Principal risks and uncertainties

We conduct regular risk reviews to identify risk factors which may affect our business and financial performance. Our group internal audit function reviews these risks with each business, shared service operations and corporate functions, agreeing upon measures and controls to mitigate these risks wherever possible. It is not possible to identify every risk that could affect our businesses, and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise and/or adversely affect our business or financial performance.

With the rapid deterioration in the global economic environment during 2008, there is an increased risk of a further weakening in trading conditions in 2009 which could adversely impact the company's financial performance. The outlook for the company for 2009 is set out on page 12. The effect of a continued deterioration in the global economy will vary across our businesses and will depend on the depth, length and severity of any economic downturn.

Our principal risks and uncertainties are outlined below.

Risk	Mitigating factors
A significant deterioration in Group profitability and/or cash flow caused by a severe economic depression reducing our liquidity and/or impairing our financial ratios, triggering a need to raise additional funds from the capital markets and/or a renegotiation of our banking covenants.	The Group's approach to funding is described on page 24 and the Group's approach to the management of financial risks is set out in note 19 to the financial statements.
Our US educational textbook and assessment businesses may be adversely affected by changes in state and local educational funding resulting from either general economic conditions, changes in government educational funding, programmes and legislation (both at the federal and state level), and/or changes in the state procurement process.	Our customer relationship teams have detailed knowledge of each state market. We are investing in new and innovative ways to expand and combine our product and services to provide a superior customer offering when compared to our competitors, thereby reducing our reliance on any particular funding stream in the US market.
Reductions in advertising revenues and/or circulation will adversely affect the profitability of our newspaper business.	The diversification of the FT Group into other business models and revenue streams, e.g. subscription based businesses, digital revenues, business to business products, conferences, in addition to its global reach, offsets reliance on newspaper print advertising and circulation revenue streams.
At Penguin, changes in product distribution channels, increased book returns and/or customer bankruptcy may restrict our ability to grow and affect our profitability.	We develop new distribution channels by adapting our product offering and investing in new formats. To minimise returns we are careful about how we supply orders, taking account of expected sell through. The application of strict credit control policies is used to monitor customer debt and we work with industry groups to minimise exposures (e.g through retention of title claims) in the event of default.
Our intellectual property and proprietary rights may not be adequately protected under current laws in some jurisdictions and that may adversely affect our results and our ability to grow.	We seek to mitigate this type of risk through general vigilance, co-operation with other publishers and trade associations, advances in technology, as well as recourse to law as necessary.
We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive.	To remain competitive we continue to invest in our authors, products, services, technology and people to take advantage of these opportunities. There is no guarantee that these investments will generate the anticipated returns or protect us from being placed at a competitive disadvantage with respect to scale, resources and our ability to develop and exploit opportunities.

Principal risks and uncertainties continued

Risk	**Mitigating factors**
A control breakdown or service failure in our school assessment businesses could result in financial loss and/or reputational damage.	We seek to minimise the risk of a breakdown in our student marking with the use of robust testing procedures and controls, combined with our investment in technology, project management and skills development of our people.
Our professional services and school assessment businesses involve complex contractual relationships with both government agencies and commercial customers for the provision of various testing services. Our financial results, growth prospects and/or reputation may be adversely affected if these contracts and relationships are poorly managed.	In addition to the internal business procedures and controls implemented to ensure we successfully deliver on our contractual commitments, we also seek to develop and maintain good relationships with our customers to minimise associated risks. We also look to diversify our portfolio to minimise reliance on any single contract.
We operate in markets which are dependent on Information Technology (IT) systems and technological change.	We mitigate these IT risks by instilling strong IT policies and operational controls, employing project management techniques to manage new software developments and / or system implementations and have implemented an array of security measures to protect our IT assets from attacks or failures that could impact the confidentiality, availability or integrity of our systems.
Operational disruption to our business caused by a major disaster and/or external threats could restrict our ability to supply products and services to our customers.	We have developed business continuity arrangements, including IT disaster recovery plans and back-up delivery systems, to minimise any business disruption in the event of a major disaster. Insurance coverage may minimise any losses in certain circumstances.
A major data privacy breach may cause reputational damage to our brands and financial loss.	We constantly test and re-evaluate our data security procedures and controls across all our businesses with the aim of ensuring personal data is secured and we comply with relevant legislation and contractual requirements. We have recently appointed a Chief Security Officer with extensive experience to lead our various data privacy and security programmes.
Investment returns outside our traditional core US and UK markets may be lower than anticipated.	We draw on our experience of developing businesses outside our core markets and our existing international infrastructure to manage specific country risks. We have strengthened our financial control and managerial resources in these markets to mange expansion. The diversification of our international portfolio, and relative size of 'emerging markets' in relation to the group, further minimises the effect any one territory could have on the overall group results.

Risk	Mitigating factors
Failure to generate anticipated revenue growth, synergies and/or costs savings from acquisitions could lead to goodwill and intangible asset impairments.	We perform pre-acquisition due diligence and closely monitor the post-integration performance to ensure we are meeting operational and financial targets. Any divergence from these plans will result in management action to improve performance and minimise the risk of any impairments. Executive management and the Board receive regular reports on the status of acquisition performance.
Our reported earnings and cash flows may be adversely affected by changes in our pension costs and funding requirements.	We review our funding arrangements every three years and will take steps to ensure pension funding plans are sufficient to meet future liabilities without unduly affecting the development of the company.
We generate a substantial proportion of our revenue in foreign currencies particularly the US dollar, and foreign exchange rate fluctuations could adversely affect our earnings and the strength of our balance sheet.	The Group's policy on managing foreign currency risk is described in note 19 to the financial statements.
Changes in our tax position can significantly affect our reported earnings and cash flows.	We employ internal tax professionals in the UK and the US who review all significant arrangements around the world and respond to changes in tax legislation. They work closely with local management and external tax advisors.

Social, environmental and ethical risk

We consider social, environmental and ethical (SEE) risks no differently to the way we manage any other business risk. Our 2008 risk assessment did not identify any significant under-managed SEE risks, nor have any of our most important SEE risks, many concerned with reputational risks, changed year on year. These are: journalistic/author integrity, freedom of speech, ethical business behaviour, compliance with UN Global Compact standards, environmental impact, people and data privacy. For more information, see the Pearson corporate responsibility report 'Live and Learn: Our Impact on Society'. The web link is available at:

www.pearson.com/community/csr_report2008