

PEARSON PLC
Form 6-K
July 27, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of July 2018

PEARSON plc
(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

80 Strand
London, England WC2R 0RL
44-20-7010-2000
(Address of principal executive office)

Indicate by check mark whether the Registrant files or will file annual reports
under cover of Form 20-F or Form 40-F:

Form 20-F X

Form 40-F

Indicate by check mark whether the Registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes

No X

Interim results for the six months to 30th June 2018 (unaudited)

27 July 2018 Good progress against strategic priorities, efficiency programme on track, guidance unchanged for 2018
 Revenue up 2% in underlying terms
 North America up 3%, Core up 2% and Growth down 4%.
 Revenue increased primarily due to US Higher Education Courseware, Online Program Management (OPM), Connections Academy, Professional Certification and Pearson Test of English Academic (PTEA), partially offset by the expected declines in Learning Studio and the expected decline in sales in our South Africa School Courseware business due to a large order in the first half 2017.
 As in previous years, Pearson's sales are weighted towards the second half of the year.
 Adjusted operating profit up 46% in underlying terms, good growth in EPS
 Reflecting sales growth and savings from the 2017-2019 restructuring programme, partially offset by cost inflation and other operational factors.
 Strong balance sheet with net debt of £775m (H1 2017: £1,633m)
 Reflecting proceeds from disposals and operating cash flow, partially offset by the share buyback.
 Net debt increased from £432m at the end of 2017 to £775m at the end of June 2018 in line with typical seasonality of the business.

Highlights

Interim dividend 5.5p (2017: 5p).
 Statutory results
 Statutory operating profit of £233m (2017: £16m) with the year on year improvement driven by the profit on disposal of Wall Street English (WSE) and Utel.
 Statutory EPS 24.1p (2017: (2.1)p) with the year on year improvement due to lower interest cost and the profit on disposal of WSE and Utel.
 Simplification plans on track
 Cost savings of £40m delivered in the first half, decommissioned over 200 applications and started the implementation of our new Enterprise Resource Planning (ERP) software system in the US.
 US K12 courseware business continues to be held for sale.
 Underlying FY 2018 guidance unchanged
 US Higher Education Courseware revenue grew modestly in the first half helped by lower returns, as expected. However, in line with our full year guidance for this segment, we continue to expect a decline in net sales in the second half as gross sales continue to be impacted by ongoing underlying market pressures.

We expect Pearson to deliver underlying profit growth in 2018.

John Fallon, Chief Executive said:

"Although there is still much to do, we have had a good first half and continued to make progress against our strategic priorities. We are driving ahead in digital learning, helping more people develop the skills they need to prosper in a fast changing world."

Financial Summary

£m	H1 2018	H1 2017	Headline growth	CER growth	Underlying growth
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Business performance

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Sales	1,865	2,047	(9)%	(3)%	2%
Adjusted operating profit	107	107	0%	16%	46%
Operating cash flow	(202)	(72)			
Adjusted earnings per share	8.2p	5.6p			
Dividend per share	5.5p	5p			
Net debt	(775)	(1,633)			
Statutory results					
Sales	1,865	2,047			
Operating profit	233	16			
Cash generated from operations	(131)	(219)			
Basic earnings / loss per share	24.1p	(2.1)p			

Throughout this announcement: a) Growth rates are stated on an underlying basis unless otherwise stated. Underlying growth rates exclude currency movements, portfolio changes and changes related to the adoption of IFRS15. b) The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes to the attached condensed consolidated financial statements 2, 3, 4, 5, 7, and 17.

Progress on our strategic priorities

During the first half of 2018 we continued to make progress on our strategic priorities of digital transformation, investing in structural growth and simplification, making us a leaner and more agile business.

Global digital registrations of MyLab and related digital courseware products rose 1% (H1 2017: a decline of 1%).

In North America, MyLab and related digital courseware registrations declined 1% (H1 2017: a decline of 2%). Registrations of Revel, our integrated, digital-first courseware platform, grew 65% in the first half of 2018 (H1 2017: 50%) to over 275,000, equating to more than 530,000 over the last 12 months. Including standalone eBooks North American digital registrations rose 4% in the first half.

North American Higher Education Courseware digital revenue grew modestly.

Grow market share through digital transformation

We signed more than 100 new institutions to Inclusive Access, where the delivery of courseware on the first day of the course is integrated with college systems, in the first half, taking the total to over 600 institutions.

We now have 130 titles available in our partner print rental programme and we plan to double that again next year adding a further 150 titles.

We are launching pilot versions of new developmental math courseware on the Global Learning Platform (GLP) in the second half of this year and an enhanced Revel platform based on the GLP in 2019.

US Student Assessments saw 1% growth in the volume of digital tests in the first half, extended contracts in Kentucky and Arizona and was awarded new contracts in Utah and Iowa.

Invest in structural growth markets

We saw good enrolment growth in OPM, where we partner with universities to take their teaching online, and in Connections Academy our K12 virtual school business, with strong

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pipelines underpinning revenue growth in both businesses.

In Professional Certification, the launch of a contract to administer medical college admissions tests contributed to revenue growth, we renewed 42 existing contracts, signed 45 new agreements and five contracts were not renewed. Pearson's Professional Certification business, VUE, partners with more than 500 credential owners across the globe.

Pearson Test of English Academic (PTEA) grew global test volumes by 41%.

We completed the sale of WSE in March 2018.

Our US K12 Courseware business continues to be held for sale.

Under the three-year transformation programme announced in May 2017 to further simplify the business, we are on track to deliver incremental cost savings of £300m per annum, with the full benefits accruing from the end of 2019 onwards¹.

Become simpler and more efficient

In the first half of the year, we achieved cost savings of £40m, decommissioned over 200 applications, closed seven data centres and seven offices and started the implementation of our new ERP system in the US.

During the second half of the year we expect to deliver further incremental savings of £40m, £105m in 2019 and £100m in 2020. Restructuring costs in the first half were £24m. Our guidance for the full year remains unchanged. We continue to expect net sales of our US Higher Education Courseware to be flat to down mid-single digit for the full year driven by ongoing underlying market pressures. We continue to expect Pearson to deliver underlying profit growth in 2018.

2018 outlook

We expect to report an adjusted operating profit of between £520m and £560m and adjusted earnings per share of 49p to 53p in 2018 based on our portfolio² and exchange rates prevailing on 31st December 2017.

We expect net debt to be in line with full year 2017.

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

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Pearson's results presentation for investors and analysts will be audiocast live today from 0830 (BST) via www.pearson.com.

Dial in details:

Webcast details United Kingdom Toll-Free: 08003589473 United Kingdom Toll: +44 3333000804

PIN: 52241606#

Audience URL: <http://pear.sn/8Rlc3017Rb2>

Forward looking statements: Except for the historical information contained herein, the matters discussed in this statement include forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated cost savings and synergies and the execution of Pearson's strategy, are forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in future. They are based on numerous assumptions regarding Pearson's present and future business strategies and the environment in which it will operate in the future. There are a number of factors which could cause actual results and

developments to differ materially from those expressed or implied by these forward-looking statements, including a number of factors outside Pearson's control. These include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in Pearson's publicly-filed documents and you are advised to read, in particular, the risk factors set out in Pearson's latest annual report and accounts, which can be found on its website (www.pearson.com/corporate/investors.html). Any forward-looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on such forward-looking statements.

Financial Profit & loss statement

overview Pearson's sales decreased by £182m in headline terms to £1,865m (H1 2017: £2,047m) with portfolio adjustments reducing sales by £92m, IFRS 15 increasing revenues by £6m and currency movements decreasing revenues by £128m. Stripping out the impact of portfolio changes, IFRS 15 and currency movements, revenues were up 2% in underlying terms due to 3% growth in North America and a 2% increase in our Core segment partly offset by a 4% decline in our Growth segment.

The 2018 adjusted operating profit of £107m (H1 2017: £107m) reflects sales growth and savings from the 2017-2019 restructuring programme, offset by cost inflation, other operational factors, and the impact of FX and disposals. The first half adjusted operating profit also includes a £6m phasing benefit from the implementation of IFRS 15. Excluding this and the impact of FX and disposals, underlying adjusted operating profit grew 46%.

Net interest payable in the first half was £26m, (H1 2017: £47m) reflecting lower average net debt and reduced bond redemption charges.

Our adjusted tax charge was £16m (H1 2017: £13m).

Adjusted earnings for the period were £64m (H1 2017: £46m) and adjusted earnings per share were 8.2p (H1 2017: 5.6p).

Cash generation. Net cash used in operations was £131m compared to £219m in 2017. The reduction in cash outflow is primarily due to the absence of last year's special pension payments relating to the Penguin Random House merger in 2013. Operating cash outflow increased by £130m from £72m in 2017 to £202m. This increase was driven by higher incentive payments, lower associate dividends and revenue related movements in working capital.

Statutory results. Our statutory profit of £189m in 2018 compares to a loss of £16m in H1 2017 driven by the profit on disposals of WSE and Utel.

Capital allocation. Our disciplined approach to capital allocation and to maintaining a strong balance sheet will play a major part in driving long-term growth. Through investing in the business, delivering a sustainable and progressive dividend and returning any surplus cash to our shareholders we will create further value.

Balance sheet. Net debt decreased to £775m (H1 2017: £1,633m) reflecting disposal proceeds and operating cash flow partially offset by the share buyback.

Dividend. In line with our policy, the Board is proposing an interim dividend of 5.5p (2017: 5p).

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Businesses held for sale. The assets and liabilities of our US K12 School Courseware business remain classified as held for sale on the balance sheet at 30 June 2018.

Notes:

1 Phased plan first presented on August 4th 2017 based on December 2016 exchange rates. A significant part of these costs and savings are denominated in US Dollar and other non-Sterling currencies and are therefore subject to exchange rate movements over the implementation timeframe.

2 The sale of WSE in March 2018 reduces the expected FY18 adjusted operating profit from our portfolio at the start of the year by around £6m. This impact has been absorbed within the guidance range for Adjusted Operating Profit, which remains £520m-£560m.

Operational review - Geography

£ millions	H1 2018	H1 2017	Headline growth	CER growth	Underlying growth
Sales					
North America	1,223	1,285	(5%)	3%	3%
Core	383	384	0%	2%	2%
Growth	259	378	(31%)	(26%)	(4)%
Total sales	1,865	2,047	(9%)	(3%)	2%
Adjusted operating profit					
North America	64	43	49%	77%	89%
Core	10	10	0%	0%	11%
Growth	11	8	38%	88%	38%
Penguin Random House	22	46	(52%)	(50%)	(4)%
Total adjusted operating profit	107	107	0%	16%	46%

See note 2 in the consolidated financial statements for the reconciliation to the equivalent statutory measures.

North America (66% of revenues)

Underlying revenue rose 3% due to growth in US Higher Education Courseware, OPM, Connections Academy, School Assessments and Professional Certification, partially offset by modest declines in K12 Courseware and the planned decline in revenue in Learning Studio, a higher education learning management system we are retiring.

Adjusted operating profit increased substantially in underlying terms due primarily to stronger trading and the benefits of the restructuring programme.

Courseware In School Courseware, revenues were down primarily due to lower sales in open territories, reflecting the strong performance of myPerspectives for grades 6-12 English Language Arts (ELA) in the prior period. Revenues in adoption states declined slightly.

In Higher Education Courseware, total US College Spring enrolments fell 1.3%, with combined two-year public and four-year for-profit enrolments declining 2.7%, affected by rising employment rates and by regulatory change impacting the for-profit and developmental learning sectors.

Higher Education Courseware net revenues grew modestly. Lower gross sales, driven by continued cautious buying patterns from the channel, were more than offset by lower returns. In line with our full year guidance we expect a decline in net sales in the second half, as seasonally larger gross sales continue

to be impacted by this underlying market pressure. Digital revenues grew modestly benefiting from continued growth in direct sales, favourable mix and selected price increases.

Global digital registrations of MyLab and related digital courseware products rose 1% (H1 2017: 1% decline).

In North America, MyLab and related digital courseware registrations declined 1% (H1 2017: 2% decline). Good growth in qualitative business and applied sciences and Revel was offset by the retirement of older titles and continued softness in enrolments in developmental math. Registrations of Revel, our integrated, digital-first courseware platform, grew 65% in the first half of 2018 (H1 2017: 50%) to over 275,000, equating to more than 530,000 over the last 12 months. Including standalone eBooks North American digital registrations rose 4% in the first half.

Our Global Learning Platform development and digital roadmap are on track to deliver new digital products with greater personalisation and enhanced engagement. In Fall 2018, we will launch pilot versions of new developmental math courseware and an enhanced Revel platform based on the GLP in 2019.

Expansion of our partner print rental programme is progressing well, ahead of Fall 2018.

We now have 130 titles available in our partner print rental programme and we plan to double that again next year adding a further 150 titles. We have recently announced an expansion of our partnership with Barnes & Noble Education in addition to our existing partnerships with Chegg and IndiCo. We continue to negotiate with other key channel partners.

Revenues from eBook rental grew 24% year on year in the first half as lower prices position eBook rental as a competitive alternative to print rental.

We continue to make good progress with our Inclusive Access (Direct Digital Access) solutions, signing over 100 new institutions in the first half, taking the total to over 600 institutions. Inclusive Access ensures that students have affordable access to the courseware that they need on day one of the course, whilst further shifting our business model in this segment away from ownership and towards subscription. Revenues from Inclusive Access at non-profit and public institutions grew strongly and accounted for around 8% of revenues in the seasonally small first half, as we signed new deals and added new courses at existing partner institutions

Assessment In Student Assessment, revenues rose slightly as the business stabilised as expected benefiting from new contracts with College Board and New Meridian. We extended contracts in Kentucky and Arizona and were awarded new contracts in Utah and Iowa.

We delivered 21.7 million standardised online tests to K12 students, an increase of 1% from the same period in 2017. Paper-based standardised test volumes fell 18% to 9.1 million. Digital tests on Pearson's TestNav platform accounted for 70% of our testing volumes (H1 2017: 66%).

In Professional Certification, revenues grew modestly benefiting from the launch of a contract to administer medical college admissions tests. Global test volumes declined 1% to 8.1m due to lower volumes in IT and teaching certification.

During the first half Pearson's Professional Certification business, VUE renewed 42 existing contracts including Microsoft and Adobe and signed 45 new agreements. Pearson was awarded the Texas Educator Certification Examination program contract, including the TExES, TExMaT, TASC, and TASC-ASL tests. Registration for the examinations begins 1st September 2018. Five contracts were not renewed. Pearson VUE partners with more than 500 credential owners across the globe.

To support the delivery of our contract to administer medical college admissions tests, Pearson is investing in 60 new locations in the US and Canada. These centres will also provide additional capacity to serve both existing clients and a strong pipeline of new contracts.

Clinical Assessment sales were slightly down due to a limited pipeline of new products. Q-Interactive, Pearson's digital solution for Clinical Assessment administration, saw continued strong growth in licence sales with sub-test administrations up 97% over the same period last year. Clinical product launches planned for later in 2018 include Peabody Picture Vocabulary Test (PPVT), the Expressive Vocabulary Test (EVT) and aimswebPlus.

Services Revenues for our K12 online school business rose strongly due to enrolment growth at Connections Academy schools, with growth in existing partnerships plus the opening of new partner schools offsetting the impact of an anticipated contract exit in Louisiana.

Three new full-time online, state-wide partner schools will open in the 2018-19 school year in Florida, Michigan, and Ohio, bringing the number of partner schools to 37 in 28 states.

Full Time Equivalent (FTE) students served grew 3% to 75,000 despite the closure of Louisiana Connections Academy. Contract exits at Commonwealth Charter Academy in Pennsylvania and Florida Virtual School are expected to lead to a decline in FTE enrolment in 2018. We continue to expect revenue growth for the full year.

The 2018 Connections Academy Parent Satisfaction Survey continues to show solid endorsement for the schools with 93% of families with enrolled students stating they would recommend our virtual schools to others and 95% agreeing that the curriculum is high quality.

Additionally, new audited efficacy research published in April shows positive academic outcomes for students enrolled in partner schools and provides insights into the types of students choosing a full-time K12 online education.

In Pearson Online Services, revenues increased as good growth in OPM enrolment and revenue more than offset the decline in Learning Studio revenues, a learning management system, which will be fully retired in 2019. Learning Studio revenues declined by over 80% to less than £1m in the first half of 2018.

In our OPM business, course enrolments grew 11% to over 194,000, boosted by strong growth in Arizona State University Online (ASU), new partners and program extensions.

Our OPM business pipeline continues to benefit from strong growth in the value of net new signings and renewals.

During the first half we signed seven new multi-year programs across five partners including the University of North Dakota Master of Accounting (MAcc) and Master of Science in Analytics programs; Pepperdine Master of Leadership; University of Maryland Master of Science in Business Analytics (MSBA); and Hofstra University LLM and MA in American Legal Studies and Ohio University MSBA.

Our partnership with ASU continues to grow strongly and we will deliver approximately 180 bachelor's and master's degree programs with ASU as of this Fall. Our relationship with Maryville University continues to grow with more than 30 new degree program launches planned over the next three years.

We renewed seven programs including University of Maryland MBA, Ohio University MHA and MSN, University of Alabama MSMIS and BSIS and George Washington University HCMBA.

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During the half year we also agreed the termination of six programs that were not mutually viable as we continue to optimise our partner portfolio and a further two programs were not renewed.

Our comprehensive employer-education business, Accelerated Pathways, continues to add more corporate partners offering foundational education, GED and online degree programs to employees across the US.

Core (20% of revenues)

In underlying terms, revenues rose 2%, primarily due to strong growth in Pearson Test of English, Clinical Assessment and OPM services in the UK and Australia partially offset by a weaker performance in Student Assessment and Qualifications and in Courseware.

Adjusted operating profit was up 11% in underlying terms primarily due to trading and the benefits of restructuring.

Courseware revenues declined primarily due to declines in School and Higher Education Courseware in the UK and Australia and Higher Education in Germany, partly offset by growth in School Courseware in Italy and English courseware in smaller markets.

In Student Assessment and Qualifications, revenues fell slightly as modest growth in BTEC Firsts and GCE A-Level was more than offset by: modest declines in BTEC Nationals, expected declines in AS levels and UK iGCSEs as a result of policy changes; and weakness in the UK Apprenticeship market due to market disruption following the introduction of the Levy in 2017, which is expected to continue for the rest of 2018.

We successfully delivered the National Curriculum Test for 2018, marking 3.6 million scripts, up slightly from 2017. We will continue to administer the NCT test until September 2019.

Clinical Assessment revenues increased due to the introduction of the fifth edition of the Wechsler Intelligence Scale for Children (WISC-V) in the Netherlands and Germany.

In our Professional Certification business VUE, revenues were up slightly due to growth from clients located in the UK and France. In the UK, we launched additional computer-based exams for an existing client in the financial services sector and in France we launched MOI (the French Driving Test) in late 2017.

The PTEA saw continued strong growth in test volumes during the first half, up 59% from 2017. This was driven primarily by its use to support visa applications to the Australian Department of Home Affairs and it also experienced good growth in New Zealand.

Services In Higher Education Services, our OPM revenues grew strongly with 27% growth in course enrolments across six university partners and 20 programs in Australia and the UK. In addition, we have partnered with Northumbria University in the UK and plan to relaunch the University's existing online MSc Surveying program in early 2019 with further programs planned over the next five years as the University looks to expand its online presence in flexible, career-focused education.

Growth (14% of revenues)

In Growth, revenues fell 4% in underlying terms primarily due to the expected decline in sales in South Africa School Courseware and the phasing of revenue in the Middle East, partially offset by growth in English Courseware in China and Mexico, sistemas in Brazil and MyPedia in India. Excluding South Africa School Courseware, our Growth segment revenue was up 1% in underlying terms at the half year. Headline revenues declined 31% due to the above factors, FX and the disposals of Wall Street English and GEDU.

Adjusted operating profit grew 38% in underlying terms primarily reflecting the benefits of restructuring.

Courseware Courseware revenues declined due to the expected decline in sales in South Africa School Courseware against prior year H1, which benefited from a large order in Q1 2017 and the phasing of orders in School and Higher Education Courseware in the Middle East partially offset by strong growth

in English Language Courseware in China and Mexico.
Assessment PTEA grew strongly in China and other smaller markets.
In Brazil, revenues were flat with growth in sistemas due to price increases and growth in our English language school franchise, Wizard due to new product launches, offset by business exits in vocational education.

Services In South Africa, total enrolments were flat at CTI, our university in South Africa, with new student enrolment up 18%. Revenues declined as we moved to a bring-your-own-device model which results in lower upfront revenue.

In India, School and Higher Education Services revenues declined with growth in MyPedia, a service 'sistema' solution for schools offset by small business exits.

Penguin Random House

Pearson owns 25% of Penguin Random House, the first truly global consumer book publishing company.

Penguin Random House performed in line with our expectations with revenues down on an underlying basis year on year due to softer fiction print sales, and lower eBook sales, partially offset by rising audio sales. The business benefited from major bestsellers by Bill Clinton and James Patterson, Jordan Peterson, Lee Child, R.J. Palacio, and Dr. Seuss.

Our stake in Penguin Random House contributed £22m to our adjusted operating profit down 4% in underlying terms. Headline adjusted operating profit fell 52% primarily due to the disposal of a 22% stake in Penguin Random House to Bertelsmann in October 2017.

FINANCIAL REVIEW

Operating result

Due to seasonal bias in some of the Group's businesses, Pearson makes a higher proportion of its sales and the majority of its profits in the second half of the year. Operating cash flow at the half year is a cash outflow reflecting the seasonal increase in working capital.

Sales for the six months to 30 June 2018 decreased on a headline basis by £182m or 9% from £2,047m in 2017 to £1,865m in 2018 and adjusted operating profit was £107m in the first half in both 2017 and 2018 (for a reconciliation of this measure see note 2 to the condensed financial statements).

The headline basis simply compares the reported results for the six months to 30 June 2018 with those for the equivalent period in the prior year. 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 taking account of the contribution from acquisitions and by excluding sales and profits made by businesses disposed in either 2017 or 2018. Portfolio changes mainly relate to the sale of our test preparation business in China and reduction in our equity interest in PRH in 2017 and the sale of our Wall Street English language teaching business in the first half of 2018. Acquisitions were not significant in either 2017 or 2018.

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

On an underlying basis, sales increased by 2% in the first six months of 2018 compared to the equivalent period in 2017 and adjusted operating profit increased by 46%. Currency movements decreased sales by £128m and adjusted operating profit by £17m. Portfolio changes decreased sales by £92m and adjusted operating profit by £25m. The impact of adopting IFRS 15 on the results for the first six months of 2018 was to increase sales by £6m and adjusted operating profit by £6m.

Adjusted operating profit includes the results from discontinued operations when relevant but excludes intangible charges for amortisation and impairment, acquisition related costs, gains and losses arising from acquisitions and disposals and the cost of major restructuring. In 2017 we excluded the impact of US tax reform on our associate operating profit as outlined in the section on taxation. A summary of these adjustments is included below and in more detail in note 2 to the condensed financial statements.

all figures in £ millions	2018 half year	2017 half year	2017 full year
Operating profit	233	16	451
Add back: Cost of major restructuring	24	-	79
Add back: Intangible charges	57	91	166
Add back: Other net gains and losses	(207)	-	(128)
Add back: Impact of US tax reform	-	-	8
Adjusted operating profit	107	107	576

In May 2017, we announced a restructuring programme, to run between 2017 and 2019, to drive further significant cost savings. This programme began in the second half of 2017 and costs incurred to date were £79m in the second half of 2017 and £24m in the first half of 2018 and relate to delivery of cost efficiencies in our US higher education courseware business and enabling functions together with further rationalisation of the property and supplier portfolio. The restructuring costs in 2018 relate predominantly to staff redundancies.

Intangible amortisation charges to the end of June 2018 were £57m compared to a charge of £91m in the equivalent period in 2017. Other net gains (before tax) of £207m in 2018 relate to the sale of the Wall Street English language teaching business (WSE), realising a gain of £184m, the disposal of our equity interest in UTEL, the online University partnership in Mexico, realising a gain of £19m, and various other smaller disposal items for a net gain of £4m. There were no other gains or losses in the first half of 2017. Gains of £128m in the second half of 2017 largely relate to the sale of our test preparation business in China which resulted in a profit on sale of £44m and the part sale of our share in PRH which resulted in a profit of £96m.

The statutory operating profit from continuing operations of £233m in the first half of 2018 compares to a profit of £16m in the first half of 2017. The increase in 2018 is largely due to the profit on disposal of WSE and UTEL and reduced intangible charges, partly offset by restructuring costs in the first half of 2018.

Net finance costs

Net interest payable to 30 June 2018 was £26m, compared to £47m in the first half of 2017. The decrease is primarily due to lower levels of net debt together with reduced costs associated with bond redemptions in the first half of 2018 compared to those in the first half of 2017.

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 statutory definition of net finance costs (but not in our adjusted measure) are interest costs relating to acquisition

consideration, foreign exchange and other gains and losses on derivatives. Interest relating to acquisition consideration is excluded from adjusted earnings as it is considered to be part of the acquisition cost rather than being reflective of the underlying financing costs of the Group. Foreign exchange 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 note 3 to the condensed financial statements).

In the period to 30 June 2018, the total of these items excluded from adjusted earnings was a charge of £5m compared to a gain of £21m in the first half of 2017. Finance income relating to retirement benefits increased from £2m in the first half of 2017 to £5m in 2018 reflecting the comparative funding position of the plans at the beginning of each year. This increase was more than offset by foreign exchange losses on unhedged cash and cash equivalents and other financial instruments that generated profits in 2017. For a reconciliation of the adjusted measure see note 3 to the condensed financial statements.

Taxation

Taxes on income in the period are accrued using the tax rates that would be applicable to expected annual earnings. The reported tax charge on statutory earnings for the six months to 30 June 2018 was £13m compared to £6m in the period to 30 June 2017. The charge reflects the overall mix of profits projected for the full year and the tax rates expected to apply to those statutory profits.

The effective tax rate on adjusted earnings for the period to June 2018 was 20% compared to an effective rate of 21% in the first half of 2017. This rate is lower than the average statutory rate applicable to the countries we operate in as it includes the benefit of tax deductions attributable to amortisation of goodwill and other intangibles. This benefit more accurately aligns the adjusted tax charge with the expected rate of cash tax payment. For a reconciliation of the adjusted measure see notes 4 and 5 to the condensed financial statements.

The statutory tax charge for the first six months of 2018 was £13m compared to £6m for the comparative period in 2017. The statutory tax rate of 6% in 2018 is lower than the adjusted rate due to a lower effective tax rate on disposal gains. As a result of US tax reform, the reported tax charge on a statutory basis for the full year 2017 included a benefit from revaluation of deferred tax balances to the reduced federal rate of £5m and a repatriation tax charge of £6m. In addition to the impact on the reported tax charge, the Group's share of profit from associates was adversely impacted by £8m. These charges have been excluded from our adjusted measures in 2017.

Tax paid decreased from £33m in the six months to 30 June 2017 to £8m in the first six months of 2018 due to refunds in respect of prior years received in the first half of 2018.

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The loss on translation of £15m at 30 June 2018 compares to a loss at 30 June 2017 of £116m. The loss in 2018 arises from weakness of many of the currencies to which the Group is exposed even after taking account of a strengthening in the US dollar. A significant proportion of the Group's operations are based in the US and the US dollar strengthened slightly in the first six months of 2018 from an opening rate of £1:\$1.35 to a closing rate at the end of June 2018 of £1:\$1.32. At the end of June 2017 the US dollar had weakened from an opening rate of £1:\$1.23 to a closing rate of £1:\$1.30 and this movement was the main reason for the loss in the first half of 2017.

Also included in other comprehensive income at 30 June 2018 is an actuarial gain of £122m in relation to post retirement plans. The gain arises from the favourable impact of changes in the assumptions used to value the net assets in the plans and in particular movements in the discount rate. The gain in 2018 compares to an actuarial loss at 30 June 2017 of £16m.

Cash flows

Our operating cash flow measure is used to align cash flows with our adjusted profit measures (see note 17 to the condensed financial statements). Operating cash outflow increased on a headline basis by £130m from £72m in the first half of 2017 to £202m in the first half of 2018. The increase includes the impact of lower dividends from PRH, higher incentive payments in 2018 relating to 2017 performance and revenue related movements in working capital.

The equivalent statutory measure, net cash used in operations, was £131m in 2018 compared to £219m in 2017. Compared to operating cash flow, this measure includes restructuring costs and special pension contributions but does not include regular dividends from associates or capital expenditure on property, plant, equipment and software. Restructuring costs paid increased from £24m in the first half of 2017 to £27m in the first half of 2018. Special pension contributions in the first half of 2017 of £174m related to the FT Group disposal (£12m) and to agreements relating to the PRH merger in 2013 (£162m). There were no special pension contributions made in the first half of 2018.

The Group's net debt increased from £432m at the end of 2017 to £775m at the end of June 2018 principally due to the seasonal operating cash outflow, the share buy-back programme, and dividend payments which more than offset the proceeds from disposals and recapitalisation dividends and loan repayments from PRH in the period.

Post-retirement benefits

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

The charge to profit in respect of worldwide pensions and retirement benefits amounted to £25m in the period to 30 June 2018 (30 June 2017: £42m) of which a charge of £30m (30 June 2017: £44m) was reported in adjusted operating profit and income of £5m (30 June 2017: £2m) was reported against other net finance costs. The reduction in the charge in 2018 is largely explained by a past service credit of £11m relating to changes in the US post-retirement medical plan.

The overall surplus on UK Group pension plans of £545m at the end of 2017 has increased to a surplus of £670m at the end of June 2018. The increase has arisen principally due to favourable movements in assumptions used to value the liabilities.

In total, our worldwide net position in respect of pensions and other post-retirement benefits increased from a net asset of £441m at the end of 2017 to a net asset of £570m at the end of June 2018.

Dividends

The dividend accounted for in the six months to 30 June 2018 is the final dividend in respect of 2017 of 12.0p. An interim dividend for 2018 of 5.5p was approved by the Board in July 2018 and will be accounted for in the second half of 2018.

Share buyback

The share buyback programme announced in October 2017 was completed on 16 February 2018. In 2017, our brokers purchased 21m shares and in 2018 purchased a further 22m shares. Cash payments for these purchases and related costs were £149m in 2017 and £153m in the first half of 2018. The shares bought back were cancelled and the nominal value of these shares were transferred to a capital redemption reserve. The nominal value of shares cancelled

under the programme was £11m.

Businesses held for sale

Following the decision in 2017 to sell both our Wall Street English language teaching business and the K12 school courseware business in the US, the assets and liabilities of those businesses were classified as held for sale on the balance sheet at 31 December 2017. During the first half of 2018 the Wall Street business has been sold and the K12 business remains on the balance sheet as a held for sale asset prior to an expected disposal later in the year. At 30 June 2017 the English test preparation business, Global Education (GEDU) and a portion of our PRH investment were classified as held for sale prior to their disposals in the second half of 2017.

Principal risks and uncertainties

The principal risks and uncertainties have not changed from those detailed in the 2017 Annual Report and are summarised below.

Business transformation and change

The pace and scope of our business transformation initiatives increase our execution risk that benefits may not be fully realised, costs may increase, or that our business-as-usual activities may be impacted and do not perform in line with expectations.

Products and services

Failure to accelerate our shift to digital by developing and delivering (to time and quality) market leading global products and services that will have the biggest impact on learners and drive growth; ensuring Pearson offers products to market at the right price and with a deal structure that remains competitive as well as supports our strategy.

Talent

Failure to attract, retain and develop staff, including adapting to new skill sets required to run the business.

Political and regulatory risk

Changes in policy and/or regulations have the potential to impact business models and/or decisions across all markets.

Testing failure

Failure to deliver tests and assessments and other related contractual requirements because of operational or technology issues, resulting in negative publicity impacting our brand and reputation.

Health and safety

Failure to adequately protect the health, safety and wellbeing of our employees, learners and other stakeholders from harm could adversely impact our reputation.

Safeguarding

Failure to adequately protect children and learners, particularly in our direct delivery businesses.

Customer digital experience

Challenges with reliability and availability of customer facing systems could result in incidents of poor customer digital experience and impact our customer service responsiveness.

Corporate security and business resilience

Corporate security: Failure to ensure security for our staff, learners, assets and reputation, due to increasing numbers of and variety of local and global threats. Business resilience: Failure to plan for or prevent incidents at any of our locations. Incident management and technology disaster recovery plans may not be comprehensive across the whole Group.

Tax

Legislative change caused by the OECD Base Erosion and Profit Shifting initiative, the UK exit from the EU, other tax reform or domestic government initiatives, potentially in response to the ongoing EU anti-tax abuse activities, results in a higher effective tax rate, double taxation and/or negative reputational impact.

Treasury

Failure to manage treasury financial risks e.g. debt repayments, key corporate ratios, counterparty risk, rising interest rates and transactional FX exposure.

Data privacy and information security

Risk of a data privacy incident or other failure to comply with data privacy regulations and standards, and/or a weakness in information security, including a failure to prevent or detect a malicious attack on our systems, could result in a major data privacy or confidentiality breach causing reputational damage, damage to the student experience, lack of compliance and financial loss.

Intellectual property and rights, permissions and royalties

Failure to adequately manage, procure, register or protect intellectual property (IP) rights (including patents and general copyright) in our brands, content and technology or to prevent unauthorised printing and distribution of books and digital piracy may prevent us from enforcing our rights which will reduce our sales and/or erode our revenues. Failure to obtain permissions, or to comply with the terms of permissions, for copyrighted or otherwise protected materials such as photos resulting in potential litigation; risk of authors alleging improper calculations or payments of royalties.

Compliance

Failure to effectively manage risks associated with compliance (global and local legislation), including failure to vet third-parties, resulting in reputational harm, anti-bribery and corruption liability, or sanctions violations.

Competition law

Failure to comply with anti-trust and competition legislation could result in costly legal proceedings and/or adversely impact our reputation.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the period ended 30 June 2018

all figures in £ millions	note	2018 half year	2017 half year	2017 full year
Continuing operations				
Sales	2	1,865	2,047	4,513
Cost of goods sold		(912)	(993)	(2,066)
Gross profit		953	1,054	2,447
Operating expenses		(942)	(1,081)	(2,202)
Other net gains and losses	2	207	-	128
Share of results of joint ventures and associates		15	43	78
Operating profit	2	233	16	451
Finance costs	3	(63)	(66)	(110)
Finance income	3	32	40	80
Profit / (loss) before tax	4	202	(10)	421
Income tax	5	(13)	(6)	(13)
Profit / (loss) for the period		189	(16)	408
Attributable to:				
Equity holders of the company		188	(17)	406
Non-controlling interest		1	1	2
Earnings / (loss) per share (in pence per share)				
Basic	6	24.1p	(2.1)p	49.9p
Diluted	6	24.1p	(2.1)p	49.9p

The accompanying notes to the condensed consolidated financial statements form an integral part of the financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2018

all figures in £ millions	2018 half year	2017 half year	2017 full year
Profit / (loss) for the period	189	(16)	408

Items that may be reclassified to the income statement

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Net exchange differences on translation of foreign operations	(15)	(116)	(262)
Currency translation adjustment disposed	(4)	-	(51)
Attributable tax	(2)	4	9
Items that are not reclassified to the income statement			
Fair value gain on other financial assets	2	21	13
Attributable tax	(1)	(8)	(4)
Remeasurement of retirement benefit obligations	122	(16)	182
Attributable tax	(25)	(1)	(42)
Other comprehensive income / (expense) for the period	77	(116)	(155)
Total comprehensive income / (expense) for the period	266	(132)	253
Attributable to:			
Equity holders of the company	265	(133)	251
Non-controlling interest	1	1	2

CONDENSED CONSOLIDATED BALANCE SHEET
as at 30 June 2018

all figures in £ millions	note	2018 half year	2017 half year	2017 full year
Property, plant and equipment		268	306	281
Intangible assets	11	3,067	3,266	2,964
Investments in joint ventures and associates		385	651	398
Deferred income tax assets		51	432	95
Financial assets - derivative financial instruments		72	125	140
Retirement benefit assets		670	321	545
Other financial assets		86	86	77
Trade and other receivables		103	120	103
Non-current assets		4,702	5,307	4,603
Intangible assets - pre-publication		771	985	741
Inventories		167	238	148
Trade and other receivables		1,059	1,234	1,110
Financial assets - derivative financial instruments		-	6	-
Financial assets - marketable securities		-	11	8
Cash and cash equivalents (excluding overdrafts)		330	458	518
Current assets		2,327	2,932	2,525
Assets classified as held for sale	10	607	608	760
Total assets		7,636	8,847	7,888
Financial liabilities - borrowings		(1,069)	(1,816)	(1,066)
Financial liabilities - derivative financial instruments		(58)	(175)	(140)

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Deferred income tax liabilities		(137)	(470)	(164)
Retirement benefit obligations		(100)	(140)	(104)
Provisions for other liabilities and charges		(53)	(67)	(55)
Other liabilities	12	(117)	(373)	(133)
Non-current liabilities		(1,534)	(3,041)	(1,662)
Trade and other liabilities	12	(1,173)	(1,331)	(1,342)
Financial liabilities - borrowings		(33)	(266)	(19)
Financial liabilities - derivative financial instruments		(17)	(1)	-
Current income tax liabilities		(243)	(182)	(231)
Provisions for other liabilities and charges		(21)	(27)	(25)
Current liabilities		(1,487)	(1,807)	(1,617)
Liabilities classified as held for sale	10	(518)	(37)	(588)
Total liabilities		(3,539)	(4,885)	(3,867)
Net assets		4,097	3,962	4,021
Share capital		195	206	200
Share premium		2,604	2,600	2,602
Treasury shares		(59)	(76)	(61)
Reserves		1,348	1,227	1,272
Total equity attributable to equity holders of the company		4,088	3,957	4,013
Non-controlling interest		9	5	8
Total equity		4,097	3,962	4,021

The condensed consolidated financial statements were approved by the Board on 26 July 2018.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2018

all figures in £ millions	Equity attributable to equity holders of the company									
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
2018 half year										
At 1 January 2018	200	2,602	(61)	5	13	592	662	4,013	8	4,021
Adjustment on initial application of IFRS 15 net of tax - (see note 1b)	-	-	-	-	-	-	(108)	(108)	-	(108)
Adjustment on initial application of IFRS 9 net of tax - (see note 1c)	-	-	-	-	-	-	(10)	(10)	-	(10)
At 1 January 2018 (adjusted)	200	2,602	(61)	5	13	592	544	3,895	8	3,903
Profit for the period	-	-	-	-	-	-	188	188	1	189

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Other comprehensive income / (expense)	-	-	-	-	2	(19)	94	77	-	77
Total comprehensive income / (expense)	-	-	-	-	2	(19)	282	265	1	266
Equity-settled transactions	-	-	-	-	-	-	19	19	-	19
Issue of ordinary shares under share 1 option schemes	-	2	-	-	-	-	-	3	-	3
Buyback of equity(6)	-	-	-	6	-	-	(1)	(1)	-	(1)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Release of treasury shares	-	-	2	-	-	-	(2)	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(93)	(93)	-	(93)
At 30 June 2018	195	2,604	(59)	11	15	573	749	4,088	9	4,097

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
for the period ended 30 June 2018

all figures in £ millions	Equity attributable to equity holders of the company									
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
2017 half year										
At 1 January 2017	205	2,597	(79)	-	-	905	716	4,344	4	4,348
Loss for the period	-	-	-	-	-	-	(17)	(17)	1	(16)
Other comprehensive income / (expense)	-	-	-	-	21	(116)	(21)	(116)	-	(116)
Total comprehensive income / (expense)	-	-	-	-	21	(116)	(38)	(133)	1	(132)
Equity-settled transactions	-	-	-	-	-	-	19	19	-	19
Issue of ordinary shares under	1	3	-	-	-	-	-	4	-	4

share option schemes										
Buyback of equity	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Release of treasury shares	-	-	3	-	-	-	(3)	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(277)	(277)	-	(277)
At 30 June 2017	206	2,600	(76)	-	21	789	417	3,957	5	3,962

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2018

all figures in £ millions	Equity attributable to equity holders of the company							Non-controlling interest	Total equity	
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve	Translation reserve	Retained earnings			
2017 full year										
At 1 January 2017	205	2,597	(79)	-	-	905	716	3,344	4	4,348
Profit for the period	-	-	-	-	-	-	406	406	2	408
Other comprehensive income / (expense)	-	-	-	-	-	-	-	-	-	-