pearson plc : annual report : 1999

: all Pearson businesses command rich content, powerful brands and true international reach :

Pearson Television is the most international television production company around, producing popular television entertainment in local languages and cultures all over the world. **Recolétos** is one of the top media companies in Spain and is breaking out into new Spanish and Portuguese speaking markets. Built around the **Financial Times**, our international network of business and financial newspapers and online services are read by millions of business executives and investors every day. **Penguin** is one of the pre-eminent names in consumer publishing, with an unrivalled range of fiction and non fiction, bestsellers and classic titles. **Pearson Education** is the world's leading education business, helping teachers teach and students learn at every stage and in every part of the world. All of them aim to go about their business in ways that are imaginative, brave and decent.

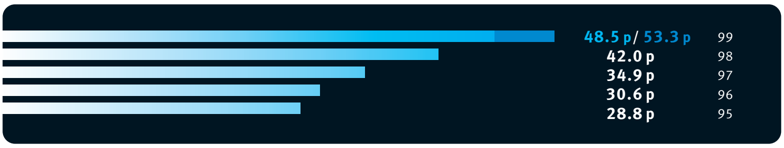
• due to launch in June 2000 • one of a growing number of Penguin author websites • Pearson Education's college publishing business has over 1,000 companion websites

meet some of our shareholders :

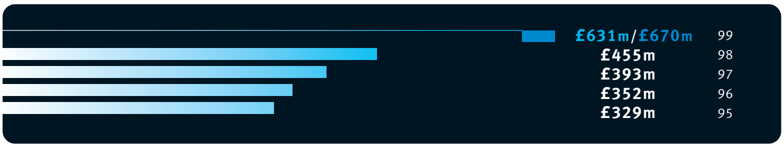
over 90% of our more than 24,000 colleagues now have an equity stake in the company.

: financial highlights :

ADJUSTED EARNINGS per share : before / after internet enterprises



EBITDA* : before / after internet enterprises



earnings before interest, tax, depreciation and amortisation

DIVIDEND per share

	1999	1998
SALES	£3,332 m $ 5,365 m	£2,395 m $ 3,856 m
OPERATING PROFIT*	£549 m $ 884 m	£389 m $ 626 m
PRE-TAX PROFIT*	£402 m $ 647 m	£350 m $ 564 m
ADJUSTED EARNINGS per share, before internet enterprises	53.3 p 85.8 ¢	42.0 p 67.6 ¢
ADJUSTED EARNINGS per share, after internet enterprises	48.5 p 78.1 ¢	42.0 p 67.6 ¢
DIVIDEND per share	22.5 p 36.2 ¢	21.0 p 33.8 ¢

* before goodwill, exceptional and non-operating items

value of the dollar translated at $1.61: £1 sterling

: chairman's letter :

It is astonishing how quickly we take for granted the greater focus and improved performance of our company over the last three years.

The financial highlights of 1999 demonstrate how much has been achieved. With adjusted earnings up 15%, we continue to build our reputation as a company that delivers consistent results. Pearson is now a web of increasingly connected media businesses, each performing well and with abundant opportunities for growth.

These growth opportunities stem from our ability to make inventive use of the intellectual property that Pearson commands. We will continue to invest, with bravery and imagination, in new platforms – through the internet and other technologies – and in more assets that help us inform, educate and entertain. Shareholders may be sure, however, that we will continue to apply, with rigour, the tough performance targets that have played such a key role in our progress over the last few years.

Our ability to attract and retain the best talent, at all levels of our company, is crucial to our growth and future performance. The new economy is transforming the opportunities on offer to management talent around the world. We have examined and rejected, for now, alternatives that would have separated some of our internet activities. Such a separation – through a separate flotation or the creation of some form of tracker stock – would have allowed us to give potentially highly leveraged options to those involved. We rejected this route because we see the internet as integral to all that we are trying to achieve. As importantly, we did not wish to discriminate against employees who are as crucial to the creation of shareholder value as those much more directly involved in the net.

However, we do need to be able to offer competitive compensation to people who are at the forefront of developing our internet enterprises. We also want to continue to extend share options more widely across Pearson. For these reasons, we have introduced a special share option plan this year and may well bring forward a new share option plan for your approval. Later this year, we plan to seek a listing of our ordinary shares on the New York Stock Exchange (NYSE). Over half our employees are based in the United States and a listing will enhance our ability to offer them equity participation in Pearson. We welcome your views on any of these issues.

lord stevenson : chairman : **pearson plc**

We have now sold the last of our unrelated businesses – our stakes in the three Lazard investment houses. This sale allows us to invest all our resources in the businesses that form the future of Pearson, but it also means that we part company with an institution that has been tied to our history for over 80 years. Our relationship with Lazard has been long, happy and very profitable. As a result of the sale, two Lazard partners, Michel David-Weill and David Verey, have decided to step down as directors of Pearson. Michel joined our board in 1970; over the last three decades, Pearson's shareholders have, on many occasions, benefited from his wise counsel. In his five years as a director, David has also made a major contribution. We wish Michel, David and all the Lazard partners a great future.

On behalf of my executive board colleagues and, indeed, all shareholders, I also thank the small number of very committed non-executive directors who have been an important source of support during the transformation of Pearson in recent years. Shareholders will welcome the news that the first increase in their fees for five years is being taken exclusively in shares. Over the next year we will be reviewing more innovative ways of linking the non-executives to the success of the business. On behalf of all shareholders, I would like to welcome two new non-executive directors who have joined the board since the publication of last year's annual report. Lord Burns was appointed to the board on 6 May last year and Rana Talwar joined us on 20 March this year. Both will put themselves forward for reappointment at this year's annual general meeting.

Finally, but foremost, the board thanks the 24,000 and more Pearson colleagues who made 1999 such a great year and give us such strong grounds for optimism about the future. It gives us great confidence to know that, through our company-wide bonus and share ownership plans, they can all share in our future success.

jean aiken : business development
ft interactive data : massachusetts

florence tong mei fong : publishing
pearson education : hong kong

: chief executive's review :

In a world mesmerised by technology, it would be easy to find ourselves focusing more on the works of the engine than on its purpose. But we try not to. Instead, we try to think of the technology as fuel and concentrate on how it can get us to where we want to go.

So in 1999 we kept our eyes on the road and logged another great year for Pearson shareholders. Financially, we met everyone's expectations, including most of our own (though we also think we could achieve more). Strategically, our own plans and the world's fashions helped us *do* more with the networked world and *plan* more about the role it will play in our future.

Our measures of operating success have for the last three years been sales, margins and cash. We performed strongly on all counts and at the same time invested in the future. Details on how we performed start on page 11.

In Pearson Education, we completed a complex integration of two large companies without breaking our stride. We didn't compromise business performance or educational standards, and we didn't spill any of the planned savings from the mixture. In the Financial Times Group, we rode the wave of a grand advertising boom with all our financial newspapers as well as a boom in the equity and bond markets which buoyed even further our leading position in the market for online securities data. But it wasn't just the market that made us successful. In both businesses, we managed also to attract more readers and customers, grow faster than our competitors and so increase our market share. At the same time, we were building more functional news and information services for the business executives and investors who are some of our most loyal customers.

Work on Penguin's consumer book business began to pay off, too, as growth in internet sales and other technology-related developments gave us advantages in the back and front of the house, in our supply chain and in gathering communities online. At the same time, investment in already great and soon-to-be great authors yielded rewards for us and our readers.

marjorie scardino : chief executive : **pearson plc**

The same desire for favourites drove our television business, centred on its own kind of best-sellers. Our enduring formats and stories once again performed all over the world in a multitude of languages to a multitude of television audiences. These same shows also began to perform online with interactive games that brought a new dimension to the business. And across the company, the Pearson Technology Centre, our in-house technology hub, and Headland, our digital publishing arm, helped us apply technology both to transform the supply side of our publishing operations and break out into new markets.

As we flew along last year, we continued to redesign our aeroplane in mid-flight. Our essential effort is still to become a simpler, more integrated media company focused on services that appeal to people's minds and emotions, whether they're learning, making decisions or having a good laugh. In our redesign, we looked for the opportunities that will secure our future: in new business information audiences and services, in new education tools to help students and teachers, in new ways of telling stories. (A few of many examples from across Pearson are set out opposite and over the page.) In all that we did, we tried to balance creating a great business for the long term with making consistent shorter-term returns for those who have their money invested in Pearson now.

As we were working, the world was definitely moving in our direction. The trends which have for several years attracted our attention – the appetite for education in the developed and developing world; the growth of English; the power of technology when applied to the mind's creative output – continue to gather momentum.

In the US, for example, a mini 'baby boom' will swell the school rolls by two million children over the next five years, while their parents themselves swarm back to college for further education. Around the world, public and private spending on education is rising as individuals, companies and nations strive to be part of an increasingly brain-powered world.

In that world, the onward march of English as the language of global business, along with cross-border investment traffic and the private investor revolution, have created new markets for business information.

cherryl martin : marketing
ft knowledge : new york

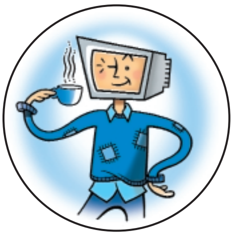
We've made the biggest investment in editorial talent in the history of the *Financial Times* – and created a truly integrated newsroom, serving both newspaper and online business portal. Moving so freely across media boundaries is paying off. Newspaper sales increased by 14% worldwide and FT.com trebled its traffic and revenues. We have ambitious plans to grow the reach and audience of the *Financial Times* – in all its forms.

The *Financial Times* and our network of European business titles will promote the growth of FTMarketWatch.com, which will bring financial and market news to Europe's fast growing army of private investors. The site is modelled on CBS.MarketWatch.com, which is America's leading personal investor site and is partly owned by Pearson.

FT Knowledge combines the authority that the *Financial Times* commands in the global business community with the deep learning resources of Pearson Education. Linking up with some of the most respected academic institutions, it is operating around the world to create virtual universities and online business schools for all sorts of courses, including MBAs.

In the US, many schoolchildren – and all college students – study at least one of our educational programmes. If they learn online, they are likely to log on to one of our electronic programmes or websites. Our plans for a new online consumer education portal will enable us to reach out to students at home of every age and at every stage of learning, wherever they are in the world.

subroto mozumdar : general manager
pearson education : delhi



We publish the bestselling and the most comprehensive range of technology texts and titles in America, attracting a big and loyal readership among the web savvy IT community. We are using our ability to reach that audience to create InformIT, which aims to be the leading portal for the IT community.

The Penguin Classics brand, stretching from 6,000 titles of classical and modern literature to audio books and CDs of great works of classical music, attracts a large and fanatical following. Now, Penguinclassics.com has an entire online world for the classics – with anthologies, original essays, interviews and discussions and links to other classics sites – transforming that following into a community.

Penguin's world-leading collection of children's fiction, featuring classic characters such as *Spot* and *Peter Rabbit* and bestselling authors such as Roald Dahl, makes for great story-telling. And it makes for great television too. Pearson Television's animation business is developing a number of major projects based on Penguin published properties, including the Roald Dahl classic, *BFG*; the evergreen *Peter Rabbit*; and the award-winning *Something Else*.

Game shows are, by nature, interactive. Now, as well as shouting out the answer at your television screen, you can play the game online. *Family Feud*, one of our most popular game show formats, is back on US television – and live on the net. And it is attracting big audiences in both formats. It is the highest rated new game show in syndication on US television – and one of the biggest draws on Uproar.com, the online entertainment site in which Pearson Television owns an interest.

gabrielle coyne : marketing
penguin : melbourne

Meanwhile books, most published first in English, are often the beginning of stories that are told across all media and in all parts of the world. With a growing number of channels to carry them, our ownership or stewardship of these stories and data and analysis, combined with our ability to work in many formats, gives Pearson a great advantage.

At the heart of all these trends is the revolutionary impact of the internet. We've tried out a lot of analogies to help us think about what this networked world will mean – the industrial revolution, the railroads, the internal combustion engine, television, even the computer itself. We've finally settled on our favourite – electricity. Like electricity, the internet is the invisible circuit that makes things possible that never were before. We will, before very long, take it entirely for granted. But it will change our world for ever.

In this world, the real prizes will go to the media companies with the brands, content, ideas and versatility to use this electricity to make their customers' lives easier and run their businesses better. It's not about the electricity. It's about what it can do – and we have a lot of ideas about how we will use it to help people learn; to help them succeed financially; to provoke their imaginations or prompt a smile. To help us realise our ideas, we've also chosen a few truisms to rest our case on, at least for now:

content is the thing : The Pearson factory manufactures and manages rich content. It may help you pass a test, get a job (or do the job you already have better). It may help you understand the world or, for a little while, switch it off. But across its range – from children to adults, forensic pathologists to cooks – it draws an audience that keeps coming back for more. That's a much-valued quality in any medium, and it has given us confidence to invest more than ever to hire and retain the best journalists, authors, editors and producers and encourage their creativity.

brands count : The internet is generating content even faster than computing power is multiplying, but for many people clicking through the web for what they want is like rummaging through a Saturday garage sale. They need help to find what they are looking for – and brands provide just that. The list of new advertisers in the *Financial Times* and its sister titles show the

pete kalhan : video production
pearson television : london

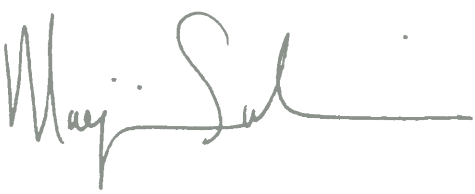
importance new dot.com businesses attach to building brand awareness. In Pearson, we already have a fantastic range of brands – built through 'old' media – that people trust and look for. Across all channels, but particularly the web, we are building and using them like never before, because the other rule about brands on the net is: 'use it or lose it'.

the world is global, but it's local too : The internet moves its data passengers with fluidity across borders. But as it crosses them, languages and cultures don't disappear. So we are also investing more in building our presence in national and regional markets and languages around the world, to help us move forward being as fluent in French, Spanish, Portuguese, German, Chinese and many other languages as we are in English in all its accents.

Our ideas about the world may not continue to be sound, and we'll watch closely for signs of atmospheric changes. But for now they are our advantages. With the internet, they give us the means to execute our game plan on a scale never possible before, to sew all our businesses together and change the kind of company we have.

But as we try to do that, there is one other thing we know, and it's something we don't think will change. That is the utter reliance Pearson has on its people. No matter what brands or content we own; no matter what market shares we build; no matter what ideas we have, nothing counts if there aren't people who enjoy their work and are challenged to do more than they thought they could. If we can make Pearson the best place to work in the world, we will be sure to make all our shareholders happy.

So my thanks to everyone who did just that in 1999. I hope you feel like doing it again, and again.



jason molfetas : vice president
pearson technology centre : new jersey

william hanna : production
pearson education : new jersey

: the pearson goals :

In 1997, determined to make Pearson perform better more consistently, we set the target of achieving annual double-digit growth in adjusted earnings per share. We also set three measures against which we would gauge our progress: underlying sales growth; trading margins; and the proportion of operating profits that we convert into cash. We track the performance of each business against these measures and gear bonus payments to them. This simple approach is working. In 1999, we performed strongly on all counts.

ADJUSTED EARNINGS per share : before internet enterprises

Adjusted earnings per share increased by 27% to 53.3p per share, excluding our new internet enterprises. Taking account of internet enterprises, adjusted earnings increased to 48.5p per share, a 15% increase and our third successive year of double-digit growth in adjusted earnings per share. This result was helped by a lower tax rate, but reflects real earnings progress.

SALES underlying growth

On a like-for-like basis, sales (excluding portfolio changes and movements in exchange rates) increased by 7.3%, the biggest underlying increase in sales that we have achieved for many years.

TRADING MARGIN : before internet enterprises

The proportion of sales turned into operating profit (excluding profits from associates and passive

john makinson : group finance director : **pearson plc**

investments) was, excluding internet enterprises, 15.2%, up from 13.1% in 1998. Including internet enterprises, the margin improved to 14%.

CASH CONVERSION : before internet enterprises

In 1999, 92% of our operating profits were received as cash. This compares to a cash conversion rate of 101% in 1998, when we benefited from a number of non-recurring cash items and timing variances which, as we reported last year, we did not expect to be repeated in 1999. This year, we had set ourselves a cash conversion target of at least 80%. Our success in beating that target so comfortably is a tribute to the work all our businesses did to improve cash flow, particularly Pearson Education, which generated significant cash from the acquired Simon & Schuster businesses.

EBITDA***: before internet enterprises

In addition to the performance measures which form the basis for bonus awards, we focus on a variety of financial indicators which help us to chart our course and, when necessary, correct it. EBITDA (earnings before interest, tax, depreciation and amortisation) is a close proxy for cash flow and is increasingly used as a basis for valuing media companies such as Pearson. This table shows the growth in EBITDA, before exceptional items and internet enterprises. It is significant that the company's EBITDA, calculated before or after internet enterprises, exceeded $1bn for the first time.

* before exceptional items
** before the impact of Penguin improper accounting
*** before goodwill, exceptional and non-operating items

caspar de bono : business development
ft your money : london

FREE CASH FLOW per share : before internet enterprises

Free cash flow is another highly relevant measure since it defines the capacity of the company to reinvest in the business and fund dividends to shareholders. Free cash flow per share showed a slight reduction from the exceptional levels of 1998, due to an increase in the tax relating to non-operating items, but remains at a very healthy level.

: our internet goals :

Across Pearson, we have, for some years, been investing in online activities that play a significant part in our business operations and are reflected in both our profit and loss account and our cash flow. These online activities are so integral to all our businesses that it is difficult to identify the revenues they generate with any sort of precision. However, looking at all our online activities, we can identify three broad revenue streams:

online delivery : Pearson Education, through the Computer Curriculum Corporation and Electronic Education businesses, and the Financial Times Group, through its FTID operations, deliver content and services exclusively online. In 1999, these products made sales of around £90m.

online channels : In both the Penguin Group and Pearson Education, the internet is an increasingly important sales channel through which we sell our books. In 1999, we made sales of around £50m through online channels.

online/text products : Pearson Education is investing heavily to continue to integrate its textbooks with password protected companion web sites, which are sold as bundled web/text products. In 1999, these products generated sales of around £375m.

* before exceptional items
** before the impact of Penguin improper accounting

justine drew : management development
pearson plc : london

We are also stepping up investment in developing new internet enterprises which capitalise on the power of our brands and content and generate additional and distinct online revenue streams. At this stage, we are investing primarily in the following areas:

Developing FT.com as a major global business portal.

Building a network of leading European and US business and financial news, private investor and personal finance web services.

Making strategic investments in internet businesses with whom we can develop joint ventures and alliances.

Creating an online consumer education network and developing InformIT, an information technology portal.

Pursuing internet opportunities in Spanish speaking markets.

These internet enterprises combine the opportunity for very high growth with above average business risk, which sets them apart from our established media operations. They also meet our twin tests of scale and separability, in that they have the scale to justify separation and it is practically possible to separate their revenues from those of print or television-based counterparts. Here, we are setting out, for the first time, how we plan to approach their funding, investment appraisal and financial reporting.

funding : Last year's sharp reduction in the debt we took on to finance the Simon & Schuster acquisition means we could finance the next stage of the development of these internet enterprises from our existing financial resources. However, in view of the growth and risk characteristics of these enterprises, we decided to finance their development through the issue of risk capital, or equity. We considered seriously the possibility of creating a separate equity security to track the performance of these businesses but decided that this would be complex and potentially divisive. Instead, in January 2000, we raised £250m through the issue of 11.5 million shares at a price of 2200p per share. At this stage, £250m is enough to finance the development of our internet

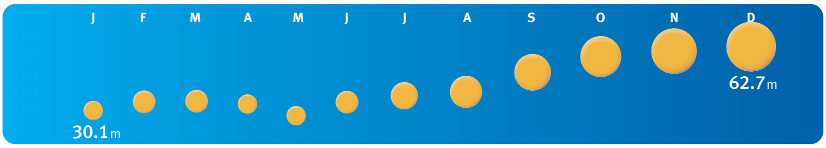
angelos christopoulos : production
pearson television : athens

enterprises although we will accelerate this investment if we conclude that the extra spending is justified by the eventual returns. The pace at which we will invest this £250m is difficult to predict. Markets for internet products and services are changing rapidly and require a flexible response, with financial commitments being scaled up and down according to need. In some cases, we can form partnerships which capitalise on our brands, content and ownership of advertising media (which has great appeal to internet companies) to achieve some of our internet goals without using our cash. In whatever currency, we will continue to increase organic investment in our own internet enterprises. For example, this year we are investing in major marketing campaigns to promote FT.com in both the United States and Europe. We are also taking equity stakes in, and forming strategic alliances with, internet companies which will help us to accelerate the development of our internet enterprises. For example, in the first three months of this year, we have invested in strategic stakes in several online information and education companies to further our aim to be a substantial online consumer education force.

investment appraisal : We are, of course, taking a rigorous approach as to how we invest in these internet enterprises. As far as we can, we aim to apply the disciplines of the venture capital community, combining a rigorous approach to financial appraisal with speed and flexibility in execution.

We have formed a small internet appraisal group, led by the chief executive and the finance director, which analyses and approves each investment proposal. Before the initial funding of a business plan is approved, key performance indicators (typically related to revenue growth and traffic) are agreed and targets are set which relate to those indicators. Only as the milestones corresponding to each target are achieved does the appraisal group approve the release of additional funds to carry the project forward to the next milestone date. The appraisal group monitors the performance of each key project at least once a month and also approves all external equity investments. We will report the progress of each of our main internet enterprises against their targets on a regular basis.

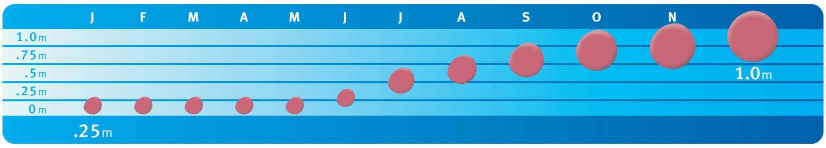
EUROPEAN BUSINESS PORTALS : combined monthly traffic



aggregate monthly page views for expansiondirecto.com, FT.com and lesechos.fr to December 1999

tiffany leeson : design
penguin : london

FT.COM : unique monthly visitors



to December 1999

financial reporting : We will report on the financial performance of our internet enterprises as a separate item within our operating profits. This provides shareholders with greater financial transparency and the opportunity, should they choose, to apply the appropriate valuation yardsticks to businesses with very different financial profiles. In 1999, these internet enterprises, of which much the largest was FT.com, generated revenues of £7m and operating losses of £39m. We expect both revenues and operating losses to rise in 2000 as we accelerate investment in a growing number of internet enterprises.

The scale and inherent unpredictability of our investment in internet enterprises makes the task of forecasting our total adjusted earnings, and with that our dividend, a good deal more complicated. We are reluctant, however, to sacrifice our commitment to double-digit growth in adjusted earnings per share. Pearson first made this pledge in 1997 and has since achieved it every year. It is a good discipline and the target has had a powerful motivating effect right across the company.

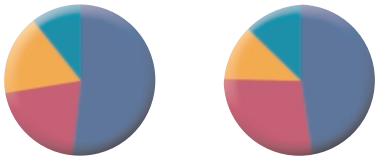
So from 1999, we are reporting adjusted earnings per share both before and after internet enterprises. From 2000 onwards, our commitment to annual double-digit growth will apply to adjusted earnings per share before internet enterprises. We also plan to peg our dividend payments to this measure of earnings. Dividend policy is discussed in more detail in the Financial Policy section (see page 36).

stephanie rufenbarger : business development
pearson education : indianapolis

: the results :

In 1999, Pearson's sales grew from £2,395m to £3,332m and operating profit, before goodwill, internet enterprises and other items, grew from £389m to £588m. Pre-tax profits, before goodwill, exceptional and non-operating items, grew from £350m to £402m. The major factor driving such a big increase in sales and operating profits was Pearson Education, which enjoyed the benefits of the first full year contribution from the Simon & Schuster businesses, acquired in November the previous year. As a result, its sales increased by 146% to £1,725m and operating profits increased from £99m to £257m. Profits at the FT Group rose by 27%, reflecting a strong underlying performance by our business newspapers and the benefits of

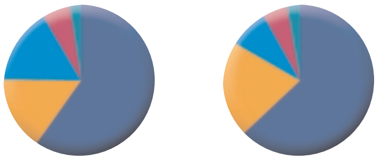
sector analysis



sales　　profit•

sales		profit•
£1,725m	pearson education	£257m
£687m	ft group	£150m
£565m	penguin group	£65m
£355m	pearson television	£68m

geographical analysis



sales　　profit•

sales		profit•
£1,990m	north america	£340m
£518m	europe	£110m
£544m	uk	£46m
£200m	asia pacific	£29m
£80m	rest of the world	£15m

the acquisition, in the latter part of the year, of Thomson Financial Securities Management (TFSM). The Penguin Group increased profits to £65m, an underlying increase of 23%. It benefited from a strong list of bestselling authors and steps taken the previous year to put the supply side of the business on a stronger commercial footing. Pearson Television increased its profits by 11%, thanks, in part, to a halving of the start up losses arising from our investment in Channel 5.

• before internet enterprises, goodwill and other items

anna lillistone : pearson graduate
pearson plc : london

UNDERLYING SALES ANALYSIS

We continued to dispose of businesses that lacked market scale and passive investments which brought us no strategic value. In the FT Group we sold a number of magazine and newsletter operations, the Extel research products business and Les Echos medical publishing division. Following the merger of Simon & Schuster and Addison Wesley Longman, we sold the Macmillan General and Library Reference, Jossey-Bass, Appleton & Lange, Master Data Center, and the Bureau of Business Practice businesses and some higher education titles. These disposals raised a total of £209m. We completed the sale of our 4% indirect stake in BSkyB for £408m. In total, we realised £700m from disposals during the year. We have now completed the sale of our stakes in the three Lazard houses for £436m in total, bringing the amount raised by our diposal programme since 1997 to £2.4bn.

We invested in businesses where we see good opportunities for growth. Financial Times Interactive Date (FTID) acquired TFSM for $150m and we subsequently merged FTID with the Data Broadcasting Corporation (DBC).

The full impact of the Simon & Schuster acquisition can be seen in the analysis of how and where we made our sales and profits. Pearson Education generated over 50% of sales and contributed 48% of our profits. We made 60% of our sales and 63% of operating profits in North America. In 1999, we benefited from a positive exchange rate impact on profits of £5m and £33m on sales. Stripping out the impact of portfolio changes and exchange rates, underlying sales increased by 7.3%.

edward teoh swee ong : general manager
pearson education : kuala lumpur

lara salameh : business development
ft.com : london

pearson education : profile

In a world shaped by an increasingly knowledge-based economy, there is a ravenous appetite for education in both the developed and developing worlds. Governments, corporations, and individuals see education as the path to self-determination and prosperity and they are willing to invest more than ever in it. As the world's leading education company, we work with authors and educators to play our role in educating all ages in all parts of the world.

We are the leading US school* (kindergarten to 12th grade) publisher, with a comprehensive range of textbooks, supplementary, and electronic education programmes. Our premier elementary (www.scottforesman.com) and secondary imprints (www.phschool.com) publish some of the very best school programmes covering subjects such as reading, literature, math, science and social studies. We are a leading publisher of online assessment and digital courseware through the Computer Curriculum Corporation (www.ccclearn.com), the Waterford Early Reading Programme and the KnowZone (www.kz.com). We also publish supplementary teaching aids for both elementary (www.pearsonlearning.com) and secondary schools (www.globefearon.com) and teacher-written activity books (www.phdirect.com).

We are by far the leading higher education publisher in the US, with imprints such as Addison Wesley Longman (www.awl.com), Allyn & Bacon (www.abacon.com) and Prentice Hall (www.prenhall.com). Over 1,000 of our college textbooks have an interactive companion website (such as www.abacon.com/albanese) with online study guides designed to reinforce text concepts, and chat rooms and bulletin boards to facilitate interaction and communication between students and faculty. An increasing number of our programmes are delivered through online course management systems that provide a powerful set of easy-to-use tools that allow professors to create sophisticated web-based courses (such as webct.prenhall.com/audesirk/topics/animation/an–lib.html).

*In the US, 20 states, which account for over 50% of the total US school population of some 52 million, buy educational programmes by means of a periodic statewide 'adoption'. These cover new programmes in core subject areas. A state committee selects a short-list of education programmes, from which the school districts then choose. In the 'open territories' – the 30 states without adoptions – local school districts choose education programmes themselves.

peter jovanovich : chief executive : **pearson education**

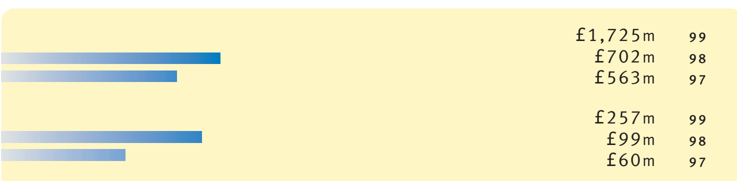
Our professional and technology group publishes over 1,000 computer and technology titles a year (our imprints include Macmillan USA, Que, Sams, Prentice Hall, Cisco Press, Adobe Press, New Riders, Peachpit and Addison Wesley) complemented by an online presence (www.informit.com), which aims to be the leading vertical portal for accomplished and aspiring IT professionals.

More people learn English as a second language with our programmes (www.longman-elt.com) than those of any other publisher. We are also a leading publisher of indigenous works in the school, university and professional markets in countries all over the world.

FT Knowledge (www.ftknowledge.com) is one of the world's leading providers of business education and management development. We specialise in providing learning and development that is highly relevant to the needs of businesses and the people that work within them.

pearson education : performance

Pearson Education, formed in November 1998 through the acquisition of the Simon & Schuster education business and its merger with Addison Wesley Longman (AWL), performed very strongly in its first full year of operation. Sales increased to £1.72bn, an underlying increase of 9.4% on pro forma sales in 1998.



sales
actual

operating profit
actual

Our US school business had an excellent year, increasing pro forma sales by some 9% to £586m. Our bestselling math and social studies programmes led the way. They gained substantial market share, creating a platform which will help to drive strong backlist sales in future years. While we were marketing and selling these programmes, we were also working hard in finalising the new reading, literature and science programmes that will secure our future growth.

patrice jones : marketing
pearson education : new jersey

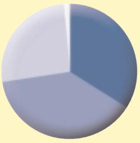
	1999 actual	1998 actual
PEARSON EDUCATION	£265m	£99m
FT KNOWLEDGE	£(8)m	––
TOTAL	£257m	£99m
INTERNET ENTERPRISES	£(3)m	––

operating profit analysis

Nor did our US higher education and professional publishing business miss a beat. With a 12% increase in sales, our college publishing operations outperformed the competition and strengthened their market leading position. We stepped up the development of text/web and online course management programmes that create more interactive learning, enabling us to build closer relations with professors and students. We also invested more in the new signings and successful first editions that will keep us ahead of the pack. Our professional and technology publishing group achieved similar growth, buoyed by a strong publishing programme and surging interest in technology and e-commerce issues.

Our International business increased sales by 5% to £446m. We moved swiftly to transform the extensive international networks of both AWL and Simon & Schuster into a single cohesive force, building up our local publishing presence and strengthening our distribution and marketing networks. In print and online, we continued to expand our leading English language teaching business as the number of people around the world who want to learn English grows rapidly by the day. In the latter part of the year, we capitalised on the first signs of sustained economic recovery in emerging Asian and Latin American markets.

FT Knowledge made losses of £8m as it invested rapidly in expanding its scale and scope to capitalise on the explosive growth of online learning and the burgeoning demand for business qualifications. We are working with the University of Michigan Business School, one of the leading providers of



	1999 actual	1998 pro forma
us school	£586m	£537m
us higher education & professional	£666m	£593m
international	£446m	£423m
ft knowledge	£19m	––
discontinued	£8m	£22m

sales analysis

andrew thraves : publishing
pearson education : essex

maria anchustegui quintela
administration
recolétos : madrid

executive education in America, to offer online executive management courses. We have set up a joint venture with Regents' College, a leading US 'virtual university', to accredit a wide range of FT Knowledge business and computing programmes. And we are working with The Wharton School of the University of Pennsylvania University, one of the most prestigious business schools in the world, to offer programmes in eBusiness which will be delivered and supported online.

Across Pearson Education as a whole, we are in good shape to deliver the planned $130m of annual integration savings by the end of 2000. We are also keeping our eye firmly on the main goal of meeting the very high pedagogical standards that our customers – teachers and students, pupils and their parents, education boards and college faculties – expect of the world's leading education company.

the penguin group : profile

At a time when books are often the beginning of a story that gets told across all media in all parts of the world, Penguin has a great future. We are one of the premier English language publishers in the world. We publish an extensive range of titles: the very best new fiction and non-fiction, literary prize winners and commercial blockbusters, and on subjects ranging from history and science to essential reference. We are the pre-eminent classics publisher and own some of the most highly prized and enduring brands in children's publishing. We rank in the top three in all major English speaking markets – the US, UK, Australia, New Zealand, Canada and India. As well as publishing under the Penguin name, our imprints include (in the US) Avery, Berkley Books, Dutton, Plume, Putnam, Riverhead and Viking; and (in the UK) Allen Lane, Frederick Warne, Hamish Hamilton, Ladybird, Michael Joseph, Puffin and Viking.

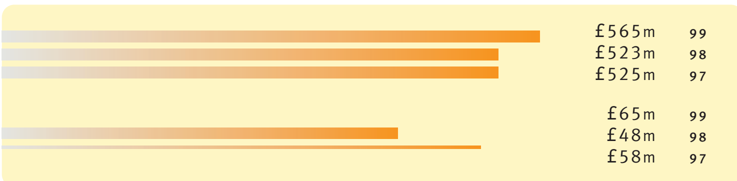
We are building the online potential of Penguin (www.penguin.co.uk, www.penguinputnam.com) and our major imprints and titles. For example, we are forming internet alliances and building big and devoted online communities (such as www.penguinclassics.com and www.roughguides.com) and we are extending rapidly our range of author websites (such as www.alexgarland.com).

doing the penguin waddle!

kim smith : forecasting
penguin putnam : new york

the penguin group : performance

In 1999, Penguin's underlying sales increased by 5% with underlying profits up by 23%. Our success was built on the back of increased investment in new and established bestselling authors, a concerted campaign to maximise the value of our ever popular backlist titles and sustained efforts to put the supply side of our business on a stronger commercial footing.



sales

operating profit

We invested more in building a stronger, more vibrant frontlist, working globally to extend our stable of bestselling writers. For example, we now have worldwide rights to publish authors such as Tom Clancy, Clive Cussler, Dick Francis, Alex Garland and Nick Hornby. We used our commissioning expertise and publishing skills to bring the talents of a new generation of writers to the widest possible audience. These investments paid off. Titles published by Penguin Putnam (as we are known in the US) spent a record 262 weeks on *The New York Times* bestseller lists. In the UK, we nearly doubled our share of The Guardian Top 100 Bestsellers of 1999 and Penguin Australia retained its claim to be the nation's leading publisher.

In the UK, we invested in the Penguin brand, with a highly successful marketing campaign. In the US, the acquisition of Avery Publishing allowed us to move into a market-leading position in the burgeoning healthcare and nutrition market, which has strong online potential. We continued to improve the economics of our business, with steps taken in 1998 to rationalise our US warehousing and distribution systems and consolidate our UK children's division helping to improve margins in 1999.

	1999	1998
uk	£115m	£109m
north america	£399m	£369m
australasia	£43m	£39m
rest of the world	£8m	£6m

sales analysis
by source

jennifer creem : publishing
penguin putnam : new york

jacqueline lebow : distribution
penguin putnam : new york

1998 OPERATING PROFIT	£48m
FOREIGN EXCHANGE	£2m
RESTRUCTURING	£4m
UNDERLYING INCREASE	£11m
1999 OPERATING PROFIT	£65m

operating profit analysis

We expanded the online and cross media potential of our titles, stories and imprints throughout the world. We capitalised on the potential of television and movie tie-ins and worked more closely with Pearson Television to move ahead on the animation of our children's books as well as jointly commissioning adult non-fiction projects. Internet sales worldwide doubled last year and now account for over 5% of total sales in the US and we were the first major publisher to publish a new title in electronic format ahead of its hard copy launch.

By embracing the opportunities of the internet and exploring new print technologies, we will ensure Penguin continues to live up to its reputation as one of the most innovative consumer publishers around. We also aim to build a bigger, better and more profitable consumer publishing business – and we are well on the way to achieving that goal.

pearson television : profile

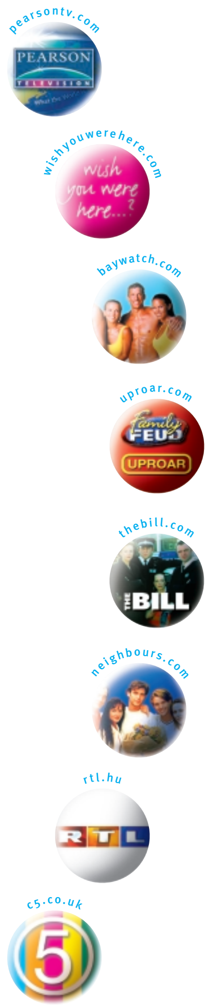
The rapid proliferation of channels around the world is creating more demand than ever for popular television entertainment. Pearson Television, which produces shows that attract peak time audiences in countries all over the world, is meeting this demand by extending the range, depth and appeal of our programmes and formats.

We have some 160 programmes in production in 35 countries around the world and library sales to over 100 territories. We own the largest selection of game show formats in the world, are the largest producer of serial dramas and make a wide range of entertainment programmes, including situation comedies, children's animation and action adventures. Our largest markets are the UK, Germany (where we have a joint venture with CLT-UFA), Australia, and the US, but we also have an extensive presence throughout Europe and growing businesses in Asia, Latin America and South Africa.

david wan : president : **penguin group**

The successful cross-promotion of well known game show formats and serial dramas can attract big crowds on the web. We are developing online, interactive versions of our game shows, with a stake in Uproar (www.uproar.com), one of the world's leading online entertainment sites. In December 1999, Uproar generated 106 million page views from 3.6 million unique users. We are also building online communities around some of our most popular shows (such as www.baywatch.com, www.thebill.com).

We invest in broadcasters where it will support the growth of our international production business, with a 29% stake in the UK's Channel 5 (www.c5.co.uk) and 20% stakes in RTL Klub (www.rtl.hu) in Hungary and UKTV in Australia. Our US syndication business enables us to create a virtual broadcast network, selling programmes to local television stations throughout the US in exchange for cash or airtime that we then repackage and sell to advertisers. And we run a transmission business, from our studios in central London, which transmits 50 channels for broadcasters such as Flextech, Discovery and Universal.



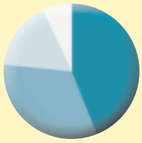
pearson television : performance

In 1999, Pearson Television increased sales by 3%. Profits increased by 11% to £68m, boosted by the strong growth of our joint venture with CLT-UFA and lower start up losses from Channel 5.

From *The Bill* in the UK to *Salatut Elämät* in Finland, our serial dramas continued to deliver big peak time audiences across Europe. New productions from our library of game show formats proved a big hit worldwide. Our game shows won new audiences in Spain, Portugal, Mexico, Germany, Finland and Poland and the new version of

£355m	99	**sales**
£343m	98	
£247m	97	
£68m	99	**operating profit**
£61m	98	
£26m	97	

richard eyre : chief executive : **pearson television**



	1999	1998
uk	£156m	£134m
europe	£116m	£108m
north america	£58m	£73m
rest of the world	£25m	£28m

sales analysis
by markets supplied

Family Feud was the highest rated new game show in syndication in the US. Our programmes are also finding big online audiences. The online version of *Family Feud* is proving to be a big draw for Uproar.com. It is the fastest growing game in Uproar's history and, within a month of its launch, was already the second most popular game on the site.

We increased investment in new shows and formats, focusing on situation comedies and television animation, and made a number of acquisitions that strengthened our local television production businesses. Our share of Channel 5's start up losses, after amortisation, fell to £7m from £14m in the previous year. Channel 5 was the only UK terrestrial channel to increase its overall audience share, achieving an average all-channel viewing share among adults of 5.3%. In February 2000, we increased our Channel 5 stake from 24% to 29%, reflecting our satisfaction in its performance to date, and our confidence in its future. It is on track to make an operating profit, before the amortisation of retuning costs, in 2000.

Across Pearson Television, we are building on our abilities to deliver hit programmes in any language or culture. By capitalising on the drawing power of our dramas and game shows, investing in new ideas and formats, and boosting our online presence, we aim to keep the world watching Pearson Television.

	1999	1998	1997
PEARSON TELEVISION	£74m	£71m	£46m
BSKYB	£1m	£4m	£4m
CHANNEL 5	£(7)m	£(14)m	£(24)m
TOTAL	£68m	£61m	£26m

operating profit analysis

anthony mrsnik : counsel
pearson television : new south wales

financial times group : profile

In a world of free capital, falling trade barriers and a dynamic new economy, demand for independent, authoritative international business and financial news, data and analysis is greater than ever. The Financial Times Group aims to be the leading source of strategic information, intelligence and context for senior managers and institutional and individual investors around the world.

The *Financial Times*, an integrated print and online operation, aims to give greater insight into global business events than any other news organisation. The *Financial Times* newspaper, printed in 14 cities around the world, has a more international and faster growing readership than any other business newspaper. FT.com (www.FT.com) is the world's leading global business information portal. It combines agenda-setting editorial content with comment and analysis, relevant financial data, discussion groups, unique dossiers on key business people and a new range of tools to search the web, manage a working day and seek out leisure opportunities.

In tandem with the *Financial Times*, we are building a pan-European network of national business newspapers and online services. Groupe Les Echos (www.lesechos.fr) publishes France's leading business and financial newspaper and website. Recolétos publishes *Expansión* (www.expansiondirecto.com), Spain's leading business and financial newspaper and website, and has a 50% stake in its Portuguese counterpart. *Financial Times Deutschland* (www.ftd.de), published in partnership with Gruner + Jahr, is a new German language business newspaper with a fully integrated online business news and data service.

We own a 60% stake in the new business created by the merger of FTID (www.intdata.com) and DBC (www.dbc.com). It is one of the world's leading sources of securities pricing and specialist financial information to global institutional, professional and individual investors. Its new products include eSignal (www.esignal.com), an online real-time streaming quotation service for brokers and active traders. It also has a 32% stake in MarketWatch.com. whose web properties (www.cbs.marketwatch.com and www.bigcharts.com) are the most popular destinations for financial and market news on the web. This year, in a joint venture

stephen hill : chief executive : **financial times group** with MarketWatch.com, we will launch Financial Times MarketWatch.com, which will provide free, fast, incisive, real-time financial and market news to Europe's rapidly growing communities of private investors. We also operate FTyourmoney.com (www.FTyourmoney.com), a leading source of independent personal finance information. Financial Times Business (www.FTbusiness.com) produces specialist information on the energy and finance industries. FTSE International (www.FTSE.com), a joint venture with the London Stock Exchange, provides the professional investment community with the leading UK indices and, together with the Amsterdam Stock Exchange, publishes the Eurotop family of indices. We also have 50% stakes in BDFM (www.bdfm.co.za), publishers of South Africa's leading financial newspapers and website and The Economist Group (www.economist.com), which publishes the world's leading weekly business and current affairs journal.

financial times group : performance

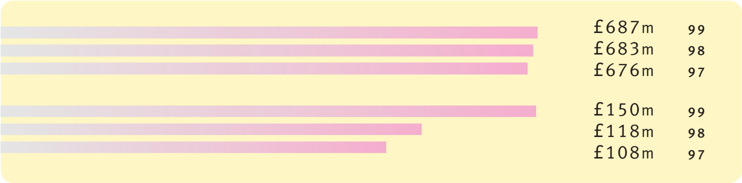
In 1999, we increased substantially the revenues and profits of our business newspapers – and invested heavily in electronic and international expansion. We transformed the prospects of FTID, our specialist financial information business, through the acquisition of TFSM and the subsequent merger with DBC. And, to focus on our goal of creating the world's leading business and financial information brand, we disposed of a number of marginal businesses. Stripping out the impact of these exceptional factors, underlying revenue growth was up 13%. Operating profits increased 27% to £150m.

Our business newspapers had an excellent year, increasing circulation and advertising yields and working together on a number of new pan-European projects. The *Financial Times* newspaper posted another year of record growth with profits up 33% to £56m. In December 1999, average daily circulation topped 435,000, up 14% on 1998. In the US, ahead of the opening of new print sites in Boston and San Francisco, we reached our circulation milestone of 100,000 daily sales, some two years earlier than initially expected. In continental Europe, we are selling, on average, 120,000 copies per day, a 20% increase on last year. And, following an autumn revamp, UK sales are growing at 7%, their fastest rate for a decade. Such strong worldwide circulation and a buoyant global economy enabled the *Financial Times* newspaper to increase advertising revenues by 19%.

Groupe Les Echos, taking account of the sale of its medical publishing division, increased underlying sales by 24% and increased profits by 80% to £18m. Newspaper circulation increased by 7% to a record 143,000 and advertising revenues increased by 41%. *Expansión*, capitalising on a 22% increase

piers johnson : personal finance
ft business : london

sybil de geoffroy-blattman : legal services
les echos : paris



sales

operating profit

in circulation the previous year and a strong Spanish economy, increased advertising revenues by 44%. Circulation grew to a new high of 59,700.

During the year, we planned the launch of *Financial Times Deutschland*, which aims to capitalise both on the explosive growth in demand in Germany for business information and analysis and a strong advertising climate. We set in motion our plans to increase the market reach of Economica, publisher of Portugal's leading daily financial and business newspaper.

Our integrated network of finance and business websites grew rapidly during the year, trebling advertising and e-commerce revenues. FT.com is attracting new users rapidly, with over one million unique monthly visitors and 22 million monthly page views. In March 2000, with FT.com now transformed into a global business portal, we launched its first major US marketing campaign. During the year, lesechos.fr and expansiondirecto.com both more than doubled traffic and are now firmly established as the leading business and financial news websites in France and Spain. In its first three months of operation, FTyourmoney.com is already establishing itself as the UK's leading personal finance website

	1999	1998
FT NEWSPAPER	£56m	£42m
FT INTERACTIVE DATA	£31m	£22m
FT BUSINESS	£1m	£1m
LES ECHOS	£18m	£10m
FT BUSINESSES SOLD	£(2)m	£(2)m
RECOLÉTOS	£34m	£30m
ASSOCIATES	£12m	£15m
TOTAL	£150m	£118m
INTERNET ENTERPRISES	£(36)m	––

operating profit analysis

alison young : management development
financial times : london

		1999	1998
FINANCIAL TIMES	average daily, december	435	385
LES ECHOS	average annual, paid	118	115
ENJEUX-LES ECHOS		125	118
ECONOMIST	six months average to end of dec	723	697
BUSINESS DAY	six months average to end of dec	44	43
FINANCIAL MAIL	six months average to end of dec	34	34

newspaper circulation
000's

and is ahead of its revenue and traffic growth targets. FTMarketWatch.com, our pan-European joint venture with MarketWatch.com, will launch in June. We plan to launch French, Spanish and German language versions of these sites in the coming year.

FTID delivered another year of double-digit growth and, through its acquisition of TFSM and subsequent merger with DBC, is now able to develop a much wider range of internet delivered products to every sector of the global money management community. At FT Business, we have now sold the marginal newsletters and management reports operations, enabling us to focus on market leading positions in specialist energy and finance titles and research products.

The profits contribution from Associates reflects our share of the start up costs of *Financial Times Deutschland*. The Economist Group, in which we have a 50% stake, had another record year, with *The Economist* newspaper increasing average weekly circulation by 4% to 723,000. It continued to focus on developing its global media brands and increasing investment in the electronic delivery of its products and services. *Business Day* and *Financial Mail*, the South African finance and business publisher, in which we also own a 50% stake, grew advertising revenues to record levels.

Across the Group, we are investing in an international network of newspapers and online services, built around the Financial Times brand, that aims to be the premier source of financial and business information, comment and analysis around the world.

alejandro bernad : brand managment
recolétos : madrid

nino cirone : programme strategy
pearson television : london

recolétos : profile

Recolétos (www.recoletos.es) is one of the leading media groups in the Iberian Peninsula. With our partners, our newspaper titles sell around 900,000 copies a day and we sell some 500,000 copies of our weekly/monthly magazines. We publish Spain's leading financial and business publication, *Expansión* (www.expansiondirecto.com) and Europe's bestselling sports newspaper, *Marca* (www.marca.es). We own a 30% stake – and play an active management role – in Unedisa, which publishes *El Mundo* (www.elmundo.com), one of Spain's leading daily newspapers – and we own a 50% stake in Economica, which publishes Portugal's leading daily financial and business newspaper. We have a 10% stake in the broadcaster, Antena 3. Our business television channel, Expansión Financiera, is broadcast from Madrid to Spanish and Latin American financial centres on the satellite digital platform, Via Digital, in which we have a 5% stake.

recolétos : performance

Recolétos increased underlying sales by 7%. Profits increased by 13% to £34m. In addition to the strong performance of *Expansión*, profits were boosted by a 20% increase in advertising revenues at *Marca*, Europe's leading sports newspaper. We retained our strong leadership of the Spanish sports newspaper market and transformed marca.es into Spain's leading sports portal. *El Mundo* increased circulation and advertising revenues and built its own online presence. Its success means we own, or have a stake in, three of Spain's ten most popular websites.

sales	£133m	99
	£126m	98
	£109m	97
operating profit	£34m	99
	£30m	98
	£30m	97

jose maria casado fraile
technical management
recolétos : madrid

	1999	1998
MARCA average annual	399	417
EXPANSIÓN average annual	60	59

newspaper circulation
000's

Antena 3 and Via Digital continued to increase subscribers and advertising revenues – and provide a platform for Expansión Financiera and a range of Pearson Television shows. And we stepped up the development of a range of internet and multimedia opportunities in the Spanish and Portuguese speaking worlds.

lazard :

In 1999, Pearson owned, directly and indirectly, a 50% interest in Lazard Brothers, the UK merchant bank, and smaller holdings in the Lazard banking houses in New York and Paris. Income from the three Lazard houses was a record £48m. In June, we announced the sale of our interests in the three Lazard houses to Financière et Industrielle Gaz et Eaux S.A., a French listed investment company. The sale of the three houses, raising a total of £436m, was completed in March 2000.

quinn perkson : technology sales
pearson education : massachusetts

simon & schuster : Simon & Schuster was acquired at the end of 1998.The acquisition has had an impact on the 1999 accounts in a number of areas which are described below.

simon & schuster integration costs

1998 INTEGRATION COSTS	£136m
1999 INTEGRATION COSTS	£110m
TOTAL	£246m
1999 ANALYSED AS EXCEPTIONAL COSTS	£95m
1999 ANALYSED AS NON-OPERATING COSTS	£15m

exceptional items In 1998 an exceptional charge of £72m was made against operating profit to reflect part of the cost of integrating Simon & Schuster with Pearson's existing education business. An additional charge of £64m was made to align accounting policies and write down certain assets relating to our former education business. Additional integration costs of £110m have been incurred in 1999, bringing total integration costs for the two years as a whole to £246m. Further charges are expected in 2000, but these are not expected to be significant by comparison.

goodwill Goodwill represents the difference between the purchase price paid and the fair value of the net tangible assets acquired. On the acquisition of Simon & Schuster the company recorded goodwill of £2,325m. This is being amortised over a period of 20 years and resulted in an amortisation charge of £116m in 1999, by far the most significant item in Pearson's total goodwill amortisation charge of £131m.

business & professional and reference assets At the time of the acquisition of Simon & Schuster, Pearson indicated that it intended to dispose of a number of the non-core businesses which were purchased as part of the overall acquisition. During 1999 these businesses were sold for proceeds of £209m, significantly higher than the anticipated £171m, despite the decision to retain the Prentice Hall Direct business which we had initially planned to sell.

george chung : group control
pearson inc : new york

final fair value adjustments Provisional fair value adjustments were made in 1998 which have now been finalised in 1999. Following these final adjustments, the fair value of net assets acquired have been slightly increased in 1999 (see note 25 to the accounts).

non-operating items : Although there were fewer disposals during 1999 than in 1998, non-operating items remained significant principally due to the disposal of the Group's indirect interest in BSkyB which resulted in a non-operating profit of £348m before tax estimated at £91m.

interest : Net interest rose significantly to £147m, principally because of a £1,726m increase in average net debt. This reflected the impact for a full year, as opposed to just over one month in 1998, of the borrowings taken on to finance the Simon & Schuster transaction. The enlargement of Pearson Education also increased the debt needed to fund the Group's working capital requirements in the middle part of the year. However, this was partially offset by the proceeds received from asset disposals, also in the middle part of the year. The Group's net interest rate payable averaged approximately 6.4%. This was lower than in the previous year (mainly due to a change in the ratio of cash to gross debt) even though interest rates increased during the year. A weighted three month LIBOR rate, reflecting the Group's borrowings in US dollars, euros, and sterling, rose by 80 basis points, or 0.8%, principally in September and October, due to the markets' concerns over Year 2000 issues. The effect of these rises on the Group was also mitigated by its existing portfolio of interest rate swaps, which converted over half of its variable rate commercial paper and bank debt to a fixed rate basis.

taxation : The tax charge of £180m represents an effective rate of 37.5% on profit before taxation of £480m. This compares with an effective rate of 29.9% in 1998. The main reason for the increase in the effective rate is the very significant increase in the charge for goodwill amortisation, from £12m in 1998 to £131m in 1999, this in turn reflecting the fact that the Simon & Schuster education businesses were in the Group for a full year in 1999. No tax relief is available on this amortisation, and, as in 1998, only limited tax relief has been recognised on the Simon & Schuster integration costs.

In addition, the overall tax rate on non-operating items was higher in 1999 than it was in 1998. By far the largest gain in 1999 arose on the disposal of the indirect interest in BSkyB discussed above; there

molly stern : editorial
penguin putnam : new york

net trading assets

capital employed

was a benefit from the indexed tax base cost being higher than the book value but this was offset by some smaller disposals where the opposite was the case.

The tax rate on adjusted earnings fell from 28% to 25%, whereas the effective UK statutory rate fell from 31% to 30.25%. As in 1998, the availability of tax losses in the US meant that no significant tax provision was required on the Group's profits there, and once again this factor alone largely accounted for the difference between the UK statutory rate and the effective rate on adjusted profits. The difference between the two rates increased this year because profits arising in the US which could be offset by the losses were higher, again reflecting the fact that the Simon & Schuster education businesses were in the Group for a full year. The benefit of the US losses was slightly offset by higher tax rates in countries other than the UK and the US and by the effect of disallowed expenses.

The tax rate reflected in the calculation of adjusted earnings should remain at around 25% in the current year in the absence of any significant change in the tax regime in the UK or US. It is expected, however, that this year the UK Accounting Standards Board will issue a new standard on the treatment of deferred taxation which could result in a higher charge to current income for most UK public companies, including Pearson.

minorities : Minority interests amounted to £6m in 1999 principally reflecting the 20% stake held in Recolétos throughout the year by a third party. This stake was purchased by the Group at the end of 1999.

nina mukherjee : information technology
financial times : london

: financial policy :

dividend policy : The company continues to be committed to increasing the dividend paid to shareholders at a rate exceeding UK price inflation. However the financial demands of investing in the internet means that it is no longer appropriate to have a dividend policy which does not take into account this significant investment, both in earnings and cash terms. The board recognises that these new internet enterprises will not be earnings or cash generative in the short-term and that the costs and revenues associated with these investments will be hard to predict from year to year. The board has therefore concluded that it is not appropriate to relate the company's dividend to a definition of earnings which included the results of internet enterprises. It is therefore proposed that, for the time being at least, future dividends are related to adjusted earnings before internet enterprises with a target dividend cover level (adjusted earnings per share before internet enterprises expressed as a multiple of net dividend per share) of 2.5 times.

A final dividend of 13.9p is proposed giving a total for the year of 22.5p, a 7% increase on the 1998 dividend. This recommended dividend is covered 2.4 times by adjusted earnings before internet enterprises and will be fully funded by free cash flow.

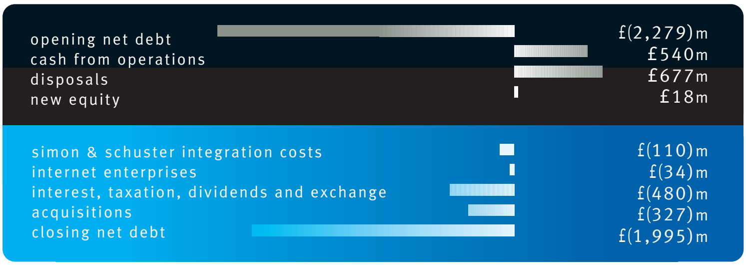
treasury policy : The Group holds financial instruments for two principal purposes: to finance its operations and to manage the interest rate and currency risks arising from its operations and its sources of finance. The Group finances its operations by a mixture of cash flows from operations, short-term borrowings from banks and commercial paper markets, and longer term loans from banks and capital markets. The Group borrows principally in US dollars, euros and sterling, at both floating and fixed rates of interest, using derivatives, where appropriate, to generate the desired effective currency profile and interest rate basis. The derivatives used for this purpose are principally interest rate swaps, interest rate caps and collars, currency swaps and forward foreign exchange contracts.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity and refinancing risk, counterparty risk and foreign currency risk. These risks are managed by the Group finance director under policies approved by the board which are summarised below. These policies have remained unchanged, except as disclosed, since the beginning of 1999. A treasury committee of the board receives reports on the Group's treasury activities, policies and procedures, which are

amanda evans : sales
pearson television : london

cash inflows

cash outflows



reviewed periodically by a Group of external professional advisers. The treasury department is not a profit centre, and its activities are subject to audit.

interest rate risk : The Group's exposure to interest rate fluctuations on its borrowings is managed by borrowing on a fixed rate basis and by entering into interest rate swaps, interest rate caps and forward rate agreements. In September 1998 the Group amended its policy objective to set a target proportion of its forecast borrowings (taken at the year end, net of cash) to be hedged (i.e. fixed or capped) over the next five years of 50% to 65% for the first two years, and 40% to 60% for the next three years. At the end of 1999 that ratio was 58%. On a pro forma basis, taking into account the disposal of the Group's interests in the Lazard houses, that ratio was 74%. In view of this change to the debt portfolio, the Group will manage this position in order to return to within the designated policy. On that pro forma basis, a 1% change in the Group's variable rate US dollar, euro and sterling interest rates would have a £4m effect on its profit before tax.

borrowings fixed and floating rates

	1999	1998
FIXED RATE	£1,155m	£719m
FLOATING RATE	£1,168m	£1,905m

ben roberts : editorial
pearson education : san francisco

amarjit phagora : information technology
ft.com : london

liquidity and refinancing risk : The Group's objective is to procure continuity of funding at a reasonable cost. To do this it seeks to arrange committed funding for a variety of maturities from a diversity of sources. It has a policy that the weighted average maturity of its core gross borrowings (treating short-term advances as having the final maturity of the facilities available to refinance them) should be between three and eight years, and that non-bank sources should provide between 25% and 75% of such core gross borrowings.

Between July and November 1999 the Group issued €550m of bonds due 2004 and £250m of bonds due 2014. As a result, at the end of 1999 the average maturity of gross borrowings was 5.1 years and non-banks provided 46% of them (up from 4.4 years and 18% respectively at the beginning of the year). In addition, in February 2000 the Group issued €650m of bonds due 2007. Taking these as well as the Lazards disposal into account, on a pro forma basis the average maturity was 5.8 years and the proportion provided by non-banks was 79%. These pro forma adjustments to core gross borrowings result in the Group exceeding its target range for finance provided by non-banks. Again we will manage this position in order to return to within the designated policy. The proceeds of each bond issue were used to repay part of the Group's syndicated bank facility.

The Group believes that ready access to different funding markets also helps to reduce its liquidity risk, and that published credit ratings and published financial policies improve such access. The Group manages the amount of its net debt and the level of its net interest cover, principally by the use of a target range for net interest cover. All of the Group's credit ratings remained unchanged during the year. The long-term ratings are Baa1 from Moody's and BBB+ from Standard & Poor's, and the short-term ratings are P2 and A2 respectively. The Group continues to operate on the basis that the board will take such action as is necessary to support and protect its current credit ratings. The Group also maintains undrawn committed borrowing facilities. At the end of 1999 these amounted to £517m, and their weighted average maturity was 2.5 years.

gross borrowings

	1999* pro forma	1999	1998
BANK DEBT	£164m	£1,254m	£2,159m
BONDS	£1,473m	£1,069m	£465m

*after taking into account the £250m equity placing in january 2000, the €650m 6.125% bonds issued in february 2000 and the receipt of Lazard disposal proceeds.

paul howarth : supply chain
pearson plc : london

alec stichbury : broadcasting
pearson television : london

counterparty risk : The Group's risk of loss on deposits or derivative contracts with individual banks is managed in part through the use of counterparty limits. These limits, which take published credit limits (among other things) into account, are approved by the Group finance director. In addition, since the year end, for certain longer dated higher value derivative contracts the Group has entered into mark to market agreements whose effect is to reduce significantly the counterparty risk of the relevant transactions.

currency risk : Although the Group is based in the UK, it has a significant investment in overseas operations. The most significant currency for the Group is the US dollar, followed by the euro and sterling.

The Group's policy during the year on routine transactional conversions between currencies (for example, the collection of receivables, and the settlement of payables or interest) remained that these should be effected at the relevant spot exchange rate. As in previous years, no unremitted profits were hedged with foreign exchange contracts.

The Group decided in 1998 to align approximately the currency composition of its core borrowings in US dollars, euros and sterling with the split between those currencies of its forecast operating profit. This policy aims to dampen the impact of changes in foreign exchange rates on consolidated interest cover and earnings. Long-term core borrowing is now limited to these three major currencies. However, the Group still borrows small amounts in other currencies, typically for seasonal working capital needs.

At the year end the split of aggregate net borrowings in its three core currencies was US dollar 80%, euro 9% and sterling 11%. On a pro forma basis, taking into account the Lazards disposal and the €650m bond issue, the respective percentages were US dollar 76%, euro 15% and sterling 9%.

	1999	1998
US DOLLARS	£1,795m	£1,964m
STERLING	£280m	£492m
EURO	£248m	£157m
OTHER	––	£11m

borrowings by currency

nicole gale : communications
pearson plc : london

european monetary union : Our businesses in continental Europe have found that the euro has simplified trading, while presenting little or no operational or competitive difficulty. All UK operations have contingency plans in the event that the UK decides to join the euro-zone. The financial costs of preparations for the euro have not been material to the Group.

accounting policies : The significant accounting policies of the Group are shown on pages 63 and 64. During the year FRS12 'Provisions, Contingent Liabilities and Contingent Assets', has been implemented. This standard more closely aligns the timing of a charge with the period in which those amounts provided are actually paid as well as requiring additional disclosures. FRS15 'Tangible Fixed Assets' will be adopted in the 2000 accounts but it is not expected to have a significant impact on either the results or the disclosures.

risk management : The Group control department, which has an independent reporting line to the audit committee, checks effectiveness at managing risk. Through regular audits and reviews, it seeks to identify under-managed risks, and then works with the responsible line management to resolve any issues arising. Group control monitors progress against plans to ensure risks are mitigated.

All the main operating companies in the Group are visited regularly by members of the Group control department. Smaller companies not visited are required to complete control and risk assessment questionnaires. Responses are monitored by the Group control department in conjunction with the division and appropriate actions are taken to mitigate any under-managed risks.

neil s nyren : editor-in-chief
gp putman : new york

: board of directors :

chairman

Lord Stevenson chairman, aged 54, has been a non-executive director of Pearson since 1986 and became executive chairman in 1997. He is also chairman of Halifax plc and of AerFi Group plc, and a non-executive director of Manpower Inc. in the US.

executive directors

Marjorie Scardino chief executive, aged 53, joined the Pearson board in January 1997. She trained and practised as a lawyer, and published a weekly newspaper in the US. In 1985 she joined The Economist Group as president of its North American operations and was its chief executive from 1993 until joining Pearson. She is also a non-executive director of America Online Inc. and of ConAgra Inc.

David Bell aged 53, became a director of Pearson in March 1996. He is chairman of the Financial Times Group, having been chief executive of the *Financial Times* since 1993. In July 1998 he was appointed Pearson's director for people with responsibility for the recruitment, motivation, development and reward of employees across the Pearson Group. He is also a non-executive director of VITEC Group plc and chairman of the Millennium Bridge Trust.

John Makinson aged 45, joined the Pearson board and became finance director in March 1996. From 1994 to 1996 he was managing director of the *Financial Times*, and prior to that he founded and managed the investor relations firm Makinson Cowell. He is also a non-executive director of George Weston Limited in Canada.

non-executive directors

Lord Burns ●● aged 55, was the government's chief economic adviser from 1980 until 1991 and Permanent Secretary of HM Treasury from 1991 until 1998. He is a non-executive director of Legal & General Group plc and of Queens Park Rangers Football Club. He was appointed a non-executive director of Pearson in May 1999.

Gill Lewis ● aged 56, is the managing partner of Heidrick & Struggles in the UK and in the Republic of Ireland. She became a non-executive director of Pearson in 1992.

Reuben Mark ●● aged 61, is chairman and chief executive of the Colgate Palmolive Company and a director of Citigroup Inc. and Time Warner Inc. He became a non-executive director of Pearson in 1988.

Vernon Sankey ● aged 50, is non-executive chairman of Thomson Travel Group plc and a non-executive director of Allied Zurich plc. He became a non-executive director of Pearson in 1993.

● a member of the audit committee.
● a member of the personnel committee.

david bell : director for people : **pearson plc**

: directors' report :

The directors are pleased to present their report to shareholders, together with the financial statements for the year ended 31 December 1999 on pages 58 to 61 and 63 to 94. Details of the businesses, the development of the Group and its subsidiaries and likely future developments are given on pages 11 to 35 of this annual report. Sales and profits of the different sectors and geographical markets are given on page 65.

Results and dividend The profit for the financial year ended 31 December 1999 was £294m (1998: £437m). The profit retained for the year was £156m (1998: £311m) and has been transferred to reserves. A final dividend of 13.9p per share is recommended for the year ended 31 December 1999. This, together with the interim dividend already paid, makes a total for the year of 22.5p (1998: 21p). The final dividend will be paid on 2 June 2000 to shareholders on the register at the close of business on 17 March 2000, the record date.

Dividend reinvestment plan (DRIP) The plan provides the benefit of giving shareholders the right to buy the company's shares on the London stock market with the cash dividend. If you would like further information about the DRIP, please contact the company's registrar, whose address and telephone number are set out on page 96.

Significant acquisitions and disposals Details of these transactions can be found in notes 25 and 26 to the accounts on pages 86 to 89.

Transactions with related parties Details of transactions with related parties, which are reportable under FRS8, are given in note 30 to the accounts on page 91.

Capital expenditure The analysis of capital expenditure and details of capital commitments are shown in note 12 to the accounts on page 73.

Post balance sheet events Details of these events can be found in note 31 to the accounts on page 91.

Directors The present members of the board, together with their biographical details, are shown on page 41. Greg Dyke resigned from the board on 17 September 1999. Michel David-Weill and David Verey resigned as directors on 3 March 2000. Details of directors' remuneration and interests in ordinary shares and options of the company are contained in the personnel committee report on pages 49 to 56. Three directors, Marjorie Scardino, Gill Lewis and Reuben Mark, will retire by rotation at the forthcoming Annual General Meeting (AGM) on 12 May 2000. All three, being eligible, will offer themselves for re-election. Terry Burns, who was appointed to the board on 6 May 1999, retires from office in accordance with the company's articles of association and, being eligible, will offer himself for reappointment. Details of directors' service contracts can be found on page 51. No director was materially interested in any contract of significance to the company's business.

Corporate governance The board supports the principles of good governance and code of best practice expressed in the Combined Code (the Code) published in June 1998. The directors' report, including the personnel committee report which has been considered and adopted by the board, describes how the company has applied such principles and, apart from the two following exceptions, has complied with the provisions set out in section 1 of the Code. Given the small size of the board and the calibre and experience of the non-executive directors, the board does not believe the identification of a senior independent director is appropriate. Also, the board does not have

shelley ferguson-hatch : administration
pearson plc : london

a nomination committee for directors as it considers that the most formal and transparent procedure for the appointment of a new director is for this to be a matter for the whole board.

The board The board currently comprises four executive directors, including the chairman, who is part-time, and four non-executive directors. All of the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The board schedules six meetings each year and arranges to meet at other times as appropriate. There is a formal schedule of matters specifically reserved to the board for decision and approval, and the board is supplied in a timely manner with the necessary information to discharge its duties. A procedure exists for directors to seek independent professional advice in the furtherance of their duties, and all directors have access to the advice and services of the company secretary.

Board committees The board of directors has established the following committees all of which have written terms of reference setting out their authority and duties:

i. *Audit committee* This committee is chaired by Vernon Sankey and its other members are Terry Burns and Reuben Mark. All are non-executive directors. The committee provides the board with the means to appraise Pearson's financial management and reporting, and to assess the integrity of the Group's accounting procedures and financial controls. The Group's internal and external auditors have direct access to the committee to raise any matter of concern and to report the results of work directed by the committee. The committee reports to the full board of Pearson.

ii. *Personnel committee* This committee is chaired by Gill Lewis and its other members are Terry Burns and Reuben Mark. All are non-executive directors. The committee meets regularly to decide the remuneration and benefits packages of the executive directors and the chief executives of the main operating companies, as well as recommending the chairman's remuneration to the board for its decision. It also reviews the Group's management development and succession plans. The committee reports to the full board and its report, which has been considered and adopted by the board, is set out on pages 49 to 56.

iii. *Treasury committee* This committee comprises Dennis Stevenson, John Makinson and Vernon Sankey. The committee sets the policies for the company's treasury department and reviews its procedures on a regular basis.

Internal control Following the publication of guidance from the Turnbull Committee, the directors reviewed the company's internal control processes in the light of provision D2.1 of the Combined Code. This resulted in a single new control process that is now embedded into the company's integrated system of internal control, together with a more formal reporting process to the board. The directors now require the operating companies to undertake annual reviews to identify new or potentially under-managed risks. The results from these reviews are monitored within the existing monthly reporting and annual budgeting processes. Annually, the Group control department provides a report to executive management and to the board. These processes, adopted during the year, will allow Pearson to report on internal controls in next year's annual report. However, in accordance with the transitional arrangements permitted by the London Stock Exchange, the board reports below on internal financial controls only.

The board of directors has overall responsibility for the Group's system of internal financial control, which it exercises through an organisational structure with clearly defined levels of responsibility and authority and

martin klopstock : production
pearson education : essex

appropriate reporting procedures. This structure includes the audit committee which, with the finance director, has reviewed the effectiveness of the internal financial control environment of the Group. The audit committee meets regularly and considers, *inter alia*, reports from internal and external auditors covering such matters.

The directors consider that the Group's system of internal financial control is appropriately designed to provide reasonable but not absolute assurance against material misstatement or loss. The main elements of this internal financial control are as follows:

i. *Operating company controls* The identification and mitigation of major business risks is the responsibility of operating management. Each operating company maintains controls and procedures appropriate to its own business environment while conforming to Group standards and guidelines. These include procedures to identify and then mitigate all types of risks.

ii. *Self assessment* Each year, chief executives of the main operating companies are required to certify that they had in place, throughout the year, a comprehensive system of controls and that they have conducted a review of the effectiveness of those internal controls. The Group control department reviews the chief executives' submissions and reports its conclusion to the audit committee.

iii. *Financial reporting* There is a comprehensive budgeting system with an annual budget approved by the board of directors. Monthly financial information, including balance sheets, cash flow statements, trading results and indebtedness, are reported against the corresponding figures for the budget and the previous year, with corrective action being taken by the directors as appropriate.

iv. *Treasury management* The treasury department operates within policies approved by the board, and its procedures are reviewed regularly by the treasury committee. Major transactions are authorised outside the department at the requisite level and there is an appropriate segregation of duties. Frequent reports are made to the finance director and regular reports are prepared for the treasury committee.

v. *Group control* The Group control department has the central responsibility for risk control and internal audit which it exercises through teams located both in the UK and the US. The department reviews risks, processes and procedures in all main operating companies, agrees with operating companies their plans to eliminate or mitigate risks where possible, and to improve controls and processes. It monitors operating companies' progress and reports regularly to executive management and the audit committee and annually to the board.

vi. *Insurance* Insurance cover is provided either through Pearson's captive insurance subsidiary or externally, depending on the scale of the risk in question and the availability of cover in the external market.

Going concern Having reviewed the Group's liquid resources and borrowing facilities, and the 2000 and 2001 cash flow forecasts contained in the Group budget for 2000, the directors believe that the Group and the company have adequate resources to continue as a going concern for the foreseeable future. For this reason, the financial statements have, as usual, been prepared on a going concern basis.

Year 2000 Pearson operating companies have completed their Year 2000 programmes according to plan and all businesses have been operating normally from the beginning of the year. The company recognises that it is too early to declare that the Year 2000 issue is completely resolved. All operating companies will remain vigilant and will continue to monitor carefully their systems for any Year 2000 problems throughout this year.

marc tonkovic : production
les echos : paris

stefan mcgrath : editorial
penguin : london

Across the Pearson Group the direct overall cost to resolve the Year 2000 problem was £19m, of which £6m was spent in 1999. These figures include all remedial work, upgrades, hardware replacement and additional external resources. The figures do not, however, include the cost of internal resources, nor the introduction of new IT systems where there are significant functional enhancements, over and above simply resolving the Year 2000 issue.

Shareholder communication Management continues to develop, increase and improve communication with shareholders, large and small, institutional and private. This year's AGM will again include information about the Group's businesses, as well as the 1999 results and general AGM business. The company's website (www.pearson.com) includes a section focusing specifically on Investor Relations and we post all company announcements on the website as soon as they are made. In addition, Pearson has developed a comprehensive institutional investor communications programme, as well as communicating with employees.

Employment The average number of Group employees in 1999 was 23,872, of whom some 5,456 were employed in the UK. The employment policies of the Group embody the principles of equal opportunity and are designed to meet the needs of operating companies and comply with local regulations in their areas of operation. The sole criterion for selection, training, development and promotion is the individual's suitability for the position of employment offered and his or her aptitudes and abilities. The company takes seriously its statutory obligations relating to disabled persons and seeks not to discriminate against current or prospective employees with disabilities because of a reason relating to their disability. Consideration is given to making reasonable adjustments to premises, or employment arrangements, if these substantially disadvantage a disabled employee, or prospective employee, compared to an able-bodied person.

i. *Training and development* The Group is committed to improving the performance of all employees through development and training. In 1999 Pearson implemented a management development curriculum that identified training needs across the businesses and developed a series of specially designed group programmes for senior management and high potential people across the Group. These activities include regular updates on core business skills for management at all levels, the establishment of a Pearson intensive top management programme to run regularly at leading business schools across the world and a forum for identifying and training the brightest and best of the Group's talent. The operating companies have also initiated their own programmes to support these initiatives. Employees are also encouraged to develop their careers by taking up opportunities in other parts of the Group.

ii. *Employee participation* Share ownership is at the heart of Pearson's remuneration philosophy and the directors believe that the key to our success lies in a motivated workforce holding a stake in the company. Pearson operates both worldwide profit sharing and save for shares plans. For 1999, eligible employees, who make up the vast majority of all employees, will receive a cash bonus and an award of Pearson shares under a Group profit sharing plan. By 1999, over half of eligible employees worldwide were saving from their pay to acquire Pearson shares. The company plans to make a similar offer in 2000. At the AGM, shareholders are being asked to approve the removal of the current qualifying period of six months' service to be eligible to take part in the Worldwide Save for Shares Plan, thereby making the plan accessible to more employees. Shareholders are also being asked to give the board the power to introduce a new stock purchase plan for US employees and a new all-employee share ownership plan in the light of proposed UK legislation to be enacted later in 2000.

iii. *European employee forum* Pearson has established a European Employee Forum with elected representatives from each of the Group's main operating companies and from countries in Europe where the Group's operations are of significant scale. The forum is intended to provide an arena for the exchange of relevant and appropriate information and to establish a constructive dialogue between management and employees on transnational issues

camilla cavendish : group policy & research : **pearson plc** : london

which affect them. Two meetings of the forum were held in 1999. Nominations were sought for employee representatives in those companies where the original representatives had completed the three year term following the formation of the forum in 1996.

iv. *Employee communication* Employee communication continues to be developed through regular Group-wide communication from the chief executive, Marjorie Scardino; wide-ranging presentations to staff around the world in connection with the publication of Pearson's results or other important events; the distribution of *PearsonNow*, the employee magazine; Pearsonville, the Group-wide intranet; and reports to participants in the various benefit plans. The various operating companies also have their own channels of communication such as briefing groups, videos, magazines and newsletters.

Supplier payment policy Operating companies are responsible for agreeing the terms and conditions, including terms of payment, under which business transactions with their suppliers are conducted. It is Group policy that suppliers are made aware of such terms of payment and that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. Group trade creditors at 31 December 1999 were equivalent to 33 days of purchases during the year ended on that date. The company does not have any significant trade creditors enabling it to produce creditor information for this purpose.

External giving In 1999, charitable donations totalled £1.53m (1998: £1.34m) which was split between the UK (£967,000) (1998: £1.03m) and overseas (£559,000) (1998: £308,000). Approximately half of this was given by the company to charities working on educational, literacy and youth projects, including Book Aid International who supply books to support teachers, librarians and academics in their work in developing countries. The other half was given by Pearson's operating companies which take active roles in supporting their local communities and industries. All of the operating companies already match the funds raised by their employees for charities. Pearson Education donated money to help students replace textbooks lost as a result of Hurricane Floyd which devastated North Carolina last year. The Financial Times Group continues to support schools and charities in its local London borough of Southwark including a programme where FT employees visit schools to help with reading programmes. Employees across the world contributed their final hour of the millennium's earnings to the Children's Promise and Children's Hour appeals which Pearson matched in full making a total donation of £126,000. Pearson does not make party political donations but it does support a number of independent research institutes across the political spectrum.

Environment policy Pearson acts to control and minimise the environmental impact of its business operations in four areas. We aim to make the most efficient use of paper, maximise the energy efficiency of our buildings and deploy printing technologies and pursue transport policies that minimise environmental impact.

The prime responsibility for pursuing and managing environmental strategies that meet these policy objectives lies with the chief executive of each of our operating companies. They also ensure that we comply with all regulations in all relevant jurisdictions. None of our businesses have been fined or prosecuted for infringing regulations in the past year.

As a media company whose business operations have a limited impact on the environment and with no potential for serious industrial pollution, we do not collect centrally detailed data on the environmental performance of each of our operating companies. However, our business operations do report regularly on environmental performance:

paddy haycocks : executive producer
pearson television : london

rasmiati hartanto : business managment
pearson education : singapore

Use of paper Use of paper and ink is monitored in all businesses and most of our paper supplies are elementally chlorine free for the grades that are currently purchased. Pearson Education has experimented with soy inks and non-wood based papers in product manufacture. All newsprint used by the *Financial Times* is recycled paper or bought from sustainable forests which are part of accredited schemes. Many of our products, including our business identification and support processes, are moving online through the development of internet resources. The development of a company-wide intranet is reducing use of paper internally. All Pearson businesses recycle any office products they can such as paper and toner cartridges from printers and copiers. The *Financial Times* has run a recycling policy for the last 15 years and at present recycles 90% of its waste-paper.

Energy efficiency All our business operations aim to make the most efficient use of energy. For example, the Financial Times Group has been awarded an Energy Efficiency Accreditation by the Institute of Energy in the UK which recognises the savings of energy efficiency programmes and the commitment to them. Both the *Financial Times* headquarters in London and Pearson Education regional headquarters, north of London, have won awards for their environmental friendliness. Energy efficiency was a prime consideration in the relocation of Pearson's headquarters in New York.

New printing technologies Our publishing operations are at the forefront of moving to Direct to Plate technology that eliminates the use of silver film in the production process which in turn greatly reduces heating and cooling requirements to store the media. This measure also minimises solid wastes in the years ahead.

Efficient transport policies Across the company, we pursue policies that encourage staff to use public transport, cycle to work or participate in car pools. In our fleet vehicle programmes, we aim to promote fuel efficiency. In the US, for example, we are making greater use of vehicles equipped for operating with ethanol alternative fuel.

This year, we plan to set up a company-wide environment working party, responsible for establishing best practice across Pearson and seeking effective and appropriate ways of monitoring environmental performance. We will report progress next year.

Share capital Details of share issues are given in note 23 to the accounts on page 84. On 26 January 2000 Pearson announced the placing for cash of 11.5 million new ordinary shares representing approximately 2% of its then existing issued ordinary share capital. The shares were subscribed for by institutional investors at a price of £22 per share. The purpose of the placing was to fund its existing and new internet related businesses. At the AGM held on 30 April 1999, the company was authorised, subject to certain conditions, to acquire up to 61 million of its ordinary shares by market purchase. This authority expires on the date of the forthcoming AGM. Although circumstances have not merited using this authority and there are no plans at present to do so, shareholders will be asked to renew this authority at the AGM on 12 May 2000.

At 6 March 2000, beneficial interests amounting to 3% or more of the issued ordinary share capital of the company notified to the company comprised:

	number of shares	percentage
Telefónica Media SA	30,527,674	4.89%
Prudential Corporation plc	21,398,274	3.43%

crystal chancellor : publicity
penguin putnam : new york

Annual general meeting The notice convening the AGM to be held at 12 noon on Friday, 12 May 2000 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, is contained in a circular to shareholders to be dated 4 April 2000.

Registered auditors In accordance with section 384 of the Companies Act 1985 (the Act) resolutions proposing the reappointment of PricewaterhouseCoopers as auditors to the company, at a level of remuneration to be agreed by the directors, will be put to the shareholders at the AGM.

Statement of directors' responsibilities Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and Group as at the end of the year and of the profit or loss of the Group for that period. The directors are also responsible for the maintenance of adequate accounting records in compliance with the Act, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities. In preparing the financial statements on pages 58 to 61 and 63 to 94 inclusive, the directors consider that appropriate accounting policies have been used and applied in a consistent manner, supported by reasonable and prudent judgements and estimates, and that all relevant accounting standards have been followed.

julia casson : secretary : 6 march 2000

julia casson : company secretariat : **pearson plc** : london

: personnel committee report :

Pearson wants to be the best company to work for in the world. The personnel committee plays an important part in developing pay and benefits packages to help the company fulfil this aim.

The company wants to find, inspire, reward and retain the very best people and recognises that its remuneration packages have to reflect the very competitive global market in which Pearson operates. The committee is responsible for approving the pay and benefits packages of the executive directors and the chief executives of the main operating companies. It also recommends the chairman's remuneration to the board, reviews the company's management development and succession plans and monitors the operation of Pearson's various reward programmes.

In the past year, Pearson has started a number of management development initiatives designed to enhance the high-level skills of senior executives and to encourage them to develop a deeper understanding of the common challenges and opportunities facing the company. These programmes include a tailor made course which was launched at INSEAD and will run again later in the year at Harvard, a wide range of other courses and a new 'Pearson MBA' which is a joint venture with Duke University in North Carolina and FT Knowledge. The company has also launched a series of development forums designed for executives who have been with the company for a short time.

The company's goal is that everyone who works in Pearson should have a chance to own part of it and the company has made dramatic progress over the past three years in increasing the number of its staff who own shares or are saving to buy them. With this year's company-wide profit sharing plan, it will now stand at over 90%. The company has also developed bonus and share ownership plans for executives which clearly link performance with reward and underline the fact that employees and shareholders have a common interest in success. These plans offer above average rewards to senior staff, but only in return for outstanding performance.

Last year, for the first time, the company introduced a profit sharing plan under which all staff (except executive directors) received a cash bonus and Pearson shares. The plan is linked to the company's overall profitability and is activated at the discretion of the board. For the past two years, all staff worldwide (in over 50 countries) have been able to own Pearson shares through a savings contract linked to a share plan. The company has also steadily increased the number of staff in receipt of awards under the executive share option plan to over 2,600 this year compared with 185 in 1996. The committee is considering further initiatives to expand the reach of this programme.

The company's most senior executives also benefit from two other recently introduced plans. The first gives them the opportunity to invest some of their bonus in Pearson shares under an annual bonus share matching plan. The second, introduced last year, is the Pearson Reward Plan, a long-term programme which offers a significant extra shareholding opportunity through a combination of premium priced options and equity incentives providing that the company meets stretching targets which are set and monitored by the personnel committee.

Composition and compliance The committee is chaired by Gill Lewis and its other members are Terry Burns and Reuben Mark. All are non-executive directors.

The London Stock Exchange requires companies to comply with the provisions of the Combined Code on corporate governance. The committee has considered the provisions in schedule A of the Code on the design of performance-related remuneration and schedule B on what should be included in this report and believes that the company has complied throughout the year.

david schenone : market development
headland : san fransisco

In detail, the main components of the company's remuneration policy for executives are base salary, an annual bonus plan, long-term incentives, pension benefits and other market specific benefits. The current remuneration plans consist of:

Base salary Base salaries are set at levels competitive with pay for directors and executives in similar positions in comparable companies.

Annual bonus The maximum bonus that can be earned by executive directors and chief executives of the company's main operating companies is 100% of annual base salary. Maximum bonuses for other senior executives range downward from that level. Receiving the maximum requires the achievement of very challenging financial targets set by the committee. The targets for 1999 related to the company's stated goals of increasing earnings per share, revenue growth, margin improvement and cash generation. In the case of Greg Dyke, part of his bonus also related to the performance of Pearson Television.

The committee will continue to review the bonus plans and reserves the right to revise the bonus limits and targets in the future. The committee may also award individual discretionary bonuses, but none were awarded for 1999. Bonuses do not form part of pensionable earnings.

Annual bonus share matching plan The annual bonus share matching plan permits executive directors and senior executives around the Group to take up to 50% of any after tax annual bonus in the form of Pearson shares which, if held for certain specified periods of time, will be matched by the company on a gross basis. Details of directors' matching awards are set out in tables 3 and 4 on pages 54 and 55 of this report.

Long-term incentives Long-term incentive plans align the interests of directors and executives with those of shareholders. The committee's view is that if shareholders do well, this should be reflected in the remuneration of senior executives. The committee reviews the operation of long-term incentive plans on a regular basis, taking into account legislative and regulatory developments, particularly with regard to performance targets and evolving best practice.

Reward plan At the AGM on 30 April 1999, shareholders approved the new Pearson Reward Plan. The plan has two elements: Pearson Premium Options (PPOs) linked to the rise in the Pearson share price over three to seven years and Pearson shares in the form of Pearson Equity Incentives (PEIs) linked to the three-year cumulative growth in Pearson's free cash flow (being operating cash flow less tax liabilities on operating activities and interest paid). The first grant under the plan was made in June 1999 and the grants to executive directors are shown in tables 3 and 4 on pages 54 and 55 of this report.

Executive directors and managers covered by the new plan are not eligible for grants of conventional options under the executive share option plan in any year in which they receive an award under the reward plan.

Share option plans Options at market value at the date of grant are granted to eligible employees not covered by the new Reward Plan based on guidelines approved by the committee. These guidelines govern the total number of options which may be granted and the frequency of awards and ensure that the progression to maximum awards are within the individual and overall limits authorised by shareholders.

Incentive share plan The incentive share plan was introduced in 1993 to reward executives of the Group based on the performance of the company over the medium to longer term as measured by total shareholder return relative to the average of the *FT-SE 100* total return index.

bira bains : I T development
pearson technology centre : herts

claire tavernier : business development
pearson education : harlow

debra nathan : treasury services
pearson inc : new york

The three-year performance period for the incentive share plan award made in 1997 ended on 31 December 1999. Since Pearson's total shareholder return out-performed that of the *FT-SE 100* by 105% over the period and Pearson's adjusted earnings per share for 1999 were higher than those for 1996, 150% of the shares awarded in 1997 have been released to participants. There is one further outstanding award, relating to Lord Stevenson, covering the five-year performance period May 1997 to April 2002. No new awards have been or will be made under the incentive share plan.

Service contracts All executive directors have agreements which can be terminated by the company on 12 months' notice. In the case of early termination of their contracts by the company without cause, these contracts provide for liquidated damages equivalent to 12 months' base salary, benefits and a proportion of bonus. During the year, no material changes were made to the service contracts of the executive directors. Non-executive directors do not have service contracts.

Non-executive directors' remuneration Fees for non-executive directors are determined by the full board with regard to market practice and within the restrictions contained in the articles of association. Fees are reviewed annually with the help of outside advice. Non-executive directors receive no other pay or benefits (other than reimbursement for expenses incurred in connection with their directorship of the company) and do not participate in the company's long-term incentive plans.

Since January 1995, non-executive directors have received an annual fee of £25,000 each. One overseas-based director is paid a supplement of £7,000 per annum. The non-executive directors who chair the personnel and audit committees each receive an additional fee of £5,000 per annum.

Retirement benefits The highest paid director, Marjorie Scardino, has pension arrangements comprising defined benefit and defined contribution arrangements in the US. She participates in the funded, approved Pearson Inc. Pension Plan. This is a non-contributory final salary pension arrangement providing a lump sum convertible to a pension on retirement. The lump sum currently accrues at 6% of capped compensation. In addition, she participates in an unfunded, unapproved defined contribution arrangement, which provides a benefit based on an annual notional company contribution of 25% of base salary. This plan is non-contributory. The company also contributed $4,800 to the Pearson Inc. funded, approved, defined contribution 401(k) arrangement and $17,700 to the Pearson Inc. Excess Savings and Investment Plan.

David Bell and John Makinson are members of a defined benefit section of the Pearson Group Pension Plan (the Plan), with a member contribution rate of 5% of pensionable salary. David Bell is eligible for a pension from the Plan of two-thirds of final base salary at normal retirement date due to his previous service with the *Financial Times*. It is anticipated that John Makinson will receive a pension of two-thirds of capped salary at normal retirement date (inclusive of benefits transferred from his previous pension plan). John Makinson is subject to the pensions earnings cap introduced by the Finance Act 1989. John Makinson participates in the company's Funded Unapproved Retirement Benefits Scheme (FURBS) arrangements, under which a contribution equivalent to 31.1% of his annual base salary is made by the company to compensate him for pension benefits which cannot be provided from the Plan because of the pensions cap regulations.

Greg Dyke left Pearson on 17 September 1999. He was a member of a defined benefit section of the Plan, with a member contribution rate of 5% of pensionable salary. He was subject to the pensions earnings cap and received a supplement of 50% of his annual base salary to compensate him for the loss of pension provision as a result of pensions cap regulations.

All the UK executive directors are also eligible for dependants' pensions and a lump sum payment on death in service. Details of directors' pension arrangements are set out in table 2 on page 53 of this report.

clive mactavish : financial planning
pearson plc : london

claire tavernier : business development
pearson education : essex

Remuneration of the directors Excluding contributions to pension funds and related benefits set out in table 2, directors' remuneration was as follows:

Table 1

all figures in £000s	1999 salaries/fees	1999 bonus	1999 other ●	1999 3-year ISP (see table 4)	1999 total	1998 total
Chairman						
Lord Stevenson	268	––	––	––	268	250
Executive directors						
Marjorie Scardino	465	465	54	1,533	2,517	1,043
David Bell	270	270	17	589	1,146	496
Greg Dyke	215	122	10	––	347	768
John Makinson	310	310	15	––	635	555
Non-executive directors						
Lord Burns	16	––	––	––	16	––
Michel David-Weill	25	––	––	––	25	25
Gill Lewis	30	––	––	––	30	30
Reuben Mark	32	––	––	––	32	32
Vernon Sankey	30	––	––	––	30	30
David Verey	25	––	––	––	25	25
Total	1,686	1,167	96	2,122	5,071	3,254
Total 1998 ●	1,761	1,535	428	251	––	3,975

● 'other' excludes pension contributions.

● Includes amounts to former directors.

Note : Marjorie Scardino was the highest paid director in 1999. Her base salary increased by 4.5% from £445,000. Her total remuneration, including pension contributions, amounted to £2,655,649. Over half of this total (£1,533,074) relates to a gross award of 66,342 shares under the long-term incentive share plan (ISP), and relates to performance over a three-year period. She received the maximum payout because, over the last three years, total returns to Pearson's shareholders have grown by 164%, more than twice the rate of growth (80%) achieved by the *FT-SE 100* index. The value of the shares released to Marjorie Scardino and David Bell is based on the middle market value of Pearson shares of £23.03 on 3 March 2000 (being the latest practicable date prior to the announcement of the results for the final year of the three-year performance period). For Marjorie Scardino, David Bell, Greg Dyke and John Makinson, 'other' emoluments include company car and health care benefits. Also included in 'other' emoluments for Marjorie Scardino is £34,180 in respect of housing costs.

stella cheung : human resources
pearson education : hong kong

barbara arlt : production
pearson education : munich

Table 2

	age at 31 dec 99 •	directors' contributions over the period £000 pa	increase in accrued pension over the period £000 pa	accrued pension at 31 dec 99 • £000 pa	other pension and related benefits costs to the company over the period £000 pa
Directors' pensions					
Marjorie Scardino	52	––	1.1	3.0	138.7
David Bell	53	13.5	16.9	138.0	––
Greg Dyke	52	2.9	1.1	6.8	118.7
John Makinson	45	4.4	2.0	14.3	101.3

• Or date of leaving, if earlier.

Note 1 : The increase in accrued pension during the year excludes any increase for inflation. Accrued pension is that which would be paid annually on retirement at 62, the normal retirement age under the Pearson pension plan in the UK, based on service to 31 December 1999 (David Bell and John Makinson) or to 17 September 1999 (Greg Dyke's date of leaving). As members of the UK plan, David Bell and John Makinson have, and Greg Dyke had, the option to pay Additional Voluntary Contributions (AVCs). They did not pay any AVCs in 1999.

Note 2 : The column headed 'other pension and related benefits costs to the company over the period' comprises payments to FURBS and pension and insurance supplements for UK benefits. For US benefits, this includes life assurance, Group term life cover, company contributions to the Pearson Inc. 401(k) and excess savings and investment plans and notional contributions to Marjorie Scardino's notional defined contribution plan.

Further information relating to directors' pensions:

Early retirement : UK directors and other UK employees may retire before the normal retirement age of 62 and receive an immediate pension provided they have obtained company consent. In such cases, the pension entitlement from the UK plan will be scaled down to reflect the shorter service in accordance with normal actuarial practice. Early retirement reduction factors will also be applied to the accrued pension if retirement occurs before age 60. The earliest any director can retire and receive an immediate pension from the UK plan other than on ill-health grounds is age 50. Under the company's FURBS arrangements, early retirement is possible with company consent from age 50 onwards. The benefit payable will be the amount of the member's fund at the relevant date. In the US, Marjorie Scardino has a normal retirement age of 65 but may retire with company consent from age 55 with a reduced pension on a broadly equivalent actuarial basis.

Dependants' pensions : If a UK director dies while in employment before normal retirement age, a spouse's pension will be payable from the UK plan, or in the absence of a spouse to a financial dependant nominated by the member. The amount of the pension will be one-third of the director's annual base salary (capped for relevant directors). If a former director dies after leaving service but before retirement, a pension of 50% of the director's deferred pension will be payable to the spouse or nominated financial dependant. If John Makinson or David Bell die in retirement, the pension payable to their spouse or nominated financial dependant will be 60% of the director's pension. In the case of Greg Dyke, the relevant percentage is 67%. Children's pensions may also be payable to dependant children. As a member of the company's FURBS arrangements, John Makinson's member's fund would be paid to his dependants if he died before withdrawing it. Marjorie Scardino's US plan provides a spouse's pension on death in service from age 55 and death-in-retirement benefits broadly equivalent to 50% of the member's pension on early retirement.

Pension increases : John Makinson, David Bell and Greg Dyke are guaranteed post-retirement pension increases at the rate of 5% per annum or the Retail Price Index, if lower. The guaranteed increases relate to the non-Guaranteed Minimum Pension element of the pension. The plan has a recent history of providing discretionary pension increases at the full Retail Price Index rate. The US plans provide no guaranteed post-retirement pension increases for Marjorie Scardino.

tony stern : business affairs

pearson television : london

Table 3 : at 31 dec 99•

Interests of directors were	ordinary shares ●	options – ordinary shares	incentive share and reward plans ordinary shares •••	annual bonus matching shares ●●
Lord Stevenson	70,393	2,243	64,353	––
Marjorie Scardino	28,334	266,506	74,446	27,928
David Bell	14,208	97,879	37,051	8,717
Lord Burns	––	––	––	––
Michel David-Weill ••	12,602,053	––	––	––
Greg Dyke	8,070	––	––	2,605
Gill Lewis	––	––	––	––
John Makinson	12,687	254,612	42,541	14,480
Reuben Mark	7,600	––	––	––
Vernon Sankey	––	––	––	––
David Verey	––	––	––	––

Table 3 : at 1 jan 99

Interests of directors were	ordinary shares ●	options – ordinary shares	incentive share plan ordinary shares •••	annual bonus matching shares ●●
Lord Stevenson	69,452	2,243	63,271	––
Marjorie Scardino	15,418	165,835	65,227	6,967
David Bell	12,661	67,911	25,062	––
Lord Burns	––	––	––	––
Michel David-Weill ••	48,129,727	––	––	––
Greg Dyke	3,330	201,643	––	5,551
Gill Lewis	––	––	––	––
John Makinson	6,457	197,084	––	4,096
Reuben Mark	7,600	––	––	––
Vernon Sankey	––	––	––	––
David Verey	––	––	––	––

• Or date of leaving, if earlier.

•• Michel David-Weill's interests include 12,560,849 ordinary shares owned by companies associated with Lazard Frères et Cie., Paris.

••• The number of shares shown represents the maximum number of shares, plus in the case of the incentive share plan accumulated share dividend shares, comprised in the original award which may be transferred to the individual concerned.

● Amounts include shares acquired by individuals under the annual bonus share matching plan.

●● These shares are held in trust and represent the maximum award required to provide the company's matching contribution of shares in respect of that part of the bonus taken in shares by each director. The shares only vest if the performance and other conditions of the plan are met.

Note : Executive directors of the company, as possible beneficiaries, are also deemed to be interested in Pearson Employee Share Trustee Limited, the trustee of which held 300,936 Pearson ordinary shares of 25p each at 31 December 1999 and also at 6 March 2000.

mark cohen : editor

pearson education : new jersey

Table 4

Movements in directors' interests under the incentive share, reward and annual bonus share matching plans

	shares outstanding at 1 jan 99	incentive share and reward plans •	annual bonus share matching plan	number of ISP shares vested and released	number of shares lapsed	market price on 3 mar 2000 (p) ••	number of shares outstanding at 31 dec 99
Lord Stevenson	63,271	1,082	––	––	––	––	64,353
Marjorie Scardino	72,194	75,561	20,961	66,342	––	2303	102,374
David Bell	25,062	37,478	8,717	25,489	––	2303	45,768
John Makinson	4,096	42,541	10,384	––	––	––	57,021
Greg Dyke	5,551	41,169	7,901	––	52,016	––	2,605

• The award as stated is the maximum number of shares, including share dividends on incentive share plan shares but not on reward plan shares, which may vest, subject to the performance conditions being fulfilled.

•• 3 March 2000 being the latest practicable date prior to the announcement of the results for the final year of the three-year performance period.

Note : Cash dividends may be paid on incentive share plan shares.

sally muggeridge
management development
pearson plc : london

Table 5

Movements in directors' interests in share options

		1 jan 99	granted	exercised	31 dec 99 •	option price (p)	market price (p)	gain on exercise (£)
Lord Stevenson	a	––	––	––	––	––	––	––
	b	2,243	––	––	2,243	769	––	––
Total		2,243	––	––	2,243	769	––	––
Marjorie Scardino	a	––	––	––	––	––	––	––
	b	163,300	––	––	163,300	1090	––	––
		2,535	––	––	2,535	769	––	––
	*	––	33,557	––	33,557	1537	––	––
	*	––	33,557	––	33,557	1845	––	––
	*	––	33,557	––	33,557	2152	––	––
Total		165,835	100,671	––	266,506	––	––	––
David Bell	a	20,300	––	20,300	–	545	1505	194,937
		––	––	––	26,500	654	––	––
	b	26,500	––	––	–	654	––	––
		18,300	––	––	18,300	1090	––	––
		1,186	––	––	1,186	436	––	––
		596	––	––	596	578	––	––
		581	––	––	581	593	––	––
		448	––	––	448	769	––	––
	**	––	165	––	165	1022	––	––
	*	––	16,701	––	16,701	1537	––	––
	*	––	16,701	––	16,701	1845	––	––
	*	––	16,701	––	16,701	2152	––	––
Total		67,911	50,268	20,300	97,879	––	––	194,937
Greg Dyke	a	73,300	––	73,300	––	545	1340	582,735
		––	––	33,600	––	654	1340	230,496
							––	––
	b	33,600	––	––	––	––	––	––
		32,200	––	––	––	744	––	––
		60,300	––	––	––	949	––	––
		2,243	––	––	––	769	––	––
Total		201,643	––	106,900	––	––	––	813,231
John Makinson	a	50,000	––	––	50,000	635	––	––
		18,000	––	––	18,000	545	––	––
		––	––	––	32,800	654	––	––
	b	32,800	––	––	––	654	––	––
		66,000	––	––	66,000	758	––	––
		27,300	––	––	27,300	1090	––	––
		2,984	––	––	2,984	578	––	––
	*	––	19,176	––	19,176	1537	––	––
	*	––	19,176	––	19,176	1845	––	––
	*	––	19,176	––	19,176	2152	––	––
Total		197,084	57,528	––	254,612	––	––	––

• Or date of leaving, if earlier.

Note : Shares under option on 31 December 1999 are designated as: **a**) where the options are exercisable, and **b**) where the options are not yet exercisable. Total combined gain on the exercise of the options for all directors during 1999 amounted to £1,008,168. The register of directors' interests (which is open to inspection during normal office hours) contains full details of directors' shareholdings and options to subscribe for shares. Options granted to Greg Dyke in respect of 94,743 shares lapsed during the year. The market price on 30 December 1999 was 2004p per share and the range during the year was 1173p to 2004p per share. Subject to any performance conditions being met, outstanding executive and premium priced options become exercisable on the third anniversary of the date of grant and lapse if they remain unexercised after the tenth. Save for Shares options become exercisable on the third, fifth or seventh anniversary of the start of the contract and lapse if not exercised within six months after that anniversary.

Options are held under the executive and save for shares plans. Premium priced option grants marked * above were made in three tranches under the reward plan and are exercisable between 2001 and 2009. Grants marked ** were made under the Save for Shares plan at a price of 1022p and are exercisable between 2004 and 2005.

kim pyontek **:** finance
pearson education : new jersey

: consolidated profit and loss account : year ended 31 dec 1999

all figures in £ millions

	1999			1998			
	operating activities	other items	total	operating activities	other items	total	note
Sales							
Continuing operations	3,304	––	3,304	2,251	––	2,251	
Acquisitions	28	––	28	––	––	––	
	3,332	––	3,332	2,251	––	2,251	
Discontinued operations	––	––	––	144	––	144	
Total sales	3,332	––	3,332	2,395	––	2,395	2
Cost of sales	(1,414)	(10)	(1,424)	(1,127)	(49)	(1,176)	3
Gross profit	1,918	(10)	1,908	1,268	(49)	1,219	
Net operating expenses – before goodwill amortisation	(1,441)	(90)	(1,531)	(930)	(78)	(1,008)	
Net operating expenses – goodwill amortisation	(130)	––	(130)	(12)	––	(12)	3
Net operating expenses	(1,571)	(90)	(1,661)	(942)	(78)	(1,020)	3
Operating profit							
Continuing operations – Group	350	(100)	250	303	(127)	176	
Acquisitions – Group	(3)	––	(3)	––	––	––	
	347	(100)	247	303	(127)	176	
Discontinued operations – Group	––	––	––	23	––	23	
Total operating profit – Group	347	(100)	247	326	(127)	199	
Share of operating profit of associates:							
Continuing operations	24	––	24	11	––	11	
Acquisitions – after goodwill amortisation of £1m	(1)	––	(1)	––	––	––	
	23	––	23	11	––	11	13
Discontinued operations	48	––	48	40	––	40	13
Total share of operating profit of associates	71	––	71	51	––	51	13
Total operating profit analysed between:							
Operating profit before internet enterprises and goodwill amortisation	588	(100)	488	389	(127)	262	2
Internet enterprises	(39)	––	(39)	––	––	––	2
Goodwill amortisation	(131)	––	(131)	(12)	––	(12)	
Total operating profit	418	(100)	318	377	(127)	250	2
Continuing operations:							
Profit on sale of fixed assets and investments			352			142	4
(Loss)/profit on sale of businesses and associates			(44)			50	5
Discontinued operations:							
Profit on sale of businesses and associates			––			215	5
			308			407	
Continuing operations:							
Profit on sale of businesses and associates by an associate			1			11	13
Profit before interest			627			668	
Net interest payable – Group			(145)			(36)	6
Net interest payable – associates			(2)			(3)	13
Total net interest payable			(147)			(39)	
Profit before taxation			480			629	
Taxation			(180)			(188)	7
Profit after taxation			300			441	
Equity minority interests			(6)			(4)	
Profit for the financial year			294			437	
Dividends on equity shares			(138)			(126)	8
Profit retained			156			311	
Adjusted earnings per equity share before internet enterprises			53.3p			42.0p	9
Adjusted earnings per equity share after internet enterprises			48.5p			42.0p	9
Earnings per equity share			48.2p			74.1p	9
Diluted earnings per equity share			47.5p			73.3p	9
Dividends per equity share			22.5p			21.0p	8

: consolidated balance sheet : as at 31 dec 1999

all figures in £ millions	1999	1998	note
Fixed assets			
Intangible assets	2,457	2,330	11
Tangible assets	405	435	12
Investments: associates	234	145	13
Investments: other	99	168	14
	3,195	3,078	
Current assets			
Stocks	691	614	15
Debtors	1,132	1,127	16
Investments	4	153	17
Cash at bank and in hand	328	345	18
	2,155	2,239	
Creditors – amounts falling due within one year			
Short-term borrowing	(47)	(72)	19
Other creditors	(1,441)	(1,282)	20
	(1,488)	(1,354)	
Net current assets	667	885	
Total assets less current liabilities	3,862	3,963	
Creditors – amounts falling due after more than one year			
Medium and long term borrowing	(2,276)	(2,552)	19
Other creditors	(32)	(54)	20
	(2,308)	(2,606)	
Provisions for liabilities and charges			
Deferred taxation	(21)	(20)	21
Other provisions for liabilities and charges	(206)	(253)	22
Net assets	1,327	1,084	
Capital and reserves			
Called up share capital	153	152	23
Share premium account	517	498	24
Revaluation reserve	––	1	24
Other reserves	––	1	24
Profit and loss account	651	396	24
Equity shareholders' funds	1,321	1,048	
Equity minority interests	6	36	
	1,327	1,084	

The company balance sheet is shown in note 32.

The financial statements were approved by the board of directors on 6 March 2000 and signed on its behalf by

lord stevenson : john makinson

: consolidated statement of cash flows : year ended 31 dec 1999

all figures in £ millions	1999	1998	note
Net cash inflow from operating activities	433	402	27
Dividends from partnerships and other associates	44	53	
Interest received	41	52	
Interest paid	(182)	(88)	
Debt issue costs	(5)	(21)	
Dividends paid to minority interests	(1)	(3)	
Returns on investments and servicing of finance	(147)	(60)	
Taxation	(156)	(80)	
Purchase of tangible fixed assets	(102)	(125)	
Sale of tangible fixed assets	36	14	
Purchase of investments	(24)	(53)	
Sale of investments	624	199	14/17
Capital expenditure and financial investment	534	35	
Purchase of subsidiary undertakings	(249)	(2,936)	
Net cash acquired with subsidiary undertakings	––	(2)	
Purchase of associates	(54)	(13)	
Sale of subsidiary undertakings	44	718	
Net cash disposed with subsidiary undertakings	(3)	(17)	
Sale of associates	12	77	
Acquisitions and disposals	(250)	(2,173)	25/26
Equity dividends paid	(132)	(113)	
Net cash inflow/(outflow) before management of liquid resources and financing	326	(1,936)	
Liquid resources acquired	(9)	(1,261)	
Liquid resources disposed	10	1,306	
Management of liquid resources	1	45	27
Issue of equity share capital	18	344	
Capital element of finance lease rentals	(11)	(1)	
Unsecured bank loans repaid	––	(141)	
Loan facility (repaid)/advanced	(1,112)	2,115	
4.625% €uro Bonds 2004 advanced	358	––	
7% Sterling Bonds 2014 advanced	250	––	
Net movement in other borrowings	202	(280)	
Financing	(295)	2,037	
Increase in cash in the year	32	146	27

: statement of total recognised gains and losses : year ended 31 dec

all figures in £ millions	1999	1998
Profit for the financial year	294	437
Other net gains and losses recognised in reserves:		
Currency translation differences	36	(8)
Total recognised gains relating to the year	330	429

: note of historical cost profits and losses : year ended 31 dec 1999

all figures in £ millions	1999	1998
Reported profit before taxation	480	629
Realisation of property revaluations	––	2
Historical cost profit on ordinary activities before taxation	480	631
Historical cost profit retained after taxation, equity minority interests and dividends	156	313

: reconciliation of movements in equity shareholders' funds :

year ended 31 dec 1999

all figures in £ millions	1999	1998
Profit for the financial year	294	437
Dividends on equity shares	(138)	(126)
	156	311
Other net recognised gains/(losses) relating to the year (see above)	36	(8)
Goodwill arising on prior year acquisitions	––	(16)
Goodwill written back	63	262
Shares issued	18	347
Net movement for the year	273	896
Equity shareholders' funds at beginning of the year	1,048	152
Equity shareholders' funds at end of the year	1,321	1,048

: report of the auditors to the members of Pearson plc :

We have audited the financial statements on pages 58 to 61 and 63 to 94 (including additional disclosures on pages 49 to 56 relating to the remuneration of the directors of Pearson plc specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 63 and 64.

Respective responsibilities of directors and auditors The directors are responsible for preparing the annual report. As described on page 48, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the corporate governance statement on page 42 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31 December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers : chartered accountants and registered auditors : london 6 march 2000

1 Accounting policies

Accounting policies have been consistently applied. FRS12 'Provisions, Contingent Liabilities and Contingent Assets' has been adopted.

a. Basis of accounting The accounts are prepared under the historical cost convention, modified by the revaluation of certain land and buildings and investments, and in accordance with applicable accounting standards. A summary of the significant accounting policies is set out below.

b. Basis of consolidation The consolidated accounts include the accounts of all subsidiary undertakings made up to 31 December. Where companies have become or ceased to be subsidiary or associated undertakings during the year the Group profit includes profits for the period during which they were subsidiary or associated undertakings.

From 1 January 1998 goodwill, being either the net excess of the cost of shares in subsidiary undertakings, partnerships and other associates over the value attributable to their net assets on acquisition or the cost of other goodwill by purchase, is capitalised and amortised through the profit and loss account over its estimated useful life not exceeding 20 years. Estimated useful life is determined after taking into account such factors as the nature and age of the business and the stability of the industry in which the acquired business operates as well as typical life spans of the acquired products to which the goodwill attaches. Goodwill is subject to an impairment review at the end of the first full year following an acquisition and at any other time if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill arising on acquisitions before 1 January 1998 has been deducted from reserves and is charged or credited to the profit and loss account on disposal or closure of the business to which it relates.

The profit of the Group includes the Group's share of the profit of partnerships and other associates, and the consolidated balance sheet includes the Group's interest in partnerships and other associates at the book value of attributable net tangible assets. The figures included in the financial statements have been based on audited accounts, adjusted where necessary by reference to unaudited management accounts for the subsequent period to 31 December.

c. Sales Sales represent the amount of goods and services, net of value added tax and other sales taxes, and excluding trade discounts and anticipated returns, provided to external customers and associated undertakings.

d. Foreign currencies Profit and loss accounts in overseas currencies are translated into sterling at average rates. Balance sheets are translated into sterling at the rates ruling at 31 December. Exchange differences arising on consolidation are taken directly to reserves. Other exchange differences are taken to the profit and loss account where they relate to trading transactions and directly to reserves where they relate to investments.

The principal overseas currency for the Group is the US dollar. The average rate for the year against sterling was $1.61 (1998: $1.66) and the year end rate was $1.61 (1998: $1.66).

e. Pension costs The regular pension cost of the Group's defined benefit pension schemes is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the schemes. Variations arising from a significant reduction in the number of employees are adjusted in the profit and loss account to the extent that the year's regular pension cost, reduced by other variations, exceeds contributions payable for that year. Other variations are apportioned over the expected service lives of current employees in the schemes.

f. Post-retirement benefits other than pensions Post-retirement benefits other than pensions are accounted for on an accruals basis to recognise this obligation over the expected service lives of the employees concerned.

1 Accounting policies (cont'd)

g. Channel 5 The Group's share of certain Channel 5 initial costs is being amortised. These costs will be amortised by the end of the ten year licence period. The Group's share of other profits and losses is being equity accounted.

h. Tangible fixed assets The cost or subsequent valuation of tangible fixed assets other than freehold land and investment properties is depreciated over estimated economic lives in equal annual amounts at the rates indicated in note 12.

i. Leases Finance lease rentals are capitalised at the total amount of rentals payable under the leasing agreement (excluding finance charges) and depreciated in accordance with policy h above. Finance charges are written off over the period of the lease in reducing amounts in relation to the written down carrying cost. Operating lease rentals are expensed as incurred.

j. Fixed asset investments Fixed asset investments are stated at cost less provisions for diminution in value, or as revalued by the directors.

k. Stocks Stocks and work in progress are valued at the lower of cost and net realisable value.

l. Product development costs Revenue investment in the development of newspaper titles consists of measures to increase the volume and geographical spread of circulation. These measures include additional editorial content, distribution and remote printing. The extra costs arising are expensed as incurred. • Pre-publication costs, the direct costs incurred in the development of titles prior to their publication, are included within stocks and are amortised over their estimated economic lives. • Advances to authors are included within debtors net of any provision required for net realisable value and are expensed at contracted rates based on sales of the related titles. • Television programme production costs are included within stocks and are amortised over the estimated period in which the related revenue is forecast to be earned.

m. Deferred taxation Deferred taxation is provided, using the liability method, at the expected applicable rates, on all timing differences between accounting and taxation treatments, including those arising from the revaluation of fixed assets, which are expected to reverse in the foreseeable future.

n. Financial instruments The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange risks. These include interest rate swaps, currency swaps and forward currency contracts. Amounts payable or receivable in respect of interest rate derivatives are accrued with net interest payable over the period of the contract. Where the derivative instrument is terminated early the gain or loss is spread over the remaining maturity of the original instrument. Foreign currency borrowings and their related derivatives are carried in the balance sheet at the relevant exchange rates at the balance sheet date. Gains or losses in respect of the hedging of overseas subsidiary undertakings are taken to reserves. Gains or losses arising from foreign exchange contracts are taken to the profit and loss account in line with the transactions which they are hedging.

The company participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

o. Liquid resources Liquid resources comprise short-term deposits of less than one year and investments which are readily realisable and held on a short-term basis.

p. Retained profits of overseas subsidiaries and associates No provision is made for any additional taxation, less double taxation relief, which would arise on the remittance of profits retained where there is no intention to remit such profits.

2A Analysis of sales and operating profit

all figures in £ millions	1999			1998		
	sales	operating profit before internet enterprises, goodwill & other items	operating profit after internet enterprises, goodwill & other items	sales	operating profit before internet enterprises, goodwill & other items	operating profit after internet enterprises, goodwill & other items
Business sectors						
FT Group	687	150	103	683	118	114
Pearson Education	1,725	257	36	702	99	(34)
The Penguin Group	565	65	64	523	48	46
Pearson Television	355	68	67	343	61	61
Continuing operations	3,332	540	270	2,251	326	187
Discontinued operations	––	48	48	144	63	63
	3,332	588	318	2,395	389	250
Geographical markets supplied						
United Kingdom	544	46	(4)	497	38	35
Continental Europe	518	110	103	461	109	106
North America	1,990	340	134	1,078	157	30
Asia Pacific	200	29	23	161	16	11
Rest of world	80	15	14	54	6	5
Continuing operations	3,332	540	270	2,251	326	187
Discontinued operations	––	48	48	144	63	63
	3,332	588	318	2,395	389	250

Note : In 1999 'other items' comprises exceptional items of £95m (1998: £120m) and Year 2000 compliance costs of £5m (1998: £7m). ● Exceptional items comprise integration costs following the acquisition of Simon & Schuster in 1998. These all relate to the Pearson Education business sector. The results of Simon & Schuster are included within the Pearson Education business sector and mainly within North America. ● The results of internet enterprises, the Group's discrete internet operations, are included within FT Group £36m and Pearson Education £3m. ● Discontinued operations arising in 1999 relate to the withdrawl of the Group from the banking business following its disposal of Lazard on 3 March 2000. Discontinued operations arising in 1998 relate to the withdrawal of the Group from the consumer software business following its disposal of Mindscape Inc. in March 1998, the withdrawal of the Group from the consumer magazine business following its disposal of Pearson New Entertainment in April 1998 and the withdrawal of the Group from the visitor attractions business following its disposal of The Tussauds Group in October 1998. ● Analyses of the profits of associates are shown in note 13.

all figures in £ millions	1999			1998		
	total by source	inter-regional	sales	total by source	inter-regional	sales
Geographical source of sales						
United Kingdom	820	(52)	768	728	(52)	676
Continental Europe	394	(6)	388	355	(6)	349
North America	1,991	(18)	1,973	1,108	(28)	1,080
Asia Pacific	159	(4)	155	129	(4)	125
Rest of world	50	(2)	48	22	(1)	21
Continuing operations	3,414	(82)	3,332	2,342	(91)	2,251
Discontinued operations	––	––	––	144	––	144
	3,414	(82)	3,332	2,486	(91)	2,395

Note : The table above analyses sales by the geographical region from which the products and services originate. Inter-regional sales are those made between the Group companies in different regions.

2B Analysis of capital employed

all figures in £ millions	1999 capital employed	1998 capital employed
Business sectors		
FT Group	408	143
Pearson Education	2,877	3,200
The Penguin Group	193	143
Pearson Television	(78)	39
Continuing operations	3,400	3,525
Discontinued operations	149	111
	3,549	3,636
Geographical location		
United Kingdom	(30)	129
Continental Europe	313	217
North America	3,023	3,041
Asia Pacific	22	96
Rest of world	72	42
Continuing operations	3,400	3,525
Discontinued operations	149	111
	3,549	3,636
Reconciliation of capital employed to net assets		
Capital employed	3,549	3,636
Less: deferred taxation	(21)	(20)
Less: other provisions	(206)	(253)
Less: net debt	(1,995)	(2,279)
Net assets	1,327	1,084

3 Analysis of consolidated profit and loss account

all figures in £ millions	1999	1998		
	total	continuing	discontinued	total
Cost of sales	(1,424)	(1,138)	(38)	(1,176)
Distribution costs	(289)	(168)	(1)	(169)
Administration and other expenses	(1,470)	(848)	(85)	(933)
Other operating income (see below)	98	79	3	82
Net operating expenses	(1,661)	(937)	(83)	(1,020)
Analysed as:				
Net operating expenses – before exceptional items and goodwill amortisation	(1,446)	(854)	(83)	(937)
Net operating expenses – exceptional items	(85)	(71)	––	(71)
Net operating expenses – goodwill amortisation	(130)	(12)	––	(12)
Net operating expenses	(1,661)	(937)	(83)	(1,020)

Note: The following amounts are included in the 1999 totals in respect of acquisitions: cost of sales £14m and net operating expenses £17m. The exceptional expense of £95m in 1999 (1998: £120m) is included within cost of sales £10m (1998: £49m) and administration and other expenses £85m (1998: £71m) (see note 2).

all figures in £ millions	1999	1998
Other operating income		
Income from other investments:		
Unlisted	3	14
BSBH loan stock interest	1	4
Other operating income (mainly royalties, rights and commission income)	94	64
	98	82
Profit before taxation is stated after charging:		
Depreciation	82	66
Operating lease rentals:		
Plant and machinery	22	17
Properties	61	41
Other	12	4
Year 2000 compliance costs	5	7
Auditors' remuneration:		
Audit	2	2
Non-audit – UK (company £nil; 1998: £nil)	2	2
Non-audit – Other	2	2

Note: In addition to the non-audit fees (UK) of £2m (1998: £2m), consultancy fees of £6m (1998: £7m) have been incurred in respect of systems development. These fees have been capitalised. Fees of £2m (1998: £2m) were also incurred in the UK in respect of acquisitions and disposals. These fees have also been capitalised. Audit fees of the company amounted to £0.1m (1998: £0.1m).

4 Profit on sale of fixed assets and investments

all figures in £ millions	1999	1998
Continuing operations:		
Profit on disposal of interest in BSB Holdings Ltd (see note 14)	348	––
Profit on sale of investment in Société Européenne des Satellites	––	133
Profit on sale of investment in Flextech plc	––	27
Loss on sale of fixed assets relating to the Simon & Schuster acquisition	(3)	(6)
Net profit/(loss) on other investments and property interests	7	(12)
	352	142
Taxation	(93)	(40)

5 (Loss)/profit on sale of businesses and associates

all figures in £ millions	1999	1998
Continuing operations:		
Loss on sale of Extel research products business (see note 26)	(19)	––
Profit on sale of Law & Tax publishing business	––	61
Profit on sale of 20% of Recolétos	––	34
Loss on sale of Register group	––	(20)
Loss on closure of Simon & Schuster businesses	(12)	(10)
Net loss on sale of other businesses and associates	(13)	(15)
	(44)	50
Discontinued operations:		
Profit on sale of The Tussauds Group	––	157
Profit on sale of Pearson New Entertainment	––	41
Profit on sale of Port Aventura SA	––	28
Loss on sale of Mindscape Inc.	––	(11)
	––	215
Taxation	5	(63)

6 Net interest payable – Group

all figures in £ millions	1999	1998
Interest payable and similar charges:		
On borrowing repayable wholly within five years not by instalments	(155)	(43)
On borrowing repayable wholly or partly after five years	(29)	(44)
	(184)	(87)
Interest receivable and similar income:		
On deposits and liquid funds	29	48
On discounted proceeds on businesses held for resale (see note 17)	7	––
Amortisation of swap proceeds (see note 20)	3	3
Net interest payable	(145)	(36)

7 Taxation

all figures in £ millions	1999	1998
UK		
Corporation tax at 30.2% (1998: 31%)	104	134
Deferred taxation	6	(4)
Double taxation relief	(1)	(1)
Tax on franked investment income	4	––
Associates	9	8
Overseas		
Overseas taxation	52	45
Deferred taxation	––	1
Associates	6	5
	180	188

all figures in percentages	1999	1998
Tax rate reconciliation		
UK tax rate	30.2	31.0
Effect of utilisation of tax losses in the US	(7.7)	(2.7)
Other items	2.5	(0.3)
Tax rate reflected in adjusted earnings	25.0	28.0
Effect of profits/(losses) excluded from adjusted earnings	12.5	1.9
Tax rate reflected in earnings	37.5	29.9

Note: The Group continues to have substantial tax losses available in the US which are not recognised in the accounts. Following the acquisition of Simon & Schuster at the end of 1998, US profits are higher in 1999 than in 1998 but are still more than offset by the available losses so reducing the Group tax rate reflected in adjusted earnings. As in 1998, relief has not been taken for the Simon & Schuster integration costs to the extent that they arose in the US, hence increasing the effective tax rate on earnings.

8 Dividends

	1999		1998	
	p per share	£m	p per share	£m
Interim paid	8.6	53	8.0	47
Final proposed	13.9	85	13.0	79
Dividends for the year	22.5	138	21.0	126

9 Earnings per share

In order to show results from operating activities on a comparable basis two adjusted earnings per equity share are presented. First, an adjusted earnings per share is presented which excludes profits or losses on the sale of fixed assets and investments, businesses and associates (see notes 4 and 5), Year 2000 compliance costs and integration costs in respect of the acquisition of Simon & Schuster (see note 2). Goodwill amortisation has also been excluded from the adjusted earnings calculation following the prospective implementation of FRS10 'Goodwill and Intangible Assets' in 1998. Due to a significant level of expenditure in 1999 on new internet enterprises, a second adjusted earnings per equity share is presented in which the results of these are also excluded from earnings.

	1999		1998	
	£m	earnings per share (p)	£m	earnings per share (p)
Basic earnings	294	48.2	437	74.1
Less: (Profit) on sale of fixed assets and investments:				
continuing operations	(352)	(57.7)	(142)	(24.1)
Loss/(profit) on sale of businesses and associates: continuing operations	44	7.2	(50)	(8.5)
(Profit) on sale of businesses and associates: discontinued operations	––	––	(215)	(36.4)
(Profit) on sale of businesses and associates by an associate: continuing operations	(1)	(0.2)	(11)	(1.9)
Add: Internet enterprises	39	6.4	––	––
Goodwill amortisation	131	21.5	12	2.0
Simon & Schuster integration costs	95	15.6	120	20.3
Year 2000 compliance costs	5	0.8	7	1.2
Taxation on above items	70	11.5	90	15.3
Adjusted earnings before internet enterprises	325	53.3	248	42.0
Internet enterprises	(39)	(6.4)	––	––
Taxation on internet enterprises	10	1.6	––	––
Adjusted earnings after internet enterprises	296	48.5	248	42.0
Earnings	294		437	
Taxation on the conversion of ordinary shares	(1)		(1)	
Diluted earnings	293		436	
Weighted average number of equity shares (millions) – for earnings and adjusted earnings	610.2		589.8	
Effect of dilutive share options	7.0		5.1	
Weighted average number of equity shares (millions) – for diluted earnings	617.2		594.9	
Adjusted earnings per equity share before internet enterprises	53.3p		42.0p	
Adjusted earnings per equity share after internet enterprises	48.5p		42.0p	
Earnings per equity share	48.2p		74.1p	
Diluted earnings per equity share	47.5p		73.3p	

10 Employee information

The details of the emoluments of the directors of Pearson plc are shown on pages 49 to 56 and form part of these audited financial statements.

all figures in £ millions	1999	1998
Staff costs		
Wages and salaries	702	476
Social security costs	75	54
Post-retirement costs	26	13
	803	543

10 Employee information (cont'd)

	uk	us	other	total
Average number employed 1999				
FT Group	2,158	1,034	1,790	4,982
Pearson Education	1,761	9,970	2,394	14,125
The Penguin Group	749	1,866	614	3,229
Pearson Television	617	105	550	1,272
Other	171	93	––	264
Continuing operations	5,456	13,068	5,348	23,872
Average number employed 1998				
FT Group	2,780	832	1,858	5,470
Pearson Education	764	3,171	1,489	5,424
The Penguin Group	989	1,728	601	3,318
Pearson Television	585	113	450	1,148
Other	171	48	––	219
Continuing operations	5,289	5,892	4,398	15,579
Discontinued operations	2,614	131	76	2,821
	7,903	6,023	4,474	18,400

all figures in £ millions	1999	1998
Post-retirement costs		
Defined benefit pension schemes		
UK Group plan: regular pension cost	8	8
UK Group plan: amortisation of surplus	(3)	(9)
Net pension charge/(credit)	5	(1)
Other defined benefit pension schemes	11	6
Defined contribution pension schemes	6	5
Medical benefits	4	3
	26	13

Pension schemes The Group operates a number of pension schemes throughout the world. The major schemes are self-administered and the schemes' assets are held independently of the Group. Pension costs are assessed in accordance with the advice of independent qualified actuaries. The principal schemes are primarily of the defined benefit type. There is also a closed defined benefit scheme in the UK, which now receives neither employers' nor members' contributions, and a number of other defined benefit and defined contribution schemes, principally overseas.

The results of the most recent actuarial valuation performed as at 1 January 1999, using the projected unit method of valuation, of the principal funded UK scheme, and the principal assumptions are shown in the table on page 72. The net assets of the UK Group plan at 31 December 1999 are included in the pension plan accounts at £1,192m (unaudited).

10 Employee information (cont'd)

	uk group plan
Assets at market value at latest full actuarial valuation on 1 January 1999	£1,038 m
Real return on investments per annum	3.9 %
Real increase in earnings per annum	1.9 %
Real increase in pensions in payment per annum	0.0 %
Real increase in dividends per annum	1.0 %
Level of funding •	105 %

• Actuarial value of assets expressed as a percentage of the actuarial value of the liabilities.

In view of these results, all employers' contributions remain suspended for the time being and the valuation surplus is being apportioned, in accordance with SSAP24, over the expected remaining service lives of the current employees.

The total market value of the assets of the non-UK defined benefit schemes (mainly in the US), valued this year, was £64m (1998: £63m).

Other post-retirement benefits The Group provides certain health care and life assurance benefits principally for retired US employees and their dependants. These plans are unfunded. Retirees are eligible for participation if they meet certain age and service requirements. Plans that are available vary based upon the business division in which the retiree worked. Plan choices and retiree contributions are dependent on retirement date, business unit, option chosen and length of service.

The principal assumptions affecting the provision for other post-retirement benefits were: medical inflation rates of between 5.0% and 7.0% and a discount rate of 6.75%.

11 Intangible assets

all figures in £ millions	goodwill total
Cost	
At 31 December 1998	2,342
Exchange differences	71
Additions (see note 25)	187
Disposals (see note 26)	(1)
At 31 December 1999	2,599
Amortisation	
At 31 December 1998	(12)
Provided in the year	(130)
At 31 December 1999	(142)
Net carrying amount	
At 31 December 1998	2,330
At 31 December 1999	2,457

12 Tangible fixed assets

all figures in £ millions

	freehold & leasehold property	plant & equipment	assets in course of construction	total
Cost or as valued				
At 31 December 1998	249	527	18	794
Exchange differences	2	2	––	4
Reclassifications	3	9	(12)	––
Owned by subsidiary undertakings acquired	––	(8)	––	(8)
Capital expenditure	18	77	21	116
Disposals	(36)	(49)	(6)	(91)
Owned by subsidiary undertakings disposed	(1)	(21)	––	(22)
At 31 December 1999	235	537	21	793
Depreciation				
At 31 December 1998	(78)	(281)	––	(359)
Exchange differences	(1)	(1)	––	(2)
Impairment in value	––	(11)	––	(11)
Provided in the year	(12)	(70)	––	(82)
Subsidiary undertakings acquired	––	4	––	4
Disposals	10	44	––	54
Subsidiary undertakings disposed	––	8	––	8
At 31 December 1999	(81)	(307)	––	(388)
Net book value				
At 31 December 1998	171	246	18	435
At 31 December 1999	154	230	21	405

Freehold and leasehold property Net book value includes: freehold of £113m (1998: £133m) and short leases of £41m (1998: £38m).

Depreciation Fixed assets are depreciated over their estimated economic lives in equal annual amounts. Generally, freeholds are depreciated at 1% to 5% per annum, leaseholds at 2% per annum, or over the period of the lease if shorter, and plant and equipment at various rates between 5% and 33% per annum. Land, amounting to £32m, is not depreciated.

Capital commitments The Group had capital commitments for fixed assets, including finance leases, already under contract amounting to £20m at 31 December 1999.

Other notes The net book value of Group tangible fixed assets includes £23m in respect of assets held under finance leases. Depreciation on these assets charged in 1999 was £2m (1998: £1m).

13 Associates

all figures in £ millions

	1999		1998	
	valuations	book values	valuations	book values
Partnership interests	410	149	200	111
Unlisted associates	426	18	189	(31)
Loans	67	67	65	65
	903	234	454	145

Note : Principal associates are listed on page 94. The valuations of unlisted partnerships and other associates are at directors' valuations as at 31 December 1999. If realised at these values there would be an estimated liability for taxation, at year end rates, of £161m. The Group had no capital commitments to subscribe for further capital and loan stock.

13 Associates (cont'd)

all figures in £ millions	equity	share of loans	reserves	total	goodwill	total net assets
Summary of movements						
At 31 December 1998	77	65	3	145	––	145
Exchange differences	(2)	––	(1)	(3)	(2)	(5)
Additions	23	2	––	25	29	54
Retained profit for the year	––	––	41	41	––	41
Goodwill amortisation	––	––	––	––	(1)	(1)
At 31 December 1999	98	67	43	208	26	234

all figures in £ millions	1999 operating profit	1999 total net assets	1998 operating profit	1998 total net assets
Analysis of partnerships and other associates				
Business sectors				
FT Group	14	63	15	6
Pearson Education	6	7	4	5
Pearson Television	3	15	(8)	23
Continuing operations	23	85	11	34
Discontinued operations	48	149	40	111
	71	234	51	145
Geographical markets supplied and location of net assets				
United Kingdom	––	2	(3)	18
Continental Europe	10	56	6	7
North America	8	14	5	1
Rest of world	5	13	3	8
Continuing operations	23	85	11	34
Discontinued operations	48	149	40	111
	71	234	51	145

all figures in £ millions	1999
Reconciliation to retained profit	
Operating profit of partnerships and other associates	71
Net interest payable of other associates	(2)
Profit on sale of a business by an associate	1
UK taxation	(9)
Overseas taxation	(6)
Distributions receivable in respect of the year from partnership interests	(2)
Dividends (including tax credits) from unlisted associates	(12)
Retained profit for the year	41

13 **Associates** (cont'd)

The aggregate of Pearson's share in its associates, excluding the interest in Lazard Partners Limited Partnership and the three Lazard Houses, is shown below.

all figures in £ millions	1999	1998
Sales	299	239
Fixed assets	98	57
Current assets	165	126
Liabilities due within one year	(105)	(88)
Liabilities due after one year or more	(73)	(61)
Net assets	85	34

Pearson's interest in Lazard Partners Limited Partnership and the three Lazard Houses for the year ended 31 December 1999 is shown below. On 3 March 2000, Pearson sold its interests in Lazard Partners Limited Partnership and the three Lazard Houses (see note 31).

all figures in £ millions	1999	1998
Profit before tax	48	53
Taxation	(7)	(7)
Profit after taxation	41	46
Fixed assets	26	28
Current assets	3,399	5,151
Liabilities due within one year	(2,819)	(4,829)
Liabilities due after one year or more	(457)	(239)

Note : Pearson's indirect general partnership interest in Lazard Frères et Cie and Maison Lazard et Cie held directly and indirectly through Lazard Partners Limited Partnership was an unlimited liability interest. Pearson held these partnership interests through a subsidiary undertaking registered in England, with no other material assets. The aggregate liabilities of these partnerships included above are £511m (1998: £851m). Pearson also held direct interests in Lazard Frères & Co., a New York Limited Liability Company.

	country of incorporation or registration	beneficial interest %	class of share	share capital millions
Interests in the Lazard Houses				
Lazard Partners Limited Partnership (which, with direct interests in the US and French partnerships gives the following interests in the Lazard Houses):	US	50.0		Partnership
Lazard Brothers & Co. Ltd	England	29.1	Ord £1	25.3
Lazard Brothers & Co. Ltd	England	80.0	Def £1	5.0
Lazard Brothers & Co. Ltd	England	50.0	SFr1	0.4
Lazard Frères & Co. 'LLC'	US	11.5		LLC•
Lazard Frères et Cie/Maison Lazard et Cie	France	9.2		Partnership

•Limited Liability Company.

Note : The beneficial percentages held for the investment banking partnership interests are interests in partnership profits.

14 Other fixed asset investments

all figures in £ millions	1999		1998	
	valuation	book value	valuation	book value
Listed	51	16	2	1
Unlisted	83	83	331	167
	134	99	333	168

Note : During the year the Group sold its interest in BSB Holdings Ltd for £408m which, together with the disposal of an indirect interest in BSkyB for £30m, gave rise to a profit on sale of £348m before tax estimated at £91m. If all investments were realised at valuation there would be an estimated liability for taxation, at year end rates, of £10m.

all figures in £ millions	BSBH	other	total
Summary of movements			
At 31 December 1998	90	78	168
Exchange differences	––	(8)	(8)
Additions	––	24	24
Transfers	––	2	2
Disposals	(90)	––	(90)
Release of provisions for permanent diminution in value	––	3	3
Book value at 31 December 1999	––	99	99
Valuation at 31 December 1999	––	134	134

Note : The Pearson Employee Share Trust and Pearson plc Employee Share Ownership Trust hold 953,057 (1998: 386,977) Pearson plc ordinary shares with a market value of £19m at 31 December 1999 (1998: £5m) inclusive of accumulated scrip dividend shares. Amounts included within other fixed asset investments for own shares are £10m. In 1998, £2m was included in debtors.

15 Stocks

all figures in £ millions	1999	1998
Raw materials	35	32
Work in progress	159	126
Finished goods	497	456
	691	614

Note : The replacement cost of stocks is not materially different from book value.

16 Debtors

all figures in £ millions	1999	1998
Amounts falling due within one year		
Trade debtors	807	763
Associates	10	39
Other debtors	219	198
Prepayments and accrued income	82	105
	1,118	1,105
Amounts falling due after more than one year		
Other debtors	8	14
Prepayments and accrued income	6	8
	14	22
	1,132	1,127

17 Current asset investments

all figures in £ millions	1999		1998	
	valuation	book value	valuation	book value
Unlisted	4	4	5	5
Businesses held for resale	––	––	148	148
	4	4	153	153

Note : Investments are at directors' valuations. If all investments were realised at valuation there would be no liability for taxation.

all figures in £ millions	
Summary of movements	
At 31 December 1998	153
Exchange differences	5
Owned by businesses acquired (see note 25)	27
Disposals	(181)
At 31 December 1999	4

Note : During the year Simon & Schuster businesses held for resale were sold for £184m (less costs accrued of £5m) and other current asset investments for £2m.

18 Cash at bank and in hand

all figures in £ millions	1999		1998	
	Group	company	Group	company
Cash, bank current accounts and overnight deposits	288	––	305	––
Certificates of deposit and commercial paper	22	––	20	––
Term bank deposits	18	7	20	6
	328	7	345	6

19 Financial instruments

A full discussion on treasury policy is given in the Financial Policy review on pages 36 to 39. Short-term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

all figures in £ millions	1999		1998	
	Group	company	Group	company
Maturity of borrowings				
Short-term				
Bank loans, overdrafts and commercial paper	47	130	72	172
Total due within one year	47	130	72	172
Medium and long term				
Loans or instalments thereof repayable:				
From one to two years	155	155	151	151
From two to five years	1,617	906	2,036	1,935
After five years not by instalments	504	351	365	100
Total due after more than one year	2,276	1,412	2,552	2,186
Total borrowings	2,323	1,542	2,624	2,358

Note : In the absence of enforceable contracts from the relevant lenders to refinance current advances as they fall due, at 31 December 1999 £547m (1998: £755m) of debt currently classified from two to five years would be repayable within one year. The short-term bank loans, overdrafts and commercial paper of the Group are lower than those of the company because of bank offset arrangements.

all figures in £ millions	1999			1998		
	Group finance leases	Group other financial liabilities	Group total	Group finance leases	Group other financial liabilities	Group total
Maturity of other financial liabilities						
Amounts falling due:						
In one year or less or on demand	5	––	5	9	––	9
In more than one year but not more than two years	7	11	18	5	32	37
In more than two years but not more than five years	3	4	7	4	3	7
In more than five years	––	1	1	1	––	1
	15	16	31	19	35	54

19 **Financial instruments** (cont'd)

all figures in £ millions	1999 Group	1999 company	1998 Group	1998 company
Borrowing by instrument				
Unsecured				
10.75% Sterling Bonds 2002	100	––	100	––
9.5% Sterling Bonds 2004	120	––	117	––
4.625% €uro Bonds 2004	345	345	––	––
10.5% Sterling Bonds 2008	100	100	100	100
7% Sterling Bonds 2014	251	251	––	––
7.125% US Dollar Notes 2006	153	––	148	––
Bank loans and overdrafts and commercial paper	1,254	846	2,159	2,258
Total borrowings	2,323	1,542	2,624	2,358

all figures in £ millions	1999	1998
Undrawn committed borrowing facilities		
Expiring within one year	––	––
Expiring between one and two years	155	3
Expiring in more than two years	362	832
	517	835

Note : All of the above committed borrowing facilities incur commitment fees at market rates.

	1999				
				fixed rate borrowings	
	borrowings £m	total variable rate £m	total fixed rate £m	weighted average interest rate %	weighted average period for which rate is fixed – years
Currency and interest rate risk profile of borrowings					
US dollar	1,795	790	1,005	6.1	4.6
Sterling	280	130	150	8.5	5.0
€uro	248	248	––	––	––
	2,323	1,168	1,155		

19 Financial instruments (cont'd)

				1998	
				fixed rate borrowings	
	borrowings £m	total variable rate £m	total fixed rate £m	weighted average interest rate %	weighted average period for which rate is fixed – years
Currency and interest rate risk profile of borrowings					
US dollar	1,964	1,365	599	6.0	4.6
Sterling	492	372	120	9.4	6.3
Spanish peseta	95	95	––	––	––
French franc	62	62	––	––	––
Other currencies	11	11	––	––	––
	2,624	1,905	719		

Note : The figures shown in the tables above take into account interest rate and currency swaps entered into by the Group. Variable rate borrowings bear interest at rates based on relevant national LIBOR equivalents.

all figures in £ millions

	1999		
	other financial liabilities	total fixed rate	total no interest paid
Currency and interest rate risk profile of other financial liabilities			
US dollar	21	14	7
Sterling	9	––	9
Other currencies	1	1	––
	31	15	16

all figures in £ millions

	1998			
	other financial liabilities	total variable rate	total fixed rate	total no interest paid
Currency and interest rate risk profile of other financial liabilities				
US dollar	45	––	19	26
Sterling	5	––	––	5
Spanish peseta	2	2	––	––
Other currencies	2	––	––	2
	54	2	19	33

Note : Variable rate financial liabilities bear interest at rates based on relevant national LIBOR equivalents.

19 Financial instruments (cont'd)

all figures in £ millions	1999				
	net foreign monetary assets/(liabilities)				
	us dollar	sterling	euro	other	total
Currency exposures					
Functional currency of entity:					
US dollar	––	(4)	2	9	7
Sterling	21	––	6	14	41
Other currencies	5	(3)	––	––	2
	26	(7)	8	23	50

all figures in £ millions	1998					
	net foreign monetary assets/(liabilities)					
	us dollar	sterling	french franc	spanish peseta	other	total
Currency exposures						
Functional currency of entity:						
US dollar	––	(133)	1	––	12	(120)
Sterling	42	––	1	2	17	62
Spanish peseta	––	(1)	––	––	––	(1)
Other currencies	(8)	(8)	––	––	––	(16)
	34	(142)	2	2	29	(75)

all figures in £ millions	1999			
	cash at bank and in hand	short-term deposits	other financial assets	total
Currency and interest rate risk profile of financial assets				
US dollar	183	7	1	191
Sterling	5	17	2	24
€uro	61	14	1	76
Other currencies	39	2	––	41
	288	40	4	332
Floating rate	221	1	––	222
Fixed rate	48	35	––	83
No interest paid	19	4	4	27
	288	40	4	332

Note : Floating rate cash and deposits earn interest based on relevant national LIBID equivalents. Fixed rate cash and deposits earn interest at rates between 3% and 8.4%.

19 Financial instruments (cont'd)

all figures in £ millions

	1998			
	cash at bank and in hand	short-term deposits	other financial assets	total
Currency and interest rate risk profile of financial assets				
US dollar	123	10	2	135
Sterling	32	17	––	49
Spanish peseta	67	––	––	67
French franc	17	3	1	21
Other currencies	66	10	1	77
	305	40	4	349
Floating rate	199	4	––	203
Fixed rate	89	36	––	125
No interest paid	17	––	4	21
	305	40	4	349

Note : Floating rate cash and deposits earn interest based on relevant national LIBID equivalents. Fixed rate cash and deposits earn interest at rates between 3% and 7.5%.

all figures in £ millions

	1999		1998	
	book value	fair value	book value	fair value
Primary financial instruments held or issued to finance the Group's operations				
Other financial assets	4	4	4	4
Other financial liabilities	(31)	(31)	(54)	(54)
Cash at bank and in hand	288	288	305	305
Short-term deposits	40	40	40	40
Short-term borrowings	(47)	(47)	(72)	(72)
Medium and long term borrowings	(2,276)	(2,307)	(2,552)	(2,635)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	––	23	––	(15)
Currency swaps	––	10	––	24
Foreign exchange contracts	––	1	––	––

Note : Other financial assets, other financial liabilities, cash at bank and in hand, short-term deposits and short-term borrowings: the fair value approximates to the carrying value due to the short maturity periods of these financial instruments. Medium and long term borrowings: the fair value is based on market values or, where these are not available, on the quoted market prices of comparable debt issued by other companies. Interest rate swaps: the fair value of interest rate swaps is based on market values. At 31 December 1999 the notional principal value of these swaps was £1,818m (1998: £368m). Currency swaps: the fair value of these contracts is based on market values. At 31 December 1999 the Group had £473m (1998: £117m) of such contracts outstanding.

all figures in £ millions

	unrecognised			
	gains	losses	total net gains/(losses)	deferred gains
Gains and losses on hedges at 31 December 1998	50	(41)	9	7
Gains and losses arising in previous years that were recognised in 1999	(2)	––	(2)	(3)
Gains and losses arising before 31 December 1998 that were not recognised in 1999	48	(41)	7	4
Gains and losses arising in 1999 that were not recognised in 1999	3	24	27	––
Unrecognised gains and losses on hedges at 31 December 1999	51	(17)	34	4
Of which: Gains and losses expected to be recognised in 2000	2	(1)	1	3
Gains and losses expected to be recognised in 2001 or later	49	(16)	33	1

20 Other creditors

all figures in £ millions	1999	1998
Amounts falling due within one year		
Trade creditors	473	371
Taxation	294	299
Social security and other taxes	28	33
Other creditors	74	101
Accruals and deferred income	482	388
Obligations under finance leases	5	9
Dividends	85	81
	1,441	1,282
Amounts falling due after more than one year		
Trade creditors	2	21
Other creditors	10	7
Accruals and deferred income	10	16
Obligations under finance leases	10	10
	32	54

Note : Accruals and deferred income includes £4m (1998: £7m) relating to the unamortised profit arising out of the unwinding of a sterling interest rate swap in 1994. The swap was arranged in 1992 in connection with the issue of £100m 10.75% Sterling Bonds 2002. The profit is being amortised over the remaining life of the bonds. £1m is due after one year . None of the amount falls due after five years.

21 Deferred taxation

all figures in £ millions	1999
Summary of movements	
At 31 December 1998	20
Exchange differences	(3)
Subsidiary undertakings acquired/disposed	(2)
Net charge in the year	6
At 31 December 1999	21

all figures in £ millions	1999	1998
Deferred taxation derives from		
Capital allowances	1	7
Taxation on unremitted overseas earnings	18	15
Other timing differences	2	(2)
	21	20
Deferred taxation not provided		
Relating to revalued assets and timing differences	4	(1)
Relating to gains subject to roll-over relief	1	2
	5	1

Note : The Group has calculated deferred tax not provided on rolled over gains in 1999 taking into account the indexation allowance which would be deductible on a disposal of the asset into which the gain was rolled. 1998 has been restated on this basis.

22 Other provisions for liabilities and charges

all figures in £ millions

	post-retirement	other	total
At 31 December 1998	100	153	253
Exchange differences	2	3	5
Subsidiary undertakings acquired/disposed	(12)	(3)	(15)
Deferred consideration arising on acquisitions	––	4	4
Transfers	––	1	1
Released	(1)	(9)	(10)
Provided	27	24	51
Utilised	(21)	(62)	(83)
At 31 December 1999	95	111	206

Note : Post-retirement provisions, based on actuarial assumptions, are in respect of pensions, £35m and post-retirement medical benefits, £60m. Other provisions are mainly in respect of:

a. Deferred consideration relating to the purchase of subsidiary and associated undertakings, £29m (1998: £34m). During the year £9m was utilised. Included within the year end balance is £10m which relates to the purchase of All American Communications in 1997, the utilisation of which is dependent upon the performance of certain television shows over the next year.

b. Litigation, £12m (1998: £12m). During the year £6m has been utilised, £4m released, £3m provided in respect of the Simon & Schuster acquisition, and £6m provided in respect of warranty and legal claims, the amount and timing of the settlement of which is unknown.

c. Reorganisations and redundancies, £27m (1998: £51m). During the year £3m has been released, £10m provided and £33m utilised mainly in respect of the integration of Simon & Schuster following its acquisition in 1998. The balance is expected to be utilised in the year ended 31 December 2000 and is based on current reorganisation plans.

d. Lease commitments, £27m (1998: £35m). These relate primarily to onerous lease contracts, acquired as part of the purchase of subsidiary undertakings, which have expiry dates up to 2010. The provision is based on current occupancy estimates and it has been assumed that the properties will not be sub-let. During the year £3m has been utilised, £4m charged and £2m removed through disposals.

e. Disposals and closures, £3m (1998: £6m). During the year £2m has been utilised in respect of a number of closures which are anticipated to be completed during the year ended 31 December 2000.

f. Other, £13m (1998: £15m). During the year the balance was reduced by £6m in respect of the Simon & Schuster acquisition and £4m provided. The balance, which relates to a number of small items, is expected to be utilised over varying time periods.

23 Share capital

	number (000s)	£m
Authorised		
Ordinary shares of 25p each	846,000	212
At 31 December 1999	846,000	212
Called up, allotted and fully paid		
Ordinary shares of 25p at 31 December 1998	609,555	152
Issued under share option and employee share schemes	3,115	1
At 31 December 1999	612,670	153

Note : The ordinary shares referred to above, as defined in the memorandum and articles of association of the company, are equivalent to equity shares as defined by FRS4. The consideration received in respect of shares issued during the year was £18m (1998: £347m). Options granted under certain of the company's employee share option schemes were adjusted following the demerger of Royal Doulton plc. In the case of those Save As You Earn and executive share options which were not adjustable, compensation is to take the form of additional Pearson shares distributed from an employee share trust when the options are exercised. If all these options are exercised the maximum amount of equity shares to be issued is estimated at 1,814 under the Save for Shares scheme and 15,073 under the executive schemes.

23 Share capital (cont'd)

	when granted	number of shares (000s)	original subscription price (p)	exercise period
Options outstanding at 31 December 1999				
Worldwide Save for Shares plans	1992	39	242	1997 – 00
	1994	100	509	1999 – 02
	1995	429	436	2000 – 03
	1996	335	578	2001 – 04
	1997	422	593	2000 – 05
	1998	1,225	769	2001 – 06
	1999	1,416	1,022-1,086	2001 – 07
		3,966		
Executive share option plans	1990	148	307 – 334	1993 – 00
	1991	59	364 – 377	1994 – 01
	1992	100	327 – 379	1995 – 02
	1993	125	396	1996 – 03
	1994	265	635	1997 – 04
	1995	438	545	1998 – 05
	1996	999	654 – 682	1999 – 06
	1997	2,410	744 – 757	2000 – 07
	1998	2,971	948 – 1,090	2001 – 08
	1999	3,479	1,210 – 1,285	2001 – 09
		10,994		

Note : The subscription prices have been rounded down to the nearest whole penny.

24 Reserves

all figures in £ millions	share premium account	revaluation reserve	other reserves	profit and loss account	total
Summary of movements					
At 31 December 1998	498	1	1	396	896
Exchange differences	––	(1)	(1)	38	36
Premium on issue of 3m equity shares	19	––	––	(2)	17
Goodwill written back (see note 26)	––	––	––	63	63
Profit retained for the year	––	––	––	156	156
At 31 December 1999	517	––	––	651	1,168
Analysed as:					
Partnerships and other associates	––	––	––	43	43
Group excluding partnerships and other associates	517	––	––	608	1,125

Note : Cumulative goodwill relating to acquisitions made prior to 1998, which was deducted from reserves, amounts to £1,870m (1998: £1,912m). During the year £7m of impaired goodwill was written off through the profit and loss account. During 1999 Pearson plc received £20m on the issue of shares in respect of the exercise of options awarded under various share option plans. Employees paid £18m to the Group for the issue of these shares and the balance of £2m comprised contributions to the qualifying employee share ownership trust (QUEST) from subsidiary undertakings.

25 Acquisitions : All acquisitions have been consolidated applying acquisition accounting principles.

all figures in £ millions	1999 total	1998 total
Acquisition analysis of subsidiaries and businesses		
Tangible fixed assets	(4)	143
Stocks	(2)	299
Debtors	9	311
Current asset investments	27	151
Creditors	(20)	(258)
Provisions	10	(86)
Deferred taxation	1	1
Equity minority interests	32	2
Net borrowing acquired	––	(2)
Net assets acquired at fair value	53	561
Fair value of consideration:		
Cash	(267)	(2,918)
Deferred cash consideration	(4)	1
Costs accrued	(2)	(4)
Net prior year adjustments	33	(4)
Total consideration	(240)	(2,925)
Goodwill arising	187	2,364
Analysed as:		
Goodwill capitalised	187	2,348
Goodwill written off to reserves	––	16
	187	2,364

Note : Goodwill written off to reserves relates to acquisitions made before 1 January 1998. 1999 includes final fair value adjustments in respect of Simon & Schuster which was acquired in 1998 (see page 87).

all figures in £ millions	1999 total
Acquisition goodwill and fair values	
Acquisition cost	240
Book value of net assets acquired	37
Simon & Schuster final fair value adjustments (see page 87)	22
Other fair value adjustments	(6)
Fair value to the Group	53
Goodwill arising	187

25 **Acquisitions** (cont'd)

all figures in £ millions	provisional fair value 31 dec 1998	revaluations		other items	final fair value 31 dec 1999
Simon & Schuster					
Tangible fixed assets	126	(5)		––	121
Stocks	299	(12)	a	6	293
Debtors	306	(12)	b	9	303
Current asset investments	151	––		27	178
Creditors	(236)	6	c	(7)	(237)
Provisions	(86)	10	d	––	(76)
Deferred tax	(1)	––		––	(1)
Net borrowing	(3)	––		––	(3)
Net assets acquired	556	(13)		35	578

Note : Simon & Schuster was acquired at the end of 1998 and provisional fair value adjustments were made in the 1998 accounts. Final fair value adjustments have been made in 1999.

Revaluations

a. In respect of obsolete product £6m of acquired finished goods and work in progress has been written off. Pre-publication expenditure has been reduced by £2m to its net realisable value.

b. Debtors have been reduced by £12m to bring them to their net realisable value. This is to increase the reserve for returns in view of actual returns experienced in 1999 in respect of pre-acquisition sales. Further provision has been made for debts acquired which could not be collected.

c. Certain excess accruals included in the acquisition balance sheet, no longer required, have been released.

d. Acquired pension and post-retirement medical benefit obligations have been reduced by £22m following actuarial valuations performed during the year. Further contractual pension liabilities of £6m have been accrued.

Other items

Other items relate to the businesses of Simon & Schuster that Pearson held for resale. These businesses were included in current asset investments at the anticipated net proceeds from sale. During 1999 these businesses, except for Prentice Hall Direct, were sold with net proceeds exceeding the original estimate. The net assets of Prentice Hall Direct have been reinstated in the balance sheet.

Simon & Schuster impairment review

An initial impairment review has been carried out in 1999 in respect of Simon & Schuster, following its acquisition in November 1998, which compared the post-acquisition performance of the business with the pre-acquisition forecasts used to support the purchase price. This review indicated that the post-acquisition performance had met the pre-acquisition expectations. As such there has been no impairment of goodwill.

25 Acquisitions (cont'd)

all figures in £ millions

	cost	net assets acquired	1999 goodwill
Total goodwill arising on acquisitions			
Subsidiaries and businesses (see page 86)	240	53	187
Associates	54	25	29
	294	78	216

all figures in £ millions

	1999	1998
Cash flow from acquisitions		
Cash – current year acquisitions (see page 86)	267	2,918
Deferred payments for prior year acquisitions and other items	(18)	18
Net cash outflow	249	2,936

Note : Contributions to the cash flow from acquisitions in 1999 are as follows: net cash inflow from operating activities £1m.

26 Disposals

all figures in £ millions

	1999 total	1998 total
Disposal analysis of subsidiaries and businesses		
Intangible assets	(1)	––
Tangible fixed assets	(14)	(203)
Investments	––	(5)
Associates	––	(6)
Stocks	(4)	(16)
Debtors	(20)	(66)
Creditors and taxation	22	84
Provisions	5	(8)
Deferred taxation	1	13
Equity minority interest	––	(30)
Net cash	(3)	(11)
Net assets disposed of	(14)	(248)
Proceeds received	57	762
Deferred consideration	––	2
Costs	(19)	(42)
Net prior year adjustments	(5)	––
Profit on sale	19	474
Goodwill written back	(63)	(245)
Net (loss)/profit on sale	(44)	229

Note : During the year the Group sold its Extel research products business for £19m giving rise to a loss of £19m.

26 Disposals (cont'd)

all figures in £ millions	1999	1998
Total goodwill written back on disposal		
On disposal of subsidiaries	63	245
On disposal of associates	––	16
On disposal by associates	––	1
	63	262

all figures in £ millions	1999	1998
Cash flow from disposals		
Cash – current year disposals (see page 88)	57	762
Costs paid	(9)	(38)
Deferred receipts and payments from prior year disposals and other amounts	(4)	(6)
Net cash inflow	44	718

Note : Contributions to the cash flow from disposals in 1999 are as follows: net cash inflow from operating activities £4m.

27 Notes to consolidated statement of cash flows

all figures in £ millions	1999			1998		
	continuing	discontinued	total	continuing	discontinued	total
a. Reconciliation of operating profit to net cash inflow from operating activities						
Operating profit – total	270	48	318	187	63	250
Share of profit of partnerships and other associates	(23)	(48)	(71)	(11)	(40)	(51)
Depreciation charges	82	––	82	54	12	66
Goodwill amortisation	130	––	130	12	––	12
(Increase)/decrease in stocks	(57)	––	(57)	43	1	44
(Increase) in debtors	(71)	––	(71)	(67)	5	(62)
Increase in creditors	127	––	127	113	––	113
(Decrease)/increase in operating provisions	(33)	––	(33)	2	––	2
Other and non-cash items	8	––	8	28	––	28
Net cash inflow from operating activities •	433	––	433	361	41	402
Purchase of fixed assets and finance leases	(113)	––	(113)	(113)	(13)	(126)
Sale of operating tangible fixed assets	24	––	24	12	1	13
Dividends from partnerships and other associates	12	32	44	12	41	53
Other	8	––	8	25	2	27
Operating cash flow	364	32	396	297	72	369

• Net cash inflow for 1999 includes a £54m outflow relating to exceptional items charged in 1999 and a £36m outflow relating to exceptional items charged in prior years.

27 Notes to consolidated statement of cash flows (cont'd)

all figures in £ millions	cash	over-drafts	sub-total	short-term deposits	debt due within one year	debt due after one year	finance leases	total
b. Analysis of net debt								
At 31 December 1998	305	(67)	238	40	(5)	(2,552)	(19)	(2,298)
Exchange differences	(23)	3	(20)	1	––	(30)	(1)	(50)
Disposed with subsidiary●	––	––	––	––	––	––	1	1
Debt issue costs	––	––	––	––	––	5	––	5
Other non-cash items	––	––	––	––	––	(5)	(7)	(12)
Net cash flow	6	26	32	(1)	(4)	306	11	344
At 31 December 1999	288	(38)	250	40	(9)	(2,276)	(15)	(2,010)
At 31 December 1997	144	(23)	121	71	(290)	(609)	(1)	(708)
Exchange differences	(30)	1	(29)	14	––	10	––	(5)
Acquired with subsidiary●	––	––	––	––	––	––	(19)	(19)
Disposed with subsidiary●	––	––	––	––	5	1	––	6
Debt issue costs	––	––	––	––	––	21	––	21
Other non-cash items	––	––	––	––	––	(1)	––	(1)
Net cash flow	191	(45)	146	(45)	280	(1,974)	1	(1,592)
At 31 December 1999	305	(67)	238	40	(5)	(2,552)	(19)	(2,298)

●Excluding cash and overdrafts.

Note: Finance leases are included within other creditors in the balance sheet (see note 20).

all figures in £ millions	1999	1998
c. Reconciliation of net cash flow to movement in net debt		
Decrease in net debt from net cash flow	32	146
Increase in net debt from management of liquid resources	(1)	(45)
Decrease/(increase) in net debt from other borrowings	302	(1,694)
Decrease in finance leases	11	1
Acquired with subsidiary	––	(19)
Disposed with subsidiary	1	6
Debt issue costs	5	21
Other non-cash items	(12)	(1)
Exchange differences	(50)	(5)
Movement in net debt in the year	288	(1,590)
Net debt at beginning of year	(2,298)	(708)
Net debt at end of year	(2,010)	(2,298)

d. Tax paid includes £100m (1998: £3m) relating to items excluded from operating profit.

28 Contingent liabilities

There are contingent Group and company liabilities in respect of indemnities, warranties and guarantees in relation to former subsidiary undertakings and in respect of guarantees in relation to subsidiaries and associates. In addition there are contingent liabilities of the Group in respect of legal claims and general partnership interests (see note 13). None of these claims is expected to result in a material gain or loss to the Group.

29 Commitments under leases

At 31 December 1999, the Group had commitments under leases other than finance leases, to make payments in 2000 as follows:

all figures in £ millions	land and buildings	other
For leases expiring:		
In 2000	6	3
Between 2001 and 2004	17	19
Thereafter	40	5
	63	27

30 Related parties

Associates Loans and equity advanced to associates during the year and at the balance sheet date are shown in note 13. Amounts falling due from partnerships and other associates are set out in note 16. Dividends receivable from partnerships and other associates are set out in note 13. Details of individually significant transactions are shown below.

Channel 5 Television Group Ltd The Group has a 24% economic interest in the equity of Channel 5 Television Group Ltd.

During the year the Group provided £31m (1998: £24m) of programming to Channel 5 Broadcasting Ltd, a wholly owned subsidiary of Channel 5 Television Group Ltd, and undertook transmission to the value of £3m (1998: £2m) for Channel 5 Engineering Services Ltd, a subsidiary of Channel 5 Television Group Ltd. At 31 December 1999 £6m was outstanding (1998: £6m). During the year the Group paid £4m (1998: £6m) for £20m consortium relief (1998: £29m).

UK TV The Group has a 20% interest in UK TV. During the year the Group provided programmes and services to the value of £nil (1998: £1m).

Grundy associates During the year the Group received £3m (1998: £3m) for management fees, format rights and royalties from a number of associates of Grundy Worldwide Ltd, of which £2m (1998: £nil) was outstanding at the year end. No individual transactions were material to the Group.

Magyar-RTL The Group has a 20% interest in Magyar-RTL.

During the year the Group provided programmes and services to the value of £1m (1998: £1m) none of which was outstanding at the year end (1998: £nil).

Lazard Partnership Details of the ownership structure and profit sharing arrangements are set out in note 13.

The Group periodically places funds on deposit with the Lazard Houses. The investments are made on an arm's length basis and no transactions are individually material in the context of the Group treasury transactions. The Group also uses the Lazard Houses to provide professional advice. Fees for such services for the year to 31 December 1999 totalled £1m (1998: £5m).

European Channel Management Ltd During 1998 the Group sold its 45% interest in European Channel Management Ltd. During 1998 the Group paid £1m for £6m of tax losses. There were no transactions during 1999.

Other There were no transactions with directors and officers of the company.

31 Post balance sheet events

On 26 January 2000 Pearson placed 11,500,000 ordinary shares to raise approximately £250m, after expenses, to fund its existing and new internet related businesses and on 1 February 2000 Pearson issued €650,000,000 Bonds due 2007, the proceeds of which were used to repay existing bank debt.

On 15 February 2000 Pearson increased its economic interest in Channel 5 Television Group Ltd, the UK terrestrial broadcaster, from 24% to 29.25% at a cost of £51m.

On 29 February 2000 the merger of Pearson's asset valuation business with the Data Broadcasting Corporation, announced in November 1999, was completed.

On 3 March 2000 the sale of Pearson's interests in the three Lazard houses, announced in June 1999, was completed with proceeds totaling £436m.

32 Company balance sheet as at 31 December 1999

all figures in £ millions	1999	1998	note
Fixed assets			
Investments:			
Subsidiaries	2,401	2,598	33
Own shares held	8	––	33
	2,409	2,598	
Current assets			
Debtors:			
Subsidiaries – due within one year	2,233	2,774	
Subsidiaries – due after more than one year	1,403	1,268	
Other debtors	6	8	
Prepayments and accrued income	1	10	
Cash at bank and in hand	7	6	18
	3,650	4,066	
Creditors – amounts falling due within one year			
Short-term borrowing	(130)	(172)	19
Subsidiaries	(1,844)	(2,082)	
Taxation	(20)	(5)	
Other creditors	(4)	––	
Accruals and deferred income	(30)	(28)	33
Dividends	(85)	(79)	
	(2,113)	(2,366)	
Net current assets	1,537	1,700	
Total assets less current liabilities	3,946	4,298	
Creditors – amounts falling due after more than one year			
Medium and long term borrowing	(1,412)	(2,186)	19
Subsidiaries	(280)	(225)	
Accruals and deferred income	(3)	(5)	33
Provisions for liabilities and charges			
Deferred taxation	(1)	(1)	33
Other provisions for liabilities and charges	(2)	(2)	
	(1,698)	(2,419)	
Net assets	2,248	1,879	
Capital and reserves			
Called up share capital	153	152	23
Share premium account	517	498	33
Special reserve	397	397	33
Other reserves	50	50	33
Profit and loss account	1,131	782	33
Equity shareholders' funds	2,248	1,879	

The financial statements were approved by the board of directors on 6 March 2000 and signed on its behalf by

lord stevenson : john makinson

33 Notes to the company balance sheet

all figures in £ millions	1999	1998
Tangible fixed assets (leasehold property)		
Cost	1	1
Depreciation	(1)	(1)
Net book value	––	––

Note : There were no capital commitments for fixed assets at 31 December 1999.

all figures in £ millions	
Investment in subsidiaries	
At 31 December 1998	2,598
Subscription for additional share capital in subsidiaries	3
Disposals	(195)
Revaluations	(5)
At 31 December 1999	2,401

Note : Shares are stated at cost less provisions for diminution in value or directors' valuations.

all figures in £ millions	
Deferred taxation	
At 31 December 1998	(1)
At 31 December 1999	(1)

Note : Deferred taxation derives from other timing differences.

Own shares held Amounts included within own shares held relate to Pearson plc ordinary shares held in respect of the Pearson Employee Share Trust and Pearson plc Employee Share Ownership Trust.

Accruals and deferred income Accruals and deferred income includes £4m (1998: £7m) relating to the unamortised profit arising out of the unwinding of a sterling interest rate swap in 1994. The swap was arranged in 1992 in connection with the issue of £100m 10.75% Sterling Bonds 2002. The profit is being amortised over the remaining life of the bonds. £1m is due after one year. None of the amount falls due after five years.

all figures in £ millions	share premium account	special reserve	other reserves	profit and loss account	total
Reserves					
Summary of movements					
At 31 December 1998	498	397	50	782	1,727
Premium on issue of 3m equity shares	19	––	––	––	19
Profit for the financial year	––	––	––	487	487
Dividends	––	––	––	(138)	(138)
At 31 December 1999	517	397	50	1,131	2,095

Note : The special reserve represents the cumulative effect of cancellation of the company's share premium account. As permitted by section 230(4) of the Companies Act 1985, only the Group's profit and loss account has been presented.

: principal subsidiaries and associates : as at 31 dec 1999

	country of incorporation or registration
Subsidiaries	
The principal operating subsidiaries are listed below. They operate mainly in the countries of incorporation or registration, the investments are in equity share capital and they are all 100% owned unless stated otherwise.	
FT Group	
Financial Times Group Ltd*	England
Financial Times Business Ltd	England
Les Echos SA	France
Recolétos Compañiá Editorial SA (99.6%)	Spain
Pearson Education	
Addison Wesley Longman Inc.	US
Addison Wesley Educational Publishers Inc.	US
Macmillan USA Inc.	US
Pearson Education Ltd	England
Prentice Hall Inc.	US
The Penguin Group	
Penguin Putnam Inc.	US
The Penguin Publishing Co Ltd	England
Penguin Books Australia Ltd	Australia
Pearson Television	
Pearson Television Ltd*	England
Pearson Television Productions Ltd	England
Pearson Television North America Inc.	US
Pearson Television International Ltd	England

Direct investment of Pearson plc.

	country of incorporation or registration	beneficial interest %	class of share	share capital £m	accounting year end
Associates					
FT Group					
The Economist Newspaper Ltd	England	50	Ord 5p	1.1	March
		100	'B' 5p	0.1	
		Nil	'A' 5p		
		Nil	Trust 5p	––	
Pearson Television					
Channel 5 Television Group Ltd	England	20.0	Ord 1p voting	0.8	December
		25.0	Ord 1p non-voting	4.0	
		19.2	Preference	––	
		1.7	Deferred	––	

The principal partnerships are shown on page 75.

Subsequent to the year end, the beneficial interest in Channel 5 Television Group Ltd increased (see note 31).

five year summary :

all figures in £ millions	1995	1996	1997	1998	1999
Sales					
Continuing operations	1,484	1,830	2,011	2,251	3,332
Discontinued operations	346	356	282	144	––
	1,830	2,186	2,293	2,395	3,332
Operating profit					
FT Group	68	89	108	114	103
Pearson Education	23	60	60	(34)	36
The Penguin Group	26	(73)	58	46	64
Pearson Television	65	40	26	61	67
Cedar Fair	10	16	––	––	––
Continuing operations	192	132	252	187	270
Discontinued operations	75	57	76	63	48
Operating profit	267	189	328	250	318
Operating profit before internet enterprises, goodwill and other items	267	289	328	389	588
Profit/(loss) on sale of fixed assets and investments	123	(14)	23	142	352
Profit/(loss) on sale of businesses and associates	6	229	(180)	276	(43)
Profit before interest	396	404	171	668	627
Net interest payable	(31)	(37)	(42)	(39)	(147)
Loan stock redemption premium	––	(10)	––	––	––
Profit before taxation	365	357	129	629	480
Taxation	(93)	(109)	(89)	(188)	(180)
Profit after taxation	272	248	40	441	300
Equity minority interests	(11)	(8)	(2)	(4)	(6)
Profit for the financial year	261	240	38	437	294
Adjusted earnings per equity share before internet enterprises •	28.8p	30.6p	34.9p	42.0p	53.3p
Adjusted earnings per equity share after internet enterprises •	28.8p	30.6p	34.9p	42.0p	48.5p
Earnings per equity share	47.1p	42.8p	6.6p	74.1p	48.2p
Diluted earnings per equity share	46.4p	42.5p	6.4p	73.3p	47.5p
Dividends per equity share	16.5p	18.0p	19.5p	21.0p	22.5p

• Adjusted in accordance with note 9. Other items comprise a £100m charge for Penguin improper accounting in 1996 and Year 2000 compliance costs of £5m (1998: £7m) and integration costs of £95m (1998: £120m) in 1999.

all figures in £ millions	1995	1996	1997	1998	1999
Capital employed					
Net assets	856	393	156	1,084	1,327
Deferred tax and other provisions	134	189	212	273	227
Net debt	63	430	707	2,279	1,995
	1,053	1,012	1,075	3,636	3,549
Share statistics					
Equity shares – weighted average	554.1m	560.6m	572.8m	589.8m	610.2m
Share price – year end	624p	750p	791p	1193p	2004p
Share price – high	684p	760p	849p	1193p	2004p
Share price – low	543p	601p	665p	757p	1173p
Average number employed					
Continuing operations	12,540	13,741	14,526	15,579	23,872
Discontinued operations	6,882	6,206	3,780	2,821	––
	19,422	19,947	18,306	18,400	23,872

: shareholder information :

Payment of dividends to mandated accounts Where shareholders have given instruction for payment to be made direct into a bank or building society, this is done through the Bankers Automated Clearing System (BACS), with the associated tax voucher showing the tax credit attributable to the dividend payment sent direct to the shareholder at the address shown on our register. If you wish the tax voucher to be sent to another address, please inform our registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 600 3986 or, for those shareholders with hearing difficulties, textphone number 0870 600 3950.

UK tax on capital gains At 31 March 1982, the base date for capital gains tax, the value of each of the company's ordinary shares (adjusted for the one-for-one capitalisation issues in May 1985 and June 1992) was 62p. The market quotations of Pearson plc ordinary shares and Royal Doulton plc ordinary shares on the first day of dealing in Royal Doulton shares, following the demerger in 1993, as calculated in accordance with section 272(3) of the Taxation of Chargeable Gains Act 1992 and as derived from the London Stock Exchange Daily Official List on 2 December 1993 were:

Pearson plc ordinary shares of 25p	592p
Royal Doulton plc ordinary shares of £1	203.5p

Personal Equity Plans (PEPs) **and Individual Savings Accounts** (ISAs) The government no longer permits investment to be made in PEPs, although existing PEPs may be continued. Existing Corporate PEP and Single Company PEP holders who require further information about their PEPs should ring the Halifax helpline on 0870 606 6417. Lloyds TSB Registrars now offer ISAs in Pearson shares. They can be contacted for information on 0870 242 4244.

Low cost share dealing facility A postal facility, which provides a simple, low cost way of buying and selling Pearson shares, is available through the company's stockbrokers, Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN. Telephone 0207 588 2828.

Information about the Pearson share price The current price of Pearson ordinary shares can be obtained from Financial Times CityLine on telephone 0891 433620. Calls are charged at 60p per minute.

American Depositary Receipts (ADRs) Pearson introduced a sponsored Level One ADR programme in March 1995. Each ADR represents one ordinary share. The programme is administered by the Bank of New York, ADR Department, 101 Barclay Street, New York, NY 10286, telephone 800 BNY ADRS (toll free number within the US) or (1) 908 769 9835 (international telephone number). However, as holders of ADRs are not registered shareholders, they do not automatically have the right to receive the Pearson report and accounts or other communications, nor are they able to attend or vote at the Annual General Meeting.

Advisers **auditors :** PricewaterhouseCoopers **bankers :** HSBC Bank Plc **broker :** Cazenove & Co. **financial advisers :** Lazard Brothers & Co. Limited, J. Henry Schroder & Co. Limited **solicitors :** Freshfields, Herbert Smith and Morgan, Lewis & Bockius.

financial calendar for 2000

Ex-dividend date	: monday	: 13 march
Record date	: friday	: 17 march
Annual General Meeting	: friday	: 12 may
Last date for dividend reinvestment election	: thursday	: 18 may
Payment date for dividend	: friday	: 2 june
Share purchase date for dividend reinvestment	: friday	: 16 june
Interim results	: monday	: 31 july
Interim dividend	: friday	: 27 october

john fallon : communications director
pearson plc : london

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