

Task Force on Climate-related Financial Disclosures

TCFD

We continue to enhance our TCFD reporting to outline how climate change may impact our business, in order to meet market good practice.

Our commitment to operate our business in a more sustainable way is demonstrated by our ambitious target of becoming net zero by 2030 and reducing our scope 1, 2 and 3 carbon emissions by 50% over the same time period. Our targets have been validated by the Science Based Targets initiative. We support the aims of the Task Force on Climate-related Financial Disclosures (TCFD) because we believe that businesses should understand and communicate the risks and opportunities that climate change brings, in order to achieve change.

We are long-standing members of the Climate Disclosure Project (CDP), and our Environmental, Social and Governance (ESG) reporting includes use of other leading frameworks such as GRI and SASB.

This report describes how climate change may impact our business, and the disclosures we make in 2021 are consistent with the recommendations of the TCFD.

Summary

We have identified the potential physical and transitional risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to Pearson. Climate change is not a principal risk for Pearson for the year ended 31 December 2021, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders.

In addition, we have performed an assessment of the financial impact of these risks and opportunities under multiple future climate change scenarios, which we describe in detail below. In making this assessment, we have considered the actions needed to achieve our commitment to net zero by 2030, as well as the impact of potential physical and transition risks. We concluded that these do not have a material impact on the carrying value of any assets and liabilities as at 31 December 2021, as set out in further detail in note 1 to the financial statements. For an illustration of our plan to net zero, please see pages 44-45.

Governance

The Board's Reputation & Responsibility Committee (RRC) is the main governance body for sustainability at Pearson and has responsibility for the oversight of climate change considerations. Cinthia Nespoli, Pearson's Chief Legal Officer, is the Executive Management member responsible for ensuring the effective delivery of our environmental target of becoming net zero by 2030 and reducing our scope 1, 2 and 3 carbon emissions by 50% over the same time period. The RRC works closely with Pearson's other Board Committees to ensure alignment and rigour of governance across all the potential impacts of climate change from strategic to financial and risk considerations.

The Committee members have the necessary experience to provide appropriate oversight for climate change. Please see pages 76-78 for a list of committee members and relevant professional experience. We recognise that the skills and expertise of the Committee will need to continually evolve given the rapid pace of change in environmental issues. Key activities of the Committee in 2021 included the following:

- Reviewing progress towards Pearson's net zero carbon goals
- Monitored progress towards compliance with TCFD reporting requirements, noting the key climate-related risks
- Considered work undertaken by 'tiger teams' within the business divisions to formulate ESG plans
- Considered an independent report on investor sentiment towards Pearson's ESG programme and communications, which was used to help shape our refreshed ESG framework ESG strategy and reporting; Science Based Targets; & TCFD.

Further information is included on pages 98-100.

The Audit Committee and the Pearson Executive Management team have reviewed and approved the Group's environmental Re-baselining Policy, and will continue to be involved in the development, monitoring and execution of our roadmap to achieve net zero by 2030.

The Sustainability team is responsible for driving the implementation of our overall ESG strategy and supporting all parts of the business as they identify and mitigate climate risk and capture climate opportunities.

Risk Management

Our Organisational Risk Management process provides a framework for identification, analysis and response to various forms of risk, the establishment of risk thresholds, and the creation of processes intended to mitigate, monitor and manage risks within these thresholds. For more information, please see pages 60-69. Our analysis shows that climate change is not one of Pearson's principal risks but we have identified the climate transition as an emerging risk.

Strategy

In 2021, we commissioned the Carbon Trust to undertake a project to identify and quantify the potential impact of climate change risks and opportunities to our business.

We considered various climate scenarios covering a broad range of outcomes to help provide insight into some of the risks and opportunities that may arise. The scenarios that were considered were:

- a well below 2 degree scenario
- a 2.4 degree scenario, and
- a 4.3 degree scenario.

These scenarios were selected because they provide a reasonable diversity of potential future climate states.

The time period considered was out to 2100 and the assumptions used in each of the scenarios were collected externally from sources including: the International Energy Agency ("IEA"), the International Institute for Applied Systems Analysis ("IIASA")'s Shared Socioeconomic Pathways ("SSP"), the Royal Netherlands Meteorological Institute KNMI climate change Atlas (CMIP5 ensemble) We will refresh our scenario analysis as new evidence comes to light or climate situations change. This will be done cyclically every two years.

Our analysis identified six main categories of risks and opportunities (CROs) across Pearson. The six main categories of CROs derived from a longer list of risks and opportunities. These were identified using an evidence-based approach.

Each CRO was assigned a specific parameter which could be used to indicate how factors beyond Pearson's control could change under different scenarios as a result of climate change, thus triggering the CRO taking place.

In assessing the risks for Pearson it was determined that there were no significant material risks arising in the near term (up to 2025). Longer term, the key risks to the business were considered to be supply chain risk and outsourcing risk. However, these are not expected to have a material impact on the business in any scenario.

We continue to assess the opportunities and quantify them as our business continues to evolve.

See the table set out below for a list of CROs identified and how we can mitigate the risk or maximise the opportunity as part of our business plans:

Climate Risk/ Opportunity	Descriptor	Impact time scale *	Actions
Products & Services	Opportunities associated with (re)training for 'green collar' careers	Short	Provide sustainability-related learning tools, products and services to our customers
Content Delivery	Opportunity to use 'blended' service offering to mitigate extreme weather events	Medium	Build products and services that could be adapted for blended service, and grow our digital strategy.
Raw Material Procurement	Increased costs driven by risk of disruption to distribution	Medium	Our digitisation strategy will mean the business will become less reliant on physical paper products. Global purchasing of raw materials will enable Pearson to manage short term changes and drive efficiencies from global purchasing.
Operations	Business continuity/disruption to Pearson operations in the Philippines due to extreme weather events	Medium/long	Pearson sites could be impacted by extreme weather events which could affect our ability to deliver some non-revenue generating services. Climate change adaptation measures are built into operations & building selection processes to ensure they have mitigation plans in place to minimise risk to Pearson's business. In addition, Pearson introduced a Global Flexible Working Policy during 2021.
Outsourcing	Business disruption to Pearson operations and outsourcing in India, due to extreme weather events.	Medium/long	Pearson outsources some of its 'back office' functions (customer support, software development etc). However, these activities are not revenue generating. Nonetheless, we build climate change adaptation into our procurement process, to ensure they have mitigation plans for climate change risks to minimise risk to Pearson's business.
Government funding	Reduced government funding for education due to lower GDP/climate change mitigation	Long	Introduced a direct-to-consumer strategy, and life-long learning business model.

* Impact time scale: Short - before 2025; Medium - between 2025 - 2030; Long - beyond 2030.



Metrics and Targets

Our key targets will be to achieve net zero by 2030 and reduce our Scope 1, 2 and 3 carbon emissions by 50% over the same timeframe (which have been validated by the Science Based Targets initiative). This will be measured through our percentage emissions reduction against a 2018 baseline.

Over 95% of our emissions fall within Scope 3, with our supply chain and printed books accounting for 24%. There are many actions we can take and are already making progress with our supply chain partners and sourcing initiatives. In the supply chain, alignment with our GHG strategy is a requirement of doing business. Within books we have already achieved significant carbon reductions from the transition from printed to digital product. Will continue and we are also now focusing on using lower carbon paper and printing on demand to reduce emissions further. Refer to pages 52-53 for detailed plans and metrics of the individual actions that will be undertaken to achieve our net zero plans for progress achieved against our environmental targets.

This year, we will be finalising our detailed plan to net zero, including associated costs. Further metrics will be developed as these plans progress. A portion of our executive compensation is also linked to our ESG performance. For details, please see page 121.

Table of Contents

The table below summarises each of the recommendations and where the relevant disclosures can be found:

TCFD Recommendation	Where Pearson's Disclosure is included
Governance	
a) Describe the Board's oversight of climate-related risks and opportunities	Information on the Board's involvement, and the Board's Reputation & Responsibility Committee (RRC) is included in the Governance section of this report, and in the Corporate Governance Report on pages 74-136; and the RRC Report on pages 98-101.
b) Describe management's role in assessing and managing climate-related risks and opportunities	For details of management's involvement and the work led across the business by the Sustainability team, refer to the Governance and Risk Management sections of this report, and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
Strategy	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Refer to the Strategy section.
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Refer to the Strategy section.
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Refer to the Strategy section and Scenario Analysis section.
Risk Management	
a) Describe the organisation's processes for identifying and assessing climate-related risks	Refer to the Risk Management section and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
b) Describe the organisation's processes for managing climate-related risks	Refer to the Risk Management section and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Refer to the Risk Management section and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
Metrics and Targets	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Refer to the Targets and Metrics section and the Sustainability section starting on page 40.
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3, greenhouse gas (GHG) emissions, and the related risks	Refer to the Sustainability section starting on page 40.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Refer to the Targets and Metrics section and the Sustainability section starting on page 40. Please also see our non-financial KPIs on pages 24-26.