**PEARSON PLC ANNUAL GENERAL MEETING**
**27 APRIL 2001**

**Lord Stevenson, Chairman**

It is now 12 noon, my script says good morning but I think the right thing to say is good afternoon and thank you very much for coming to our AGM and welcome.

I always introduce my fellow directors first. We are compared to most FTSE companies a small board, and we are blessed that we have a small number of non executives who work extremely hard on our behalf, and I'd just like to acknowledge that publicly, with our shareholders present. *[introduces directors]*

Last but not least is Marjorie. Now, Marjorie is going to hate me for this, because she doesn't know I was going to say it. She's in her fifth year as our Chief Executive, and during that time it is the literal truth and no exaggeration to say she has transformed our company, she's transformed its businesses, she's transformed its valuation, and importantly for all of us who work there and there are 28,000 of us, she has transformed it as a place to work. and I would just like to acknowledge that here and now and thank her. And just in case any of you have read spurious gossip columns and are worried, she ain't going nowhere!

Now, in addition to the regular business of the AGM, Marjorie and I wish to talk around two topics today. They're the same topics we've talked about in the past because we've been saying for four years now that our goals are to make Pearson perform in the short-term and to grow in the long-term. And I'm glad to say we're continuing to achieve both objectives. In the year we're reporting we achieved record results and we're very proud of that, because we set out four years ago to produce rising results reliably year after year and we've done it again. However we've done it in a year where we've also made huge investments to help us grow faster into the future. And we've obviously invested in a lot of different ways: new authors, new school programmes, new newspapers and things that Marjorie will talk about when she comes here.

But I think it's worth focusing on three major strategic investments we made last year. We acquired Dorling Kindersley for £318 million pounds. I visited Dorling Kindersley about three days ago and I can tell you that I am really pleased with what we've done. We invested £1.7 billion in the acquisition of NCS and Marjorie will talk at some length about that because it's hugely important to our business. Last, and least in volume by a long way but by no means least important, we've invested £196 million in what we call here internet enterprises.

Now in view of the brouhaha all over the world about the internet and the dotcom revolution etc etc, I thought you might find it helpful if I made one or two observations about our internet investment. The first and the most important by far is that we are well pleased with it. We are very pleased that we saw the potential of the internet before most if not all of our competitors going back four years. We are extremely pleased that we saw very early on that the internet is something to be integrated with all our businesses and not kept separate. And I have to tell you we are very confident of making robust returns from our investment and you will have inferred that yourselves because you may have noticed that we have brought forward the estimated dates when our internet investment will break even, quite substantially.

It's an interesting reflection that of the three investments there, the accounting of the internet investment is very different. A great deal of our internet investment relates to one-off start-up costs which could have been amortised over a number of years. We decided at the beginning that the prudent course was to account for all this investment through the profit and loss account in the year in which we made it. And in point of fact the net costs of the investment will fall progressively over the next three years and as I said we will generate significant returns thereafter.

So if we could move to the headlines of our 2000 results. You will have seen them all in the annual report. Sales up 16% over last year, reflecting growth right across the board of our businesses. Operating profit up 17%, ditto. And the line which says pre-tax profits down 17% is the result of the one-off investment in the internet which we expensed rather than treated in another way.

I think to get behind those figures if I take a few moments to put them into the context of the key performance goals we've been working towards in Pearson for the last four years. You will remember that in 1997, so as to bring more clarity to our performance, Marjorie developed four measures on which we've been measured. Underlying sales growth, margins, cash conversion and earnings per share. This is a hugely important discipline internally because everyone's bonuses are related to our achievement on those.

So if we take sales, this chart looks at underlying sales growth, and we have excluded the impact of portfolio changes, as we buy and sell business, it's a comparison of apples with apples. And we have also excluded any movements in foreign exchange. There aren't too many companies of our size that grow at 9% a year organic, on the top line, and, we have increased, as you know, our rate of underlying growth in the business every year for the last 5 years. This is not an accident, this was a deliberate drive by the management team and we intend to continue to do so.

We have also been successful in managing costs and improving margins across the group. We've done it again this year, the margin of 16.5% is the best we have ever achieved in Pearson. Cash generation: you'll recall that in previous years when our cash generation was in the 90 to 100 percent range, we counselled there were some special factors. And we set an annual minimum target of 80% in any given year, and I'm happy to say we achieved that with some room to spare in the year 2000.

For the fourth year as you know we delivered on our commitment to double digit growth in adjusted earnings per share and this last year the increase was 15%.

Moving from our performance measures to dividends, we have again met our commitment to increase our annual divided faster than inflation, at the same time as we invest more in the growth of the business. The dividend increased by over 6.5% this year. We also pegged our dividend growth to earnings before internet enterprises to reassure shareholders that your dividend is being protected during a period of exceptional investment.

Now as I mentioned earlier on, during this last year we had the opportunity to transform our education business through the acquisition of NCS. And after our very strong share price performance we asked our shareholders to finance the acquisition through the UK's largest ever rights issue. As you can see, there was a huge take up of the rights issue. 97% of you took up your rights and acquired new Pearson shares. And I just want to say we really appreciate that rather overwhelming vote of confidence in us, in our future, and to be quite clear, six months on we're pretty excited by NCS, we are very confident, more confident than ever that it will deliver the returns we expect and create huge value for all of us.

Let's just look at what's happened to the share price in recent years. Each year we take as our base January 1997 when the new management took over. The first line you will see in pink is the FTSE 100. The 2nd line, the green line represents the UK media sector. You can see the sort of big peak about this time last year, at the height of the boom in technology, media and telecoms, the so-called TMT sector, and you can see that it's fallen back with the FTSE since then. We now look at, the yellow line is Pearson, and as you can see we performed in line with the media sector over the past year but we are still well ahead of the pack over the period.

And if I look at that period from when current management took over, we have delivered by any standards outstanding returns to shareholders. If you had invested £100 in the FTSE on the last day of 1996, the day before Marjorie joined - I think it was the day before you joined - and reinvested the dividends, that would be worth £158 today. And, just as an observation the media sector has performed a *little* worse than the overall market on that period. However £100 invested in Pearson at the same time is today worth a whopping £222. All the twos as it happens.

Now looking ahead. Be quite clear. Our aim is to continue to outperform the market. We re-shaped our strategy and business operations over the last few years and have created a much more international company, operating in faster growing markets. We now have leading positions in our three major businesses, which stand us in very good stead in all markets and in all conditions. As you know, it's what I say every time this year, Pearson makes the majority of its revenues and profits in the 2nd half of the year. However, at this early stage, Pearson is trading well and looking forward to another successful year. I'll hand over to Marjorie who will describe in a little more detail how that's going to be achieved. Thank you.

**Marjorie Scardino, Chief Executive**

Thank you, Dennis, and thank you all for making the effort to come out this morning and see how your company is doing. We really appreciate it, especially all the people out there who want to show you what they're doing in their various companies, everybody is glad you make the effort.

For the last four years we've been working hard to simplify Pearson and to make it a stronger company with a web of businesses that are complementary to each other that really can work together. And now Pearson is really all about helping people succeed. Whether it's children at school, adults at work, helping politicians get different points of view, helping business people divine markets. About inspiring people to take a fresh look or have a wry smile at the world. It's all about helping people do things better.

Individually each one of our businesses now leads its market and they all do in some measure because they're part of Pearson. Because they share assets, because they share values, because they share common ways of doing things that make them just a little bit better at what they do. This has been one thing we think that's allowed us to have record results, another record year as Dennis described, in addition we think we've now got a business and a strategy that can deliver a series of record years into the future and which we're confident about investing in, from the inside out, organically and from the outside in, with some acquisitions. All of this is with one business idea in mind and that's to perform consistently, to be a company that you can count on, and also to grow.

Nowhere has that kind of investment and that kind of growth been more important to us and more evident than it has been in Pearson Education, our education company. Two thirds of our education business is in America. In US schools we're already the market leader in a number of important areas. Nearly half of the children who learn maths in America learn it from one of our maths programmes, for instance. Last year we created a new first-rate reading programme. We have been in the reading business for a while and we've now gotten about a 25% market share in that very important subject.

Our higher education and professional group which commands about a third of that market, benefits from being a leader in helping teachers and students to use technology. Everything from course management systems which help a teacher organise his material before his lecture, to interactive text books, to text books on little hand-held devices, to ways that teachers can test their students in a class to find out what they know and get instant results, so they can do that before they start lecturing and lecture about the things the students really need to know. All those kinds of things are things in which we have consistently broken new ground and we're very proud of that. Our technology publishing division which is part of the college business sells most of the best-selling titles about technology on the market, though right now that category of books has a lot of challenges, it's depressed by a downturn in the US technology markets, and so we'll continue to sell a lot of best sellers and hope the technology markets come back.

A lot of our education business is in the US, but we have a lot of opportunities to accelerate our growth in education markets around the world. Our international education business doesn't get a lot of attention, we don't talk about it as much as we might but it generates more than half a billion pounds in annual sales and it grows at an average of 10% all over the world. In Japan we are a successful schools publisher, in Hong Kong we are the largest, in Korea we increased our sales 30% last year, in southern Africa we're the largest education publisher publishing in five different African languages. In Latin America we have successful local language businesses all around the region. In Canada we're a leader. And across Europe, in Spain, in France, in Holland, in Italy, all of our sales are growing in double digits, we're leaders in teaching people English, in teaching them how to use technology, in teaching them business skills, as well as normal academic subjects. So in this year so far our international business has continued in this trend, it's continued to be strong. The schools business is doing well, the higher education markets around the world are in pretty good shape, the English language teaching business, in which we are already a leader in Asia, is now beginning to really grow in Latin America, and in fact in all of Pearson Education though it does generate a majority of its sales and a majority of its profits toward the end of the year, has made a promising start and is on track to achieve very strong underlying growth, that like-for-like growth that Dennis talked about, for this year.

But our ambitions in education aren't just defined by the kind of education businesses we've always had. Last year, as we said, we bought a very successful American business called NCS, National Computer Systems. Not a very exciting name. But a really really exciting company which gives us an opportunity to do something very special in the education business. NCS uses technology but it's really about education. One of the things it does, is to make and administer and score and collect the data on academic tests. This is a great business to be when the American President George Bush's new education bill commits every state in America to test every student ever year. NCS is a lot more than a testing company, however and its combination with Pearson Education is giving us a chance to do a lot more than normal education companies can do.

If I can just have a minute to try to describe to you what our dream is about this. For years we've taught everyone in the same way in state education and really in private education as well. But we all know that doesn't work well, because most people don't learn in the same way as their peers. Everybody learns differently. So our goal has been to create a way for every child to learn in his own way at his own pace and therefore have a chance to succeed. The combination of technology that we have today, of Pearson Education and of NCS, allows us to do that kind of thing.

Pearson Education has school programmes, so that maths programme I talked about, that reading programme I talked about, rich content in books, rich content on line. NCS does testing, it collects and manages information about students and their families that helps you know how a child might learn, and it can connect schools to homes. So using those ingredients we create what we call an intelligent classroom. As part of every school lesson, we can test whether each child has understood the material or not the minute it's taught to him. So if he hasn't understood, we can give him some help. We can try to catch him before he completely falls behind. If he has understood, we can move him on more rapidly than other students in the class. And either way we can get his parents involved. So that if the child is in direct touch with the teacher and the parents are in direct touch with the teacher, they can have contact with other learning tools, whether they are accelerated or whether they need a little extra help.

In the summer, we're going to launch something called NCS4School, that does pretty much all of the things I've described.  Teachers, school principals, parents, students, they're all gonna have a piece of this service.  This that you see up here is a parents' home page, it's something that they can call up on their own computer at home, and it shares with this parent all the information about her own child, his classes, his homework, his test results, his behaviour problems, or reports, suggestions for extra help that he needs, a direct dialogue with his teacher. So gone are the days when if you have children like mine they say they left their homework assignment on the bus or they didn't bring their school report, they left it in their locker at school, now the parents get all that by e-mail before the child ever gets home from school.

I told my children about this.  They say, this is completely bad news!  But we think it's going to revolutionise education, so all this together gives each child a personalised way to learn, a way that fits exactly what *he* does and how he thinks.  We believe this really is going to change education.

We're also looking for a lot of other ways to make education more personal and more stimulating, and our acquisition of Dorling Kindersley that Dennis mentioned, really helps us do that.  Its online video division is working hand in hand with the broadband education and television team we've got, to develop some pretty exciting lessons that bring a real new dimension to education. So here we're going to give you a little sample of the pilot. *[demonstration]*

Our discussions with partners around the world show a real interest for this.  Consumers and schools are very excited about these kinds of products, and they're products they're willing to pay for that they think are really going to stimulate children.  We've got other things like that going on too.

Because of our strength in education, educating people in institutions, in school buildings and universities, we thought we'd be in a unique position to help people learn outside institutions as well; so we created something called Learning Network.  This is a page from it.  It's on the free internet or on AOL.  And this site is by far the largest, the most popular, the most credible education source on the web.  Last month it generated 140 million page views.  It has 11 million unique users.  It is one of the top 30 sites on the internet, which has tens of thousands of sites.  It concentrates on the school and home markets and it integrates its services into the Pearson Education programmes, and, it is not only stimulating the Pearson Education programmes but it's on track to be profitable in its own right after 2003.

Other Pearson businesses reach consumer markets as well, and have a nice fit with our education business, and none more than Penguin.  We've been investing in Penguin to very good effect as well.  Over the last three years while we've continued to publish some of the world's favourite writers and classics, we've increased our investment in our stable of new authors.  And that's beginning to pay off.  It certainly did last year.

In the US, Penguin Puttnam gained market share thanks to all the names you've heard us talk about, Tom Clancy, Nora Roberts, Patricia Cornwell, but we also picked some brand new stars that we're particularly proud of this year: Nathaniel Philbrick, Tawney O'dell, Sal Severe. These were three of the 25 new writers whose novels we published this year. All three of these became best sellers. That's a pretty good hit rate for brand new authors. In the UK our top authors included Alex Garland, Jeremy Paxman, and the very fresh face of Jamie Oliver whose Return of the Naked Chef was the number one book for 16 weeks, so if you haven't bought a Jamie Oliver cookbook you don't really know how to cook.

These are great achievements, we're very proud of them, wonderful books but we plan to continue to top them in 2001. In the US in the first 16 weeks of this year Penguin Puttnam had 47 titles on the New York Times best seller list, last year about this time we had 35, and at Penguin UK the number of best selling titles in the first quarter was 17 which is more than we had in the whole first half last year. So we're feeling very very good about our business in both places. The Dorling Kindersley acquisition adds a lot to Penguin's business by making us the leading player in this big and exciting illustrated reference segment of the consumer publishing market.

These are some of DK's evergreen titles, some things that are popular all over. And they're already benefiting from being part of Pearson, they're selling better as a result. The plant and flower encyclopedia that you see there published with the Royal Horticultural Society, sold 36,000 copies in 1999 and 2000 together. In the first two months of this year we sold 50,000 copies. So we think the Penguin salesforce is really going to help the DK business. We have the same hope for their new titles, some of which are here ... the Blues Odyssey and the Big Animal Encyclopedia. After breaking even this year - Dorling Kindersley was *not* making a profit when we bought it - we expect it will make a meaningful contribution to profits this year and it will steadily increase its profits over the next three years. At the same time it's also doing exciting things for our education business, because of its talents in graphics and in marrying pictures and words, we're using it to design some of our school programmes so it's bringing benefits all around Pearson.

There's another category of consumer we are also helping to succeed and that's the business market which we serve through the Financial Times Group. This part of Pearson has had a phenomenal string of successes in the past few years, helped out by what you have to call a rip-roaring economic climate. This part of Pearson is important to us and so far this year it's continued to grow, benefiting from the fact that we've been investing in its international growth, and so we have many markets that we can count on, and in our online expansion and in keeping our costs flexible, so that we can manipulate them and make sure that we can maintain our profitability.

So we have grown in the FT: This time five years ago we sold 300,000 copies of the newspaper, and about two thirds of those were sold in the UK. Four years ago we said we would invest about £100 million in making this great newspaper a global name and at that time everybody saw it as a bold ambition, rather like some of our internet ambitions maybe, but in March this year the FT circulation broke through half a million copies driven by spectacular growth in the US and in continental Europe as well as in the UK. Today the vast majority of our sales as a newspaper come from outside its home market here in the UK. This international circulation growth and the quality of our readership has helped us to keep up this growth in advertising revenues in a difficult market. We've also invested in the newspaper's editorial, we've created editions of the paper for the UK, continental Europe and the US. This has paid off not only in readership but also in the esteem in which the paper continues to be held. This was underscored when its editor Richard Lambert was named business journalist of the *decade*, by the World Leadership Forum. And as you'll see from this little clip we're going to show you we make a lot of headlines in America as well*. [video clip]*

All of these awards and this editorial success hasn't been limited to the FT newspaper. As you know we've got a network of great business papers across Europe: Les Echos in France, Expansion in Spain, FT Deutschland in Germany, and they are increasingly working together producing magazines like How to Spend It and Connectis in different languages as well as having successful businesses all on their own.

Just a word about Germany and FT Deutschland. This was a paper we told you about at last year's meeting. It was the first newspaper to be launched in Germany in 50 years, it's now one year old, and it already sells over 70,000 copies, it has had a huge editorial success, and a good business success, and it continues to generate great journalism and great commercial rewards. So in the year to-date the Financial Times newspaper along with these sister titles continues to grow, continues to increase advertising revenues, but we all know that the advertising outlook is as uncertain as the market is. So we continue to carefully manage our cost base of our newspaper operations accordingly.

We also continue to build on other aspects of the newspaper, particularly its growing international reputation, and we use that to create things like FT.com, screens of which you see here, which is our online business service. FT.com now has 2 million unique monthly business users and generates 40 million page views. These are all such huge numbers it's hard to know whether they're meaningful, but they are. At this stage by keeping entry into FT.com free, we've been able to build its audience very rapidly. The trick is of course to make that audience customers, and we're doing just that. The popularity among senior business people has allowed us to find advertisers that find this audience attractive, and helped FT.com triple its revenues last year and generated the momentum that's keeping that revenue growth going this year. FT.com is one of those internet enterprises that Dennis mentioned a minute ago and it's highlighted in our accounts, so just in case you're wondering how the £113 million that went to the FT's internet businesses was spent, it wasn't just on one website, it's all these different sites, we've built a whole network of internet services for business people, for professional investors, for private investors, a lot of exciting and successful opportunities. With cost declining and with our revenues growing, we're moving these businesses from being start-up businesses which have a lot of one time cost, to operational mode, and they will break even by the end of next year and begin to make returns on your investment after that.

And even though they are continuing to deliver year on year growth and then online advertising revenue, because it is a more difficult advertising environment they are also moving quickly to generate a lot of new products and services that don't depend on advertising. A few of them, services such as Ask FT, which is an FT research service, on any topic available to anybody. I encourage you to use it, it is not only a computer helping you to do research but some real live journalists helping you do research. FT Careerpoint which is an employment service for executives looking for a path to the top, we all keep this page bookmarked just in case! And FT Mobile which is a special phone with a special data service that we do in partnership with Carphone Warehouse, so you'll all want to get one of those. There are a lot of boxes of them out there, unfortunately they don't contain phones, they contain t-shirts, because we want you to *buy* the phones. So. We're proud of these new products and we think they're going to be very exciting and successful for the FT business.

While we've been making all these investments in our businesses to grow faster we've been steadily trying to change how we do things, so that we could do what we said, make record and reliable performance grow and weather any downturn that there might be, better than most. So, why do we have a right to feel confident that we've got it right? First of all, more than half our revenues and profits are now derived from a business, Education, which has steadily accounted for a rising portion of GDP in almost every country in the world. Whatever the economic environment it has continued to be an important area of expenditure. Education isn't immune from recession but it's proved pretty resilient in the past. And given the unprecedented political commitment to education and investment in schools and colleges in the US and worldwide, we don't really plan for it to be blown off track this time either.

Secondly advertising while important to us accounts for only 10% of our total revenue base in Pearson and it's concentrated for us in business to business categories that stand up better than most. The advertising market is uncertain as I said, so we're not just hoping for the best, we really are unfixing our cost, in the FT we no longer own any print plants, we no longer have any fixed price distribution contracts, we have a higher proportion of our budget in marketing than we had before, so we're able to manipulate these costs, so if revenues go down, we're still able to protect our profits from this very manageable base.

So as we look ahead we feel confident, we feel confident in our ability to manage to profits and to manage through a tougher economy should the circumstances demand it. But we also feel confident in Pearson's capacity to generate the growth and returns not just because of our businesses and our strategy and the shape of how we run them, but also because of the enormous talent of all the people in Pearson. Pearson now has about 28,000 people around the world who have the imagination and the courage to in my opinion do just about anything. 96% of these people are shareholders, and so they have a commitment to your company because it's their company too. And so it's thanks to them that we really have the confidence and it's also thanks to you for having confidence in us and for continuing to trust us with your investment, we're going to make sure that we take very good care of it. Thank you.