

Financial review



Financial Summary

| £m | 2025 | 2024 |
|-----------------------------|--------------|-------|
| Business performance | | |
| Sales | 3,577 | 3,552 |
| Adjusted operating profit | 614 | 600 |
| Operating cash flow | 571 | 662 |
| Free cash flow | 527 | 490 |
| Adjusted earnings per share | 64.5p | 62.1p |

| £m | 2025 | 2024 |
|------------------------------------|--------------|-------|
| Statutory results | | |
| Sales | 3,577 | 3,552 |
| Operating profit | 507 | 541 |
| Profit for the year | 336 | 435 |
| Net cash generated from operations | 731 | 811 |
| Basic earnings per share | 51.4p | 64.5p |

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 235–240; c) Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year.



2025 was another year of good financial performance, with 4% underlying sales growth, margin expansion and excellent cash generation. Our consistent financial progress over recent years reinforces our confidence in the Group's strategy, the resilience of our portfolio and our ability to deliver sustainable growth and attractive returns in 2026 and over the medium term.

Sally Johnson
Chief Financial Officer

Financial review *continued*

Group Financial Expectations

| 2026 expectations | | | | | Medium term guidance reconfirmed |
|-------------------------|---|---------------------------|------------|-------|---|
| Underlying sales growth | Adjusted operating profit | Free cash flow conversion | Interest** | Tax** | |
| Mid-single digit | £640m-£685m at FX rates as at the end of 2025 (£:\$ 1.35) | 90-100% | c.£80m | c.25% | Mid-single digit underlying sales Compound Annual Growth Rate (CAGR) Average margin growth of 40 basis points (bps) per annum* 90-100% free cash flow conversion, on average, across the period |

* Adjusted operating profit margins.

** As reflected in adjusted earnings.

Operating results

On a headline basis, sales increased by £25m or 1% from £3,552m in 2024 to £3,577m in 2025 and reported operating profit decreased by £34m from £541m in 2024 to £507m in 2025. In addition, adjusted operating profit increased by £14m or 2% from £600m in 2024 to £614m in 2025 (for a reconciliation of this measure see page 27 and note 2 to the consolidated financial statements).

The reported operating profit of £507m in 2025 compares to an operating profit of £541m in 2024 due primarily to unfavourable FX movements, inflation and an £87m non-cash, one-off impairment of legacy product development assets arising from strategic platform convergence, partially offset by operating leverage on sales growth, continued cost savings and the reversal of prior property provisions.

The headline basis simply compares the reported results for 2025 with those for 2024. We also present sales and profits on an underlying basis which excludes 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 when relevant. Our portfolio change is calculated by excluding sales and profits made by businesses disposed in either 2025 or 2024 and by ensuring the contribution from acquisitions is comparable year on year. For prior year acquisitions, the corresponding pre-acquisition period is excluded from the current year, and for current year acquisitions, the results for the current year are excluded. Portfolio changes mainly relate to the acquisition of eDynamic Learning and disposal of Copp Clark in 2025.

On an underlying basis, sales increased by 4% in 2025 compared to 2024 and adjusted operating profit increased by 6%. Currency movements decreased sales by £112m and adjusted operating profit by £26m. Portfolio changes increased sales by £7m and adjusted operating profit by £2m. There were no new accounting standards adopted in 2025 that impacted sales or statutory or adjusted operating profits.

2026 outlook

We expect Group underlying sales growth of mid-single digit and adjusted operating profit will be £640m-£685m at FX rates as at the end of 2025 (£:\$ 1.35), which includes lower amortisation in 2026 following the 2025 product development impairment. We expect a free cash flow conversion of 90-100%.

By business unit:

- In Assessment & Qualifications we expect sales growth of low to mid-single digit, driven by new contracts, products and pricing.
- In Virtual Learning we expect stronger growth than 2025, particularly in H1, driven by a full year of enrolment growth.
- In Higher Education we expect to grow more than 2025, supported by continued product and platform innovation, pricing and Inclusive Access in our core US courseware business, with improvement in the K12 channel.
- In English Language Learning we expect higher growth than 2025 driven by market share gains and pricing, with PTE returning to growth.
- In Enterprise Learning & Skills we expect growth to be driven by a solid performance in Vocational Qualifications and strategic account growth in Enterprise Solutions.

Our adjusted net finance costs will be c.£80m reflecting the associated costs of funding the recently announced £350m share buyback. We expect the effective tax rate on adjusted profit before tax to be c.25%.

| All figures in £ millions | 2025 | 2024 |
|--|------|------|
| Operating profit | 507 | 541 |
| Add back: Cost of major reorganisation | – | (2) |
| Add back: Product development impairment | 87 | – |
| Add back: Property charges | (25) | – |
| Add back: Intangible charges | 42 | 41 |
| Add back: UK pension discretionary increases | – | 13 |
| Add back: Other net gains and losses | 3 | 7 |
| Adjusted operating profit | 614 | 600 |

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

In 2025, there are no costs of major reorganisation. In 2024, there was a release of £2m relating to amounts previously accrued.

Product development impairment charges in 2025 relate to the impairment of product development assets as a result of courseware platform convergence. There are no such amounts in 2024.

Property charges in 2025 are a gain of £25m, relating to reversals of impairments of property assets that were previously impaired through property charges. Impairment reversals have arisen from new sublets on previously vacant space in corporate properties. There were no such amounts in 2024.

Intangible amortisation charges in 2025 were £42m compared to a charge of £41m in 2024. This is due to increased amortisation from recent acquisitions partially offset by decreased amortisation from assets reaching the end of their useful economic lives.

UK pension discretionary increases in 2024 relate to one-off pension increases awarded to certain cohorts of pensioners in response to the cost of living crisis. There were no such amounts in 2025.

Other net gains and losses in 2025 relate to the gain on disposal of Copp Clark, a business in our Higher Education division, a fair value gain relating to a previous disposal and costs relating to current and prior year acquisitions and disposals. Other net gains and losses in 2024 related to costs related to prior year acquisitions and disposals, partially offset by a gain on the partial disposal of our investment in an associate.

Business Unit Results

| £m | 2025 | 2024 ¹ | Headline growth | Underlying growth |
|------------------------------|--------------|-------------------|-----------------|-------------------|
| Sales | | | | |
| Assessment & Qualifications | 1,604 | 1,591 | 1% | 4% |
| Virtual Learning | 511 | 489 | 4% | 8% |
| Higher Education | 775 | 781 | (1)% | 2% |
| English Language Learning | 405 | 420 | (4)% | 1% |
| Enterprise Learning & Skills | 282 | 271 | 4% | 6% |
| Total | 3,577 | 3,552 | 1% | 4% |

Adjusted operating profit/loss

| | | | | |
|------------------------------|------------|-----|------|-----|
| Assessment & Qualifications | 361 | 368 | (2)% | 1% |
| Virtual Learning | 81 | 66 | 23% | 29% |
| Higher Education | 93 | 96 | (3)% | 0% |
| English Language Learning | 50 | 50 | 0% | 16% |
| Enterprise Learning & Skills | 29 | 20 | 45% | 40% |
| Total | 614 | 600 | 2% | 6% |

1. Comparative amounts have been restated to reflect the move between segments of IT Pro from Higher Education to Enterprise Learning & Skills.

Assessment & Qualifications

In Assessment & Qualifications, sales increased 1% on a headline basis and 4% on an underlying basis. Adjusted operating profit increased 1% in underlying terms due to operating leverage on sales growth partially offset by investment and inflation, and decreased 2% in headline terms due to currency movements offsetting trading.

Pearson Professional Assessments sales increased 1% on an underlying basis driven by new contract launches partially offset by the pause in a contract delivered in 2024, which resumed in Q3, and headwinds in PDRI, which has been impacted by US federal government hiring and spend reductions.

In US Student Assessment, sales increased 2% on an underlying basis supported by scope increases with existing customers.

In Clinical Assessment, sales increased 8% on an underlying basis due to the continued traction of our products in the market, pricing and digital product growth.

In UK & International Qualifications, sales increased 9% on an underlying basis driven by volume, pricing and strong International growth.

Financial review continued

Virtual Learning

Virtual Learning, sales grew 4% on a headline basis, with a strong performance in the second half of the year driven by enrolment performance, favourable mix and funding, partially offset by currency movements, and 8% on an underlying basis. Adjusted operating profit increased 29% in underlying terms, due to operating leverage on sales growth, and 23% in headline terms due to this partially offset by currency movements.

Enrolments for the 2025/26 academic year increased by 13% in the Fall semester, benefiting from targeted marketing investments to capture demand. We also successfully opened two new schools for the 2025/26 academic year bringing our total number of schools to 41 across 31 states and renewed all six of our long term school contracts.

Higher Education

In Higher Education, sales decreased 1% on a headline basis due to currency movements more than offsetting trading and portfolio changes, and increased 2% on an underlying basis. Adjusted operating profit was flat in underlying terms driven by operating leverage on sales growth offset by investment in the business and inflation, and decreased 3% in headline terms due to currency movements more than offsetting trading and portfolio changes.

In US Higher Education, underlying sales grew 3%, driven by enrolment growth and pricing in our core Courseware business, partly offset by expected declines in the K12 channel due to the transitional period, with adoption share maintained. We delivered strong growth in Inclusive Access, up 19%, and achieved 2% growth in US digital subscriptions. In addition, we continued to see strong monetisation of our Study Prep tool and sustained engagement with our AI-powered study tools. International Higher Education faced ongoing challenging trading conditions in mature markets, declining 7% for the full year.

English Language Learning

In English Language Learning, sales decreased 4% on a headline basis due to currency movements more than offsetting trading, and grew 1% on an underlying basis driven by Institutional. Adjusted operating profit increased by 16% in underlying terms due to cost savings partially offset by inflation and was flat in headline terms due to currency movements offsetting trading.

PTE continued to perform well against a challenging market backdrop of tightening migration policies. While volumes declined 5%, sales remained flat and we continued to gain market share. Our Institutional business delivered a solid performance, with strength in key Latin American markets and Asia.

Enterprise Learning & Skills

In Enterprise Learning & Skills, sales were up 4% on a headline basis due to currency movements more than offsetting trading, and 6% on an underlying basis. Adjusted operating profit increased by 40% in underlying terms due to operating leverage on sales and increased 45% in headline terms due to trading performance and favourable currency movements.

Vocational Qualifications delivered a solid performance while Enterprise Solutions growth improved quarter on quarter as we build momentum in our enterprise approach and related sales capability, driven by the recently announced partnerships.

Net Finance Costs

Net finance costs increased on a headline basis from a net cost of £31m in 2024 to a net cost of £50m in 2025. The increase is primarily due to increased net borrowing costs given increased average net debt following last year's share buy back and movements on derivatives.

Adjusted net finance costs reflected in adjusted earnings in 2025 was £57m, compared to a net cost of £45m in 2024. The difference is primarily due to increased net borrowing costs given increased average net debt following last year's share buy back and movements on derivatives.

Net finance income in respect of 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 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 on investments classified as fair value through profit and loss (FVTPL), and other gains and losses on derivatives 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. Interest on certain tax provisions is excluded from our adjusted measure in order to mirror the treatment of the underlying tax item.

In 2025, the total of these items excluded from adjusted earnings was income of £7m compared to income of £14m in 2024.

| All figures in £ millions | 2025 | 2024 |
|---|-------------|------|
| Adjusted net finance costs | (57) | (45) |
| Finance income in respect of retirement benefits | 25 | 21 |
| Fair value movements on investments held at FVTPL | (7) | (11) |
| Other net finance costs | (11) | 4 |
| Net finance costs | (50) | (31) |

Taxation

The reported tax on statutory earnings in 2025 was a charge of £121m compared to a charge of £75m in 2024. This equates to an effective tax rate of 26.5% (2024: 14.7%), with the increase from prior year principally due to the release of the State Aid uncertain tax provision in the prior year.

The total adjusted tax charge in 2025 was £136m (2024: £136m), corresponding to an effective tax rate on adjusted profit before tax of 24.5% (2024: 24.4%).

In 2025, there was a net tax payment of £2m (2024: £119m net tax payment). This includes a £97m receipt from HMRC in respect of the State Aid matter, with an additional £17m of associated interest also received in the period. The interest element is classified within interest received in the cash flow statement. This repayment is a result of the Court of Justice of the European Union handing down its decision on 19 September 2024 determining that the United Kingdom controlled foreign company group financing partial exemption did not constitute State Aid, thereby resulting in a refund of the £97m of tax paid (plus £17m of interest) under the Charging Notices issued by HMRC in 2021. The balance excluding the State Aid repayment, principally relates to tax payments in the US and the UK, and decreased due to lower tax liabilities and instalment payments for 2025.

A net deferred tax liability of £31m is recognised in 2025 compared to a net deferred tax liability of £11m in 2024. The overall amount increased mainly due to the ongoing utilisation of tax losses and other tax attributes. The current tax creditor principally consists of provisions for tax uncertainties.

Earnings per share

Basic earnings per share is 51.4p in 2025 compared to 64.5p in 2024. The decrease in 2025 is mainly due to decreased operating profits, increased tax charges and increased interest charges, partially offset by a decrease in the number of shares following the share buy back.

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 increased 4% to 64.5p (2024: 62.1p) reflecting adjusted operating profit growth and the reduction in issued shares due to the 2025 share buyback, partially offset by increased interest costs. Adjusted earnings per share increased 9% at constant exchange rates.

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The loss on translation of £193m in 2025 compares to a loss in 2024 of £35m. The loss in 2025 arises from an overall weakening of the majority of currencies to which the Group is exposed, in particular the US dollar. A significant proportion of the Group's operations are based in the US and the US dollar closing rate at 31 December 2025 was £1:\$1.35 compared to the opening rate of £1:\$1.25. At the end of 2024, the US dollar rate was £1:\$1.25 compared to the opening rate of £1:\$1.27.

Also included in other comprehensive income in 2025 is an actuarial gain of £10m in relation to the retirement benefit obligations of the Group. The gain arises mainly from a decrease in liabilities driven by lower long-term inflation assumptions and updates to commutation factors. The actuarial gain in 2025 of £10m compares to an actuarial gain in 2024 of £5m.

Fair value losses of £7m (2024: losses of £2m) have been recognised in other comprehensive income and relate to movements in the value of investments in unlisted securities held at fair value through other comprehensive income (FVOCI).

Cash flow and working capital

Net cash generated from operations, was £731m in 2025 compared to £811m in 2024. The decrease is largely explained by unfavourable movements in working capital and unfavourable currency movements.

Our operating cash flow measure is an adjusted measure used to align cash flows with our adjusted profit measures. Compared to net cash generated from operations, this measure excludes reorganisation costs and acquisition costs but includes regular dividends from associates. It also includes 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 2025, reorganisation cash outflow was £nil compared to £8m in 2024.

Operating cash flow decreased on a headline basis by £91m from an inflow of £662m in 2024 to an inflow of £571m in 2025 due to an increase in working capital given high Q4 sales growth.

Free cash flow increased on a headline basis by £37m from £490m in 2024 to £527m in 2025. When compared to operating cash flow, free cash flow includes tax paid, net finance costs paid, special pension contributions and net costs paid for major reorganisation. The increase year on year is mainly due to the receipt of monies in respect of the State Aid tax matter offset by the reduction in operating cash flow.

In 2025, there was an overall £210m decrease in cash and cash equivalents compared to an increase of £234m in 2024. The decrease in 2025 is primarily due to the cash inflow from operations of £731m being more than offset by dividends paid of £160m, share buyback programme payments of £352m, own share purchases of £72m, capital expenditure on property, plant and equipment and intangibles of £134m, payments for the acquisition of subsidiaries of £167m, and payments of lease liabilities of £77m.

Financial review continued

| All figures in £ millions | 2025 | 2024 |
|--|--------------|-------|
| Net cash generated from operations | 731 | 811 |
| Dividends from joint ventures and associates | 1 | 2 |
| Purchase / disposal of PPE and software | (131) | (118) |
| Net addition of right-of-use assets | (45) | (46) |
| Net costs paid for major reorganisation | - | 8 |
| Other net gains and losses | 13 | 5 |
| Special pension contributions | 2 | - |
| Operating cash flow | 571 | 662 |
| Tax paid | (2) | (119) |
| Net finance costs paid | (40) | (45) |
| Special pension contributions | (2) | - |
| Net cost paid for major reorganisation | - | (8) |
| Free cash flow | 527 | 490 |

Liquidity and capital resources

The Group's net debt increased from £853m at the end of 2024 to £1,069m at the end of 2025. The increase is largely due to free cash flow of £527m being more than offset by the share buy back programme, dividend payments and cash outflows related to acquisitions.

In May 2025, the Group repaid its €300m bond and closed out various related derivatives. In June 2025, the Group secured a new three-year, \$800 million revolving credit facility (RCF). This facility can be utilised for general corporate purposes, enhancing our liquidity, and is in addition to the Group's existing RCF. At 31 December 2025, the Group had drawn £0.3bn on its Revolving Credit Facilities.

At 31 December 2025, the Group had approximately £1.3bn in total liquidity immediately available from cash and its RCFs, maturing in February 2028 and February 2029, but which have options to extend the maturities until 2030. In assessing the Group's liquidity and viability, the Board analysed a variety of downside scenarios including a severe but plausible downside scenario, where the Group is impacted by a combination of all principal risks from H1 2026, as well as reverse stress testing to identify what would be required to either breach covenants or run out of liquidity. The severe but plausible scenario modelled a severe reduction in revenue, profit and operating cash flow from risks continuing throughout 2026 and 2027. In all scenarios, 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. The directors concluded that the likelihood of the reverse stress test scenario was remote.

At 31 December 2025, the Group was rated BBB (stable outlook) with Fitch and Baa2 (stable outlook) with Moody's.

Net debt

| All figures in £ millions | 2025 | 2024 |
|--|----------------|-------|
| Cash and cash equivalents (excluding overdrafts) | 333 | 543 |
| Overdrafts | - | - |
| Investment in finance lease | 66 | 83 |
| Derivative financial instruments | 13 | (7) |
| Bonds | (706) | (955) |
| Revolving Credit Facilities | (297) | - |
| Lease liabilities | (478) | (517) |
| Net debt | (1,069) | (853) |

Post-retirement benefits

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

The charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £43m in 2025 (2024: £60m), of which a charge of £68m (2024: £81m) was reported in operating profit and income of £25m (2024: £21m) was reported in other net finance costs. In 2024, a charge of £13m related to one-off discretionary pension increases was excluded from adjusted operating profit, with no such amounts in 2025.

The overall surplus on UK Group pension plans of £484m at the end of 2024 has increased to a surplus of £514m at the end of 2025. The increase has arisen principally due to asset returns being higher than expected and inflation over the period being slightly lower than was expected at the beginning of the year. In total, the worldwide net position in respect of pensions and other post-retirement benefits increased from a net asset of £450m at the end of 2024 to a net asset of £482m at the end of 2025.

Businesses acquired and disposed

On 24 July 2025, the Group completed the acquisition of 100% of eDynamic Holdings LP ('eDynamic Learning'), a leading Career and Technical Education (CTE) curriculum solutions provider for cash consideration of £168m.

The cash outflow in 2025 relating to the acquisition of subsidiaries of £167m includes £4m arising from the payment of deferred consideration in respect of the prior year. The cash outflow in 2024 relating to acquisitions of subsidiaries was £39m, arising from the payment of deferred consideration in respect of prior year acquisitions, mainly Credly and Mondly, which were acquired in 2022. In addition, there was a cash outflow relating to investments of £5m (2024: £7m).

The Group disposed of Copp Clark in 2025 for consideration of £9m, resulting in a gain on disposal of £8m, which has been recorded within other net gains and losses. There were no disposals of subsidiaries in 2024 with cash outflows relating primarily to prior year disposals. In 2025, the cash inflow relating to the disposal of businesses was £8m (2024: outflow of £7m).

Dividends

The dividend accounted for in our 2025 financial statements totalling £160m represents the final dividend in respect of 2024 (16.6p) and the interim dividend for 2025 (7.8p). We are proposing a final dividend for 2025 of 17.4p bringing the total paid and payable in respect of 2025 to 25.2p. This final 2025 dividend, which was approved by the Board in February 2026, is subject to approval at the forthcoming AGM. For 2025, the dividend is covered 2.6 times by adjusted earnings.

Share buyback

On 27 February 2025, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme completed in 2025. During 2025, c32m shares have been bought back at a cash cost of £352m. The nominal value of the cancelled shares of £8m has been transferred to the capital redemption reserve.

On 21 January 2026, a further £350m share buyback programme was announced. The programme commenced on 21 January 2026.

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 2025 or the assessment of going concern for the period to June 2027.

Conclusion

2025 was another year of good financial performance, with 4% underlying sales growth, margin expansion and excellent cash generation. Disciplined capital allocation enabled us to increase the dividend and continue returning surplus cash to shareholders through our share buyback programme.

Our consistent financial progress over recent years reinforces our confidence in the Group's strategy, the resilience of our portfolio and our ability to deliver sustainable growth and attractive returns in 2026 and over the medium term.

This will be my last Annual Report for Pearson as I leave this fantastic business after nearly 26 years — including the last six as Group CFO — to take on a new challenge.

I will miss working with this extraordinary group of Pearson people every day. I'm incredibly proud of what we've achieved together: delivering stronger and more consistent financial performance, driving significant business and finance transformation, and sharpening our approach to capital allocation. None of this would have been possible without the talent, commitment, and good humour of the teams I've had the privilege to work alongside.

I'm delighted that Simon Robson will be joining Pearson as the next Group CFO. He is an excellent leader and a great fit for Pearson's culture, and I know the finance team — and the wider business — will be in very good hands.

Thank you in particular to the finance team for the support, hard work and commitment over so many years.

Sally Johnson

Chief Financial Officer