

Risk management

Effective risk management is essential to executing our strategy, achieving sustainable shareholder value, protecting our brand and ensuring good governance

Risk oversight

Risks are managed by members of the Pearson Executive Management (PEM) team, either on a business unit basis or by function (as set out in the Accountability for principal risks section on pages 66-67).

Risk owners conduct regular risk reviews with their leadership teams, consulting others where appropriate, including technical specialists within their business unit or operating in one of the centres of expertise. Risk reports are shared with key stakeholders, including the Enterprise Risk Management team, and are discussed at PEM meetings.

The Audit Committee has the delegated responsibility for reviewing the effectiveness of our procedures for identifying, assessing, managing and reporting risk.

Each business unit is expected to present an overview of its risk register to the Board at least annually, and to provide an annual deep dive on key risks, supported by central Risk team experts as required. Deep-dive sessions are also held at the Audit Committee with enterprise-wide functions such as Tax, Treasury and Cyber security.

The Board uses these deep-dive sessions to understand the rigour of management's risk scanning and to challenge any judgements in response to risks.

The Internal Audit team provides independent assurance to the Audit Committee on the design and effectiveness of internal processes, to mitigate strategic, financial, operational and compliance risks. Internal audit plans are aligned to the principal risks but also consider other key risk areas and other assurances available. Plans are agreed in advance with the PEM team and the Audit Committee.

We have also been looking at addressing the requirements of the new UK Corporate Governance Code Provision 29, effective 1 January 2026. We aim to achieve a proportionate and practical response to the new declaration, and we have identified 'material controls'. We have worked with peers, accountancy firms and our auditors to understand emerging best practice in this area. Throughout 2025, the team has been reviewing the mapping of controls to principal risks, and we have worked closely with the Audit Committee which has oversight of this process. Further information can be found in the Governance section on page 110.

Risk environment

We operate in markets in learning, content, assessment and qualifications where we have held leading positions over several years as businesses and markets have become more digital.

Factors affecting the markets in which we operate include our position as an accredited provider of high-stakes tests, organisational capability, competitive dynamics, learner preferences and delivery methods, including the growing adoption of AI tools and the reputation of companies operating in the market. We seek to maximise the opportunities arising from these changing market conditions, balanced with appropriate monitoring and understanding of associated risks.

Further information on our business units and key markets are in the Strategy section on pages 12-16.

Risk management *continued*

The table below sets out our governance structure for risk management.

1. Pearson plc Board (oversight)

- Responsible for Pearson's strategy
- Responsible for reviewing management's assessment of our principal risks
- Approves the annual budget and long-term financial plans
- Determines risk appetite in line with our strategy
- Monitors and reviews the internal control framework, covering all material controls as identified by the requirements of the new UK Corporate Governance Code Provision 29, and their effectiveness, with support from its Committees as it deems appropriate.
- Conducts targeted reviews of key risks

2. Audit Committee (oversight)

- Provides oversight to the Board concerning the integrity of Pearson's procedures for identifying, assessing, managing and reporting on risk and obtains assurance from internal/external auditors
- Monitors and evaluates our compliance and risk management processes and control programmes
- Approves our risk management framework
- Approves internal audit plans

3. Reputation & Responsibility Committee (oversight)

- Considers our impact on the communities in which we operate, including ensuring that we have risk management processes in place to manage relevant risks

4. Pearson Executive Management (PEM) (identification, assessment and mitigation)

- Comprises the CEO, CFO and other senior leaders (see pages 76-78)
- Accountable for ensuring that risks are mitigated in line with risk appetite
- Responsible for executing our strategy
- Responsible for reviewing and approving our principal risks, mitigation plans and controls
- Reports to the Audit Committee on risks, where required

5. Enterprise Risk Management function (identification, assessment and mitigation)

- Prepares our risk management framework
- Maintains our risk register and list of principal risks
- Reviews risks with business units to assess and monitor risk exposures
- Prepares a consolidated risk view for the PEM
- Provides oversight over risk management activity
- Reports to the Audit Committee on risks

6. Senior leadership (identification, assessment and mitigation)

- Responsible for monitoring, mitigating and reporting on risk
- Responsible for operation and effectiveness of material controls
- Risk committees within each business unit assess the principal risks and implement further sub-committees as appropriate for business unit-specific exposures

7. Technical specialists (identification, assessment and mitigation)

- Functional heads work in conjunction with Group technical experts to monitor and manage significant risks. These experts provide operational support, guidance, policy and advice

8. Risk management experts (identification, mitigation and assurance)

- Dedicated teams providing guidance, review and assurance over key operational and financial risks including finance, legal and compliance

9. Pearson personnel (identification, assessment and mitigation)

- Personnel across Pearson are trained in relevant risk management to identify, assess, mitigate and escalate risks
- Responsible for operation and effectiveness of individual controls, including SOX controls

Internal Audit function (assurance)

Our Internal Audit function is responsible for providing independent assurance to management, the Board and the Audit Committee on the design and effectiveness of internal controls, to mitigate strategic, financial, operational and compliance risks.

Risk identification and monitoring

Our risk identification processes follow a dual approach. Firstly, we take a top-down view that considers strategic risks across Pearson. We then take a bottom-up approach at a business unit or functional level, to identify and assess a complete list of each business unit's risks, with key risks highlighted in management reporting and in each business unit's long-range plan.

We conduct detailed interviews throughout the year with each business unit to assist with risk assessment and management. We then rank risks according to their likely impact as principal risks, significant near-term risks, emerging risks or other risks.

Classification as principal risks, significant near-term risks and emerging risks

We define our principal risks as those that could have a significant and ongoing effect on the Group's valuation by reducing the demand for, or profitability of, our products and services. Our Group assessment considers multiple dynamics including the duration, velocity and size of the potential impact. Effective management of these risks is essential to executing our strategy, achieving sustainable shareholder value, maintaining our reputation and ensuring good governance. However, these risks do not comprise all risks associated with our business and are not set out in priority order. Additional risks that are as yet unknown to management, or currently deemed to be less material, may also have an adverse effect on our business.

Significant near-term risks are risks that could have a significant near-term cash impact or affect our short-term results but would not be expected to have a significant ongoing effect on the Group's valuation.

Emerging risks are risks that we believe are well mitigated in the short term but may represent a significant future opportunity or threat. These include company-specific risks and risks affecting the macro economy.

Principal risks

The Board has undertaken a robust assessment of the current risks facing Pearson, in accordance with Provision 28 of the 2024 UK Corporate Governance Code. This assessment identified the following principal risks, as well as a number of emerging risks and risks that, while more modest, could have a significant near-term impact.

For each of our principal risks, the tables on pages 58-65 identify:

- change in the risk over the last 12 months
- movement and outlook for that risk
- management actions
- link between the risk and Group strategy
- our risk tolerance
- examples of the risk
- risk 'contagion', i.e. the extent to which issues in one area could increase the risk in other areas
- assessed risk 'velocity', i.e. an indication of the speed at which a risk could materially impact the Group



Risk management *continued*

Accreditation risk

Description

Termination or modification of accreditation due to policy changes or failure to maintain the accreditation of our courses and assessments by states, countries and professional associations, reducing their eligibility for funding or attractiveness to learners. Regulatory bodies may also require modification of tests to continue to receive accreditation which may reduce the convenience to learners or increase the cost of delivery.

Movement and outlook

The risk increases from moderate-high to a high level. There are ongoing geopolitical developments alongside proposed modifications to UK immigration testing and vocational qualification frameworks, all of which present potential disruptions to markets where we have a leading presence. Nonetheless, no significant reforms in US markets have occurred and we have successfully retained a high level of Assessment & Qualifications contracts in 2025. Pearson has long-standing relationships and delivery capability across key markets, and Pearson's brand and track record are seen as competitive advantages in a changing environment. International expansion is a key focus for many of the business units and assumptions are made that there are no major geopolitical situations, or government policy changes, in key growth areas.

The risk is expected to remain at an elevated level for the foreseeable future.

Management actions

1. Focus on creating a culture where learners and regulatory awarding bodies can depend on Pearson and know that we will meet their standards. We recognise our obligations, particularly in the testing space, to ensure a focus on flawless or near-flawless execution of marking and delivering assessment results and take actions accordingly.
2. Continuing to evolve and enhance our security, data and governance standards to ensure we continue to meet and exceed required standards to be an accredited provider.
3. Broadening the range of services we offer and our range of stakeholders.
4. Pearson has long-standing relationships, delivery capability and country ambassadors across key international markets and Pearson's brand and track record are seen as competitive advantages in a changing environment.

| | |
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| Link to strategy | Assessment and verification is at the core of our strategy. |
| Risk tolerance | Low – we seek to operate in stable, well-regulated markets with known requirements to be accredited, and have a low tolerance for taking risks that may jeopardise that accreditation. |
| Examples of risks | <ul style="list-style-type: none"> • Political • Regulatory |
| Risk contagion | Accreditation risks are likely to have a financial impact but have limited risk of contagion. |
| Risk velocity | Changes in regulation or loss of contracts could occur within a 12-month period. |

Artificial Intelligence (AI), content and channel risk

Description

The risk that our intellectual property is harder to protect as a result of increased content generation through AI, and that our content and method of delivery (channel) is, or is perceived to be, insufficiently differentiated in terms of outcomes or learner experience. This could lead to lost sales and a significant decline in our market value.

Movement and outlook

The risk remains at a moderate-high level. How learners access content presents a medium-term risk, as institutions and students may question the value of traditional models. We are also conscious that public sentiment and regulatory considerations have also emerged around the use of AI in high-stakes assessments. Nonetheless, Pearson's strength lies in delivering outcome-focused, trusted, pedagogically sound content at the intersection of instructor, learner and content.

Significant progress has been made in our use of large language models. We have taken a proactive approach in leveraging advanced AI technology positions and have successfully integrated AI tools into courses. We have continued to develop AI tools across all business units, seeing evidence of it driving commercial success as well as driving improved learning outcomes and higher grades, as noted among Virtual Schools students. Our strategic partnerships with hyperscalers are accelerating the modernisation of Pearson's products, facilitating us to leverage AI to better serve our customers. We are also implementing AI-driven tools to customer service and enhance overall experience. Furthermore, in 2025, we hired a new Chief Business Officer to support sales teams in capturing upsell and cross-sell opportunities.

The risk is projected to remain heightened for the near term and beyond.

Management actions

1. Establishing a centralised data and AI solutions hub to set governance, and oversight, supported by AI delivery squads that enable a cohesive, Pearson-wide Responsible AI function.
2. Embedding AI into content creation products and services, creating efficiencies and helping us reach the market quickly. For example, the broad roll-out of custom AI assessment tools to all teachers in Virtual Schools is driving increased adoption and usage.
3. Driving innovation and development of next-generation products that infuse AI into products across our business units and enable us to align to individual learning needs: for example, creating AI chatbot integration in the Longman English app, and AI study tools in Connections Academy Virtual Schools which have led to improved outcomes and higher grades among students.
4. Reducing piracy and managing and enforcing intellectual property rights including via legal enforcement, where appropriate.

5. Targeted approach to capital allocation focused on opportunities in the higher-growth segments of the markets which we serve and a deep focus on product innovation.
6. Strategic partnerships with hyperscalers accelerating the modernisation of Pearson's products, enabling us to leverage AI for greater customer value.

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| Link to strategy | AI has been identified as a key seismic trend providing growth opportunity. |
| Risk tolerance | Medium – this is a strategic risk, and we should be rewarded for successfully developing and delivering products and services that consumers value. Some risk is accepted to ensure the learner remains at the centre of what we do. |
| Examples of risks | <ul style="list-style-type: none"> • Intellectual property protection • Method of delivery • Speed of innovation |
| Risk contagion | Failure to deliver high-quality and engaging products and services may have an impact on our reputation and responsibility risks and on meeting customer expectations. |
| Risk velocity | Significant short-term impacts are less likely due to our 2025 product strategy using AI as a growth driver and scaling AI across our products and services. Due to longer-term contracts or the time required for educators or learners to learn how to use new products and services, it is more likely that any impact will be felt over years. |

Risk management *continued*

Capability risk

Description

Inability to meet our contractual obligations or to transform as required by our strategy, due to infrastructure, systems or organisational challenges.

Movement and outlook

This risk reduces from a moderate-high to moderate level as we shift to execution against an evolved strategy, although we are cognisant of risks around talent, operational capacity and governance. Nevertheless, disciplined oversight of talent expenditure, alongside continued workforce investment, positions the organisation to strengthen capabilities and maintain operational resilience in the coming years. During 2025, a unified marketing organisation and e-commerce strategy has been established, enhancing both strategic alignment across our business units and our operational efficiency. Strategic partnerships have been announced and progressed across hyperscalers and professional services partners.

We expect the outlook to be similar for the near future.

Management actions

1. Risk ratings are assigned to each system, with plans to ensure system uptime. Recovery strategies are established to minimise disruption, enabling customers to maintain functionality or resume operations as quickly as possible in the event of downtime.
2. Regular patching, employee training and security measures, such as multi-factor authentication, help to ensure the stability and security of our key systems.
3. Dedicated resources to focus on testing and developing AI products and to understand evolving market capabilities.
4. Business continuity planning to ensure that we are able to respond should a key customer or supplier fail.
5. Enhanced focus on developing products that serve new markets and user groups, and cross-selling between business units, as well as product bundling.
6. Monitoring employee engagement and investing in our leaders to support key talent retention and effective succession planning.
7. Increasing clarity on our performance expectations for every role across the company, driving collaboration in pursuit of value.
8. Regularly reviewing our cost base to ensure competitiveness and identifying options for efficiencies.

9. A focus on the remediation of technical debt, supporting platform consolidation and creating a unified user profile, providing an integrated view of Pearson for users across multiple products.
10. Robust governance over our strategic transformation initiatives is in place with strong executive sponsorship.

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| Link to strategy | Core performance has been identified as a key strategic growth opportunity. |
| Risk tolerance | Medium – we aim to ensure we have the capability to deliver strategic objectives, requiring strong coordination and planning, without stifling innovation. |
| Examples of risks | <ul style="list-style-type: none"> • Business resilience • Business transformation and change • IT resilience • Safety and corporate security • Talent |
| Risk contagion | Failures in capability could result in increased reputation and responsibility risk and failures to meet customer expectations. |
| Risk velocity | Failures of capability could impact within six to 12 months. |

Competitive marketplace risk

Description

Significant changes in our target markets could make those markets less attractive. This could be due to significant changes in demand or in supply, which impact the addressable market, market share and margins (e.g. changes in enrolments, in-sourcing of learning and assessment by customers, open educational resources, a shift from in-person to virtual learning or vice versa, or innovations in areas such as generative AI).

Movement and outlook

The risk remains high due to competitive pressures affecting business units, for example, increased migration policy restrictions and tight migration policies impacting market size and demand for Pearson Test of English and demographic headwinds in Higher Education. Nonetheless, we remain focused on monitoring and proactively managing the evolving competitive landscape throughout our businesses.

Across many of our business units, we are increasing exposure to markets with favourable demographic shifts, successfully incorporating innovative technologies into our products and launching new offerings that expand our addressable market, such as the PTE Express Test offering an accessible test for US-bound learners, and Communication Coach launched inside Microsoft 365. We are also expanding into faster-growing adjacent segments of the learning market such as Early Careers.

In Virtual Learning we have seen strong enrolment growth for the 2025/2026 academic year as well as operational improvements and have expanded academic offerings including career programmes.

Our Enterprise Solutions product pipeline remains a key priority, complemented by the development of strategic partnerships with hyperscalers and other major partners to increase visibility and expand our presence within the enterprise market. Notably, we have secured a strategic vocational skilling contract for the construction sector in Saudi Arabia.

The risk is expected to remain elevated for the next 12 months, due to the ongoing competitive landscape in many of our business units.

Management actions

1. Working in partnership with customers, including IP owners, in our Assessment & Qualifications and Virtual Learning business units, to ensure that our customers' needs are being met, resulting in high retention rates on the long-term contracts in place.
2. We are advancing Pearson's presence within the enterprise market by making strategic partnerships with hyperscalers including Microsoft, AWS and Google Cloud, while expanding our reach with professional services partners such as HCLTech, Deloitte and Cognizant.
3. Undertaking competitive analysis to monitor and respond to competitive threats, with decentralised teams able to mobilise quickly to maximise opportunities and manage risk.
4. Our strategy involves targeted expansion into adjacent markets, including Early Careers, supported by the acquisition of eDynamic Learning, alongside increased investment in emerging markets with positive demographic trends.
5. Accelerating Pearson Test of English recognition in key student mobility markets through targeted marketing initiatives to drive growth, alongside expanding our offerings such as the recent launch of the PTE Express Test to serve the US-bound study market.
6. The implementation of a unified brand architecture to clarify Pearson's product offerings and plans to reinforce market differentiation in the enterprise sector by leveraging its established learning and assessment brands.

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| Link to strategy | Targeted market expansion has been identified as a key strategic growth opportunity. |
| Risk tolerance | Medium – this is a strategic risk associated with successfully selecting attractive global opportunities and seizing them. We seek to lead the shift to digital ways of learning and consequently to maintain strong market positions. |
| Examples of risks | <ul style="list-style-type: none"> • Substitutes • Market pricing • Product differentiation • Consumer learning preferences |
| Risk contagion | Changes in the competitive marketplace could increase portfolio change. |
| Risk velocity | We expect changes in the global learning market over our five-year planning horizon, but the timing and pace of such changes is uncertain. Assessment & Qualifications and Virtual Learning benefit from long-term contracts, which reduce potential velocity in these business units. |

Risk management *continued*

Customer expectations risk

Description

Rising end-user expectations increase our need to offer differentiated value propositions, risking margin pressure to meet these expectations and potential loss of sales if not successful.

Movement and outlook

The risk has remained at a moderate level. Our delivery across business units has met customer expectations.

Efforts across business units are focused on developing products to enhance customer experience, such as the implementation of AI for personalised lessons, as exemplified by the Digital Language Tutor and AI Study Tools launched in 2025. We are also integrating our assessment capabilities directly into McGraw Hill's K12 curriculum solutions, thereby enhancing the personalised learning experience for students. We have also launched Revibe, an AI-enabled wearable designed to help individuals build skills in focus, attention and self-regulation, and our NPS in Virtual Learning remains strong.

The newly established Revenue Operations team aims to enhance the alignment between marketing, sales and customer success operations, thereby providing Pearson's customers with a more seamless experience.

The creation of the Global Enterprise Sales team within Enterprise Learning & Skills has consolidated Pearson's enterprise sales efforts into a single, cohesive unit, enabling us to meet customer needs with a comprehensive suite of solutions.

We expect the outlook to be similar for the next 12 months.

Management actions

1. Monitoring and targeting strong NPS scores, responding to customer feedback.
2. The Group's direct to consumer offerings such as Study Prep provide valuable insights about usage.
3. Our service businesses conduct regular reviews with customers to ensure that their expectations are well understood and met and, where gaps arise, we are taking steps to address these concerns.
4. A unified Global Enterprise Sales team sharpens our focus and enables us to better meet enterprise customers' needs.

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| Link to strategy | Focus on delighting our customers and meeting their expectations. |
| Risk tolerance | Medium – this is a strategic risk, and we should be rewarded for successfully developing and delivering products and services that learners value. Some risk is accepted to ensure the customer remains at the centre of what we do. |
| Examples of risks | <ul style="list-style-type: none"> • Customer experience • Data architecture and usage • Accessibility |
| Risk contagion | Failure to produce products and services meeting customer expectations could also impact reputation and responsibility risks. |
| Risk velocity | Typically, one to three years, as long-term contracts run off. |

Portfolio change risk

Description

Failure to effectively execute desired or required portfolio changes to promote scale or capability and increase focus on key business units and geographic markets, due to either execution failures or inability to secure transactions at appropriate valuations.

Movement and outlook

The risk remains at low-moderate. In 2025, we announced the acquisition of eDynamic Learning, a leading Career and Technical Education (CTE) curriculum solutions provider, enabling us to broaden capabilities and scale our position in the fast-growing Early Careers space.

We expect the outlook to be similar for the next 12 months.

Management actions

1. Including investment plans in our strategic plans, aligning requirements with business unit structure.
2. A Capital Committee governance structure is in place with an Executive Committee for the review, analysis and approval of M&A transactions, as well as reviewing integration of acquisitions.
3. An experienced Corporate Finance team to execute transactions, supported by a dedicated post-deal Operations team.
4. Pearson Ventures allows us to take stakes in companies in early funding rounds supporting growth through innovation.
5. Clear rules of engagement for any M&A activity.

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| Link to strategy | Capital allocation is a core element of our strategy. |
| Risk tolerance | Medium – we seek to carefully balance the opportunity to achieve growth through increasing capability and/or scale with the execution risk of portfolio change. |
| Examples of risks | <ul style="list-style-type: none"> • Identification of requirements • Achieving value on acquisitions/disposals • Integration of acquisitions |
| Risk contagion | Failures in managing portfolio change could impact capability and the ability to meet customer expectations. |
| Risk velocity | The speed of achieving the full benefits of an acquisition will vary depending on the size and scope of the acquisition, but typically from six months for a simple small acquisition, to two years for a larger complex transaction. |

Risk management *continued*

Reputation and responsibility risk

Description

Reputational and responsibility risks involve failing to meet obligations and demands of key stakeholders, including legal, regulatory, ethical and behavioural expectations. These risks extend beyond direct consequences to include broader societal and cultural perceptions. Risks arise not only from our actions, but also from being perceived as misaligned with societal expectations or ideological divides, especially in a polarised environment.

Movement and outlook

This risk remains at moderate-high. The market has experienced several high-profile data breaches and incidents of fraud perpetrated through the use of deep fakes, and training has been ramped up for both employees and contractors.

We aim to operate in a highly reputable and responsible manner and so we intend to maintain strong mitigations to reputation and responsibility risks. However, numerous threats exist including from those who seek to do harm to the Group or to its customers, including nation-state actors, organised criminal rings and ransomware attackers, so constant vigilance is required. We continue to implement targeted initiatives to uplift cyber and data governance capabilities and protect against emerging threats in an evolving threat landscape.

The risk is expected to remain elevated for the next 12 months.

Management actions

1. Dedicated Risk Management teams throughout Pearson monitor and respond to key risks. These teams provide regular updates to senior management and report to the Reputation & Responsibility Committee or Audit Committee as relevant.
2. Mandatory training for all employees covers key reputational risks including cyber and data risks.
3. Insurance cover, where available, supports the Group financially in the event of major incidents.
4. Significant investment to ensure high levels of IT resilience, including enforcement of multi-factor authentication for all critical systems. Tools are in place to repel cyber threats and safeguard customer information.
5. A trust and safety governance framework is in place that covers data privacy, security and risk, assessing business impacts and ensuring accountability. We also conduct several industry assessments to benchmark against security best practices, namely National Institute of Standards and Technology Cyber Security Framework (NIST CSF), the NIST Privacy Framework (NIST PF) and Security Scorecard.
6. Strong financial controls are in place which are monitored by the Controls Steering Committee and Compliance teams, as well as local management.
7. An Incident Management Framework operates for effective incident management across a wide range of events and concerns. We undertake reviews after incidents and significant near-misses to allow lessons to be learned and any remedial actions to be put in place.
8. A going concern model is reviewed by senior management and is completed twice a year, or more often if there is a material event. We have a comprehensive treasury policy that addresses key financial risks, including capital risk, liquidity risk, foreign exchange risk and interest rate risk, with measurable targets and regular reporting to the Audit Committee.
9. Fraud assessments are completed by business units annually. A Speak-Up/ethics hotline is available for employees.
10. Comprehensive steps to safeguard students are in place including staff vetting, training and escalation processes. Staff sign an annual Code of Ethics declaration.
11. Our Government Relations team fosters constructive partnerships with policymakers and regulatory bodies to ensure we are aware of and have appropriate safeguards against emerging policy and political risks. It reports regularly to our Reputation & Responsibility Committee.
12. A highly skilled Legal team, supported by a global network of compliance officers, ensures our adherence to all applicable laws and regulations across our worldwide operations.
13. Governance is in place which ensures the timely and accurate reporting of all material and relevant information to comply with UK and US stock exchange regulations, including protocols relating to inside information.

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|--------------------------|---|
| Link to strategy | Our reputation and commitment to behaving responsibly underpin our strategy to be a trusted partner. |
| Risk tolerance | Low – we seek to be a highly trusted education and learning brand. Any significant failures could negatively affect our relationship with customers today and in the future. |
| Examples of risks | <ul style="list-style-type: none"> • Compliance with laws and regulations • Cyber security • Data privacy • Fraud • Insolvency • Safeguarding • Test failure • Use of third parties • Culture wars/polarisation of political views |
| Risk contagion | Significant failures in this area could increase our capability and accreditation risks and weaken our position in the competitive marketplace. |
| Risk velocity | Reputational risks could have a significant impact in a short period in the event of a significant issue. |

Risk management *continued*

Accountability for principal risks

For each of our principal risks (shown in bold), the table below lists the accountable senior executive(s) for each sub-risk. In 2025, we added one new sub-risk, we created a new position of Chief Business Officer and we combined the roles of Chief Technology Officer and Chief Information Officer, which has led to changes in accountability (marked in the table below).

| Risks | Accountability | Change since 2024 |
|---|---|-------------------|
| Accreditation risk | | |
| Political and regulatory | General Counsel and Business Unit Presidents | No |
| Artificial Intelligence, content and channel risk | | |
| Effective method of delivery (podcast, video, test, in-person, online) | Chief Product Officer and Business Unit Presidents | No |
| Intellectual property protection | General Counsel and Business Unit Presidents | No |
| Products and services - effective investment in own and third-party content | Chief Product Officer and Business Unit Presidents | No |
| Balance of content creation vs content purchased | Chief Product Officer and Business Unit Presidents | No |
| Speed of innovation | Chief Executive Officer, Chief Product Officer, Chief Strategy Officer, Chief Technology Officer and Business Unit Presidents | No |

| Risks | Accountability | Change since 2024 |
|--|--|-------------------|
| Capability risk | | |
| Capability in sales | Chief Business Officer | Yes |
| Business resilience | General Counsel and Business Unit Presidents | No |
| Business transformation and change | Chief Executive Officer and Business Unit Presidents | No |
| IT resilience | Chief Technology Officer and Business Unit Presidents | Yes |
| Safety and corporate security | General Counsel and Business Unit Presidents | No |
| Talent | Chief Human Resources Officer and Business Unit Presidents | No |
| Failure to attract talent/ succession planning | Chief Human Resources Officer | No |
| Competitive marketplace risk | | |
| Consumer learning preferences | Business Unit Presidents | No |
| Market pricing | Business Unit Presidents, Chief Business Officer | Yes |
| Product differentiation | Business Unit Presidents | No |
| Substitutes | Business Unit Presidents | No |

| Risks | Accountability | Change since 2024 |
|---|---|-------------------|
| Customer expectations risk | | |
| Customer experience | Chief Product Officer, Chief Business Officer and Business Unit Presidents | Yes |
| Accessibility | Chief Human Resources Officer, Chief Product Officer and Business Unit Presidents | No |
| Data architecture and usage | Chief Technology Officer and Business Unit Presidents | Yes |
| Portfolio change risk | | |
| Achieving value on acquisitions/disposals | Chief Financial Officer and Chief Strategy Officer | No |
| Identification of requirements | Chief Executive Officer, Chief Financial Officer and Chief Strategy Officer | No |
| Integration of acquisitions | Chief Financial Officer | No |

| Risks | Accountability | Change since 2024 |
|---|--|-------------------|
| Reputation and responsibility risk | | |
| Compliance with laws and regulations | General Counsel and Business Unit Presidents | No |
| Cyber security | Chief Technology Officer | Yes |
| Safeguarding | General Counsel and Business Unit Presidents | No |
| Test failure | Assessment & Qualifications, English Language Learning and Enterprise Learning & Skills Business Unit Presidents | No |
| Data privacy | General Counsel and Business Unit Presidents | No |
| Use of third parties | Chief Financial Officer and Business Unit Presidents | No |
| Polarisation of political views/cultural wars | General Counsel and Business Unit Presidents | No |

Risk management *continued*

Significant near-term and emerging risks

The main near-term and emerging risks are shown in the table below, which also notes accountabilities and where the risk represents a change since the previous year.

| Risks | Description | Accountability | Classification and change since 2024 |
|----------------------------------|---|---|---|
| Climate transition | Risks relating to sustainability and climate are outlined on pages 45–49. Expectations around climate change commitments and measurements change on a regular basis. | General Counsel and Business Unit Presidents | Emerging risk. No change. |
| Economic changes | Economic changes including high global inflation risks, recessions in global markets, high interest rates and supply chain disruption could increase the cost of production for Pearson and put pressure on school, enterprise and consumer budgets, reducing demand for our products and services. | Chief Financial Officer, Chief Executive Officer and Business Unit Presidents | Significant near-term risk. No change. |
| Tax | The outcome of tax decisions relating to prior year transactions in Brazil and the UK could lead to significant cash costs. | Chief Financial Officer | Significant near-term risk. No change. |
| Sanctions and geopolitics | High levels of geopolitical volatility have led to the increased use of sanctions, which could inhibit our ability to trade or, if inadvertently breached, could lead to fines, penalties and actions against officers. We have offices in Israel, which could be affected by the ongoing conflict in the region, and further new conflicts also pose risks. | Chief Executive Officer and General Counsel | Significant near-term risk. No change. |

We identify and monitor emerging and near-term significant risks in several ways:

- Horizon scanning by teams
- Consulting with external advisers and subject matter experts
- Drawing on external and academic publications such as the World Economic Forum Global Risk Report
- Keeping up to date with regulatory changes and industry benchmarks
- Bottom-up reviews by the management of each business unit
- A top-down review of the business risk registers to identify any new or emerging risks

Emerging risk management ensures that potential threats are identified early, with response plans assessed to strengthen the Group's readiness should they arise. Our processes are designed to detect new and evolving risks promptly and to analyse them in depth to understand the potential impact on the Group.

Risk assessment of prospects and viability

Corporate planning process

The Board assessed the prospects of the Group using the Group's five-year plan, reviewing going concern over the period to 30 June 2027 and viability to 31 December 2030. The five-year period corresponds to Pearson's strategic planning process, which is discussed by the Board at least annually and represents the time over which the Group can reasonably predict market dynamics and the impact of additions to the product portfolio.

The strategic plan takes account of a range of factors including market conditions, the likely impact of principal and other significant risks to the Group, product and capital investment levels, as well as available funding. Pearson's strategy and business model are discussed in more detail on pages 12-16.

Viability assessment approach and outputs

Base case five-year plan

In considering going concern and the viability of the Group, the five-year plan was used as the base case model for assessment. Sales, profits and cash are forecast to grow in the base case. The company or its subsidiaries have no debt maturities within the going concern assessment period.

Severe but plausible downside model

A severe but plausible model was prepared based on the base case adjusted for the probability-weighted impact of all principal risks as well as other significant risks. The net impact of the risks modelled was to reduce free cash flow during the 18-month going concern assessment period by 41%.

At 31 December 2025, the Group had available liquidity of £1.3bn comprising central cash balances and the undrawn element of its \$1.8bn Revolving Credit Facilities (RCFs) maturing June 2028 and February 2029. While the current extension options for both RCFs allow for a potential maturity in 2030, consistent with historical practice, Pearson anticipates refinancing the facility within the next five years to ensure liquidity beyond the testing period.

Under the severe but plausible downside case, the Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment before considering mitigating actions.

Reverse stress tests

Two reverse stress tests were modelled to determine the reduction in profit versus the plan that would be required to exhaust liquidity.

In the case of the going concern assessment, the profit reduction needed before 30 June 2027 was calculated. The model showed that significant profit declines in excess of the severe but plausible scenario were required in both 2026 and 2027 to exhaust liquidity.

For viability, the profit reduction and consequent reduction in cash flow needed to exhaust liquidity in 2030 was calculated, requiring a cumulative reduction in excess of those identified in the severe but plausible downside case.

Conclusion

Based on the results of these procedures, and considering the Group's strong balance sheet, the Directors have a reasonable expectation that Pearson will be able to continue in operation and to meet its liabilities as they fall due over the five-year period ending 31 December 2030. Further details of the Group's liquidity are shown in the Financial review on pages 25-31.

Below are the major inputs included in the severe but plausible scenario:

Accreditation

- Risks associated with potential political and regulatory changes in US Student Assessment, UK & International Qualifications and Virtual Learning
- Migration policy changes in key markets and the effect they may have on demand and market size for Pearson Test of English

AI, Content and Channel

- Loss of sales due to AI-related risks and poor choice of content and/or channel

Capability

- Risks associated with transformation and efficiency programmes if not executed or implemented with sufficient speed, or failure to deliver successfully
- Strategic initiatives and partnerships affecting short-term capability risk

Competitive Marketplace

- Long-term competitive pressure on US Student Assessment contracts
- Revenue declines in Higher Education due to demographic shifts as well as the general competitive environment
- Enrolment growth declines in Virtual Learning
- Strategic initiatives and partnerships affecting short-term competitive market risk
- Challenging market environment in English Language Learning

Customer Expectations

- Additional costs to provide higher than planned functionality and levels of user experience

Portfolio Change

- Failure to achieve anticipated acquisition synergies

Reputation and Responsibility

- Potential cyber and data breaches negatively impacting reputation on an ongoing basis
- Potential safeguarding incidents negatively impacting reputation on an ongoing basis

Recession and inflation

- Potential for increased costs and lower sales because of a weak macro environment