

Financial review

■ ■ We saw continuing momentum in 2022, with 5% underlying sales growth and adjusted operating profit of £456 million.

Sally Johnson, Chief Financial Officer



Financial summary

Business performance					
£ millions	2022	2021	Headline growth	CER growth	Underlying growth
Sales	3,841	3,428	12%	3%	5%
Adjusted operating profit	456	385	18%	6%	11%
Operating cash flow	401	388			
Adjusted earnings per share	51.8p	34.9p			
Net debt	(557)	(350)			
Statutory results					
£ millions	2022	2021	Headline growth		
Sales	3,841	3,428	12%		
Operating profit	271	183			
Profit for the year	244	178*			
Cash generated from operations	527	570			
Basic earnings per share	32.8p	23.5p*			
Dividend per share	21.5p	20.5p			

Throughout this section: a) Growth rates are on an underlying basis unless otherwise stated. Underlying growth rates exclude currency movements and portfolio changes; b) The 'business performance' measures are non-GAAP measures, and reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section on pages 215–219; c) Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year.

* Comparative amounts have been restated, see note 1b to the financial statements for further details.

Financial expectations

Segment	2022 revenue (£m)	Margins 2022*	2023 expectations Revenue	2023 expectations Margins*	Underlying revenue 3-year CAGR 2022 to 2025	Margins 2025*
Assessment & Qualifications	1,444	18%	Low to mid-single digit	Increase	Low to mid-single digit	Increase
Virtual Learning	820	9%				
Virtual Schools	519		Mid-single digit decline	Increase	Low-single digit	Increase
OPM	301		----- Under strategic review -----			
Higher Education	898	10%	Low-single digit decline	Increase	Low to mid-single digit	Increase
English Language Learning	321	8%	High-single digit	Increase	High-single digit	Increase
Workforce Skills	204	(1)%	Double-digits	Improve	Greater than 20%	Increase
Strategic review	154	10%				
Group	3,841	12%	Excluding OPM and Strategic review: Low to mid-single digit	Mid-teens	Mid-single digit	Upper end of mid-teens

* Adjusted operating profit margins.

Operating results

Sales increased on a headline basis by £413m or 12% from £3,428m in 2021 to £3,841m in 2022 and adjusted operating profit increased by £71m or 18% from £385m in 2021 to £456m in 2022 (for a reconciliation of this measure see note 2 to the consolidated financial statements).

The headline basis simply compares the reported results for 2022 with those for 2021. We also present sales and profits on an underlying basis which exclude the effects of exchange, the effect of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Our portfolio change is calculated by excluding sales and profits made by businesses disposed in either 2021 or 2022 and by ensuring the contribution from acquisitions is comparable year on year. Portfolio changes mainly relate to the disposals of our international courseware local publishing businesses in Europe, French-speaking Canada, South Africa and Hong Kong in 2022, the sale of the Sistemas business in Brazil in 2021 and the acquisitions of Credly and Mondly in 2022 and of Faethm in 2021.

All figures in £ millions	2022	2021
Operating profit	271	183
Add back: Cost of major restructuring	150	214
Add back: Intangible charges	56	51
Add back: UK pension discretionary increases	3	–
Add back: Other net gains and losses	(24)	(63)
Adjusted operating profit	456	385

On an underlying basis, sales increased by 5% in 2022 compared to 2021 and adjusted operating profit increased by 11%. Currency movements increased sales by £296m and increased adjusted operating profit by £46m. Portfolio changes decreased sales by £37m and decreased adjusted operating profit by £13m. There were no new accounting standards adopted in 2022 that impacted sales or operating profits.

Adjusted operating profit includes the results from discontinued operations when relevant but excludes charges for intangible amortisation and impairment, acquisition related costs, gains and losses arising from disposals, the cost of major restructuring and one off-costs related to the UK pension scheme. A summary of these adjustments is included below and in more detail in note 2 to the consolidated financial statements.

In August 2022, the Group announced a major restructuring programme to run in 2022. The programme includes efficiencies in product and content, support costs, technology and corporate property.

The restructuring costs in 2022 of £150m mainly relate to staff redundancies and impairment of right-of-use property assets. In 2021, restructuring costs of £214m mainly related to the impairment of right-of-use property assets, the write-down of product development assets and staff redundancies. The 2022 charge includes the impact of updated assumptions related to the recoverability of right-of-use assets made in 2021.

Intangible amortisation charges in 2022 were £56m compared to a charge of £51m in 2021. This is due to increased amortisation from recent acquisitions partially offset by a reduction in amortisation from intangible assets at the end of their useful life and recent disposals.

UK pension discretionary increases in 2022 relate to one-off pension increases awarded to certain cohorts of pensioners in response to the cost of living crisis.

2023 outlook

We are confident of further group underlying sales growth of low to mid-single digit, excluding OPM and the strategic review businesses, with adjusted operating profit and tax in line with current market expectations¹. Our interest charge is expected to be c.£35m.

- Assessment & Qualifications revenue growth of low to mid-single digit with increased margins.
- In Virtual Learning, Virtual Schools revenue to decline by mid-single digit impacted by the COVID-19 cohort unwind in the 2022/23 academic year, as well as the loss of a major school. We expect margins to increase. We remain confident in the long-term performance of this division and will launch Career Academies aimed at supporting teenagers who wish to gain career education and experience. Four Career Academies will operate in the 2023-24 school year in four states and enrolment is underway. OPM continues to be under strategic review.
- Higher Education revenue to decline, by low-single digit, with increased margins.
- English Language Learning revenue growth of high-single digit with increased margins.
- Double-digits revenue growth in Workforce Skills, underpinned by our talent investment platform, with improved margins.

2025 ambition

We continue to expect the Group to achieve mid-single digit underlying revenue 3-year CAGR from 2022 to 2025 and for margins to be mid-teens in the near term, as we invest to drive growth, improving by 2025.

1. 2023 consensus on the Pearson website as at 28th November 2022; median adjusted operating profit of £585m at £:\$ 1.14, tax rate 24%.

Financial review *continued*

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 recycled currency translation adjustments and costs related to disposals and acquisitions. Other net gains and losses in 2021 largely related to the disposal of PIHE and the disposal of the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethm and the wind down of certain strategic review businesses.

The reported operating profit of £271m in 2022 compares to a profit of £183m in 2021. The increase in 2022 was driven by operating leverage on revenue growth, property cost savings and a lower restructuring charge, partially offset by inflation and a reduction in other net gains and losses from business acquisitions and disposals.

Divisional results

£ millions	2022	2021	Headline growth	CER Growth	Underlying growth
Sales					
Assessment & Qualifications	1,444	1,238±	17%	8%	8%
Virtual Learning	820	713	15%	4%	4%
Higher Education	898	849	6%	(4)%	(4)%
English Language Learning	321	238	35%	28%	24%
Workforce Skills	204	172	19%	16%	7%
Strategic review	154	218±	(29)%	(30)%	(16)%
Total	3,841	3,428	12%	3%	5%
Adjusted operating profit					
Assessment & Qualifications	258	219±	18%	6%	6%
Virtual Learning	70	32	119%	88%	88%
Higher Education	91	73	25%	12%	12%
English Language Learning	25	15	67%	47%	33%
Workforce Skills	(3)	27	(111)%	(104)%	(67)%
Strategic review	15	19±	(21)%	(26)%	0%
Total adjusted operating profit	456	385	18%	6%	11%

± Comparative amounts have been restated to reflect the move between operating segments.

Assessment & Qualifications

In Assessment & Qualifications, sales increased 8% on an underlying basis and 17% on a headline basis. Adjusted operating profit increased 6% in underlying terms due to operating leverage on revenue growth partially offset by inflation and 18% in headline terms due to this and currency movements.

Pearson VUE sales were flat in underlying terms with test volumes increasing 16% to 19.4m with particularly strong growth in the IT and healthcare segments, offset by the known headwind resulting from the DVSA contract change, as previously announced in 2021. Within VUE test volumes, we still capture the volume for all three DVSA regions, given we provide the central platform for test delivery. We retained all our major contracts that were up for renewal and increased our contract renewal rate to 99.9% across the business.

In US Student Assessment, sales increased 17% in underlying terms due to a combination of the commencement of new contracts, which were won in 2020 and 2021, a return of volumes with full state testing commencing post COVID-19, and the addition of new services to existing contracts.

In Clinical Assessment, sales increased 7% in underlying terms due to good government funding and continued focus on health and wellbeing.

In UK and International Qualifications, sales increased 16% in underlying terms as exams resumed following COVID-19.

Virtual Learning

In Virtual Learning, sales increased 4% on an underlying basis and 15% on a headline basis. Adjusted operating profit grew 88% in underlying terms due to operating leverage on revenue growth and efficiency improvements in Virtual Schools and OPM, more than offsetting the investment in our Virtual Schools’ platform and teaching costs, and increased 119% in headline terms due to this and currency movements.

Virtual Schools sales were up 4%, driven by firm retention rates in the 2021/22 academic year and favourable revenue mix, partially offset by a 5% decline in enrolments for the 2022/23 academic year and lower district partnership renewals. We opened new full-time online partner schools in Colorado, Missouri and Virginia which partially offset the planned exits of partner schools in Washington, Colorado, Missouri and one of two schools in Tennessee. As at December 2022, this brings the 2022/2023 total number of partner schools to 46 in 31 states.

In OPM, sales were up 4% driven by enrolment growth in our UK and Australia programs, which were offset by an enrolment decline in our North America programs.

Higher Education

In Higher Education, sales declined 4% for the full year on an underlying basis and increased 6% on a headline basis due to currency movements. Adjusted operating profit increased 12% in underlying terms driven primarily by cost savings, partially offset by trading performance, and increased 25% in headline terms due to this and currency movements.

In the US, we saw a decline in enrolments and a loss of adoptions to non-mainstream publishers, including open educational resources, partially offset by improved pricing. There was continued momentum in Inclusive Access with 9% sales growth to not-for-profit institutions and the total number of institutions increasing to 1,040. Pearson+ performed well in the Fall semester with 2.83m registered users and 406k paid subscriptions, representing a threefold increase compared to the prior year Fall semester.

English Language Learning

In English Language Learning, sales were up 24% on an underlying basis and 35% on a headline basis. Adjusted operating profit increased by 33% in underlying terms due to increased revenue partially offset by increased investment and increased 67% in headline terms due to this and currency movements.

PTE volumes were up 90% driven by border re-openings, as well as market share gain in India. Within Institutional, there was strong growth in Latin America and the Middle East, offset by the impact of government reforms in China.

Workforce Skills

In Workforce Skills, sales were up 7% on an underlying and 19% on a headline basis. Adjusted operating profit declined by 67% in underlying terms due to investment in the business across Faethm, Credly and our talent investment platform and decreased 111% in headline terms due to this, currency movements and portfolio changes.

Revenue growth was driven by growth in BTEC and Apprenticeships, GED and TalentLens. The Vocational Qualifications business (previously known as the Performance business) grew by 5% in underlying terms. The Workforce Solutions business (previously known as the Transformation business) grew by 12% in underlying terms. Pearson has 1,503 enterprise clients in its Workforce Skills portfolio, up 133% on last year, with the acquisition of Credly underpinning this growth.

Strategic review

Sales in our international courseware local publishing businesses under strategic review declined 16% on an underlying basis and were down 29% on a headline basis for the full year. Following the announcement of the sale of our international courseware local publishing businesses in Europe, French speaking Canada, Hong Kong and South Africa, these financials are no longer included in our underlying performance measures.

Net finance costs

Net interest payable reflected in adjusted earnings in 2022 was £1m, compared to £57m in 2021. The difference is primarily due to the release of £35m of interest recorded in respect of provisions for uncertain tax positions where the related interest was recognised in this line in the income statement. In addition, interest charges have reduced due to the reduction in gross bond debt and increased interest income on cash balances given interest rate rises.

Net finance income relating to retirement benefits has been excluded from our adjusted earnings as we believe the income statement presentation does not reflect the economic substance of the underlying assets and liabilities. Also included in the net finance costs (but not in our adjusted measure) are interest costs relating to acquisition or disposal transactions, fair value movements on investments classified as fair value through profit and loss, foreign exchange and other gains and losses on derivatives. Interest relating to acquisition or disposal transactions is excluded from adjusted earnings as it is considered part of the acquisition cost or disposal proceeds rather than being reflective of the underlying financing costs of the Group. Foreign exchange, fair value movements and other gains and losses are excluded from adjusted earnings as they represent short-term fluctuations in market value and are subject to significant volatility. Other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity (for more information see notes 6 and 8 to the consolidated financial statements). Interest on certain tax provisions is excluded from our adjusted measure in order to mirror the treatment of the underlying tax item.

In 2022, the total of these items excluded from adjusted earnings was income of £53m compared to income of £51m in 2021. Net finance income in respect of retirement benefits increased from £4m in 2021 to £9m in 2022 reflecting the comparative funding position of the plans at the beginning of each year and higher prevailing discount rates. Interest costs in respect of deferred and contingent consideration are £5m in 2022 due to recent acquisitions. In 2022, there were no finance charges relating to the revaluation of the K12 disposal proceeds compared to income of £6m in 2021 as the outstanding amount has been fully repaid. Fair value gains on investments in unlisted securities are £28m in 2022 compared to £20m in 2021. In addition, there were similar gains year on year on long-term interest rate hedges and an interest charge on tax provisions of £5m has been recognised in 2022 in relation to the State Aid matter.

£ millions	2022	2021
Net interest payable	(1)	(57)
Finance income in respect of retirement benefits	9	4
Fair value remeasurement of investments held at FVTPL	28	20*
Other net finance costs	16	27
Net finance costs	52	(6)*

Taxation

The reported tax charge on a statutory basis in 2022 was a charge of £79m (24.5%) compared to a credit of £1m* (0.6%) in 2021. The tax charge for the period has been impacted principally by two items:

- The release of tax risk provisions totalling £72m following the expiry of the statute of limitations for certain periods in the US. This release impacts both statutory and adjusted earnings with a £37m credit to adjusted earnings and the remainder only impacting statutory results.
- As previously disclosed, the European Commission determined that the United Kingdom controlled foreign company group financing partial exemption partially constituted State Aid. This decision was appealed by the UK Government and other parties. On 8 June 2022, the EU General Court dismissed the appeal. Following the EU General Court’s negative decision, the UK Government and other parties have submitted appeals to the European the Court of Justice. At 31 December 2021, the potential risk associated with this issue was disclosed as a contingent liability, however, following the dismissal of the first appeal the prospects of successfully challenging the European Commission’s decision are now considered to be such that a provision is required.
- On that basis a tax provision of £63m plus £5m of associated interest has been recorded. The provision represents an estimate of the expected value which has been calculated by considering a range of possible outcomes and applying a probability to each, resulting in a weighted average outcome. The possible outcomes considered range from no liability through to the full exposure (£105m excluding interest). Due to the large and unusual nature of the provision and the specific one-off nature of the issue, the provision is excluded from adjusted earnings. There is no cash impact in 2022 as a payment on account was made during 2021. The provision of £63m has been offset on the balance sheet against the payments previously made. As the provision is less than the payments made there is a remaining non-current tax receivable of £41m disclosed on the balance sheet.

The tax on adjusted earnings in 2022 was a charge of £71m (2021: £64m), corresponding to an effective tax rate on adjusted profit before tax of 15.6% (2021: 19.5%). The decrease in the effective rate is primarily due to the release of tax risk provisions following the expiry of the statute of limitations in the US. For a reconciliation of the adjusted measure see note 7 to the consolidated financial statements.

In 2022, there was a net tax payment of £109m (2021: £177m). The overall amount decreased primarily due to the 2021 payment of £97m related to the ongoing EU Commission investigation which is non-recurring. Excluding this payment, tax payments increased primarily due to increased operating profits and legislative changes in the US.

A net deferred tax asset of £20m is recognised in 2022 compared to a net £17m deferred tax asset in 2021. The current tax creditor principally consists of provisions for tax uncertainties. There are contingent liabilities in relation to tax as outlined in note 34 to the consolidated financial statements.

Earnings per share

Adjusted earnings includes adjusted operating profit and adjusted finance and tax charges. The reconciling items between the statutory inputs to earnings per share and the adjusted inputs are discussed in the previous sections.

Adjusted earnings per share is 51.8p in 2022 compared to 34.9p in 2021. The increase is primarily driven by an increase in adjusted operating profit, a reduction in net finance costs, a reduction in the adjusted effective tax rate and a decrease in the number of shares following the share buy back.

Basic earnings per share is 32.8p in 2022 compared to 23.5p* in 2021. The increase in 2022 is mainly due to increased operating profits, reduced interest charges and a decrease in the number of shares following the share buy back, partially offset by increased tax charges.

* Comparative amounts have been restated, see note 1b to the financial statements for further details.

Financial review continued

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The gain on translation of £330m in 2022 compares to a loss in 2021 of £6m. The gain in 2022 arises from an overall strengthening of the currencies to which the Group is exposed and in particular the relative strength of the US dollar. A significant proportion of the Group's operations are based in the US and the US dollar strengthened in 2022 from an opening rate of £1:\$1.35 to a closing rate at the end of 2022 of £1:\$1.21. At the end of 2021, the US dollar had strengthened from an opening rate of £1:\$1.37 to a closing rate of £1:\$1.35. The loss in 2021 was driven by this movement in the US dollar, offset by the weakening of other currencies used by the Group.

Also included in other comprehensive income in 2022 is an actuarial gain of £54m in relation to the retirement benefit obligations of the Group. The gain arises largely from a decrease in liabilities driven by higher discount rates and changes to demographic assumptions, partially offset by losses on associated matching assets and experience losses. The actuarial gain in 2022 of £54m compares to an actuarial gain in 2021 of £149m.

Fair value gains of £18m have been recognised in other comprehensive income and relate to movements in the value of investments in unlisted securities held at FVOCI. In 2021, fair value gains of £4m* were recognised.

In 2022, a loss of £5m (2021: £4m gain) was recycled from the currency translation reserve to the income statement in relation to businesses disposed.

Cash flow and working capital

Our operating cash flow measure is an adjusted measure used to align cash flows with our adjusted profit measures (see note 33 to the consolidated financial statements). Operating cash inflow increased on a headline basis by £13m from £388m in 2021 to £401m in 2022. The increase is largely explained by the drop-through of increased operating profits offset by unfavourable working capital movements driven by the timing of the disposals of the international courseware local publishing businesses and an increase in capitalised product development.

The equivalent statutory measure, net cash generated from operations, was £527m in 2022 compared to £570m in 2021. Compared to operating cash flow, this measure includes restructuring costs but does not include regular dividends from associates. It also excludes capital expenditure on property, plant, equipment and software, and additions to right-of-use assets as well as disposal proceeds from the sale of property, plant, equipment and right-of-use assets (including the impacts of transfers to/from investment in finance lease receivable). In 2022, restructuring cash outflow was £35m compared to £24m in 2021.

In 2022, there was an overall £394m decrease in cash and cash equivalents compared to a decrease of £176m in 2021. The decrease in 2022 is primarily due to payments for acquisitions of subsidiaries of £228m, repayments of borrowings of £171m, dividends paid of £157m, share buyback programme of £353m, other own share purchases of £37m, tax paid of £109m, capital expenditure of £147m, and repayments of lease liabilities of £93m. These were offset by the cash inflow from operations of £527m and proceeds from disposals of businesses and investments of £350m.

£ millions	2022	2021
Net cash generated from operations	527	570
Dividends from joint ventures and associates	1	–
Net capital expenditure on PPE (including right-of-use assets) and software	(162)	(206)
Add back: costs paid for major restructuring projects	35	24
Operating cash flow	401	388

* Comparative amounts have been restated, see note 1b to the financial statements for further details.

Liquidity and capital resources

The Group's net debt increased from £350m at the end of 2021 to £557m at the end of 2022. The increase is largely due to the £350m share buyback programme and dividend payments, partially offset by strong operating cash flow and net proceeds from M&A activity.

In May 2022, the Group repaid the remaining \$117m (£95m) of its 2022 US dollar bond upon maturity. In December 2022, the Group repaid the remaining \$94m (£76m) of its 2023 US dollar bond. In May 2021, the Group repaid the remaining €195m (£167m) of its €500m Euro 1.85% notes.

At 31 December 2022, the Group had approximately £1.4bn in total liquidity immediately available from cash and its Revolving Credit Facility maturing February 2026. In assessing the Group's liquidity and viability, the Board analysed a variety of downside scenarios including impacts from macro economic factors and other risks. Even under a severe downside case where declines in profitability compared to 2022 are modelled in 2023 and 2024, the Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment even before modelling the mitigating effect of actions that management would take in the event that these downside risks were to crystallise. In all scenarios it is assumed that the Revolving Credit Facility is available.

At 31 December 2022, the Group was rated BBB- (stable outlook) with Fitch and Baa3 (stable outlook) with Moody's.

Net debt

£ millions	2022	2021
Cash and cash equivalents	558	937
Overdrafts	(15)	–
Investment in finance leases	121	115
Derivative financial instruments	(6)	(2)
Bonds	(610)	(767)
Lease liabilities	(605)	(633)
Net debt	(557)	(350)

Post-retirement benefits

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

The charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £66m in 2022 (2021: £58m), of which a charge of £75m (2021: £62m) was reported in operating profit and income of £9m (2021: £4m) was reported in other net finance costs. In 2022, a charge of £3m (2021: nil) related to one-off discretionary pension increases has been excluded from adjusted operating profit.

The overall surplus on UK Group pension plans of £537m at the end of 2021 has increased to a surplus of £573m at the end of 2022. The increase has arisen principally due to the actuarial gain noted above in the other comprehensive income section. In total, our worldwide net position in respect of pensions and other post-retirement benefits increased from a net asset of £471m at the end of 2021 to a net asset of £520m at the end of 2022.

Businesses acquired

In January 2022, the Group acquired 100% of the share capital in Credly Inc (Credly), having previously held a 19.9% interest in the company. Total consideration for the acquisition was £149m comprising upfront cash consideration of £107m, Pearson's existing interest valued at £31m and £11m of deferred consideration. The deferred consideration is payable in 2 years.

Additional contingent amounts are also payable in 2024 if certain revenue and non-financial targets are met, and dependent on continuing employment, and therefore these additional amounts will be expensed over the period and are not treated as consideration. Net assets acquired of £44m were recognised on the Group's balance sheet including £49m of acquired intangible assets. Goodwill of £105m was also recognised in relation to the acquisition.

In April 2022, the Group acquired 100% of the share capital of ATI STUDIOS A.P.P.S S.R.L (Mondly). Total consideration for the acquisition was £135m comprising upfront cash consideration of £105m, and deferred consideration of £30m. The deferred consideration is payable over the next two years. In addition, a further \$29.6m (c£24m) of cash and \$10m (c£8m) in shares will be paid over the next four years, dependent on continuing employment, and therefore will be expensed over the period and are not treated as consideration. Net assets acquired of £38m were recognised on the Group's balance sheet including £50m of acquired intangible assets. Goodwill of £97m was also recognised in relation to the acquisition.

In 2022, the Group also made two smaller acquisitions for total consideration of £11m. In December 2022, the Group announced that it had signed a deal to acquire 100% of Personnel Decisions Research Institutes, LLC, the transaction has not yet completed.

The cash outflow in 2022 relating to acquisitions of subsidiaries was £228m. In addition, there was a cash outflow relating to the acquisition of associates of £5m and investments of £12m.

In September 2021, the Group completed the acquisition of 100% of the share capital of Faethm Holdings Pty Limited ('Faethm'), having already held 9% of the share capital previously. Total consideration for the acquisition was £65m comprising cash consideration of £49m, £6m related to the Group's existing interest in Faethm and £10m of contingent consideration. Net assets acquired of £27m were recognised on the Group's balance sheet including £21m of acquired intangible assets. Goodwill of £38m was also recognised in relation to the acquisition. Contingent consideration amounts have been settled during 2022 resulting in the recognition of an £8m gain in the income statement within other net gains and losses.

In 2021, the Group also made two smaller acquisitions for total consideration of £11m and acquired interests in two associates, Smashcut and Academy of Pop, for total consideration of £17m.

The cash outflow in 2021 relating to acquisitions of subsidiaries was £55m. In addition, there was a cash outflow relating to the acquisition of associates of £10m and investments of £4m.

Businesses disposed

In March 2021, the Group announced that it was launching a strategic review of its international courseware local publishing businesses. In 2022, the Group disposed of its interests in the Canadian educational publisher (ERPI), Pearson Italia S.p.A, Stark Verlag GmbH, Austin Education (Hong Kong) Limited, Pearson South Africa (Pty) Ltd and various other South African companies. Total cash proceeds received was £287m resulting in a pre-tax gain on disposal of £42m. All entities disposed of were previously in the Strategic Review segment. £5m of losses arose from other immaterial disposals and costs related to the wind-down of certain businesses. None of the disposed businesses meet the criteria to be presented as discontinued operations.

In February 2021, the Group completed the sale of its interests in PIHE in South Africa resulting in a pre-tax loss of £5m. In October 2021, the Group completed the sale of its K12 Sistemas business in Brazil resulting in a pre-tax gain of £84m.

The cash inflow in 2022 relating to the disposal of businesses was £333m mainly relating to the disposals described above and the receipt of deferred proceeds from the US K12 Courseware sale in 2019.

In 2021, the cash inflow from disposals of £83m mainly related to the disposal of the K12 Sistemas business and the receipt of deferred proceeds from the US K12 Courseware sale in 2019.

In addition, proceeds of £17m (2021: £48m) were received in relation to the disposal of investments.

Dividends

The dividend accounted for in our 2022 financial statements totalling £156m represents the final dividend in respect of 2021 (14.2p) and the interim dividend for 2022 (6.6p). We are proposing a final dividend for 2022 of 14.9p bringing the total paid and payable in respect of 2022 to 21.5p.

This final 2022 dividend which was approved by the Board in March 2023, is subject to approval at the forthcoming AGM. For 2022, the dividend is covered 2.4 times by adjusted earnings.

Share buyback

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme commenced on 4 April 2022 and completed in December 2022. Approximately 42.3m shares have been bought back and cancelled at a cash cost of £353m. The nominal value of the cancelled shares of £10m has been transferred to the capital redemption reserve.

Climate change

The Group has assessed the impacts of climate change on the Group's financial statements. The assessment did not identify any material impact on the Group's significant judgements or estimates, the recoverability of the Group's assets at 31 December 2022 or the assessment of going concern for the period to June 2024.

Post balance sheet events

In February 2023, the Group renegotiated its revolving credit facility, reducing the maximum facility to \$1bn.

Pearson holds investments in unlisted securities with a value at 22 December 2022 of £133m. Some of the businesses relevant to this investment, bank with Silicon Valley Bank which collapsed in early March 2023. Given the US Government has announced that it will guarantee all deposits held at Silicon Valley Bank, any subsequent risk to the valuation of these investments is considered by management to be low, but possible.

Conclusion

We delivered a strong financial performance, despite the challenges arising from economic and geopolitical uncertainty, and have identified margin improvements that bring our profitability target of mid-teens margins forward by two years. My colleagues across finance have helped the business successfully respond to opportunities and challenges that have arisen, through appropriate financial control, critical insights and value creation. I would like to thank them for their hard work and commitment throughout the year.

“Given these strong results, and our confidence in the outlook for the Group, the Board are proposing a 5% increase in the full year dividend to 21.5p.”



Sally Johnson
Chief Financial Officer