



Pearson plc Interim Results [Half year to 30 June 1999](#)

Pearson makes a strong start to 1999

Total sales up 32% to £1,306m

Operating profits up 15% to £126m

before goodwill and other items

Dividend per share up 8% to 8.6p

Strong performance across all businesses

Pearson Education on track to meet first full year profit expectations

FT Group grows profits and invests more in international expansion

Penguin doubles first half profits

Pearson Television posts 13% increase in underlying profits

“We have had a great first half. Pearson Education, now half of our business, is right on track to meet our expectations. Across the company, we’re in shape to deliver on our sales, margins and cash targets. We’ve made Pearson a 100% media company. With our rich content and powerful brands, we’re stepping up our investment to exploit the opportunities of the digital age.”



Marjorie Scardino CHIEF EXECUTIVE AUGUST 1999

The Business Review

Overview In the first six months of 1999, operating profits before goodwill and other items increased by 15% to £126m, with strong trading performances across the company. Adjusted earnings of 6.3p per share (10.8p per share in 1998) reflect the seasonal pattern of earnings in **PEARSON EDUCATION** which now accounts for around half of our company following the acquisition of the Simon & Schuster education business. Pearson Education, which makes around two-thirds of its sales – and all its profits – in the second half of the year, is firmly on track to meet full year expectations. The US school business, in particular, has made an impressive start to the year and the integration process continues to time and budget. The **FT GROUP** has increased profits and boosted investment in the international growth of the newspaper and the electronic expansion of its online business news and information services. **PEARSON TELEVISION** has increased first half profits; its European production business is performing strongly and losses at Channel 5 are falling as its audience share – and advertising revenues – grow. **PENGUIN** has made an excellent start to the year on the back of a stronger publishing list and more efficient operations.

This year, Pearson has sold, or reached agreement to sell, assets with a total value of over £1bn. We have disposed of a number of the reference and business & professional operations, acquired from Viacom Inc. as part of the larger acquisition of its Simon & Schuster education business, to a range of buyers for £220m. We have agreed to sell our interests in the three Lazard houses to Gaz et Eaux, a French listed investment company, for £410m in cash. And we have also agreed to sell our 4% indirect stake in BSKyB to Vivendi for £408m. We are using the proceeds of these disposals to reduce debt. Pearson has now formally agreed the strategic alliance with Telefónica, the Spanish telecommunications company, to develop internet and multi-media opportunities in the Spanish and Portuguese speaking worlds. Pearson has agreed to make arrangements for the purchase of Telefónica's 20% stake in Recoletos, our Spanish media group, for 30bn pesetas, some £121m at current exchange rates.

Pearson Education

ALL FIGURES IN £ MILLIONS

	1999 HALF YEAR	1998 HALF YEAR	1998 FULL YEAR
Sales			
US School	196	62	244
US Higher Education & Professional	188	41	232
International	170	77	226
	554	180	702
Operating (loss)/profit	(38)	(19)	99

Pearson Education increased underlying sales by 7% after taking account of portfolio and exchange rate changes. The school business is performing well in adoption and open territory states throughout the United States. It is on target to emerge as the leading publisher in the major math adoptions this year and is also performing strongly in social studies. The US college publishing business continues to build on its very strong market-leading position. And the International business is making major efficiency gains and publishing the new programmes which will enable it to capitalise on the recovery of Asian and Latin American markets. Across Pearson Education, revenues generated by electronic products continue to grow strongly as we build on our position as the world's leading education technology company. The integration of the Addison Wesley Longman and Simon & Schuster businesses continues to time and budget, with many of the key milestones now reached. We are on track to deliver the anticipated annual cost savings of \$130m by the end of next year.

Financial Times Group				
ALL FIGURES IN £ MILLIONS	1999 HALF YEAR	1998 HALF YEAR	% CHANGE	1998 FULL YEAR
Sales	330	335	–	683
Operating profit				
FT Newspaper	34	27	+26%	42
FT branded businesses	6	8	–25%	19
Les Echos	13	9	+44%	12
Recoletos	18	17	+6%	30
Associates	8	8	–	15
	79	69	+14%	118

Financial Times Group increased underlying sales by 10% after taking account of portfolio and exchange rate changes. Underlying operating profits increased by 11% on the same basis. Investment in the international expansion of the FT newspaper continues to bring rewards. Average daily sales for the six months to the end of June 1999 were 385,000, up 9% on last year. Advertising revenues were up 13%. In North America, average daily sales in June were over 79,000, up 38% on a year ago and on track to reach 100,000 by the end of the year.

In **FT BRANDED BUSINESSES**, ft.com continues to grow advertising revenues and traffic – in June alone, overall traffic to the site was up 40% on the back of increased marketing in the UK. Increased investment in ft.com masks strong profits growth at **FT ASSET MANAGEMENT (FTAM)**. The acquisition of the Thomson Financial Securities Management division for \$150m, announced on 30 July 1999, has enhanced FTAM's position as a leading provider of securities pricing and other specialist information to the global financial community and the integration of the two businesses will deliver substantial cost savings. **LES ECHOS GROUPE** has made a very strong start to the year, with newspaper

circulation up 4% year on year and advertising revenues increasing by more than 20%. lesechos.fr, the leading French language media website, has more than doubled traffic in the last year. At **RECOLETOS**, our Spanish media group, a slight dip in total copy sales has been offset by growing advertising revenues. It continues to develop an on-line presence that capitalises on its position as the leading newspaper publishing group on the Iberian peninsula. Plans for the launch of a new German language business newspaper, in partnership with Gruner + Jahr, one of Germany's leading news and magazine publishers, are going well. We expect to launch the product on the internet later this year with the newspaper making its debut early next year.

In **ASSOCIATES**, profits from *Business Day* and *Financial Mail*, our South African associate, have held up well despite some weakness in the advertising market in the run-up to the South African general election in June. In The Economist Group, the newspaper continues to perform well whilst the group is making significant investment in developing its on-line potential.

The Penguin Group

ALL FIGURES IN £ MILLIONS	1999 HALF YEAR	1998 HALF YEAR	% CHANGE	1998 FULL YEAR
Sales	263	232	+13%	523
Operating profit	31	16	+94%	48

The Penguin Group had an excellent first half, with sales up by 13% to £263m and operating profits almost doubling. Penguin titles have featured strongly in best-seller lists in all of its major markets, with a strong publishing schedule that is less heavily geared to the second half of the year than it was in 1998. Penguin is now realising the full benefits of the cost savings resulting from the Penguin Putnam integration in the US and the integration of Ladybird children's books within Penguin UK. Penguin continued to build its brand globally with the launch of Penguinclassics.com, which has already generated strong consumer interest.

Pearson Television

ALL FIGURES IN £ MILLIONS	1999 HALF YEAR	1998 HALF YEAR	% CHANGE	1998 FULL YEAR
Sales	159	153	+4%	343
Operating profit				
Pearson TV	35	33		71
Channel 5	(3)	(8)		(14)
BSkyB	1	2		4
	33	27	+22%	61

Pearson Television increased sales by 4% to £159m and operating profits by 22% to £33m. Stripping out the benefits of lower losses at Channel 5 and the loss of dividends from last year's disposal of its stake in SES, the satellite broadcast operator, the underlying increase in operating profits was 13%. Pearson Television continues to perform strongly, particularly in its European production markets and in its UK operations. Channel 5, in which Pearson Television owns a 24% stake, is performing ahead of expectations in terms of both audience share and advertising revenues. We expect to complete the disposal of our stake in BSKyB to Vivendi in the autumn.

Lazard				
ALL FIGURES IN £ MILLIONS	1999 HALF YEAR	1998 HALF YEAR	% CHANGE	1998 FULL YEAR
Attributable profit	21	15	+40%	42

Lazard The three houses are all trading well, with a significantly stronger performance in London than at this stage last year. We announced the planned sale of our stake in the three Lazards houses in June, and we anticipate that the disposal will be completed later in the year.

Dividend The directors have declared an interim dividend of 8.6p per equity share, payable on 29 October 1999 to shareholders on the register at the close of business on 10 September.

Year 2000 The group's proposals to address the Year 2000 issue were discussed fully in the 1998 Annual Report. There is a group-wide programme in place and progress is reported regularly to the board. The majority of operating companies achieved material Year 2000 compliance in January and the remainder, including the newly acquired Simon & Schuster businesses, are on target to be compliant by the end of August 1999. Work is well advanced to develop contingency plans to deal with any business disruption which may arise and, in addition, key suppliers and customers are continually under review to ensure their Year 2000 readiness is fully understood. The estimated total cost to resolve the Year 2000 problem in Pearson remains at £19m.

Outlook

The company, and in particular, Pearson Education, has made a good start to the second half of the year. We are on track to deliver our sales, margins and cash targets and we are committed to our target of annual double digit earnings growth.

Consolidated profit and loss account

For the six months to 30 June 1999
(unaudited)

ALL FIGURES IN £ MILLIONS	1999	1998		NOTE
	HALF YEAR	HALF YEAR	FULL YEAR	
Sales				1
Continuing operations	1,302	900	2,251	
Acquisitions	4	–	–	
	1,306	900	2,251	
Discontinued operations	–	89	144	
Total sales	1,306	989	2,395	
Operating profit				1
Continuing operations – group	12	88	176	
Acquisitions – group	1	–	–	
	13	88	176	
Discontinued operations – group	–	2	23	
Total operating profit – group	13	90	199	
Share of operating profit/(loss) of associates:				
Continuing operations	33	16	53	
Discontinued operations	–	–	(2)	
Total share of operating profit of associates	33	16	51	
Total operating profit analysed between:				
Operating profit before goodwill amortisation and other items	126	110	389	
Goodwill amortisation	(63)	–	(12)	
Other items	(17)	(4)	(127)	
Total operating profit	46	106	250	
Continuing operations:				
Profit on sale of fixed assets and investments	25	129	142	
(Loss)/profit on sale of businesses and associates	(17)	84	50	
Discontinuing operations:				
Profit on sale of businesses and associates	–	60	215	
	8	273	407	
Profit on sale by an associate – continuing operations	–	–	11	
Profit before interest	54	379	668	
Net interest payable – group	(70)	(19)	(36)	
Net interest payable – associates	(1)	(2)	(3)	
Total net interest payable	(71)	(21)	(39)	
(Loss)/profit before taxation	(17)	358	629	
Taxation	(21)	(78)	(188)	3
(Loss)/profit after taxation	(38)	280	441	
Equity minority interests	(3)	(2)	(4)	
(Loss)/profit for the financial period	(41)	278	437	
Dividends on equity shares	(54)	(46)	(126)	
(Deficit)/profit retained	(95)	232	311	
Adjusted earnings per equity share	6.3p	10.8p	42.0p	2
Earnings per equity share	(6.6)p	48.2p	74.1p	2
Diluted earnings per equity share	(6.5)p	47.8p	73.3p	2
Dividends per equity share	8.6p	8.0p	21.0p	

The results for the 1998 full year are an abridged version of the full accounts which have received an unqualified audit report from the auditors and have been filed with the Registrar of Companies. First half figures are neither audited nor reviewed.

Consolidated balance sheet summary

As at 30 June 1999

ALL FIGURES IN £ MILLIONS	1999	1998	
	HALF YEAR	HALF YEAR	FULL YEAR
Intangible assets	2,340	17	2,330
Tangible fixed assets	435	508	435
Stocks	724	387	614
Debtors	1,014	668	1,055
Creditors	(752)	(515)	(827)
Investments and other net assets	130	57	29
Net trading assets	3,891	1,122	3,636
Shareholders' funds	1,070	595	1,048
Provisions and minorities	281	213	309
Net debt	2,540	314	2,279
Capital employed	3,891	1,122	3,636

Reconciliation of movements in equity shareholders' funds

For the six months to 30 June 1999

ALL FIGURES IN £ MILLIONS	1999	1998	
	HALF YEAR	HALF YEAR	FULL YEAR
(Loss)/profit for the financial period	(41)	278	437
Dividends on equity shares	(54)	(46)	(126)
	(95)	232	311
Currency translation differences	71	(11)	(8)
Goodwill arising on prior year acquisitions	-	(2)	(16)
Goodwill written back	40	211	262
Shares issued	6	13	347
Net movement for the period	22	443	896
Equity shareholders' funds at beginning of the period	1,048	152	152
Equity shareholders' funds at end of the period	1,070	595	1,048

Consolidated cash flow summary

For the six months to 30 June 1999

ALL FIGURES IN £ MILLIONS	1999		1998	
	HALF YEAR	HALF YEAR	HALF YEAR	FULL YEAR
Operating profit	46	106	250	
add: Simon & Schuster integration costs and Year 2000 costs	17	4	127	
add: goodwill amortisation	63	–	12	
	126	110	389	
Retained by partnerships and other associates	(2)	10	2	
	124	120	391	
Working capital and other operating movements	(139)	(55)	48	
Net operating expenditure on fixed assets	3	(18)	(47)	
Operating cash flow before effect of S&S integration costs	(12)	47	392	
Cash effect of S&S integration costs	(49)	–	(23)	
Operating cash flow	(61)	47	369	
Interest, taxation and dividends	(183)	(122)	(253)	
Net movement of funds from operations	(244)	(75)	116	
Acquisitions and disposals	51	467	(2,021)	
Other non operating movements including equity	23	4	338	
Net movement of funds	(170)	396	(1,567)	
Net debt at beginning of the period	(2,279)	(707)	(707)	
Exchange differences on net debt	(91)	(3)	(5)	
Net debt at end of the period	(2,540)	(314)	(2,279)	

The consolidated cash flow summary is in the format used by management to monitor the cash flow of the group. The main difference between this format and the FRS1 format is that operating cash flow is calculated after the deduction of capital expenditure.

Notes

1. Sector analysis

SALES	1999		1998	
	HALF YEAR	HALF YEAR	HALF YEAR	FULL YEAR
FT Group	330	335	683	
Pearson Education	554	180	702	
The Penguin Group	263	232	523	
Pearson Television	159	153	343	
Continuing operations	1,306	900	2,251	
Discontinued operations	–	89	144	
	1,306	989	2,395	

1. Sector analysis continued

OPERATING PROFIT	1999			1998		
	(BEFORE GOODWILL AND OTHER ITEMS)			(AFTER GOODWILL AND OTHER ITEMS)		
	HALF YEAR	HALF YEAR	FULL YEAR	HALF YEAR	HALF YEAR	FULL YEAR
ALL FIGURES IN £ MILLIONS						
FT Group	79	69	118	77	67	114
Pearson Education	(38)	(19)	99	(116)	(20)	(34)
The Penguin Group	31	16	48	31	15	46
Pearson Television	33	27	61	33	27	61
Lazard	21	15	42	21	15	42
Continuing operations	126	108	368	46	104	229
Discontinued operations	-	2	21	-	2	21
	126	110	389	46	106	250

Other items comprises integration costs following the acquisition of S&S in November 1998 of £15m (1998: half year £nil; full year £120m) and Year 2000 costs of £2m (1998: half year £4m; full year £7m).

2. Earnings and adjusted earnings per equity share

ALL FIGURES IN £ MILLIONS	1999		1998	
	HALF YEAR	HALF YEAR	HALF YEAR	FULL YEAR
Earnings	(41)	278	437	
Less:				
(Profit) on sale of fixed assets and investments – continuing operations	(25)	(129)	(142)	
Loss/(profit) on sale of businesses and associates – continuing operations	17	(84)	(50)	
(Profit) on sale of businesses and associates – discontinued operations	-	(60)	(215)	
(Profit) on sale of businesses and associates by an associate – continuing operations	-	-	(11)	
Add: Goodwill amortisation	63	-	12	
Add: Simon & Schuster integration costs	15	-	120	
Add: Year 2000 compliance costs	2	4	7	
Taxation on above items	7	53	90	
Adjusted earnings	38	62	248	
Earnings	(41)	278	437	
Tax on the conversion of ordinary shares	-	-	(1)	
Diluted earnings	(41)	278	436	
Weighted average number of equity shares (millions): for earnings and adjusted earnings*	609.7	577.5	589.8	
Effect of dilutive share options	6.8	4.6	5.1	
Weighted average number of equity shares (millions): for diluted earnings	616.5	582.1	594.9	
Adjusted earnings per equity share	6.3p	10.8p	42.0p	
(Loss)/earnings per equity share	(6.6)p	48.2p	74.1p	
Diluted (loss)/earnings per equity share	(6.5)p	47.8p	73.3p	

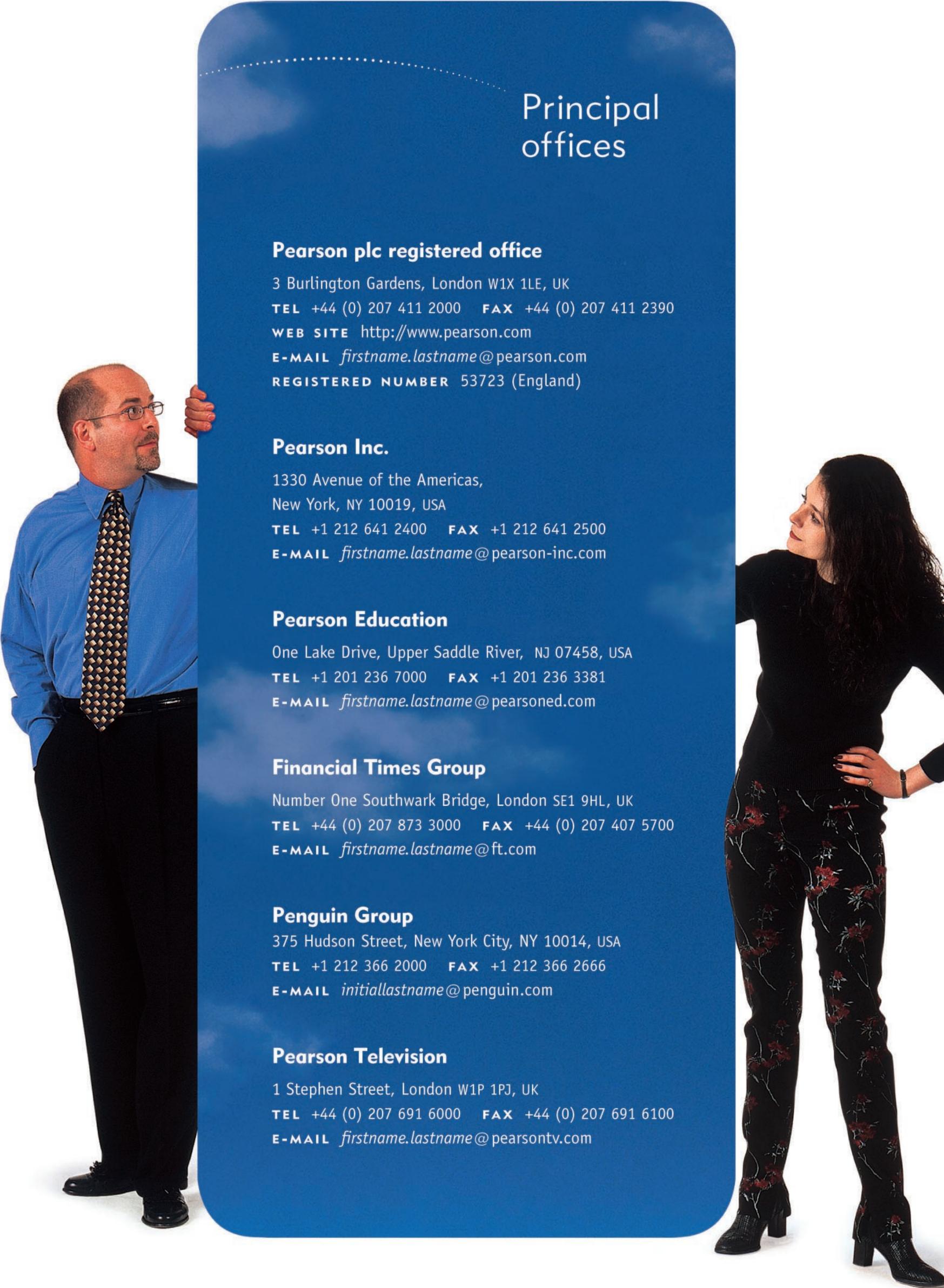
*1998 half year weighted average number of equity shares has been restated in accordance with FRS14 'Earnings Per Share'.

3. Taxation

The taxation charge for the half year to 30 June 1999 is based on the estimated effective rate for the full year to 31 December 1999.

4. Basis of preparation

The interim results for the six months to 30 June 1999 have been prepared in accordance with the accounting policies set out in the 1998 Annual Report except that FRS12 'Provisions, Contingent Liabilities and Contingent Assets' has been adopted.



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The Pearson logo consists of the word "PEARSON" in a white, serif, all-caps font, enclosed within a white rectangular border. The background of the logo is a dark blue color with a subtle, light-colored cloud pattern.

PEARSON