 disruption and rebates for exam cancellations continued in 2021.

Adjusted operating profit grew 8% in underlying terms, with strong flow through of sales growth operating leverage. Headline profits grew 4% with good underlying growth offset by portfolio changes.

The Workforce Skills results also include intangible charges of £7m in 2021 compared to £8m in 2020. Major restructuring costs were £28m in 2021 and £nil in 2020. Other net gains and losses in 2021 relate to the acquisition of Faethm.

Higher Education

Higher Education sales decreased from £956m in 2020 to £849m in 2021, a decrease of £107m or 11%. The Group estimates that after excluding the impact of exchange rates, Higher Education sales decreased by 5% in 2021 compared to 2020. Growth in Canadian and UK Higher Education Courseware were more than offset by a 6% decline in US Higher Education Courseware driven by a decline in enrolments and courses per enrolment combined, as well as price pressure due to the mix shift from print and bundles to e-text and platform, and lower monetisation.

Adjusted operating profit declined 15% in underlying and 22% in headline terms. This is driven by the combined effects of the revenue declines and continued investments in our content and platforms (inclusive of Pearson+).

We saw continued momentum in Inclusive Access where sales to not-for-profit institutions grew 18% representing 16% of total US Higher Education Courseware revenue versus 13% last year.

The Higher Education results also include intangible charges of £2m in 2021 compared to £3m in 2020. Major restructuring costs were £63m in 2021 and £nil in 2020.

Strategic Review

Strategic Review sales decreased from £250m in 2020 to £218m in 2021, a decrease of £32m or 13%. The Group estimates that after excluding the impact of exchange rates and the contribution from portfolio changes, Strategic Review sales increased by 2% in 2021 compared to 2020.

The Strategic Review results also include intangible charges of £1m in 2021 compared to £3m in 2020. Other net gains and losses in 2021 primarily relate to the disposals of PIHE and the K-12 Sistemas business in Brazil.

Penguin Random House

In April 2020, the Group completed the sale of the remaining 25% interest in Penguin Random House to Bertelsmann, generating net proceeds of £531m and resulting in a pre-tax profit of £180m. Dividend income of £1m was recognized in 2020 pre-disposal.