Financial review

2024 was another year of good financial performance. The progress we have made over recent years shows real momentum in the business, which gives us confidence in delivering our guidance for 2025 and beyond.

Sally Johnson
Chief Financial Officer

Financial Summary

£m	2024	2023
Business performance		
Sales	**3,552**	3,674
Adjusted operating profit	**600**	573
Operating cash flow	**662**	587
Free cash flow	**490**	387
Adjusted earnings per share	**62.1p**	58.2p

£m	2024	2023
Statutory results		
Sales	**3,552**	3,674
Operating profit	**541**	498
Profit for the year	**435**	380
Net cash generated from operations	**811**	682
Basic earnings per share	**64.5p**	53.1p

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 219-224; c) Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year.

Group Financial Expectations

2025 expectations					Medium term guidance reconfirmed
Underlying sales growth	Adjusted operating profit	Free cash flow conversion	Interest**	Tax**	
In line with current market expectations		90-100% + £0.1bn State Aid repayment	c.£65m	24% to 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.
NB: 2025 consensus on the Pearson website dated 27 January 2025; underlying sales growth 4.4%, adjusted operating profit of £656m at £:$ 1.23.
For reference, each 1c move in USD FX rate equates to £5m of adjusted operating profit.

Operating results

On a headline basis, sales decreased by £122m or 3% from £3,674m in 2023 to £3,552m in 2024 and reported operating profit increased by £43m from £498m in 2023 to £541m in 2024. In addition, adjusted operating profit increased by £27m or 5% from £573m in 2023 to £600m in 2024 (for a reconciliation of this measure see page 28 and note 2 to the consolidated financial statements).

The reported operating profit of £541m in 2024 compares to an operating profit of £498m in 2023 due primarily to unfavourable FX movements, investment and inflation costs being offset by operating leverage on sales growth and cost efficiencies.

The headline basis simply compares the reported results for 2024 with those for 2023. 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. Our portfolio change is calculated by excluding sales and profits made by businesses disposed in either 2024 or 2023 and by ensuring the contribution from acquisitions is comparable year on year. Portfolio changes mainly relate to the disposals of the Group's interests in Pearson Online Learning Services ('POLS'), Pearson College, our international courseware local publishing business in India and businesses within Higher Education in 2023, and the acquisition of PDRI in 2023.

On an underlying basis, sales increased by 2% in 2024 compared to 2023 and adjusted operating profit increased by 10%. Currency movements decreased sales by £104m and decreased adjusted operating profit by £26m. Portfolio changes decreased sales by £97m and decreased adjusted operating profit by £6m. There were no new accounting standards adopted in 2024 that impacted sales or statutory or adjusted operating profits.

2025 outlook

We expect Group underlying sales growth and adjusted operating profit will be in line with current market expectations. Our interest charge will be c.£65m reflecting the impact of the Education Bond and our intention to commence a £350m share buyback. We expect the effective tax rate on adjusted profit before tax to be between 24% and 25%. From January this year, Workforce Skills became Enterprise Learning and Skills, bringing together Pearson's enterprise sales capabilities globally (excluding those of Pearson VUE).

- In Assessment & Qualifications we expect sales growth of low to mid-single digit.
- In Virtual Learning we expect to return to growth in H2 and the full year, driven by enrolment increases, partially from new school openings, for the 25/26 academic year.
- In Higher Education we expect sales growth in 2025 to be higher than in 2024 as we build on the successful results of our sales team transformation and product innovations, particularly using AI.
- In English Language Learning we expect that sales growth will moderate given the likely impacts of elections on immigration rates in 2025 affecting our PTE business.
- In Enterprise Learning and Skills we expect sales to grow high single digit with Vocational Qualifications seeing solid growth and the addition of several new contracts for Enterprise Solutions.
- Included within this guidance is new investment to support our strategy and drive growth, including brand and innovation spend, as well as transformation costs. This investment is more than offset by the margin on sales growth, and operational improvements which drive the Group's margin expansion.
- We expect a free cash flow conversion of 90-100% plus the anticipated £0.1bn State Aid repayment in 2025.

Financial review *continued*

All figures in £ millions	2024	2023
Operating profit	**541**	498
Add back: Cost of major reorganisation	**(2)**	–
Add back: Property charges	**–**	11
Add back: Intangible charges	**41**	48
Add back: UK pension discretionary increases	**13**	–
Add back: Other net gains and losses	**7**	16
Adjusted operating profit	**600**	573

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 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 2024, the costs of major reorganisation relate to a release of £2m for amounts previously accrued that are no longer required.

In 2024, there are no property charges. In 2023, charges of £11m relate to impairments of property assets arising from the impact of updates in 2023 to assumptions initially made during the 2022 and 2021 reorganisation programmes.

Intangible amortisation charges in 2024 were £41m compared to a charge of £48m in 2023. This is due to decreased amortisation from recent disposals partially offset by additional amortisation from recent acquisitions.

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.

Other net gains and losses in 2024 relate to costs arising from prior year acquisitions and disposals, partially offset by a gain on the partial disposal of an investment in an associate. In 2023, other net gains and losses relate largely to the gain on disposal of the Pearson Online Learning Services (POLS) business and gains relating to the releases of accruals and a provision related to previous acquisitions and disposals, which were more than offset by losses on the disposal of Pearson College and costs related to disposals and acquisitions.

Business Unit Results

£m	2024	2023	Headline growth	CER Growth	Underlying growth
Sales					
Assessment & Qualifications	**1,591**	1,559	2%	4%	3%
Virtual Learning	**489**	616	(21)%	(19)%	(4)%
Higher Education	**826**	855	(3)%	(1)%	1%
English Language Learning	**420**	415	1%	8%	8%
Workforce Skills	**226**	220	3%	4%	6%
Strategic Review	**–**	9	(100)%	(100)%	(100)%
Total	**3,552**	3,674	(3)%	0%	2%
Total, excluding OPM[1] and Strategic Review[2]					3%

Adjusted operating profit/loss					
Assessment & Qualifications	**368**	350	5%	8%	7%
Virtual Learning	**66**	76	(13)%	(9)%	(9)%
Higher Education	**108**	110	(2)%	2%	12%
English Language Learning	**50**	47	6%	30%	30%
Workforce Skills	**8**	(8)	200%	188%	200%
Strategic Review	**–**	(2)	100%	100%	100%
Total	**600**	573	5%	9%	10%

1. We completed the sale of the Pearson Online Learning Services (POLS) business in June 2023 and as such have removed it from underlying measures throughout. Within this specific measure we exclude our entire OPM business (POLS and ASU) to aid comparison to guidance.
2. Strategic Review is sales in international courseware local publishing businesses which have been wound down. As expected, there are no sales in these businesses in 2024.

Assessment & Qualifications

In Assessment & Qualifications, sales increased 2% on a headline basis and 3% on an underlying basis. Adjusted operating profit increased 7% in underlying terms due to operating leverage on sales growth partially offset by inflation, and 5% in headline terms due to this and portfolio changes partially offset by currency movements.

Pearson VUE sales were up 3% in underlying terms driven by favourable mix, with PDRI seeing good growth. Pearson VUE test volumes remained stable year on year and we improved upon our already high contract renewal track record, reporting a rate of 99% across the business for 2024.

In US Student Assessment, sales increased 1% in underlying terms supported by several key contract renewals.

In Clinical Assessment, sales increased 4% in underlying terms due to pricing, digital product growth and successful new product launches.

In UK and International Qualifications, sales increased 8% in underlying terms benefitting from volume, pricing, and International growth.

Virtual Learning

In Virtual Learning, sales decreased 21% on a headline basis primarily due to the final portion of the OPM ASU contract in the first half of 2023, the disposal of the POLS business and currency movements, and 4% on an underlying basis. Adjusted operating profit decreased 9% in underlying terms, with the prior year comparator benefitting from the ASU contract. Adjusted operating profit decreased 13% in headline terms due to this coupled with the disposal of the POLS business and currency movements.

Virtual Schools sales were down 1%, due to the previously announced partner school losses. Enrolments for the 2024/25 academic year were up 4% on a same school basis and we also opened 3 new schools in 2024 taking our total to 40.

Higher Education

In Higher Education, sales decreased 3% on a headline basis and grew 1% on an underlying basis. Adjusted operating profit increased 12% in underlying terms driven primarily by cost savings partially offset by inflation, restructuring charges and one off investment in building a K-12 direct sales channel, and decreased 2% in headline terms due to this, portfolio changes and currency movements.

In the US, sales grew 2% driven by continued gains in adoption share, enrolments, and pricing, partially offset by mix impacts. There was strong growth in Inclusive Access, up 24%, and we delivered 3% growth in US digital subscriptions. Pearson+ registered users increased 1% compared to the prior Fall semester, with paid subscriptions flat over the same period. In addition, we have been successful in monetising our Channels product.

English Language Learning

In English Language Learning, sales were up 1% on a headline basis due to strong growth in Institutional offset by currency movements and 8% on an underlying basis. Adjusted operating profit increased by 30% in underlying terms due to operating leverage on sales and increased 6% in headline terms as this was partially offset by currency movements.

PTE performed well against a tough market backdrop of tightening migration policies. While volumes declined 10% we grew the business and continued to gain market share. Our Institutional business continues to deliver a strong performance especially in the Middle East and Latin America markets. Our Online Self-Study business, Mondly, performed well with paid subscriptions increasing 14% versus the prior year.

Workforce Skills

In Workforce Skills, sales were up 3% on a headline basis and 6% on an underlying basis. The business unit turned profitable in 2024 delivering an adjusted operating profit of £8m due to trading and cost efficiencies.

Sales growth was driven by solid performances in both the Vocational Qualifications and Workforce Solutions businesses. The Vocational Qualifications business grew by 5% in underlying terms. The Workforce Solutions business grew by 6% in underlying terms with the Credly enterprise customer net retention rate increasing to 91%.

Net Finance Costs

Net finance costs increased on a headline basis from a net cost of £5m in 2023 to a net cost of £31m in 2024. The increase is primarily due to increased borrowings and losses on investments held at fair value through profit and loss (FVTPL) compared to gains in 2023, partially offset by gains arising from mark to market movements on derivatives compared to losses in 2023 and the recognition of interest related to the favourable decision on the State Aid matter (see Taxation section and note 7 to the consolidated financial statements for further details).

Adjusted net finance costs reflected in adjusted earnings in 2024 was £45m, compared to £33m in 2023. The difference is primarily due to increased interest costs on borrowings, partially offset by interest recognised in relation to the State Aid matter (see Taxation section and note 7 to the consolidated financial statements for further details).

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 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 2024, the total of these items excluded from adjusted earnings was income of £14m compared to income of £28m in 2023.

All figures in £ millions	2024	2023
Adjusted net finance costs	**(45)**	(33)
Finance income in respect of retirement benefits	**21**	26
Fair value movements on investments held at FVTPL	**(11)**	13
Other net finance costs	**4**	(11)
Net finance costs	**(31)**	(5)

Financial review *continued*

Taxation

The reported tax charge on a statutory basis in 2024 was £75m (14.7%) compared to a £113m charge (23.0%) in 2023. The reduction in the statutory rate of tax in 2024 is principally due to the release of provisions held in relation to the State Aid matter. In September 2024, the Court of Justice of the European Union ('CJEU') handed down its decision, finding that no State Aid had been provided and as a consequence annulling the European Commission's previous decision in full and setting aside the judgment of the EU General Court. In light of the CJEU decision, the Group has now fully released the £63m provision for tax and £5m provision for interest on tax held in relation to this matter, leaving on the balance sheet a receivable for the £97m tax and £8m interest on tax paid under the Charging Notices issued by HMRC in 2021. These receivables have now been reclassified as current assets. In addition, HMRC Guidance issued to facilitate these pending repayments confirms that interest will be paid on the tax element of the amounts previously collected and a £9m interest accrual has also therefore been recorded as mentioned in net finance costs sections above.

The tax on adjusted earnings in 2024 was a charge of £136m (2023: £124m), corresponding to an adjusted effective tax rate on adjusted profit before tax of 24.4% (2023: 23.0%). The increase in the effective rate from the prior year is primarily due to reduced availability of tax credits in key jurisdictions. For a reconciliation of the adjusted measure see the financial key performance indicators section on pages 219-224.

In 2024, there was a net tax payment of £119m (2023: £97m). The overall amount increased due to an increase in profits and a reduction in the level of tax credits available in key territories.

A net deferred tax liability of £11m is recognised in 2024 compared to a net deferred tax liability of £11m in 2023. The current tax creditor principally consists of provisions for tax uncertainties.

Earnings per share

Basic earnings per share is 64.5p in 2024 compared to 53.1p in 2023. The increase in 2024 is mainly due to increased operating profits, decreased tax charges and a decrease in the number of shares following the share buy back, partially offset by increased interest charges.

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 62.1p in 2024 compared to 58.2p in 2023 reflecting adjusted operating profit growth and the reduction in issued shares as a result of share buybacks, partially offset by increased interest and tax charges.

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The loss on translation of £35m in 2024 compares to a loss in 2023 of £177m. The loss in 2024 arises from an overall weakening of the majority of currencies to which the Group is exposed, partially offset by a slight strengthening of the US dollar. A significant proportion of the Group's operations are based in the US and the US dollar strengthened in 2024 from an opening rate of £1:\$1.27 to a closing rate at the end of 2024 of £1:\$1.25. At the end of 2023, the US dollar had weakened from an opening rate of £1:\$1.21 to a closing rate of £1:\$1.27. The loss in 2023 was driven by this movement in the US dollar.

Also included in other comprehensive income in 2024 is an actuarial gain of £5m in relation to the retirement benefit obligations of the Group. The gain arises mainly from a decrease in liabilities driven by higher discount rates, largely offset by losses on assets and experience losses. The actuarial gain in 2024 of £5m compares to an actuarial loss in 2023 of £85m.

Fair value losses of £2m (2023: gain of £1m) have been recognised in other comprehensive income and relate to movements in the value of investments in listed and unlisted securities held at fair value through other comprehensive income (FVOCI).

In 2023, a gain of £122m was recycled from the currency translation reserve to the income statement in relation to the disposal of the POLS business.

Cash flow and working capital

Net cash generated from operations, was £811m in 2024 compared to £682m in 2023. The increase is largely explained by the drop-through of increased trading profits, a reduction in reorganisation cash outflow and favourable working capital 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 2024, reorganisation cash outflow was £8m compared to £63m in 2023.

Operating cash flow increased on a headline basis by £75m from £587m in 2023 to £662m in 2024. The increase is largely explained by the drop-through of increased trading profits and favourable working capital.

Free cash flow increased on a headline basis by £103m from £387m in 2023 to £490m in 2024. When compared to operating cash flow, free cash flow includes tax paid, net finance costs paid and net costs paid for major reorganisation.

In 2024, there was an overall £234m increase in cash and cash equivalents compared to a decrease of £234m in 2023. The increase in 2024 is primarily due to the cash inflow from operations of £811m and net proceeds from borrowings of £344m, offset by payments for acquisitions of subsidiaries of £39m, dividends paid of £156m, share buyback programme payments of £318m, other own share purchases of £40m, tax paid of £119m, net interest payments of £45m, capital expenditure on property, plant and equipment and intangibles of £124m, and repayments of lease liabilities of £78m.

All figures in £ millions	2024	2023
Net cash generated from operations	**811**	682
Dividends from joint ventures and associates	**2**	–
Purchase / disposal of PPE and software	**(118)**	(121)
Net addition of right-of-use assets	**(46)**	(41)
Net costs paid for major reorganisation	**8**	63
Other net gains and losses	**5**	4
Operating cash flow	**662**	587
Tax paid	**(119)**	(97)
Net finance costs paid	**(45)**	(40)
Net cost paid for major reorganisation	**(8)**	(63)
Free cash flow	**490**	387

Liquidity and capital resources

The Group's net debt increased from £744m at the end of 2023 to £853m at the end of 2024. The increase is largely due to free cash flow being more than offset by the share buy back programme and dividend payments.

In 2024, the Group issued a new £350m 5.375% GBP denominated 10 year Education Bond. The bond was admitted to trading on the London Stock Exchange. The proceeds from the bond will be used to finance or refinance projects or expenditure that meets the Eligible categories set out in the Group's Social Bond Framework.

At 31 December 2024, the Group had available liquidity of £1.2bn comprising central cash balances and its undrawn $1bn Revolving Credit Facility (RCF) which matures in February 2028, but which has options to extend the maturity to February 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, as well as reverse stress testing to identify what would be required to either breach covenants or run out of liquidity. The Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment in the severe but plausible scenario, 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 2024, the Group was rated BBB (stable outlook) with Fitch and Baa2 (stable outlook) with Moody's.

Net debt

All figures in £ millions	2024	2023
Cash and cash equivalents (excluding overdrafts)	**543**	312
Overdrafts	**–**	(3)
Investment in finance lease	**83**	100
Derivative financial instruments	**(7)**	5
Bonds	**(955)**	(611)
Lease liabilities	**(517)**	(547)
Net debt	**(853)**	(744)

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 £60m in 2024 (2023: £45m), of which a charge of £81m (2023: £71m) was reported in operating profit and income of £21m (2023: £26m) was reported in other net finance costs. In 2024, a charge of £13m related to one-off discretionary pension increases has been excluded from adjusted operating profit.

The overall surplus on UK Group pension plans of £491m at the end of 2023 has decreased to a surplus of £484m at the end of 2024. The decrease has arisen principally due to the one-off discretionary pension increases granted in the year, partially offset by the actuarial gain noted in the other comprehensive income section above. In total, the worldwide net position in respect of pensions and other post-retirement benefits decreased from a net asset of £455m at the end of 2023 to a net asset of £450m at the end of 2024.

Financial review *continued*

Businesses acquired and disposed

There were no material acquisitions of subsidiaries in 2024. In March 2023, the Group completed the acquisition of 100% of the share capital of Personnel Decisions Research Institutes, LLC ('PDRI') for cash consideration of £152m ($187m).

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. There were also £5m of acquisition related costs. In addition, there were £7m of cash outflows relating to the acquisition of investments. The cash outflow in 2023 relating to acquisitions of subsidiaries was £171m plus £4m of acquisition costs. In addition, there were cash outflows relating to the acquisition of associates of £5m and investments of £8m.

There were no disposals of subsidiaries in 2024. In 2023, the Group disposed of its interests in its POLS businesses in the US, UK, Australia and India, Pearson College and the international courseware local publishing business in India. In 2024 and 2023, the cash outflow from the disposal of businesses of £7m (2023: £38m) mainly relates to the businesses disposed in 2023.

Dividends

The dividend accounted for in our 2024 financial statements totalling £156m represents the final dividend in respect of 2023 (15.7p) and the interim dividend for 2024 (7.4p). We are proposing a final dividend for 2024 of 16.6p bringing the total paid and payable in respect of 2024 to 24.0p. This final 2024 dividend, which was approved by the Board in February 2025, is subject to approval at the forthcoming AGM. For 2024, the dividend is covered 2.6 times by adjusted earnings.

Share buyback

On 20 September 2023, the Board approved a £300m share buyback programme in order to return capital to shareholders, with a £200m extension being announced by the Group on 1 March 2024. This programme and the extension completed in 2024. During 2024, approximately 32m (2023: 20m) shares were bought back and cancelled at a cost of £318m (2023: £186m). The nominal value of these shares, £8m (2023: £5m), was transferred to the capital redemption reserve, and the remainder of the purchase price was recorded within retained earnings. At 31 December 2024, no further liability remains (2023: £118m) for shares contracted to be repurchased but where the repurchases are still outstanding.

On 27 February 2025, the Board approved a £350m share buyback programme in order to return capital to shareholders.

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 2024 or the assessment of going concern for the period to June 2026.

Conclusion

2024 performance was in line with expectations, with excellent margin expansion. We saw strong free cashflow and this, combined with our strong balance sheet, means we are announcing a further £350m share buyback.

Our confidence in the future and the strength of the business is reflected in our guidance for 2025 and beyond.