As filed with the Securities and Exchange Commission on August 8, 2000
Registration No. 333-43198

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1
to
FORM F-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PEARSON plc
(Exact name of registrant as specified in its charter)

England and Wales	2731	Not Required
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3 Burlington Gardens
London, England W1X 1LE
44-20-7411-2000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Pearson Inc.
1330 Avenue of the Americas
New York, New York 10019
(212) 641-2400
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion. Dated August 8, 2000.

Rights Offering of Ordinary Shares and American Depositary Shares

Pearson plc is offering holders of its ordinary shares transferable rights to subscribe for new ordinary shares at a price of £10 per share. Pearson plc is also offering holders of its American Depositary Shares, or ADSs, each of which represents one ordinary share, transferable rights to subscribe for new ADSs at the US dollar equivalent of £10 per share. A UK tax of 1.5% per share is payable by approximately each holder of an ADS who exercises an ADS right. At current exchange rates, £10 represents $15. We intend to use the net proceeds of this rights offering to finance our pending acquisition of National Computer Systems, Inc., or NCS.

- We will grant three transferable share rights for every 11 ordinary shares you own of record on July 28, 2000.
- We will grant three transferable ADS rights for every 11 ADSs you own of record on July 28, 2000.
- We have made arrangements for you to elect to pay the subscription price in US dollars.
- Share rights expire on September 1, 2000 and ADS rights expire on August 30, 2000.

Goldman Sachs International and Cazenove & Co. have agreed, severally, to underwrite up to 150,000,000 of the 170,528,278 shares offered in the rights offering. A portion of the underwritten shares may be sold or resold by the underwriters under this prospectus in the United States by selling agents of the underwriters.

Our ordinary shares are traded on the London Stock Exchange and the ADSs have been trading in the over-the-counter market in the US. On July 28, 2000, the last reported sale of an ordinary share on the London Stock Exchange was £20.10.

We will apply to list the ADRs evidencing ADSs on the New York Stock Exchange under the symbol ''PSO''.

We do not intend to list the ADS rights, but you may trade them in the over-the-counter market. The share rights will trade on the London Stock Exchange.

See ''Risk Factors'' on page 11 to read about factors you should consider before buying ordinary shares or ADSs.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Assuming the rights are exercised in full, our gross proceeds from the rights offering will be approximately £1.7 billion or $2.6 billion. We estimate that our expenses in connection with the offering, including the underwriting fee we expect to pay, will be approximately £15 million or $22.5 million. As a result, the net proceeds to us will be approximately £1.69 billion or $2.54 billion.

Joint Global Coordinators

Goldman Sachs International | **Cazenove & Co.**

Goldman, Sachs & Co. | **Cazenove Inc.**

Prospectus dated , 2000.

PRESENTATION OF FINANCIAL INFORMATION; EXCHANGE RATE INFORMATION

We have prepared the financial information contained in this prospectus in accordance with UK GAAP, which differs in significant respects from US GAAP. We describe these differences in ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Principles'', and in Note 34 to our consolidated financial statements included in this prospectus. Unless we indicate otherwise, any reference in this prospectus to our consolidated financial statements is to the consolidated financial statements and the related notes, included elsewhere in this prospectus.

We publish our consolidated financial statements in sterling. We have included, however, references to other currencies. In this prospectus:

- references to ''sterling'', ''pounds'', ''pence'' or ''£'' are to the lawful currency of the United Kingdom,
- references to ''euro'' or ''€'' are to the euro, the single currency established by the European Monetary Union, and
- references to ''US dollars'', ''cents'' or ''$'' are to the lawful currency of the United States.

For convenience and except where we specify otherwise, we have translated some sterling figures into US dollars at the rate of £1.00 = $1.51, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on June 30, 2000. We do not make any representation that the amounts of sterling have been, could have been or could be converted into US dollars at the rates indicated.

The following table sets forth, for the periods indicated, information concerning the noon buying rate for sterling, expressed in US dollars per sterling. The average rate is calculated by using the average of the noon buying rates in The City of New York on each day during a monthly period, and on the last day of each month during an annual period.

Month	High	Low	End	Average Rate
August (through August 4)	$1.50	$1.49	$1.50	$1.50
July 2000	$1.52	$1.49	$1.50	$1.51
June 2000	$1.52	$1.49	$1.51	$1.51
May 2000	$1.56	$1.47	$1.50	$1.51
April 2000	$1.60	$1.56	$1.56	$1.58
March 2000	$1.59	$1.57	$1.59	$1.58
February 2000	$1.62	$1.58	$1.58	$1.60
January 2000	$1.65	$1.62	$1.62	$1.64

Six Months Ended June 30, 2000	High	Low	End	Average Rate
	$1.65	$1.47	$1.51	$1.57

Year Ended December 31	High	Low	End	Average Rate
1999	$1.68	$1.55	$1.62	$1.62
1998	$1.72	$1.61	$1.66	$1.66
1997	$1.70	$1.58	$1.64	$1.64
1996	$1.71	$1.49	$1.71	$1.57
1995	$1.64	$1.53	$1.55	$1.58

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus and may not contain all of the information that is important to you. You should read carefully this entire prospectus, including the risk factors and the consolidated financial statements and related notes, before acquiring any ordinary shares or ADSs.

In this prospectus, unless the context otherwise requires, references to ''we'', ''us'', ''our'' and ''Pearson'' refer to Pearson plc and its subsidiaries.

Introduction

Pearson is a global media company with its principal operations in the education, business information, consumer publishing and television markets. We have significant operations in the United States and generate more than half our revenues from that market. On July 31, 2000, we announced an agreement to acquire National Computer Systems, or NCS, for a purchase price of approximately $2.5 billion. NCS, which trades on the NASDAQ market under the symbol ''NLCS'', is a leading testing and educational services company in the US. The combination of NCS and our Pearson Education division will create an integrated education company with strong market positions in curricular content, online learning, assessment, enterprise applications for US schools and professional accreditation.

We intend to finance the acquisition of NCS through the rights offering to existing shareholders. We believe the rights offering to be the most efficient means for us to raise the necessary funds.

Pearson plc

We create and manage intellectual property, which we promote and sell to our customers under well-known brand names, to inform, educate and entertain. We deliver our content in a variety of forms and through a variety of channels, including books, newspapers, television programs and internet services.

We use online capabilities in our back office, our supply chains, our base businesses and new businesses we create. The internet is already both an integral part of each of our businesses and a facilitator of new product and distribution opportunities.

Although we seek to build businesses that are worth more together than apart because of the synergies they offer each other, our operations break down into four core areas:

- **Pearson Education** is a leading international publisher of textbooks, supplementary materials and electronic education programs for elementary and secondary school, higher education and business and professional markets. In the US, our Scott Foresman, Addison Wesley Longman, Prentice Hall and Allyn & Bacon brands have enabled us to capture significant shares in the kindergarten through 12th grade markets. Our higher education business has been pre-eminent in the US for many years. Our international education business is the global leader in the English language teaching materials market and has a major position in the textbook and educational materials market outside the US, including being the largest textbook and school program provider in a number of local markets. In addition, we are a leader in using technology to educate, including online assessment and digital courseware through the Computer Curriculum Corporation, as well as products such as the Waterford Early Reading Program and the KnowZone. Our education offerings also extend to business education, where FT Knowledge provides distance learning for the corporate and post-secondary markets and has entered into several agreements with major business schools and other educational institutions in the US and worldwide. We are currently developing the Learning Network, a vertically integrated, internet-delivered community linking parents, teachers and students with educational opportunities. On June 29, 2000, we announced the purchase of an 87% interest in FamilyEducation Network, Inc., an online network for parents, teachers and students. We are working to form strategic alliances with other internet content providers, to put in place the necessary technological infrastructure and management team for the Learning Network and to develop a marketing program. We expect to launch the Learning Network in the Fall of 2000.

NCS, which will become a part of Pearson Education upon completion of the acquisition, is the United States' largest commercial processor of student assessment tests for kindergarten through 12th grade. NCS offers secure internet-based electronic testing delivery and reporting capability, allowing it to participate in the professional certification market. It also provides software, services, systems applications and internet-based technologies for the collection, management and interpretation of data in education. NCS seeks to use internet-based technologies to increase its market penetration and offer additional innovative products and services to its customers in the education field.

- **The FT Group** consists of our international newspaper, print and online financial information, business magazine and professional publishing interests. Our flagship product is the *Financial Times*, known internationally for its premium editorial content and international scope. Building upon the success of the *Financial Times,* we have developed a global information portal (FT.com), an online personal finance resource (FTYourMoney.com), and a European online financial news website (FTMarketWatch.com). We have also developed a pan-European network of leading business newspapers and related online business portals, including *Financial Times Deutschland*, *Les Echos* and *Expansión,* for the German, French and Spanish-speaking markets. We own Recolétos, a Spanish media group which, in addition to *Expansión,* publishes *Marca*, the leading Spanish sports newspaper, and we hold a 50% stake in *The Economist*, an international weekly current affairs and business magazine. We also own 60% of Data Broadcasting Corporation, a supplier of electronic database services to US and UK securities professionals. Data Broadcasting Corporation has a 34% ownership interest in MarketWatch.com, whose web properties, CBS.MarketWatch.com and bigcharts.com, are among the most popular destinations for financial and market news on the web.

- **The Penguin Group** is one of the premier English language publishers in the world, with brand imprints such as Penguin, Avery, Dutton, Putnam and Viking. We publish an extensive portfolio of fiction and non-fiction, literary and commercial works from authors such as Tom Clancy, Clive Cussler, Dick Francis, Patricia Cornwell and Nick Hornby. We are one of the pre-eminent classics publishers and own or have rights to some of the most highly prized and enduring brands in children's publishing, featuring the books of Roald Dahl and such popular characters as Spot, Peter Rabbit and Madeline. We have a strong frontlist of new books by bestselling authors, and a backlist of more than 25,000 popular titles. In 1999, titles published by Penguin Putnam, as we are known in the US, spent a record 262 weeks on *The New York Times* bestseller list. Our recent acquisition of Dorling Kindersley, or DK, a leading international publisher of illustrated reference books, will add breadth to our portfolio. DK offers many products with illustrations and graphics that are particularly well-suited for online delivery, and DK has invested in converting its properties into a digital format. As a result, this acquisition also gives us many more opportunities for online rights exploitation.

- **Pearson Television** was recently merged with CLT-Ufa, the television and broadcasting business owned by Germany's Bertelsmann AG, and Belgium's Audiofina, to create the RTL Group. The combined company is an integrated pan-European company with activities in television production, online delivery and broadcasting, including the well-known RTL television stations. The RTL Group is Europe's largest radio and television broadcast company by revenue and its shares are traded on the London Stock Exchange. The terms of the merger, which closed on July 25, 2000, provide us with a 22% interest in the RTL Group and representation on its board.

Competitive Strengths

We have achieved leading positions in our markets by capitalizing on our competitive strengths:

- **Powerful Brands**—We have made a substantial investment to develop and promote our quality brands. Our brands create customer loyalty and facilitate the use of new distribution channels and our entry into new markets.
- **Rich Content**—Each of our businesses creates and manages informative, educational and entertaining content. The quality, depth and originality of our products reinforce the strength of our brands and attract customers, partners and talented employees.
- **International Scale**—We have operations around the world and publications in English, French, Spanish, German and many other languages. Our large business presence in many local markets enables us to move rapidly to capitalize on international opportunities.
- **Attractive Customer Base**—Our products appeal to a range of customers—institutions, businesses and a broad group of consumers of all ages and interests. We have a highly educated customer base with a substantial discretionary spending capacity.
- **Proven Management Team**—Since 1997, a new management team has transformed the company into a simpler, more integrated media enterprise focused on our core businesses. Since we started this process, we have publicly set clear financial goals and consistently met or exceeded them.

Our Strategies

We focus on media businesses in growing markets and categories where we have or we can attain strong, sustainable market positions. We use our content and brands in our existing businesses and to develop new ones. We have integrated the internet into each of our businesses to enhance our customers' experiences, improve our ability to reach customers and increase the value of our content.

- **Pearson Education** constantly seeks ways to make products more attractive to teachers, students, parents and professionals. Over 1,200 of our approximately 49,000 college textbooks have interactive companion websites with online study guides to elaborate on text concepts, and chat rooms and bulletin boards to facilitate interaction between students and faculty. We continue to invest in a range of electronic learning tools to support our programs. We are also developing the Learning Network, an interactive online community of parents, students and teachers, to further expand the distribution of our content and generate new revenue streams. In addition, we are seeking to expand our international reach to benefit from our market expertise and build scale.

  Our acquisition of NCS will transform Pearson Education into an integrated education company. The combined business will be well-placed to create new market opportunities through developing customized learning in which testing and curriculum work together. The combined business will connect schools and homes, enabling parents to play a more active role in the education of their children.
- **The FT Group** aims to be the leading source of strategic information, intelligence, analysis and commentary for senior managers and institutional and individual investors around the

world. We are building on the strength of our flagship brand, the *Financial Times*, to create a pan-European network of national business newspapers and websites, including *Les Echos* in France, *Expansión* in Spain and *Financial Times Deutschland* in Germany. With *The Wall Street Journal*, we have also launched *Vedomosti*, a Russian language business newspaper.

We use the well recognized brand and premium content of the *Financial Times* to develop new websites with diverse revenue models. We continue to invest in FT.com, our leading global business information portal, to further enhance its content, include more international company and market information and add more sophisticated tools intended to increase the ''stickiness'' of the site. We have launched FTYourMoney.com, to capitalize on the rapidly growing personal finance market in the UK, and FTMarketWatch.com, to capture the expanding market of European investors who make their investment decisions online or look to the internet for quick, market-oriented news.

- **The Penguin Group** continues to strengthen its frontlist, working globally to extend its stable of bestselling authors and identify new talent. We are digitizing our business—all of our new titles and over half of our backlist titles have been converted to an electronic digital format to enable ''printing on demand'' and ''e-book'' delivery. We are also building online communities around authors and genres to strengthen our relationship with our readers and to create new revenue streams.

  We recently acquired DK, a publisher of illustrated products such as travel and children's reference books. We believe that DK's high quality illustrated publications, many of which have been converted to a digital format permitting online delivery, will provide us access to new customers and markets, expand our product offerings and enhance our online marketing efforts.

- **Pearson Television's** recently completed merger to form the RTL Group offers Pearson Television the opportunity to take its quality content into new distribution channels that are offered by our new media partners. The RTL Group will continue Pearson Television's development of online versions of television shows, such as *The Price is Right*, and the building of online communities around popular serial dramas.

We are working to capture the full synergistic potential that exists among our media businesses through the sharing of content and distribution channels. For example, FT Knowledge, our online distance learning business, results from the merger of Pearson Education's higher education textbooks and professional publishing resources with the FT Group's distance learning and management education resources. Longman Penguin Readers are simplified classics for new English speakers, combining Pearson Education's English language training resources and Penguin's classics library. Content from Penguin and the FT Group will be featured on our Learning Network.

Strategic Developments

In 1997, new management undertook a comprehensive review of our business and established core financial targets for sales growth, cash flow, earnings per share and operating margins. Management has since implemented a number of strategic and operating initiatives in order to streamline and interrelate our portfolio of businesses and increase employee share ownership.

As part of the initiatives undertaken by management since 1997, we have completed approximately 120 divestitures and acquisitions. We have divested businesses with a total value of over £2.0 billion. To increase the strength of our core businesses, in addition to the NCS acquisition discussed below, we have acquired businesses with a total value of over approximately £3.7 billion, including Simon & Schuster's educational, business & professional and reference publishing businesses in 1998.

NCS Acquisition

NCS is a leading testing and educational services company in the US. For its fiscal year ended January 29, 2000, NCS had revenues of $630 million, compared to $505 million for the prior fiscal year, and income from operations of $70 million, compared to $55 million for the prior fiscal year. At January 29, 2000, NCS had total assets of $450 million, total long-term debt of $2 million, total cash and cash equivalent of $27 million and total stockholders' equity of $276 million.

We have agreed to acquire all of the outstanding shares of NCS common stock for approximately $2.5 billion, or $73 per share. Our merger agreement requires us to launch a cash tender offer for all of the issued and outstanding shares of NCS's common stock on or before August 7, 2000. The tender offer will remain open for 23 business days, unless extended in accordance with the merger agreement, and will be conditioned on the tender of a sufficient number of shares to give us ownership of at least a majority of the fully diluted outstanding shares of NCS. After the completion of the tender offer, NCS will merge with us, and the remaining shareholders of NCS other than us will receive the same cash consideration per share as offered in the tender offer. We intend to finance the NCS acquisition with the proceeds of the rights offering.

We believe the acquisition of NCS is an important step in the development of our Pearson Education business, providing the following opportunities:

- **Integrating educational programs.** The combination of curricular content, testing and educational applications will create opportunities to provide schools, universities, colleges and professional and training organizations a comprehensive range of education solutions, encompassing curricular and training programs, assessment and testing and educational services, including student curriculum, instructional and financial management software.
- **Customizing learning.** Combining NCS's assessment tools with our curricular content will enable us to create customized learning programs individually tailored for each student.
- **Extending customer reach.** Our salesforce will market NCS's instructional management software, assessment tools and school administrative software to kindergarten through 12th grade school districts to supplement NCS's own direct salesforce.
- **Accelerating the development of new online products.** NCS's online business will complement our business by enabling us to offer electronic end-to-end learning solutions.
- **Developing a new market, with parents as customers.** NCS's products will enable us to reach parents with new educational content, creating new revenue opportunities for our educational publishing business. It will also extend the scale and reach of our Learning Network, enabling it to reach directly a much bigger audience of parents and students.
- **Moving into new professional markets.** Our professional publishing and corporate training business will enable NCS to market its testing and assessment skills to meet the growing demand for accreditation in a wide range of professions and disciplines.
- **Widening international spread.** With major educational publishing operations around the world, Pearson Education will enhance NCS's international presence.

As a publicly traded company, NCS is subject to the informational requirements of the Securities Exchange Act, and files reports and other information with the SEC. The contents of these filed documents do not form a part of this prospectus.

Our principal place of business is located at 3 Burlington Gardens, London W1X 1LE, England. Our telephone number is +44-20-7411-2000 and our registration number in England is 53723.

Rights Offering Summary

Ordinary shares, including ordinary shares represented by ADSs, outstanding on the rights offering record date	625,270,356
Ordinary shares, including ordinary shares represented by ADSs, offered	170,528,278
Ordinary shares, including ordinary shares represented by ADSs, outstanding after the rights offering, assuming full subscription	795,798,634 ordinary shares, excluding approximately 15,400,000 ordinary shares to be issued pursuant to outstanding options under employee stock incentive plans.
Underwriting	Goldman Sachs International and Cazenove & Co. have agreed, severally, to act as standby underwriters for up to an aggregate of 150,000,000 ordinary shares. To the extent the underwriters are obligated to take up ordinary shares, their selling agents may sell or resell them in the United States under this prospectus.
Use of Proceeds	We intend to use the anticipated £1.7 billion ($2.6 billion) proceeds from the rights offering to finance the NCS acquisition and pay the associated expenses.
Holders of Ordinary Shares:	
Share rights	We will grant three transferable share rights for every 11 ordinary shares owned at the close of business in London on the share right record date.
Share subscription price	£10
Share right record date	July 28, 2000
Share right expiration date	September 1, 2000
Share right subscription period	August 10, 2000 through September 1, 2000
Share certificates	We will mail certificates representing new ordinary shares to the holders by October 2, 2000.
Unexercised share rights	The new ordinary shares relating to unexercised share rights may be sold on behalf of the unexercising holders through arrangements with the underwriters. If they are sold at a price in excess of the share subscription price and the expenses of sale, the aggregate premium will be paid pro rata to the unexercising holders of share rights.
Listing	Our ordinary shares are traded on the London Stock Exchange under the symbol ''PSON''. The share rights will also trade on the London Stock Exchange.

Holders of ADSs:

ADS rights	We will grant three transferable ADS rights for every 11 ADSs owned on the ADS right record date.
ADS subscription price	£10, which does not include a 1.5% UK tax for which you will be responsible if you exercise your rights. The ADS subscription price must be paid in US dollars as outlined below.
Estimated US dollar ADS subscription price	Estimated at $16.50. As described in ''The US Rights Offering'', we have made arrangements with The Bank of New York, as ADS subscription agent, for you to pay the ADS subscription price at this estimated US dollar amount. To the extent the estimated US dollar price is less than the actual US dollar equivalent of the ADS subscription price as of August 31, 2000, plus the 1.5% UK tax, you will be required to pay the difference. To the extent the estimated US dollar price is higher, you will receive a refund of the excess.
ADS right record date	July 28, 2000
ADS right expiration date	12:00 noon (New York City time) on August 30, 2000
ADS subscription period	August 10, 2000 through August 30, 2000
ADS subscription agent	The Bank of New York
ADR delivery	The Bank of New York will provide you with American Depositary Receipts, or ADRs, evidencing your new ADSs as soon as practicable after October 2, 2000.
Unexercised ADS rights	The new ordinary shares underlying unexercised ADS rights may be sold on behalf of the unexercising holders, through arrangements with the underwriters. If they are sold at a price in excess of the share subscription price and the expenses of sale, any premium attributable to the unexercising ADS holders will be paid to the ADS depositary. The ADS depositary will pay any amounts received by it, net of expenses and commission, pro rata to the unexercising holders of ADS rights.
ADS depositary	The Bank of New York
Listing	We will apply to list the ADRs representing the ADSs that you will receive in this rights offering on the New York Stock Exchange under the symbol ''PSO''. The ADS rights will not be listed but you may trade them in the over-the-counter market.

Summary Consolidated Financial Data

The following summary consolidated financial data of Pearson should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

For convenience, we have translated the six months ended June 30, 2000 and year ended December 31, 1999 amounts into US dollars at the rate of £1.00=$1.51, the noon buying rate in The City of New York on June 30, 2000.

	Six months ended June 30			Year ended December 31					
	2000	2000	1999	1999	1999	1998	1997	1996	1995
	$m	£m (unaudited)	£m	$m	£m	£m	£m	£m	£m
UK GAAP Information:									
Consolidated Profit and Loss Account Data									
Total sales	2,333	1,545	1,306	5,031	3 ,332	2,395	2,293	2,186	1,830
Total sales from continuing operations	2,333	1,545	1,306	5,031	3,332	2,251	2,011	1,830	1,484
Operating profit from continuing operations(1)	(29)	(19)	25	408	270	187	252	132	192
Total operating profit	(17)	(11)	46	480	318	250	328	189	267
Profit after taxation	137	91	(38)	453	300	441	40	248	272
Operating profit before internet enterprises, goodwill amortization and other items(2)	236	156	133	888	588	389	328	289	267
Earnings per equity share(3)	21.4¢	14.2p	(6.6)p	72.8¢	48.2p	74.1p	6.6p	42.8p	47.1p
Adjusted earnings per equity share after internet enterprises(4)	(0.9)	(0.6)	6.3	73.2	48.5	42.0	34.9	30.6	28.8
Adjusted earnings per equity share before internet enterprises(5)	15.1	10.0	7.1	80.5	53.3	42.0	34.9	30.6	28.8
Diluted earnings per equity share(6)	20.8	13.8	(6.5)	71.7	47.5	73.3	6.4	42.5	46.4
Consolidated Balance Sheet Data	**$m**	**£m**	**£m**	**$m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total assets (Fixed Assets plus Current Assets)	9,817	6,501	5,447	8,079	5,350	5,317	2,253	2,246	2,568
Net assets	2,935	1,944	1,107	2,004	1,327	1,084	156	393	856
Long-term obligations(7)	3,059	2,026	2,312	3,452	2,286	2,562	609	556	475
Capital Stock	236	156	153	231	153	152	144	143	139
Number of equity shares outstanding (millions of ordinary shares)	625	625	611	613	613	610	577	571	556

	Year ended December 31		
	1999	1999	1998
	$m	£m	£m
US GAAP Information:(8)			
Profit for the financial year	299	198	444
Profit from continuing operations for the financial year	254	168	122
Basic earnings per equity share	48.9¢	32.4p	75.3p
Diluted earnings per equity share	48.5	32.1	74.6
Basic earnings from continuing operations per equity share	41.5	27.5	20.7
Diluted earnings from continuing operations per equity share	41.1	27.2	20.5
	$m	£m	£m
Shareholders' funds	3,949	2,615	2,468

(1) Continuing operations represent those operations carried on by us as at June 30, 2000. Operating profit from continuing operations consists of operating profit—Group, plus the Group's share of operating profit from continuing operations for Group associates, as disclosed on page F-3 of the consolidated profit and loss account.

(2) Other items include a £100 million charge for Penguin improper accounting in 1996, Year 2000 compliance costs of £5 million in 1999 and £7 million in 1998, integration costs in connection with our acquisition of Simon & Schuster's educational, business & professional and reference publishing business of £95 million in 1999 and £120 million in 1998 and integration costs in connection with our acquisition of DK of £3 million in the first six months of 2000.

(3) Earnings per equity share is based on profit for the financial period and the weighted average number of ordinary shares in issue during the period.

(4) Adjusted earnings per equity share is based on adjusted earnings for the financial period and the weighted average number of ordinary shares in issue during the period. Adjusted earnings excludes profits or losses on the sale of fixed assets and investments, businesses and associates, Year 2000 compliance costs and integration costs in respect of the Simon & Schuster acquisition and the DK acquisition and, following the prospective implementation of FRS10 ''Goodwill and Intangible Assets'' in 1998, goodwill amortization. In 1996, the £100 million exceptional charge for improper accounting in Penguin and the loan stock redemption premium have also been excluded. In the first six months of 2000, the accelerated amortization of a financing arrangement fee has also been excluded.

(5) Due to expenditures of £84 million in the first six months of 2000 and £39 million in 1999 on new internet enterprises, a second adjusted earnings per equity share in accordance with UK GAAP is presented in which the results of these internet enterprises are also excluded from earnings. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—General Overview—Internet Enterprises''.

(6) Diluted earnings per equity share is based on diluted earnings for the financial period and the diluted weighted average number of ordinary shares in issue during the period. Diluted earnings comprise earnings adjusted for the tax benefit on the conversion of share options by employees and the weighted average number of ordinary shares adjusted for the dilutive effect of share options.

(7) Long-term obligations are comprised of medium and long-term borrowings plus amounts falling due after more than one year related to obligations under finance leases.

(8) See Note 34 to the consolidated financial statements included in this prospectus entitled ''Summary of principal differences between United Kingdom and United States generally accepted accounting principles''.

RISK FACTORS

You should carefully consider the risk factors described below, as well as the other information included in this prospectus, before acquiring ordinary shares or ADSs. Our business, financial condition or results of operations could be materially adversely affected by any or all of these risks.

Risks Related to Our Business

Our reliance on intellectual property and proprietary rights that may not be adequately protected under current laws in some jurisdictions may adversely affect our results and our ability to grow

Our products are largely comprised of intellectual property content delivered through a variety of media, including newspapers, books, the internet and television. We rely on trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in these products. However, we cannot assure you that our proprietary rights will not be challenged, invalidated or circumvented. Our intellectual property rights in jurisdictions such as the US and UK, which are the jurisdictions with the largest proportions of our operations, are well-established. However, we also conduct business in other countries where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our future growth. Moreover, despite trademark and copyright protection, third parties may be able to copy, infringe or otherwise profit from our proprietary rights without our authorization. These unauthorized activities may be more easily facilitated by the internet.

In addition, the lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights.

We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive

Our education, business information, book publishing and television businesses operate in highly competitive markets. These markets continue to change in response to technological innovations and other factors. We cannot predict with certainty the changes that may occur and affect the competitiveness of our businesses. In particular, the means of delivering various of our products may be subject to rapid technological change. Although we have undertaken several initiatives to adapt to and benefit from these changes, we cannot predict whether technological innovations will, in the future, make some of our products, particularly those printed in traditional formats, wholly or partially obsolete. If this were to occur, we may be required to invest significant resources to further adapt to the changing competitive environment.

We cannot assure you whether, or when, our substantial investment in our internet initiatives will produce returns

We are investing, at increasing levels, significant amounts of capital to develop and promote our internet initiatives. We believe that the success of our internet initiatives will be an important component of our continued growth. We can offer no assurance that our internet initiatives will result in revenue streams developing to the same or a greater extent, or within the same time frames, as alternative internet initiatives undertaken by our competitors. This is due to a variety of factors, many of which are beyond our control. These factors may include:

- the ability of our internet initiatives to achieve leadership positions in their respective markets,
- competition from comparable and new technologies, and
- the public's acceptance and continued use of the internet.

In addition, as a consequence of our internet and other technological initiatives, we are increasingly dependent on the performance of the internet and our systems.

Consolidation in the markets in which we operate could potentially place us at a competitive disadvantage

Recently, some of the markets in which we operate have experienced significant consolidation. In particular, the combinations of traditional media content companies and new media distribution companies have resulted in new valuation methods, business models and strategies. We cannot predict with certainty the extent to which these types of business combinations may occur or the success that they may achieve. Although we currently have strong positions in each of our market segments, these combinations could potentially place us at a competitive disadvantage with respect to scale, resources and our ability to develop and exploit new media technologies.

Pearson Education, our largest division, may not achieve continued growth in emerging markets due to political and economic forces beyond our control

A variety of factors beyond our control may inhibit the growth of Pearson Education's operations in the emerging markets of Latin America, Africa, the Far East and Eastern Europe. These factors include foreign currency exchange rate risk, regulatory, political or economic conditions in a specific country or region, trade protection measures and other regulatory requirements and government spending patterns. Any or all of these factors could have a material adverse impact on Pearson Education's and our growth and future international business.

We may not be able to retain or attract the key management personnel and creative and editorial talent that we need to remain competitive and grow

We operate in a number of highly visible industry segments where there is intense competition for experienced and highly qualified individuals. Our successful operations in these segments may increase the market visibility of members of our management, creative and editorial teams and result in their being recruited by other businesses.

In searching for new employees and retaining the current employees in our internet enterprises, such as FT.com, FTYourMoney.com, FTMarketWatch.com and Pearson Education's internet enterprises, we compete with other technology companies, including start-up internet companies that may be perceived as offering significant opportunities to realize wealth. We cannot be certain that we will successfully attract or retain qualified personnel in the future.

Risks Related to the NCS Acquisition

The completion of the NCS acquisition is not a condition to the completion of the rights offering

The acquisition of NCS is conditioned upon the consummation of the tender offer, which requires the holders of at least a majority of the outstanding shares of common stock of NCS to tender their shares. The tender offer is also conditioned on certain regulatory clearances and other customary matters.

The rights offering is not conditioned upon the acquisition of NCS. In the unlikely event that the NCS acquisition is not completed, we will consider the return of a significant portion of the funds raised from the rights offering in an appropriate manner. However, any such return of funds would be likely to give rise to tax liabilities for some categories of shareholders. The extent of these tax liabilities and the categories of shareholders who would be subject to them would depend on the means by which we return the funds. As a result, we cannot determine them with any greater specificity at this time.

We may have to borrow funds to complete the NCS acquisition if the rights offering is not fully subscribed

Our agreement to acquire NCS is not conditioned upon the completion of the rights offering. The rights offering is only partially underwritten. If the share rights and ADS rights are not fully subscribed, we may have to borrow under our existing credit facility a portion of the funds needed to complete the NCS acquisition.

We cannot assure you that we will realize all of the potential benefits of the NCS acquisition

The NCS acquisition will transform Pearson Education into an integrated education company. We can, however, offer no assurance that we will realize the potential benefits of this acquisition to the extent and within the time frame contemplated.

Risks Related to the Offering

We cannot predict the extent to which a market for our ADSs will continue to develop in the US

Our ADSs have been traded over-the-counter in the US and our ordinary shares are traded on the London Stock Exchange. We intend to list our ADSs on the New York Stock Exchange. This listing will not, however, guarantee that an active and liquid trading market for ADSs will develop on the New York Stock Exchange. The price of our ordinary shares and our ADSs may fluctuate widely, for reasons including the following:

- the investment community's perception of our prospects in general or the prospects of one or more of our businesses in particular,
- differences between our actual operating results and those expected by investors and analysts,
- changes in analysts' recommendations or projections,
- changes in general economic or market conditions and broad market fluctuations, particularly those affecting the prices of securities of companies engaged in businesses similar to ours, and
- changes in the exchange rate between sterling and the US dollar.

We may offer additional ADSs or ordinary shares in the future and these and other sales may adversely affect the market price of outstanding ordinary shares and ADSs

Although we have no current plans for a subsequent offering of ordinary shares or ADSs, we continually evaluate the capital markets and may offer additional shares in the future to raise capital or effect acquisitions. In addition, the granting of ordinary shares and employee stock options is an integral element of our compensation policies. An additional offering of shares by us, significant sales of shares by employees, or the public perception that an offering or sales may occur, could have an adverse effect on the market price of outstanding ordinary shares and ADSs.

FORWARD-LOOKING STATEMENTS

You should not rely unduly on forward-looking statements in this prospectus. This prospectus, including the sections entitled ''Prospectus Summary'', ''Risk Factors'', ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and ''Business'', contains forward-looking statements that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terms such as ''may'', ''will'', ''should'', ''expect'', ''intend'', ''plan'', ''anticipate'', ''believe'', ''estimate'', ''predict'', ''potential'', ''continue'' or the negative of these terms or other comparable terminology. Examples of these forward-looking statements include, but are not limited to, statements regarding the following:

- operations and prospects,
- growth strategy,
- potential benefits of the NCS acquisition,
- internet strategy,
- funding needs and financing resources,
- expected financial position,
- market risk,
- debt levels, and
- general market and economic conditions.

These forward-looking statements are only predictions. They involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. In evaluating them, you should consider various factors, including the risks outlined under ''Risk Factors'', which may cause actual events or our or our industry's results to differ materially from those expressed or implied by any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

THE US RIGHTS OFFERING

The US rights offering is a part of our international rights offering. We will issue ADS rights to subscribe for new ADSs to holders of ADSs and share rights to subscribe for new ordinary shares to holders of ordinary shares in the US.

We are sending to holders of ADSs transferable warrants evidencing ADS rights, instructions relating to the exercise of these ADS rights and this prospectus. We are sending to each holder of ordinary shares whose registered address is in the US a transferable provisional allotment letter evidencing share rights and containing instructions regarding acceptance and payment procedures and this prospectus. We summarize the procedures for subscription by holders of ADSs and by holders of ordinary shares below.

As of July 28, 2000, we had 625,270,356 ordinary shares issued and outstanding and, assuming full subscription, we will have 795,798,634 ordinary shares issued and outstanding after completion of the rights offering.

Even if all the new ordinary shares offered in the rights offering are not subscribed for, whether by shareholders, the underwriters or otherwise, we will allot those ordinary shares which have been subscribed for if the offering becomes unconditional.

Subscription by Holders of ADSs

This section applies to you if you hold ADSs. If you are a holder of ordinary shares in the US, see ''—Subscription by Holders of Ordinary Shares'' below.

The timetable below lists certain important dates relating to the offering to holders of ADSs. All times referred to are New York City time.

Record date for ADS rights—(close of business in New York City)	July 28, 2000
ADS warrants sent to eligible ADS holders	August 9, 2000
Latest time to give instructions to ADS subscription agent to sell ADS rights	5:00 p.m. on August 24, 2000
ADS rights cease trading	5:00 p.m. on August 25, 2000
Latest time for exchanging an ADS right for a share	5:00 p.m. on August 25, 2000
Latest time to transfer an ADS right	5:00 p.m. on August 25, 2000
Latest time for acceptance and payment	12:00 noon on August 30, 2000
Expected listing date of ADRs on the New York Stock Exchange	September 1, 2000
New ADRs evidencing new ADSs provided to holders as soon as practicable after	October 2, 2000

The holders of ADSs may subscribe for new ADSs representing new ordinary shares as follows:

ADS Right Record Date. The record date for determining those holders who are eligible to participate in the rights offering is the close of business in New York City on July 28, 2000.

Warrants. ADS rights are evidenced by transferable warrants which we will issue to eligible ADS holders. Every 11 ADSs held of record on the ADS right record date will entitle the holder to three ADS rights. The holder of one ADS right is entitled to subscribe for one new ADS at the ADS subscription price.

The warrants are to be issued under the terms of an agreement between us and The Bank of New York, which is acting as ADS subscription agent. The Bank of New York is also the depositary for our ADSs. We have filed copies of the deposit agreement and the rights agency agreement relating to the rights offering between us and The Bank of New York as exhibits to the registration statement, and copies are available for inspection at the offices of The Bank of New York in New York and London.

Fractional Entitlements. We have not allotted ADS rights for fractions of new ADSs in making the initial allocations of ADS rights to subscribe for new ADSs. These fractional ADS rights will be aggregated and the related new ADSs will be sold in the market for your benefit.

ADS Subscription Price. The ADS subscription price is the US dollar equivalent of £10. In addition to this ADS subscription price, you will be responsible for a 1.5% UK stamp duty reserve tax per ADS right. If you exercise your ADS rights, you must pay this tax with your subscription price. For information on how to pay, see ''—Method of Subscription and Payment'' below.

ADS Right Expiration Date. ADS rights will expire at 12:00 noon (New York City time) on August 30, 2000. If unexercised, your ADS rights will be void but you may receive proceeds from the sale of the new ordinary shares attributable to your unexercised ADS rights as described under ''—Unexercised ADS Rights'' below. We refer to August 30, 2000 as the ADS right expiration date.

ADS Subscription Agent. The Bank of New York, 101 Barclay Street, New York, New York 10286, the depositary for ADSs, is acting as ADS subscription agent to accept subscriptions for new ADSs.

Method of Subscription and Payment. You can exercise your ADS rights by the delivery of a properly executed warrant, together with payment in full of the ADS subscription price, and the applicable UK stamp duty reserve tax, as follows:

- ***by mail, to:***
  The Bank of New York
  Tender and Exchange Department
  P.O. Box 11248
  Church Street Station
  New York, New York 10286-1248

- ***by hand, express mail or overnight courier, to:***
  The Bank of New York
  Tender and Exchange Department
  101 Barclay Street
  Receive and Deliver Window—Street Level
  New York, New York 10286

which must be received no later than 12:00 noon (New York City time) on August 30, 2000.

The ADS subscription agent has discretion to refuse any improperly completed or delivered or unexecuted warrant. **Deposit in the mail will not constitute effective delivery.**

You must pay the ADS subscription price in US dollars. The ADS subscription agent will arrange to convert payments made in US dollars into sterling and pay the appropriate subscription amount in sterling to us. The payment per new ADS, which must be paid by a subscriber to the ADS subscription agent in US dollars, is $16.50. You may pay in US dollars by check, bank draft or postal or express money order, made payable to ''The Bank of New York''. In addition, you may pay by wire transfer to ABA 021000018, Account Number 8900060603, Ref: Pearson plc. The ADS subscription price will be deemed to have been received by the ADS subscription agent only upon:

- clearance of any uncertified check,
- receipt by the ADS subscription agent of any certified check, cashier's check or postal or express money order, or
- receipt by the ADS subscription agent of a wire transfer.

If you pay by uncertified personal check, please note that the funds may take at least five (5) business days to clear.

The ADS subscription agent will make the conversion from US dollars into sterling as soon as practicable on or about August 31, 2000 at a commercially reasonable rate. If there is any excess or deficiency in US dollars as a result of such conversion, the ADS subscription agent will refund to you the excess amount without interest in US dollars or bill you for the deficiency, with interest.

The estimated US dollar ADS subscription price represents a convenience translation of the sterling subscription price, which has been based on the noon buying rate on July 28, 2000, rounded upwards to 110% of that rate with the expectation that after payment of the US dollar equivalent of £10 and the 1.5% UK stamp duty reserve tax there will be a refund to all subscribers paying in US dollars. We cannot assure that this will be the case. If your payment in US dollars, when converted into sterling, is less than the ADS subscription price in sterling for the number of new ADSs you subscribed for, the ADS subscription agent will pay the amount of the deficiency to us on your behalf. You will then be required to pay promptly the amount of such deficiency, including interest and expenses, and you will not receive new ADSs subscribed for prior to the ADS subscription agent's receipt of payment. If your payment of a deficiency is not received by the ADS subscription agent by September 20, 2000, the ADS subscription agent may sell your new ADSs in an amount sufficient to cover the amount you owe. In that event, the ADS subscription agent will send you an ADR representing any remaining new ADSs, together with a check in the amount of the excess proceeds, if any, from such sale.

If you desire to subscribe and time will not permit your warrant to reach the ADS subscription agent before the ADS right expiration date, your subscription will be accepted if, on or before the ADS right expiration date, the ADS subscription agent has received payment in full of the ADS subscription price in US dollars and a completed ''Notice of Guaranteed Delivery'' in the form provided by the ADS subscription agent. The Notice of Guaranteed Delivery will require that you state your name and the number of new ADSs subscribed for and will contain an irrevocable guarantee of an eligible financial institution of the type specified in the instructions that your properly completed and executed warrant will be delivered by the eligible financial institution to the ADS subscription agent prior to 12:00 noon (New York City time) on August 31, 2000. If the eligible financial institution fails to deliver your properly executed warrant by 12:00 noon (New York City time) on August 31, 2000, the ADS subscription agent will return any funds paid by you without interest and your ADS rights will be treated as unexercised.

All questions concerning the timeliness, validity, form and eligibility of any exercise of ADS rights will be determined by the ADS subscription agent in its sole discretion. The ADS subscription agent may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any ADS right. Warrants will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the ADS subscription agent determines. Neither we nor the ADS subscription agent has a duty to give notification of any defect or irregularity in connection with the submission of warrants or incur any liability for failure to give such notification.

Partial Exercise of ADS Rights. If you wish to subscribe for a portion of your new ADSs or to transfer a portion of your ADS rights to more than one person, you must follow the instructions included with your warrants.

Your exercise of ADS rights is irrevocable and may not be canceled or modified.

Transfer of ADS Rights. ADS rights may be exercised, sold or assigned to others. ADS rights may be bought or sold through banks or brokers.

You may place an order with the ADS subscription agent to sell ADS rights, whether or not in connection with a subscription. The ADS subscription agent must receive your order prior to 12:00 noon (New York City time) on August 24, 2000. No ADS right may be sold, assigned or otherwise transferred after 5:00 p.m. (New York City time) on August 25, 2000. If only a portion of the ADS rights are to be sold by the ADS subscription agent, your warrant must include instructions as to the action to be taken with respect to your ADS rights that are not to be sold. The ADS subscription agent's obligation to execute orders is subject to its ability to find buyers. If buyers cannot be found, ADS rights that are not sold will be treated as unexercised. The ADS subscription agent will not be liable to you for its failure to obtain the best market price for any ADS rights it sells at your request. A check for the proceeds from any ADS rights sold, net of fees and commissions, will be sent to you by the ADS subscription agent.

Non-US Holders of ADSs. We will not mail warrants to holders of ADSs with record addresses outside the US, including those whose addresses indicate that they are on military or other government service outside the US. The ADS subscription agent will hold these warrants for the accounts of the holders who may, prior to 12:00 noon (New York City time) on August 25, 2000, instruct the ADS subscription agent in writing as to the disposition of their ADS rights as described above. In the alternative, non-US holders may, prior to 12:00 noon (New York City time) on August 30, 2000, instruct the ADS subscription agent in writing to exercise their ADS rights as described above. If instructions and payment are not received prior to that time, ADS rights held for these holders will be treated as unexercised.

Eligibility. ADS holders with registered addresses in Canada will not be eligible to exercise their ADS rights. These ADS rights will be treated as unexercised ADS rights.

Unexercised ADS Rights. The ADS subscription agent will not submit a provisional allotment letter with respect to share rights relating to unexercised ADS rights. New ordinary shares provisionally issued and allotted with respect to unexercised share rights and ADS rights may be sold on behalf of the unexercising holders through arrangements with the underwriters. If the ordinary shares are sold at a price in excess of the subscription price and expenses of sale, any premium will be remitted in sterling pro rata to the holders of ordinary shares to whom the unsubscribed new ordinary shares have been provisionally allotted, including The Bank of New York, as ADS depositary. The Bank of New York will convert these proceeds to US dollars at a commercially reasonable rate and remit them pro rata to the holders of ADSs to whom the unsubscribed new ADSs had been provisionally alloted. Neither we nor the underwriters have any liability to you if ordinary shares respecting unexercised share rights are not sold, or with respect to the price at which they may be sold.

Delivery of ADRs. The depositary will provide you an ADR evidencing new ADSs subscribed for as soon as practicable after October 2, 2000, provided that you have paid the ADS subscription agent any shortfall arising from the conversion of a US dollar payment.

Ranking. New ADSs will rank equally in all respects with outstanding ADSs except that they will not qualify for the interim dividend in respect of the year ending December 31, 2000, as the new ADSs will be issued after August 11, 2000, the dividend record date.

Subscription by Holders of Ordinary Shares

This section applies to you if you hold ordinary shares and not ADSs.

The timetable below lists certain important dates relating to the offering to holders of ordinary shares. All times referred to are London time.

Record date for ordinary share rights—(close of business in London)	July 28, 2000
Mailing of provisional allotment letters	August 9, 2000
Dealings in new ordinary shares on the London Stock Exchange expected to commence, unpaid	8:00 a.m. on August 10, 2000
Latest time and date for exchanging a share right for an ADS right	3:00 p.m. on August 25, 2000
Latest time and date for splitting, unpaid	3:00 p.m. on August 30, 2000
Latest time and date for acceptance and payment in full	3:00 p.m. on September 1, 2000
Dealings in new ordinary shares on the London Stock Exchange expected to commence, fully paid	8:00 a.m. on September 4, 2000
Latest time and date for splitting, fully paid	3:00 p.m. on September 14, 2000
Latest time and date for registration of transfer	3:00 p.m. on September 18, 2000
Expected date for mailing of definitive share certificates for new ordinary shares	October 2, 2000

The holders of ordinary shares may subscribe for new ordinary shares as follows:

Share Right Record Date. The record date for determination of those holders of ordinary shares who are eligible to participate in the rights offering is the close of business in London on July 28, 2000.

Provisional Allotment Letters. Share rights are evidenced by transferable provisional allotment letters which we will issue to eligible shareholders. Every 11 ordinary shares held of record on the share right record date will entitle the holder to three share rights. The holder of one share right is entitled to subscribe for one new ordinary share at the share subscription price.

Fractional Entitlements. We have not allotted share rights for fractions of new ordinary shares in making the initial allocations of share rights to subscribe for new ordinary shares. These fractional share rights will be aggregated and the related new ordinary shares will be sold in the market for your benefit.

Share Subscription Price. The share subscription price of £10 is payable to us in sterling. For information on how to pay, see ''—Method of Subscription and Payment'' below.

Share Right Expiration Date. Share rights will expire at 3:00 p.m. (London time) on September 1, 2000. If unexercised, your share rights will be void but you may receive proceeds from the sale of the new ordinary shares attributable to your unexercised share rights as described under ''—Unexercised Share Rights'' below. We refer to September 1, 2000 as the share right expiration date.

Method of Subscription and Payment. Provisional allotment letters will contain full details regarding acceptance of and payment for some or all of the new ordinary shares. To subscribe in whole or in part, you should submit the provisional allotment letter in accordance with its instructions together with the full amount payable:

- ***by mail or by hand during normal business hours with our receiving agent:***
  Lloyds TSB Registrars
  The Causeway
  Worthing, West Sussex BN99 6DA

- ***by hand to:***
  Lloyds TSB Registrars
  Antholin House
  71 Queen Street
  London EC4N 1SL

which must be received no later than 3:00 p.m. (London time) on September 1, 2000.

We may, in our sole discretion, treat a provisional allotment letter as valid and binding if it is submitted even if not completed or submitted in accordance with the relevant instructions or not accompanied by a valid power of attorney, where required. In addition, we reserve the right, but shall not be obligated, to treat as valid acceptances in respect of which payments are received prior to 3:00 p.m. (London time) on September 1, 2000 from an authorized person, as defined in the UK Financial Services Act 1986, specifying the new ordinary shares concerned and undertaking to submit the relevant provisional allotment letter duly completed in due course.

You should make your check and bank drafts payable to ''Lloyds TSB Group Plc A/C Pearson plc'' and crossed ''A/C Payee only''. Payments in sterling must be made for the full amount by check or bank draft drawn on an account at a bank or building society in the UK:

- which is a settlement member of the Cheque and Credit Clearing Company Limited,
- the CHAPS Clearing Company Limited,
- a member of either of the committees of the Scottish or Belfast Clearing Houses, or
- that has arranged for its checks and bank drafts to be cleared through the facilities provided by any of those companies or committees.

In all cases, the check or bank draft must bear the appropriate sorting code. We will not pay interest if your payment is made early. Your submission of the provisional allotment letter with the appropriate payment in the form of a check will constitute a warranty that the check will be honored on first presentation. We may treat dishonored checks as invalid acceptances.

Partial Exercise of Share Rights. If you wish to subscribe for a portion of the new ordinary shares represented by your share rights or to transfer a portion of your share rights to more than one person, you must follow the instructions for splitting contained in the provisional allotment letter and submit the properly completed provisional allotment letter to Lloyds TSB Registrars at the above address no later than 3:00 p.m. (London time) on August 30, 2000.

Your exercise of share rights is irrevocable and may not be cancelled or modified.

Purchase and Sale of Share Rights and New Ordinary Shares. Share rights may be exercised, sold or transferred to others in accordance with the terms of the provisional allotment letter. New ordinary shares may be bought or sold through banks or brokers and will be traded on the London Stock Exchange.

Unexercised Share Rights. If payment in full for any new ordinary shares provisionally allotted has not been received by 3:00 p.m. (London time) on September 1, 2000, whether from the original allottee or any transferee, the provisional allotment will be deemed to have been declined, in which event it will lapse. The new ordinary shares relating to any unexercised share rights may be sold on your behalf through arrangements with the underwriters, and if they are sold at a price in excess of the share subscription price and expenses of sale, any premium will be paid in sterling pro rata to the holders of ordinary shares to whom the new ordinary shares were provisionally allotted. Neither we nor the underwriters have any liability to you if ordinary shares respecting unexercised share rights are not sold, or with respect to the price at which they may be sold.

Delivery of New Ordinary Shares. We expect to mail definitive certificates for new ordinary shares subscribed for pursuant to the exercise of share rights as soon as practicable after October 2, 2000.

Ranking. New ordinary shares will rank equally in all respects with outstanding ordinary shares except that they will not qualify for the interim dividend in respect of the year ending December 31, 2000, as the new ordinary shares will be issued after the relevant dividend record date.

Money Laundering Regulations. Applicable money laundering regulations may require Lloyds TSB Registrars to establish your identity. These requirements are referred to below as the ''verification of identity requirements''. If the provisional allotment letter is submitted by, and/or payment is made by, a UK regulated broker or intermediary which is acting as agent and which is itself subject to the money laundering regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not Lloyds TSB Registrars. In this case, the submitting agent's stamp should be inserted on the provisional allotment letter.

By sending a provisional allotment letter with payment and accepting the allotment of the new ordinary shares comprised in such provisional allotment letter, you agree to provide Lloyds TSB Registrars with the information and other evidence that Lloyds TSB Registrars may require to satisfy the verification of identity requirements.

If within a reasonable period of time following a request for verification of your identity, but in any event no later than 3:00 p.m. (London time) on September 1, 2000, Lloyds TSB Registrars has not received evidence satisfactory to it, we may treat as invalid your provisional allotment letter, in which event your provisional allotment will be deemed to have been declined and will lapse. The money payable on acceptance of the share rights will be returned without interest to the bank from which it was originally debited. We may proceed against you to recover any loss or damage suffered or incurred by us as a result of the failure to produce satisfactory evidence.

If the verification of identity requirements apply, your failure to provide the necessary evidence of identity within a reasonable time may result in your acceptance being treated as invalid or in delays in the mailing of a receipted provisional allotment letter and a certificate for new ordinary shares.

The verification of identity requirements will not usually apply if:

- you are a regulated UK broker or intermediary acting as agent and are subject to the money laundering regulations,
- you are an organization required to comply with the Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (91/308/EEC)),
- you make payment by way of a check drawn on an account in your name, or

- the aggregate share subscription price for the relevant new ordinary shares is less than the equivalent of euro 15,000.

In other cases, the identity requirements may apply and you may facilitate the satisfaction of these requirements in the following ways:

- if you make payment by building society check not drawn on your account or a bank draft, by the building society or bank endorsing on the check or draft your name and the number of your account at such building society or bank, such endorsement being validated by a stamp and authorized signature,
- if you do not make payment by check drawn on your account and the first bullet point of the preceding paragraph does not apply, by you including with your provisional allotment letter evidence of your name and address from an appropriate third party; for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing your name and address; originals of such documents, not copies, are required; and such documents will be returned in due course, or
- if the provisional allotment letter is submitted with payment by an agent which is an organization of the kind referred to in the first bullet point above or which is subject to anti-money laundering regulation in a country that is a member of the Financial Action Task Force, the non-European Union members of which are Australia, Canada, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey and the US, the agent should provide written confirmation that it has that status with the provisional allotment letter and written assurances that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will, on demand, make such evidence available to Lloyds TSB Registrars or the relevant authority.

If your provisional allotment letter involves an aggregate share subscription price of the equivalent of euro 15,000 or more and is submitted by hand by you in person, you should ensure that you can provide evidence of your identity bearing your photograph such as your passport and evidence of your address.

Neither we nor Lloyds TSB Registrars shall be responsible for or have any liability for any loss or damage, whether actual or alleged, arising from the treatment of a provisional allotment letter as invalid or the termination of your share rights in the rights offering as a result of Lloyds TSB Registrars not having received from you evidence as to your identity within a reasonable period, but no later than 3:00 p.m. (London time) on September 1, 2000.

Exchange Privilege

Exchange of ADS Rights for Share Rights. At any time prior to 5:00 p.m. (New York City time) on August 25, 2000, you may surrender a warrant representing ADS rights to the ADS subscription agent at its New York office and the ADS subscription agent will deliver to you or your assignee at its office at One Canada Square, London EI4 5AL, England, a provisional allotment letter representing share rights to subscribe for the appropriate number of new ordinary shares at the issue price.

Exchange of Share Rights for ADS Rights. At any time prior to 3:00 p.m. (London time) on August 25, 2000, you may surrender a provisional allotment letter representing any amount of share rights to the ADS subscription agent at its New York or London offices and the ADS subscription agent will deliver to you or your assignee at its New York office a warrant representing ADS rights in an amount sufficient to subscribe for the appropriate number of new ADSs covered by such provisional allotment letter.

If you deposit a warrant or a provisional allotment letter pursuant to the exchange privilege, you must pay any associated taxes or levies and depositary fees. If you deposit a provisional allotment letter pursuant to the exchange privilege, you will be charged 1.5% of the issue price per new ordinary share so deposited to meet the stamp duty reserve tax payable on the exercise of the ADS rights obtained in the rights offering.

Share Plans

In the case of our share option plans, we will adjust the number of ordinary shares underlying outstanding options and/or the option exercise price to take account of the rights offering, in such manner as we may decide. This adjustment will be subject to prior confirmation of our auditors that the adjustments are fair and reasonable and, where relevant, to the prior approval of the UK Inland Revenue and to compliance with tax legislation. We will make similar adjustments under those plans which involve stock appreciation rights, and notify participants of such adjustments in due course.

Participants in the FT Group's employee share scheme and the Pearson profit sharing plan, on whose behalf ordinary shares are held by a trustee, will be entitled to participate in the rights offering in respect of the ordinary shares held on their behalf.

Participants in the Pearson share bonus plan, on whose behalf ordinary shares allocated to them under the plan are held by a trustee, will have additional ordinary shares credited to their holding and/or will receive cash in respect of any fractional entitlement.

NCS ACQUISITION

On July 30, 2000, we and a wholly owned subsidiary entered into an Agreement and Plan of Merger, which was amended as of August 4, 2000, with NCS. In accordance with the merger agreement, our subsidiary will make a cash tender offer for all of the issued and outstanding shares of NCS's common stock no later than August 7, 2000 at a price per share of $73. NCS's board of directors has recommended that the shareholders accept the tender offer. We will keep the tender offer open for 23 business days and may, under certain circumstances, extend it for additional periods.

The tender offer is conditioned upon the tender of at least a majority of the outstanding NCS common stock on a fully diluted basis and other customary conditions.

Following completion of the tender offer, NCS will merge with our subsidiary, and each share of NCS common stock not tendered in the tender offer shall be converted into the right to receive $73, subject to dissenters' rights provided under Minnesota law. If at least ninety (90%) percent of the outstanding shares of NCS common stock are tendered, the merger can take place promptly without a shareholders' meeting. If, however, less than ninety (90%) percent of the outstanding shares of NCS common stock are tendered in the tender offer, Minnesota law requires that there be a shareholders' meeting to approve the merger. As we will then own a majority of the outstanding shares of NCS common stock, this meeting would be a mere formality. Those shareholders who do not tender their shares of NCS common stock and do not approve the merger will be entitled to exercise dissenters' rights in accordance with Minnesota law, which entitle them to receive payment for the shares at an appraised fair value.

The merger agreement contains standard representations and warranties by NCS and limitations on how NCS may conduct its business prior to the closing of the merger. The merger agreement allows the NCS board of directors to consider takeover proposals from third parties where it would be a breach of the fiduciary duty of the NCS board of directors to fail to consider them. The NCS board of directors may also withdraw its recommendation of our acquisition in favor of a superior takeover proposal. In that event, we may terminate the merger agreement and receive a termination fee in the amount of $98 million. We will also be entitled to the termination fee if, among other things, the merger agreement is terminated as a result of NCS's breach in any material respect of any of its representations or failure to perform in any material respect its covenants.

USE OF PROCEEDS

Assuming the rights are exercised in full, we estimate that the net proceeds to us from this offering will be approximately $2.5 billion, after deducting estimated expenses related to the offering. We intend to use the net proceeds to finance the NCS acquisition.

MARKET INFORMATION

The principal trading market for our ordinary shares is the London Stock Exchange. Our ordinary shares also trade in the US in the form of ADSs evidenced by ADRs under a sponsored ADR facility with The Bank of New York, as depositary. We established this facility in March 1995. Each ADS represents one ordinary share. We do not believe, however, that our ADSs are actively traded in the over-the-counter market.

We will apply to list the ADRs evidencing ADSs on the New York Stock Exchange under the symbol ''PSO''.

The following table sets forth the highest and lowest middle market quotations, which represent the average of closing bid and asked prices, for the ordinary shares, as derived from the Daily Official List of the London Stock Exchange:

- on an annual basis for our five most recent fiscal years,
- on a quarterly basis for our two most recent quarters and our two most recent fiscal years, and
- on a monthly basis for the most recent six months.

	Ordinary shares (in pence)		Average Trading Volume (ordinary shares)
Reference Period	**High**	**Low**	
Five Most Recent Fiscal Years			
1999	2004	1173	1,910,696
1998	1200	762	1,779,335
1997	848	665	1,711,711
1996	760	601	1,373,446
1995	684	543	1,390,806
Most Recent Quarters and Two Most Recent Fiscal Years			
2000: Second quarter	2360	1649	2,005,332
First quarter	2578	1701	2,343,852
1999: Fourth quarter	2004	1291	1,831,844
Third quarter	1368	1216	1,636,981
Second quarter	1405	1190	2,078,271
First quarter	1431	1173	2,109,696
1998: Fourth quarter	1193	875	2,088,696
Third quarter	1200	945	1,668,757
Second quarter	1186	929	1,658,958
First quarter	1001	762	1,703,522
Most Recent Six Months			
July	2079	1948	2,431,075
June	2245	1990	1,695,026
May	2334	1646	1,951,603
April	2359	1863	2,447,280
March	2578	2061	2,116,859
February	2464	1934	2,369,018

DIVIDENDS

We pay dividends to holders of ordinary shares on dates that are fixed in accordance with the guidelines of the London Stock Exchange. Our board of directors normally declares an interim dividend in August of each year to be paid in November. Our board of directors normally recommends a final dividend following the end of the fiscal year to which it relates, to be paid in the following June, subject to shareholders' approval at our annual general meeting.

Our board of directors declared an interim dividend in respect of the year ending December 31, 2000 of 9.2 pence per ordinary share. This dividend will be payable on October 27, 2000 to shareholders and ADS holders of record on August 11, 2000. New ordinary shares and new ADSs issued in the rights offering will not be entitled to this dividend as these ordinary shares and ADSs will be issued after the record date.

The table below sets forth the amounts of interim, final and total dividends paid in respect of each fiscal year indicated, and is translated into cents per ordinary share at the noon buying rate in The City of New York on each of the respective payment dates for interim and final dividends.

	Pence per ordinary share			Cents per ordinary share		
Fiscal Year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
1999	8.6	13.9	22.5	14.1	21.0	35.1
1998	8.0	13.0	21.0	13.4	20.9	34.3
1997	7.5	12.0	19.5	12.6	19.7	32.3
1996	6.9	11.1	18.0	11.7	18.1	29.8
1995	6.325	10.175	16.5	10.0	15.7	25.7

Future dividends will be dependent on our future earnings, financial condition and cash flow, as well as other factors affecting us. We currently intend to reduce future dividend payments per share, pro rata, to take account of the rights offering.

CAPITALIZATION

The following table shows our capitalization and indebtedness as of June 30, 2000, and as adjusted to reflect the full subscription of the rights offering and the use of the proceeds to finance the NCS acquisition. This table should be read in conjunction with our interim results for the six months to June 30, 2000 (unaudited) and the related notes appearing elsewhere in this prospectus. We have prepared the financial information in accordance with UK GAAP, which differs in significant respects from US GAAP. We describe these differences in ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Principles'' and Note 34 to our consolidated financial statements. Borrowings, cash and liquid resources denominated in currencies other than sterling have been translated into sterling at the exchange rates in effect on June 30, 2000, the most significant of which is US dollars, which has been translated at a rate of £1.00=$1.51. The convenience translation of sterling amounts into US dollars has been made at the same exchange rate.

	June 30, 2000			
	Actual		As adjusted	
	£m	$m	£m	$m
Cash and liquid resources	369	557	369	557
	£m	$m	£m	$m
Indebtedness:				
Short-term borrowings	902	1,362	902	1,362
Medium and long-term borrowings	2,011	3,036	2,011	3,036
Total borrowings	2,913	4,398	2,913	4,398
Shareholders' Funds:				
Ordinary shares				
authorized: 916,000,000				
issued: 625,222,933 (actual); 795,751,211 (as adjusted)	156	236	199	300
Share premium account	774	1,169	2,437	3,680
Consolidated reserves	901	1,360	901	1,360
Total shareholders' funds	1,831	2,765	3,537	5,340
Minority interests	113	171	113	171
Total capitalization	4,857	7,334	6,563	9,909

At June 30, 2000, we had no secured debt outstanding. Obligations under finance leases, which are not included in the table of indebtedness above, amounted to £22 million as at June 30, 2000.

On April 7, 2000, we and Bertelsmann AG and GBL/Electrafina announced the intention to combine Pearson Television and CLT-Ufa, the television and broadcasting business owned by Germany's Bertelsmann, into Beligum's Audiofina to form an integrated commercial television and radio broadcast and content group, renamed the RTL Group. In this transaction, which closed on July 25, 2000, we contributed the net assets of Pearson Television, adjusted for cash retained by us in the amount of euros 84 million (£53 million), to the RTL Group in exchange for a 22% equity stake in the RTL Group. The capitalization table takes no account of the effect of this transaction.

SELECTED CONSOLIDATED FINANCIAL DATA

The table on the following page shows selected consolidated financial data for each of the years in the five-year period ended December 31, 1999. The selected consolidated profit and loss account data for the years ended December 31, 1999, 1998 and 1997, and the selected consolidated balance sheet data as at December 31, 1999 and 1998, have been derived from our consolidated financial statements included elsewhere in this prospectus, which have been audited by PricewaterhouseCoopers, independent chartered accountants. The selected consolidated profit and loss account data for the years ended December 31, 1996 and 1995, and the selected consolidated balance sheet data as at December 31, 1997, 1996 and 1995, have been derived from our audited consolidated financial statements for those periods and as of those dates, which are not included in this prospectus. The selected consolidated profit and loss account data for the six month periods ending June 30, 2000 and June 30, 1999 and the selected consolidated balance sheet data as of June 30, 2000, have been derived from our unaudited interim results for the six months to June 30, 2000, included elsewhere in this prospectus. These unaudited financial statements have been prepared on the same basis as our audited financial statements and, in the opinion of management, include all material adjustments, consisting only of normal recurring adjustments, necessary to present the financial position and results of operations for the periods and dates presented. Interim results are not necessarily indicative of the results that may be expected for any other interim period or for the full year. The following information should be read in conjunction with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

Our consolidated financial statements have been prepared in accordance with UK GAAP, which differs from US GAAP in significant respects. The consolidated financial statements contain a reconciliation to US GAAP of profit for the financial year, shareholders' funds and certain other financial data. The information provided below is not necessarily indicative of the results that may be expected from future operations. For convenience, we have translated the June 30, 2000 and December 31, 1999 amounts into US dollars at the rate of £1.00=$1.51, the noon buying rate in The City of New York on June 30, 2000.

	June 30,			December 31					
	2000	2000	1999	1999	1999	1998	1997	1996	1995
	$m	£m	£m	$m	£m	£m	£m	£m	£m
UK GAAP Information:									
Consolidated Profit and Loss Account Data									
Total sales	2,333	1,545	1,306	5,031	3,332	2,395	2,293	2,186	1,830
Total sales from continuing operations	2,333	1,545	1,306	5,031	3,332	2,251	2,011	1,830	1,484
Operating profit from continuing operations(1)	(29)	(19)	25	408	270	187	252	132	192
Total operating profit	(17)	(11)	46	480	318	250	328	189	267
Profit after taxation	137	91	(38)	453	300	441	40	248	272
Operating profit before internet enterprises, goodwill amortization and other items(2)	236	156	133	888	588	389	328	289	267
Earnings per equity share(3)	21.4¢	14.2p	(6.6)p	72.8¢	48.2p	74.1p	6.6p	42.8p	47.1p
Adjusted earnings per equity share after internet enterprises(4)	(0.9)	(0.6)	6.3	73.2	48.5	42.0	34.9	30.6	28.8
Adjusted earnings per equity share before internet enterprises(5)	15.1	10.0	7.1	80.5	53.3	42.0	34.9	30.6	28.8
Diluted earnings per equity share(6)	20.8	13.8	(6.5)	71.7	47.5	73.3	6.4	42.5	46.4
Consolidated Balance Sheet Data	**$m**	**£m**	**£m**	**$m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total assets (Fixed Assets plus Current Assets)	9,817	6,501	5,447	8,079	5,350	5,317	2,253	2,246	2,568
Net assets	2,935	1,944	1,107	2,004	1,327	1,084	156	393	856
Long-term obligations(7)	3,059	2,026	2,312	3,452	2,286	2,562	609	556	475
Capital Stock	236	156	153	231	153	152	144	143	139
Number of equity shares outstanding	625	625	611	613	613	610	577	571	556

	December 31		
	1999	1999	1998
	$m	£m	£m
US GAAP Information:(8)			
Profit for the financial year	299	198	444
Profit from continuing operations for the financial year	254	168	122
Basic earnings per equity share	48.9¢	32.4p	75.3p
Diluted earnings per equity share	48.5	32.1	74.6
Basic earnings from continuing operations per equity share	41.5	27.5	20.7
Diluted earnings from continuing operations per equity share	41.1	27.2	20.5
	$m	**£m**	**£m**
Shareholders' funds	3,949	2,615	2,468

(Footnotes on following page)

(1) Continuing operations represent those operations carried on by us as at June 30, 2000. Operating profit from continuing operations consists of operating profit—Group, plus the Group's share of operating profit from continuing operations for Group associates, as disclosed on page F-3 of the consolidated profit and loss account.

(2) Other items include a £100 million charge for Penguin improper accounting in 1996 and Year 2000 compliance costs of £5 million in 1999 and £7 million in 1998, and integration costs in connection with our acquisition of Simon & Schuster's educational, business & professional and reference publishing business of £95 million in 1999 and £120 million in 1998 and in connection with our acquisition of DK of £3 million in the first six months of 2000.

(3) Earnings per equity share is based on profit for the financial period and the weighted average number of ordinary shares in issue during the period.

(4) Adjusted earnings per equity share is based on adjusted earnings for the financial period and the weighted average number of ordinary shares in issue during the period. Adjusted earnings excludes profits or losses on the sale of fixed assets and investments, businesses and associates, Year 2000 compliance costs and integration costs in respect of the Simon & Schuster acquisition and the DK acquisition and, following the prospective implementation of FRS10 ''Goodwill and Intangible Assets'' in 1998, goodwill amortization. In 1996, the £100 million exceptional charge for improper accounting in Penguin and the loan stock redemption premium have also been excluded. In the first six months of 2000, the accelerated amortization of a financing arrangement fee has also been excluded.

(5) Due to expenditures of £84 million in the first six months of 2000 and £39 million in 1999 on new internet enterprises, a second adjusted earnings per equity share in accordance with UK GAAP is presented in which the results of these internet enterprises are also excluded from earnings. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—General Overview—Internet Enterprises''.

(6) Diluted earnings per equity share is based on diluted earnings for the financial period and the diluted weighted average number of ordinary shares in issue during the period. Diluted earnings comprise earnings adjusted for the tax benefit on the conversion of share options by employees and the weighted average number of ordinary shares adjusted for the dilutive effect of share options.

(7) Long-term obligations are comprised of medium and long-term borrowings plus amounts falling due after more than one year related to obligations under finance leases.

(8) See Note 34 to the consolidated financial statements included in this prospectus entitled ''Summary of principal differences between United Kingdom and United States generally accepted accounting principles''.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is based on and should be read in conjunction with the consolidated financial statements, including the related notes, appearing elsewhere in this prospectus. The financial statements have been prepared in accordance with UK GAAP, which differs in significant respects from US GAAP. Note 34 to our consolidated financial statements provides a description of the significant differences between UK GAAP and US GAAP as they relate to our business and provides a reconciliation to US GAAP.

General Overview

Sales information by operating division

The following table shows sales information for each of the periods specified broken out by operating division:

	Six months ended June 30,		Year ended December 31,		
	2000	1999	1999	1998	1997
	£m	£m	£m	£m	£m
Pearson Education	647	554	1,725	702	563
FT Group	408	330	687	683	676
The Penguin Group	326	263	565	523	525
Pearson Television	164	159	355	343	247
Continuing operations	1,545	1,306	3,332	2,251	2,011
Discontinued operations	—	—	—	144	282
	1,545	1,306	3,332	2,395	2,293

Sales information by geographic market supplied

The following table shows sales information for each of the periods specified broken out by geographic region:

	Year ended December 31,		
	1999	1998	1997
	£m	£m	£m
United Kingdom	544	497	487
Continental Europe	518	461	382
North America	1,990	1,078	916
Asia Pacific	200	161	179
Rest of World	80	54	47
Continuing operations	3,332	2,251	2,011
Discontinued operations	—	144	282
	3,332	2,395	2,293

Sales information by geographic market supplied is not available for the six months ended June 30, 2000.

Internet Enterprises

We refer to our discrete internet operations as our internet enterprises. These are significant internet ventures whose activities and results are able to be separately identified from their print- and television-based counterparts. Due to a significant level of expenditure in 1999 on new internet enterprises, we commenced in 1999 reporting our operating profit and earnings per equity share before and after internet enterprises, as well as before goodwill amortization and other items. This presentation is in accordance with UK GAAP.

Exchange Rate Fluctuations

We earn a significant proportion of our sales and profits in overseas currencies, principally the US dollar, and, to a lesser extent, the euro. Sales and profits are translated into sterling in our consolidated financial statements using average rates. The average rate used for the US dollar was $1.56 for the six months ended June 30, 2000, $1.61 for the six months ended June 30, 1999, $1.61 in 1999, $1.66 in 1998 and $1.63 in 1997.

UK GAAP and US GAAP

We prepare our financial statements in accordance with UK GAAP, which differs in significant respects from US GAAP. Our profit for the financial year ended December 31, 1999 under UK GAAP was £294 million compared with profit of £198 million under US GAAP. The profit for the financial year ended December 31, 1998 under UK GAAP was £437 million, compared with profit of £444 million under US GAAP. Equity shareholders' funds at December 31, 1999 under UK GAAP were £1,321 million compared with £2,615 million under US GAAP. Equity shareholders' funds at December 31, 1998 under UK GAAP were £1,048 million compared with £2,468 million under US GAAP. The main differences between UK GAAP and US GAAP relate to goodwill and intangible assets, deferred taxation, acquisition adjustments, derivatives, pensions and stock based compensation, and are discussed in further detail under ''—Accounting Principles''. In accordance with UK GAAP, we report operating profit and earnings per equity share before and after internet enterprises, goodwill amortization and other items. Under UK GAAP, intangible assets are not separately identified from goodwill.

Results of Operations

Six months ended June 30, 2000 compared to six months ended June 30,1999

Consolidated

Sales. Our total sales, all from continuing operations, increased by £239 million, or 18%, to £1,545 million in the six months ended June 30, 2000, from £1,306 million in the six months ended June 30, 1999. This increase was primarily due to increased sales realized at Pearson Education, the FT Group and the Penguin Group.

Pearson Education continued to be our largest business sector in sales terms in the first six months of 2000. Sales at Pearson Education accounted for 42% of our total sales in the first six months of 2000, and 42% in the six months ended June 30, 1999.

Operating Profit. Our total operating profit decreased by £57 million to a loss of £11 million in the six months ended June 30, 2000, from a profit of £46 million in the six months ended June 30, 1999. However, our operating profit before internet enterprises, goodwill amortization and other items increased by £23 million, or 17%, to £156 million in the six months ended June 30, 2000, from £133 million in the six months ended June 30, 1999. This increase in operating profit was primarily due to a decrease in losses realized at Pearson Education and increased profit realized at the FT Group.

- Operating loss before internet enterprises, goodwill amortization and other items attributable to Pearson Education decreased by £12 million, or 32%, to £26 million in the six months ended June 30, 2000, from £38 million in the six months ended June 30, 1999, primarily due to a decrease in the loss in the US Schools business.

• Operating profit before internet enterprises, goodwill amortization and other items attributable to the FT Group increased by £23 million, or 27%, to £109 million in the six months ended June 30, 2000, from £86 million in the six months ended June 30, 1999, primarily due to increases in advertising at the *Financial Times* and *Les Echos* newspapers and increases at FT Interactive Data due to the acquisition of the Thompson Financial Securities business in July 1999 and the acquisition of a controlling interest in Data Broadcasting Corporation in February 2000.

Our trading margin, which measures the ratio of trading profit, excluding income from investments and associates and losses from internet enterprises, to sales, increased to 9% in the six months ended June 30, 2000, from 7% in the six months ended June 30, 1999, primarily due to our continued effort to decrease overall costs as a percentage of sales.

Goodwill Amortization and Other Items. Goodwill amortization increased by £9 million to £72 million in the six months ended June 30, 2000, from £63 million in the six months ended June 30, 1999, primarily due to the acquisition of the Thompson Financial Securities business in July 1999. This acquisition resulted in six months of goodwill amortization being included in the figures for the six months ended June 30, 2000 and no amortization being included in the figures for the six months ended June 30, 1999. Other items decreased by £6 million, or 35%, to £11 million in the six months ended June 30, 2000, from £17 million in the six months ended June 30, 1999. Other items comprise a charge in respect of the integration of the businesses acquired from Simon & Schuster which decreased by £7 million, or 47%, to £8 million in the six months ended June 30, 2000, from £15 million in the six months ended June 30, 1999 and a £3 million charge in respect of the integration of DK which was acquired in May 2000. In addition, other items included a £2 million charge in respect of Year 2000 compliance costs in the six months ended June 30, 1999.

Non-operating Items. Profit before taxation on the sale of fixed assets, investments, businesses and associates was £218 million in the six months ended June 30, 2000, compared to £5 million in the six months ended June 30, 1999. Taxation on these items was £31 million in the six months ended June 30, 2000, and £6 million in the six months ended June 30, 1999. In the six months ended June 30, 2000, the most significant item was a profit of £231 million on the sale of our interest in the Lazard Houses. In the six months ended June 30, 1999, the most significant items were a profit of £16 million on the sale of part of our interest in BSB Holdings Ltd and a loss of £16 million on the sale of our Extel research products business.

Net finance costs. Our total net finance costs increased by £13 million, or 18%, to £84 million in the six months ended June 30, 2000, from £71 million in the six months ended June 30, 1999, primarily due to the acceleration of the amortization of an arrangement fee in respect of a borrowing facility which was redeemed early. In the six months ended June 30, 2000, our average net debt decreased by £430 million compared to the six months ended June 30, 1999. The decrease in net debt reflected the impact of the equity and asset disposal proceeds received in the six months ended June 30, 2000. However, this decrease in debt was partially offset by an increase in the average interest rate paid. Our net interest rate payable averaged approximately 6.7% in the six months ended June 30, 2000. This interest rate was higher than in the six months ended June 30, 1999, when it was 5.9%, mainly due to a change in market interest rates. For a more detailed discussion of our interest expenses, see ''—Quantitative and Qualitative Disclosures about Market Risk''. The effect of interest rate increases on us was also mitigated by our existing portfolio of interest rate swaps, which converted over half of our variable rate commercial paper and bank debt to a fixed rate basis.

Taxation. The taxation charge was £32 million in the six months ended June 30, 2000, compared to £18 million in the six months ended June 30, 1999. The taxation charge was 26% of profit before taxation in the six months ended June 30, 2000. In the six months ended June 30, 1999, the taxation charge of £18 million was in respect of a loss before taxation of £20 million. In the six months ended June 30, 2000, a significant proportion of the goodwill amortization was not eligible for taxation relief but was largely offset by the taxation on the profit on the sale of the Lazard Houses being lower than the statutory rate. In the six months ended June 30, 1999, a significant proportion of the goodwill amortization was also not eligible for taxation relief and, in addition, only limited taxation relief was recognized on the Simon & Schuster integration costs.

The taxation rate on adjusted earnings, as defined below, remained at 25% in the six months ended June 30, 2000, compared to 25% in the six months ended June 30, 1999. The difference of 5% between the UK statutory taxation rate in the six months ended June 30, 2000, which was 30%, and the effective taxation rate on adjusted earnings in the six months ended June 30, 2000, which was 25%, is primarily due to the availability of tax losses in the US.

Profit. Profit for the financial period increased by £129 million to £88 million in the six months ended June 30, 2000, from a loss of £41 million in the six months ended June 30, 1999, primarily due to the increase in profits on the sale of businesses and associates.

Earnings per Ordinary Share. Earnings per ordinary share, which reflect earnings divided by the weighted average number of shares in issue increased to 14.2 pence in the six months ended June 30, 2000, from a loss of 6.6 pence in the six months ended June 30, 1999 based on a weighted average number of shares of 620.4 million in the six months ended June 30, 2000, and 609.7 million in the six months ended June 30, 1999. This increase was primarily due to the increase in profits on the sale of businesses and associates. Adjusted earnings per ordinary share decreased to a loss of 0.6 pence in the six months ended June 30, 2000, from earnings of 6.3 pence in the six months ended June 30, 1999. Adjusted earnings exclude the profits or losses on the sale of fixed assets and investments, businesses and associates, Year 2000 compliance costs, integration costs in respect of the Simon & Schuster acquisition and the DK acquisition, goodwill amortization and the accelerated amortization of a financing arrangement fee. Adjusted earnings before internet enterprises per ordinary share increased to 10.0 pence in the six months ended June 30, 2000, from 7.1 pence in the six months ended June 30, 1999. Adjusted earnings before internet enterprises excludes the above-mentioned items and also excludes the losses arising on internet enterprises. Diluted earnings per ordinary share increased to 13.8 pence in the six months ended June 30, 2000, from a loss of 6.5 pence in the six months ended June 30, 1999, primarily due to the increase in profits on the sale of businesses and associates. Earnings dilution included the tax benefit on the conversion of certain share options by employees and, after taking into account the effect of dilutive share options, the weighted average number of ordinary shares applicable was 628.6 million in the six months ended June 30, 2000 and 616.5 million in the six months ended June 30, 1999.

Operating Profit by Division

The following table summarizes our operating profit by division.

	Operating profit before internet enterprises, goodwill amortization and other items				Operating profit after internet enterprises, goodwill amortization and other items	
	Six months ended June 30				Six months ended June 30	
	2000 £m	2000 %	1999 £m	1999 %	2000 £m	1999 £m
Pearson Education	(26)	(18)	(38)	(34)	(108)	(116)
FT Group	109	74	86	77	35	77
The Penguin Group	33	22	31	28	25	31
Pearson Television	32	22	33	29	29	33
Continuing Operations	148	100	112	100	(19)	25

Pearson Education

Pearson Education's sales increased by £93 million, or 17%, to £647 million in the six months ended June 30, 2000, from £554 million in the six months ended June 30, 1999, principally due to increases in the US Schools business. Pearson Education's sales in the six months ended June 30, 2000 comprised 42% of our total sales.

Pearson Education realizes approximately two-thirds of its sales and all of its profits in the second half of the year when it makes the majority of its sales.

Operating loss before internet enterprises, goodwill amortization and other items decreased by £12 million, or 32%, to £26 million in the six months ended June 30, 2000, from £38 million in the six months ended June 30, 1999. This decrease in operating loss was primarily due to decreases in the operating loss realized in the US Schools business.

The US Schools business increased sales by £35 million, or 19%, to £222 million in the six months ended June 30, 2000, from £187 million in the six months ended June 30, 1999. This increase in sales was primarily due to gains in market share for our reading, literature and electronic programs as well as the continued success of our math program.

The US Higher Education and Professional Publishing business increased sales by £37 million, or 21%, to £215 million in the six months ended June 30, 2000, from £178 million in the six months ended June 30, 1999. This increase in sales was primarily due to an increase in sales in the US College publishing business.

Sales in the International business increased by £28 million, or 17%, to £197 million in the six months ended June 30, 2000, from £169 million in the six months ended June 30, 1999. This increase in sales was primarily due to an increase in sales in our Latin American and Asian markets.

FT Knowledge increased sales by £3 million, or 38%, to £11 million in the six months ended June 30, 2000, from £8 million in the six months ended June 30, 1999. This increase in sales was primarily due to increases in both the individual and corporate businesses.

FT Group

Sales in the FT Group increased by £78 million, or 24%, to £408 million in the six months ended June 30, 2000, from £330 million in the six months ended June 30, 1999. This increase in sales was primarily due to increases in advertising at the *Financial Times* and *Les Echos* newspapers, increases at FT Interactive Data due to the acquisition of the Thompson Financial Securities business in July 1999 and the acquisition of a controlling interest in Data Broadcasting

Corporation in February 2000 and increases in internet enterprises. Operating profit before internet enterprises, goodwill amortization and other items, increased by £23 million, or 27%, to £109 million in the six months ended June 30, 2000, from £86 million in the six months ended June 30, 1999.

Operating profit before internet enterprises, goodwill amortization and other items at the *Financial Times* newspaper increased by £16 million, or 47%, to £50 million in the six months ended June 30, 2000, from £34 million in the six months ended June 30, 1999. This increase in operating profit was primarily due to increases in advertising.

Operating profit before internet enterprises, goodwill amortization and other items at FT Interactive Data increased by £11 million, or 73%, to £26 million in the six months ended June 30, 2000, from £15 million in the six months ended June 30, 1999. This increase in operating profit was primarily due to the acquisition of the Thompson Financial Securities business in July 1999 and the acquisition of a controlling interest in Data Broadcasting Corporation in February 2000.

Operating profit before internet enterprises, goodwill amortization and other items at the Les Echos Group increased by £3 million, or 23%, to £16 million in the six months ended June 30, 2000, from £13 million in the six months ended June 30, 1999. This increase in operating profit was primarily due to increases in circulation and advertising.

Operating profit before internet enterprises, goodwill amortization and other items at Recoletos increased by £1 million, or 6%, to £19 million in the six months ended June 30, 2000, from £18 million in the six months ended June 30, 1999.

Operating profit from joint ventures and associates within the FT Group decreased by £13 million to a loss of £5 million in the six months ended June 30, 2000, from a profit of £8 million in the six months ended June 30, 1999. This decrease in operating profit was primarily due to the start-up costs of *Financial Times Deutschland*.

The Penguin Group

Sales at the Penguin Group increased by £63 million, or 24%, to £326 million in the six months ended June 30, 2000, from £263 million in the six months ended June 30, 1999. This increase in sales was partly attributable to the acquisition of DK in May 2000 which contributed sales of £32 million in the six months ended June 30, 2000 and partly attributable to a number of new and established authors reaching the best-seller lists in both the UK and the US. Operating profit before internet enterprises, goodwill amortization and other items increased by £2 million, or 6%, to £33 million in the six months ended June 30, 2000, from £31 million in the six months ended June 30, 1999. This increase in operating profit was primarily attributable to a number of new and established authors reaching the best-seller lists in both the UK and the US and was partly offset by the acquisition of DK in May 2000, which contributed a loss of £4 million in the six months ended June 30, 2000.

Pearson Television

Sales at Pearson Television increased by £5 million, or 3%, to £164 million in the six months ended June 30, 2000, from £159 million in the six months ended June 30, 1999. Operating profit before internet enterprises, goodwill amortization and other items decreased by £1 million, or 3%, to £32 million in the six months ended June 30, 2000, from £33 million in the six months ended June 30, 1999.

On July 25, 2000, we merged Pearson Television into the RTL Group. We will account for our interest in the RTL Group as an associate, rather than a subsidiary. As a result, only our share of its profit before interest, interest and taxation will be reflected in our financial results. For more information on this merger, please refer to ''Business—Operating Divisions—Pearson Television''.

Internet Enterprises

Sales in our internet enterprises increased by £14 million to £16 million in the six months ended June 30, 2000, from £2 million in the six months ended June 30, 1999. These sales all related to the FT Group. Operating losses increased by £77 million to £84 million in the six months ended June 30, 2000, from £7 million in the six months ended June 30, 1999. Of this loss, £64 million was incurred by the internet enterprises of the FT Group, £19 million was incurred by the internet enterprises of Pearson Education and £1 million was incurred by the internet enterprises of Pearson Television. We expect Pearson Education's internet enterprises to account for a higher percentage of these operating losses in the future as we increase our investment in the internet enterprises of Pearson Education. We expect our internet enterprises to incur significant operating losses in the forseeable future as we continue to invest in them. While we cannot predict the magnitude of these operating losses with any specificity, our continued investment in our internet enterprises will result in a decrease in our consolidated operating profit.

Year ended December 31, 1999 compared to year ended December 31, 1998

Consolidated

Sales. Our total sales increased by £937 million, or 39%, to £3,332 million in 1999, from £2,395 million in 1998. Sales from continuing operations increased by £1,081 million, or 48%, to £3,332 million in 1999, from £2,251 million in 1998. We realized this increase almost entirely in Pearson Education, where sales increased by £1,023 million primarily due to the Simon & Schuster acquisition in November 1998. This acquisition resulted in a full year of the businesses acquired from Simon & Schuster being included in our 1999 figures as opposed to just over one month in 1998.

Pearson Education continued to be our largest business sector in 1999. Sales at Pearson Education accounted for 52% of our total sales from continuing operations in 1999, compared to 31% in 1998. North America continued to be the most significant source of our sales, accounting for 60% of sales from continuing operations in 1999, compared to 48% in 1998.

Operating Profit. Our total operating profit increased by £68 million, or 27%, to £318 million in 1999, from £250 million in 1998. However, our operating profit before internet enterprises, goodwill amortization and other items increased by £199 million, or 51%, to £588 million in 1999, from £389 million in 1998. The increase in operating profit was primarily due to increased profit realized at Pearson Education, the FT Group and the Penguin Group.

- Operating profit before internet enterprises, goodwill amortization and other items attributable to Pearson Education increased by £158 million, or 160%, to £257 million in 1999, from £99 million in 1998, primarily due to the Simon & Schuster acquisition in November 1998.
- Operating profit before internet enterprises, goodwill amortization and other items attributable to the FT Group increased by £32 million, or 27%, to £150 million in 1999, from £118 million in 1998, primarily due to increases in circulation and advertising at the *Financial Times* and *Les Echos* newspapers and increases in subscriptions and volume-related business at FT Interactive Data.
- Operating profit before internet enterprises, goodwill amortization and other items attributable to the Penguin Group increased by £17 million, or 35%, to £65 million in 1999, from £48 million in 1998, primarily due to a number of new and established authors reaching the best-seller lists.

Our trading margin, which measures the ratio of trading profit, excluding income from investments and associates and losses from internet enterprises, to sales, increased to 15% in 1999, from 13% in 1998, primarily due to our effort to decrease overall costs as a percentage of sales.

Exchange Rate Fluctuations. The weakening of sterling against the US dollar on an average basis had a positive impact on reported sales and profits in 1999 compared to 1998. We estimate that if the 1998 average rates had prevailed in 1999, sales would have been lower by £33 million and operating profit would have been lower by £5 million.

Cost of Sales and Net Operating Expenses

The following table summarizes our cost of sales and net operating expense.

	1999	1998	
	Total	Continuing	Total
	£m	£m	£m
Cost of sales	(1,424)	(1,138)	(1,176)
Distribution costs	(289)	(168)	(169)
Administration and other expenses	(1,470)	(848)	(933)
Other operating income	98	79	82
Net operating expenses	(1,661)	(937)	(1,020)
Analyzed as:			
Net operating expenses—before exceptional items and goodwill amortization	(1,446)	(854)	(937)
Net operating expenses—exceptional items	(85)	(71)	(71)
Net operating expenses—goodwill amortization	(130)	(12)	(12)
Net operating expenses	(1,661)	(937)	(1,020)

Cost of Sales. Our cost of sales from continuing operations increased by £286 million, or 25%, to £1,424 million in 1999, from £1,138 million in 1998, primarily due to the acquisition of Simon & Schuster. Cost of sales from continuing operations decreased to 43% of sales in 1999 from 51% in 1998, primarily due to the cost allocation mix at the businesses acquired from Simon & Schuster, where cost of sales as a percentage of sales was lower than in our other businesses. The allocation of expenses by function between cost of sales, distribution and administration and other may vary between companies depending on the type of business they operate in. Cost of sales as a percentage of sales was lower at the education businesses acquired from Simon & Schuster, and correspondingly distribution costs and administration and other costs as a percentage of sales were higher, than our business information, consumer publishing and television businesses. Additionally, exceptional costs associated with the Simon & Schuster acquisition of £10 million in 1999 and £49 million in 1998 were recorded in cost of sales. Taking these exceptional costs into consideration, cost of sales from continuing operations as a percentage of sales was 42% in 1999 and 48% in 1998.

Distribution Costs. Our distribution costs from continuing operations increased by £121 million, or 72%, to £289 million in 1999, from £168 million in 1998. Distribution costs increased to 9% of sales in 1999, from 8% of sales in 1998, primarily due to the cost allocation mix at the businesses acquired from Simon & Schuster, where distribution costs as a percentage of sales were higher than in our other businesses. Distribution costs primarily include shipping costs, postage and packing.

Administration and Other Expenses. Our administration and other expenses from continuing operations increased by £622 million, or 73%, to £1,470 million in 1999, from £848 million in 1998. Administration and other expenses increased to 44% of sales in 1999, from 38% of sales in 1998, primarily due to the cost allocation mix at the businesses acquired from Simon & Schuster, where administration and other expenses as a percentage of sales were higher than in our other businesses. In 1999, administration and other expenses included an exceptional charge of £85 million due to the costs of the integration of the businesses acquired from Simon & Schuster and goodwill amortization of £130 million, £116 million of which related to the Simon & Schuster acquisition. In 1998, administration and other expenses included an exceptional charge of £71 million in respect of the integration of the businesses acquired from Simon & Schuster and goodwill amortization of £12 million, £10 million of which related to the Simon & Schuster acquisition. Excluding the exceptional charges and goodwill amortization in 1999 and 1998, administration and other expenses would have been 38% of sales in 1999 compared to 34% in 1998, primarily due to the Simon & Schuster acquisition, where administration and other expenses as a percentage of sales were higher in 1999, primarily due to the cost allocation mix at the businesses acquired from Simon & Schuster, where administration and other expenses as a percentage of sales were higher than in our other businesses.

Other Operating Income. Other operating income from continuing operations increased to £98 million in 1999 from £79 million in 1998 due to increased rights and royalty income at Pearson Education as a result of the Simon & Schuster acquisition, which was partly offset by reduced investment income.

Goodwill Amortization and Other Items. Goodwill amortization increased by £119 million to £131 million in 1999, from £12 million in 1998, primarily due to the Simon & Schuster acquisition in November 1998. This acquisition resulted in a full year of goodwill amortization being included in our 1999 figures as opposed to just over one month in 1998. Goodwill is amortized over its estimated useful life, not exceeding 20 years, and as such this charge is expected to continue for the foreseeable futue. Other items decreased by £27 million, or 21%, to £100 million in 1999, from £127 million in 1998. Other items comprises a charge in respect of the integration of the businesses acquired from Simon & Schuster which decreased by £25 million, or 21%, to £95 million in 1999, from £120 million in 1998 and a charge in respect of Year 2000 compliance costs which decreased by £2 million, or 29%, to £5 million in 1999, from £7 million in 1998.

Non-operating Items. Profit before taxation on the sale of fixed assets, investments, businesses and associates was £308 million in 1999 compared to £407 million in 1998. Taxation on these items was £88 million in 1999 and £103 million in 1998. In 1999, the most significant items were a profit of £348 million on the sale of our interest in BSB Holdings Ltd. and a loss of £19 million on the sale of our Extel research products business. In 1998, the most significant items were a profit of £133 million on the sale of our 6.3% shareholding in Société Européene des Satellites, a profit of £61 million on the sale of our Law & Tax publishing business, and a profit of £157 million on the sale of The Tussauds Group, our visitor attractions business.

Interest. Our total net interest payable increased by £108 million, or 277%, to £147 million in 1999, from £39 million in 1998, primarily due to a £1,726 million increase in average net debt. The increase in net debt in 1999 reflected the impact for a full year, as opposed to just over one month in 1998, of the borrowings incurred to finance the Simon & Schuster acquisition. The subsequent enlargement of Pearson Education following the Simon & Schuster acquisition also increased the debt needed to fund our working capital requirements in the middle part of the year. However, this increase in debt was partially offset by the proceeds received from asset disposals, also in the middle part of the year. Our net interest rate payable averaged approximately 6.4% in 1999. This interest rate was lower than in 1998, when it was 6.8%, mainly due to a change in the ratio of cash to gross debt, even though market interest rates increased during the year. For a more detailed discussion of our interest expenses see ''—Quantitative and Qualitative Disclosures about Market Risk''. The effect of interest rate increases on us was also mitigated by our existing portfolio of interest rate swaps, which converted over half of our variable rate commercial paper and bank debt to a fixed rate basis.

Taxation. The taxation charge was £180 million in 1999, compared to £188 million in 1998. The taxation charge was 37.5% of profit before taxation in 1999, compared to 29.9% in 1998. The main reason for the increase in the effective rate is the significant increase in the charge for goodwill amortization, which increased to £131 million in 1999, from £12 million in 1998, reflecting the fact that the businesses acquired from Simon & Schuster were included in our financial results for a full year in 1999. No taxation relief is available on this amortization and, as in 1998, only limited taxation relief has been recognized on the Simon & Schuster integration costs. In addition, the overall taxation rate on the sale of fixed assets, investments, businesses and associates increased to 28.6% in 1999, from 25.3% in 1998. The most significant item was a profit of £348 million on the sale of our interest in BSB Holdings Ltd., which yielded a benefit from the indexed taxation base cost being higher than the book value. However, this benefit was offset by some smaller disposals where the opposite was the case.

The taxation rate on adjusted earnings, as defined below, fell to 25% in 1999 from 28% in 1998. The difference of 5.25% between the UK statutory taxation rate in 1999, which was 30.25%, and the effective taxation rate on adjusted earnings in 1999, which was 25%, is primarily due to the availability of tax losses in the US. The difference of 3% between the 31% UK statutory taxation rate in 1998 and the effective taxation rate on adjusted earnings in 1998, which was 28%, is lower than in 1999 due to increased profits in the US, in 1999, which were relieved by tax losses. The benefit of the US losses in 1999 was slightly offset by higher taxation rates in countries other than the UK and the US and by the effect of disallowed expenses.

Profit. Profit for the financial year decreased by £143 million, or 33%, to £294 million in 1999, from £437 million in 1998, primarily due to the decrease in profits on the sale of fixed assets, investments, businesses and associates.

Earnings Per Ordinary Share. Earnings per ordinary share, which reflect earnings divided by the weighted average number of shares in issue, decreased to 48.2 pence in 1999 from 74.1 pence in 1998 based on a weighted average number of shares of 610.2 million in 1999 and 589.8 million in 1998. This decrease was primarily due to the decrease in profits on the sale of fixed assets, investments, businesses and associates. Adjusted earnings per ordinary share increased to 48.5 pence in 1999 from 42.0 pence in 1998. Adjusted earnings exclude the profits or losses on the sale of fixed assets and investments, businesses and associates, Year 2000 compliance costs, integration costs in respect of the Simon & Schuster acquisition and goodwill amortization. Adjusted earnings before internet enterprises per ordinary share increased to 53.3 pence in 1999 from 42.0 pence in 1998. Adjusted earnings before internet enterprises excludes the above-mentioned items and also excludes the losses arising on internet enterprises. Diluted earnings per ordinary share decreased to 47.5 pence in 1999 from 73.3 pence in 1998 primarily due to the decrease in profits on the sale of fixed assets, investments, businesses and associates. Earnings dilution included the tax benefit on the conversion of certain share options by employees and, after taking into account the effect of dilutive share options, the weighted average number of ordinary shares applicable was 617.2 million in 1999 and 594.9 million in 1998.

Operating Profit by Division

The following table summarizes our operating profit by division:

	Operating profit before internet enterprises, goodwill amortization and other items				Operating profit after internet enterprises, goodwill amortization and other items			
	Year ended December 31,				Year ended December 31,			
	1999		1998		1999		1998	
	£m	%	£m	%	£m	%	£m	%
Pearson Education	257	48	99	30	36	13	(34)	(18)
FT Group	150	28	118	36	103	38	114	61
The Penguin Group	65	12	48	15	64	24	46	24
Pearson Television	68	12	61	19	67	25	61	33
Continuing Operations	540	100	326	100	270	100	187	100

Pearson Education

Pearson Education's sales increased by £1,023 million, or 146%, to £1,725 million in 1999 from £702 million in 1998, principally due to the Simon & Schuster acquisition in November 1998, resulting in a full year of its operations being included in 1999 as opposed to just one month in 1998. Pearson Education's 1999 sales comprised 52% of our total sales.

Pearson Education realizes approximately two-thirds of its sales and all of its profits in the second half of the year when it makes the majority of its sales.

Operating profit before internet enterprises, goodwill amortization and other items increased by £158 million, or 160%, to £257 million in 1999, from £99 million in 1998. This increase in operating profit was primarily due to the Simon & Schuster acquisition in November 1998.

Pearson Education was formed in November 1998 through the combination of the businesses acquired from Simon & Schuster and Addison Wesley Longman, our existing education business. As the two businesses have been integrated, it is not possible to separate out the impact of the businesses acquired from Simon & Schuster during 1999. As such, unaudited pro forma sales numbers for the combined business have been compiled for 1998 by Pearson management to assist in a meaningful comparison of the results of operations at Pearson Education.

The US Schools business increased sales by £49 million, or 9%, to £586 million in 1999, from pro forma sales of £537 million in 1998. This increase in sales was primarily due to a gain in market share by the math and social studies programs during 1999.

The US Higher Education and Professional Publishing business increased sales by £73 million, or 12%, to £666 million in 1999, from pro forma sales of £593 million in 1998. This increase in sales was primarily due to increases in the college publishing operations and the professional and technology publishing group as demand increased in the technology and e-commerce areas.

Sales in the International business increased by £23 million, or 5%, to £446 million in 1999, from pro forma sales of £423 million in 1998. This increase in sales was primarily due to the strengthening of the international distribution and marketing networks and the expansion of the English language teaching business.

FT Knowledge, a newly formed management education business, had 1999 sales of £19 million.

FT Group

Sales in the FT Group increased by £4 million, or 1%, to £687 million in 1999, from £683 million in 1998. Operating profit before internet enterprises, goodwill amortization and other items increased by £32 million, or 27%, to £150 million in 1999, from £118 million in 1998, primarily due to increased operating profit at the *Financial Times*, FT Interactive Data and Les Echos Group.

Operating profit before internet enterprises, goodwill amortization and other items at the *Financial Times* newspaper increased by £14 million, or 33%, to £56 million in 1999, from £42 million in 1998. This increase in operating profit was partly attributable to an increase in circulation levels. The average daily circulation in December 1999 was 14% higher than the equivalent period in 1998. This increase was also partly attributable to advertising revenues, which increased by 19% in 1999.

Operating profit before internet enterprises, goodwill amortization and other items at FT Interactive Data, excluding the operating profits of the businesses sold during 1999, increased by £9 million, or 41%, to £31 million in 1999, from £22 million in 1998. This increase in operating profit was primarily due to growth in the level of subscriptions and volume-related business.

Operating profit before internet enterprises, goodwill amortization and other items at Les Echos Group, excluding the operating profits of its medical division which was sold during 1999, increased by £8 million, or 80%, to £18 million in 1999, from £10 million in 1998. This increase in operating profit was partly attributable to a 7% increase in circulation at the newspaper, and partly attributable to a 41% increase in advertising revenues at the newspaper in 1999.

Operating profit at Recolétos increased by £4 million, or 13%, to £34 million in 1999, from £30 million in 1998. This increase in operating profit was primarily due to a 20% increase in advertising revenues at *Marca* in 1999.

Operating profit from associates within the FT Group decreased by £3 million, or 20%, to £12 million in 1999, from £15 million in 1998. This decrease in operating profit was primarily due to the start-up costs of *Financial Times Deutschland*.

The Penguin Group

Sales at the Penguin Group increased by £42 million, or 8%, to £565 million in 1999, from £523 million in 1998. Operating profit before internet enterprises, goodwill amortization and other items increased by £17 million, or 35%, to £65 million in 1999, from £48 million in 1998. This increase in operating profit was primarily due to a number of new and established authors reaching the best-seller lists in both the UK and the US.

As a percentage of sales, operating profit before internet enterprises, goodwill amortization and other items increased to 11.5% in 1999, from 9.2% in 1998, due to cost savings from the steps taken in 1998 to rationalize the US warehousing and distribution systems and the integration of the UK children's division.

Pearson Television

Sales at Pearson Television increased by £12 million, or 3%, to £355 million in 1999, from £343 million in 1998. Operating profit before internet enterprises, goodwill amortization and other items increased by £7 million, or 11%, to £68 million in 1999, from £61 million in 1998.

On July 25, 2000, we merged Pearson Television into the RTL Group. We will account for our interest in the combined entity as an associate, rather than a subsidiary as is presently the case, and hence only our share of profit before interest, interest and taxation of the combined entity will be consolidated. For more information on this merger, please refer to ''Business—Operating Divisions—Pearson Television''.

Internet Enterprises

Sales in our internet enterprises, principally those of the FT Group, were £7 million in 1999. Operating losses were £39 million, of which £36 million was incurred by the internet enterprises of the FT Group and £3 million was incurred by the internet enterprises of Pearson Education. We expect Pearson Education's internet enterprises to account for a higher percentage of these operating losses in the future as we increase our investment in the internet enterprises of Pearson Education. Internet enterprises were not significant prior to 1999 and, as a result, comparisons to the results of prior periods are not meaningful. We expect our internet enterprises to incur significant operating losses in the foreseeable future as we continue to invest in them. While we cannot predict the magnitude of these operating losses with any specificity, our continued investment in our internet enterprises will result in a reduction in our consolidated operating profit.

Discontinued Operations

In March 2000, we completed the sale of our interests in the Lazard Houses group of investment banks to Financière et Industrielle Gaz et Eaux S.A. for £410 million. In addition to this stated purchase price, we received a £26 million dividend. If there is an initial public offering or sale of the Lazard Houses at any time prior to September 30, 2001, we will receive 50% of any net gains realized by Gaz et Eaux within two years of that event. The Lazard Houses provide corporate finance advice and, to a lesser extent, participate in fee-earning business activities, such as fund management and securities trading. In 1999, our interests in the Lazard Houses produced an operating profit of £48 million.

Year ended December 31, 1998 compared to year ended December 31, 1997

Consolidated

Sales. Total sales increased by £102 million, or 4%, to £2,395 million in 1998, from £2,293 million in 1997. Sales from continuing operations increased by £240 million, or 12%, to £2,251 million in 1998, from £2,011 million in 1997. This increase in sales from continuing operations was primarily due to increased sales at Pearson Education and Pearson Television. Sales at Pearson Education increased by £139 million, or 25%, to £702 million in 1998, from £563 million in 1997, primarily due to the Simon & Schuster acquisition in November 1998, which contributed £120 million to total sales in 1998. Sales at Pearson Television increased by £96 million, or 39%, to £343 million in 1998, from £247 million in 1997, due primarily to the acquisition of All American Communications in November 1997, which contributed approximately £120 million to total sales in 1998. Sales from discontinued operations amounted to £144 million in 1998 and £282 million in 1997.

Pearson Education was the largest business sector by sales in 1998. Sales at Pearson Education accounted for 31% of sales from continuing operations in 1998, compared to 28% in

1997. North America was the most significant geographic source of sales, accounting for 48% of sales from continuing operations in 1998, compared to 46% in 1997.

Operating Profit. Total operating profit decreased by £78 million, or 24%, to £250 million in 1998, from £328 million in 1997. However, operating profit before goodwill amortization and other items increased by £61 million, or 19%, to £389 million in 1998, from £328 million in 1997. This increase was largely due to increased profit at Pearson Education and Pearson Television.

- Operating profit before goodwill amortization and other items attributable to Pearson Education increased by £39 million, or 65%, due mainly to the November 1998 Simon & Schuster acquisition, which contributed operating profit before goodwill amortization and other items of £22 million in 1998.
- Operating profit before goodwill amortization and other items attributable to Pearson Television increased by £35 million, or 135%, to £61 million in 1998, from £26 million in 1997, primarily due to the acquisition of All American Communications in November 1997, which contributed operating profit of £21 million in 1998.

Exchange Rate Fluctuations. The strengthening of sterling against the US dollar on an average basis had a detrimental impact on reported sales and profits in 1998 compared to 1997. We estimate that if the 1997 average rates had prevailed in 1998, then sales would have been higher by £45 million and operating profit higher by £6 million.

Cost of Sales and Net Operating Expenses

The following table summarizes our cost of sales and net operating expenses.

	1998		1997	
	Continuing	**Total**	**Continuing**	**Total**
	£m	**£m**	**£m**	**£m**
Cost of Sales	(1,138)	(1,176)	(1,003)	(1,114)
Distribution costs	(168)	(169)	(123)	(126)
Administration and other expenses	(848)	(933)	(701)	(844)
Other operating income	79	82	68	72
Net operating expenses	(937)	(1,020)	(756)	(898)
Analyzed as:				
Net operating expenses—before exceptional items and goodwill amortization	(854)	(937)	(726)	(864)
Net operating expenses—exceptional items	(71)	(71)	(30)	(34)
Net operating expenses—goodwill amortization	(12)	(12)	—	—
Net operating expenses	(937)	(1,020)	(756)	(898)

Cost of Sales. Cost of sales from continuing operations increased by £135 million, or 13%, to £1,138 million in 1998 from £1,003 million in 1997, primarily due to the acquisition of Simon & Schuster.

Distribution Costs. Distribution costs from continuing operations, primarily shipping costs, postage and packing, increased by £45 million, or 37%, to £168 million in 1998, from £123 million in 1997. Distribution costs as a percentage of sales increased to 7.5%, from 6.1%, primarily due to the Simon & Schuster acquisition.

Administration and Other Expenses. Administration and other expenses from continuing operations increased by £147 million, or 21%, to £848 million in 1998, from £701 million in 1997. As a percentage of sales, administration and other expenses increased to 37.7% in 1998, from 34.9% in 1997. In 1998, administration and other expenses included an exceptional charge of £71 million in respect of the integration of the businesses acquired from Simon & Schuster and goodwill amortization of £12 million, £10 million of which related to the Simon & Schuster acquisition. In 1997, administration and other expenses included an exceptional charge of £30 million attributed to restructuring charges of £14 million at FT Group, £12 million at Pearson Education and £4 million at Pearson Television. Excluding exceptional charges and goodwill amortization, administration and other expenses for 1998 were 34.0% of sales from continuing operations compared to 33.4% in 1997.

Other Operating Income. Other operating income from continuing operations increased by £11 million, or 16%, to £79 million in 1998, from £68 million in 1997, due to increases in each of the four operating divisions.

Change in Accounting Standard. In 1998, we implemented UK Accounting Standard FRS10 ''Goodwill and Intangible Assets'' with effect from January 1, 1998. This Standard required that purchased goodwill be shown as an asset on the balance sheet and amortized over its useful economic life, presumed to be not greater than 20 years, unless shown otherwise. The amortization charge is taken through the profit and loss account and is shown as a deduction from operating profit. Our goodwill amortization has been excluded from adjusted earnings to show results on a comparable basis. Goodwill amortization in 1998 was £12 million, primarily due to the Simon & Schuster acquisition in November 1998.

Other items. Other items were £127 million in 1998. There were no other items in 1997. Other items comprises a charge of £120 million in respect of the integration of the businesses acquired from Simon & Schuster and a charge of £7 million in respect of Year 2000 compliance costs.

Non-operating Items. Profit before taxation on the sale of fixed assets, investments, businesses and associates amounted to £407 million in 1998, compared with a loss before taxation of £156 million in 1997. Taxation on these items was £103 million in 1998 and £5 million in 1997. In 1998, the most significant items were a profit of £133 million on the sale of our 6.3% shareholding in Société Européene des Satellites, a profit of £61 million on the sale of our Law & Tax publishing business, and a profit of £157 million on the sale of The Tussauds Group, our visitor attractions business. The primary source of the loss recorded in 1997 was the write-down of £212 million against the goodwill acquired in the acquisition of Mindscape Inc. in 1995. The write-down was taken to reflect its realizable value.

Interest. Total net interest payable fell to £39 million in 1998, from £42 million in 1997. This decrease was primarily due to the decrease in net debt over the first ten months of 1998 from £707 million to net cash of £418 million at the end of October 1998 and the decrease in floating interest rates in sterling from 7.6% to 6.4% and in US dollars from 5.7% to 5.2% during the last four months of 1998. However, for the year as a whole, floating interest rates were slightly higher in 1998 than in 1997 in sterling and virtually unchanged in US dollars. The acquisition of Simon & Schuster at the end of November increased net debt by £2,868 million to £2,279 million at December 31, 1998 and added approximately £12 million to the 1998 interest charge.

Taxation. The taxation charge was £188 million in 1998, compared to £89 million in 1997, primarily due to tax on the sale of fixed assets, investments, businesses and associates which amounted to £103 million in 1998 and £5 million in 1997. Taxation was 29.9% of profit before taxation in 1998, compared to 68.9% in 1997. Although only limited taxation relief has been recognized on the integration costs of the Simon & Schuster acquisition in 1998, the effect of this limitation was largely offset by the fact that, as in 1997, the tax rate on profits on the disposal of businesses and investments was partially offset by losses brought forward. The 1997 rate was abnormally high as there was no current taxation relief for the charge of £212 million in respect of the write-down of Mindscape Inc. goodwill described above. Excluding this amount, the effective rate in 1997 would have been 26% of profit before taxation.

The taxation rate on adjusted earnings fell to 28% in 1998, from 29.4% in 1997. As in 1997, the availability of taxation losses in the US meant that no significant taxation was assessed on our profits arising there. This factor alone accounted for 2.7% of the difference between the UK statutory rate of 31% and the effective rate of 28% in 1998 on adjusted earnings. The 1998 taxation rate on adjusted earnings also benefited from the release of some provisions for earlier year's taxation following settlement of the liability for those years, and this factor effectively offset the effect of disallowed expenses and our exposure to higher taxation rates in countries other than the UK and US.

Profit. Profit for the financial year increased to £437 million in 1998, from £38 million in 1997, primarily due to the increase in profits on the sale of fixed assets, investments, businesses and associates.

Earnings per Ordinary Share. Earnings per ordinary share, which reflect earnings divided by the weighted average number of shares in issue, increased to 74.1 pence in 1998, from 6.6 pence in 1997, based on a weighted average number of shares of 589.8 million in 1998 and 572.8 million in 1997. This increase was primarily due to the increase in profits on the sale of fixed assets, investments, businesses and associates. Adjusted earnings per ordinary share increased to 42.0 pence in 1998 from 34.9 pence in 1997. Adjusted earnings exclude profits or losses on the sale of fixed assets and investments, businesses and associates, Year 2000 compliance costs, integration costs related to the Simon & Schuster acquisition and goodwill amortization. Diluted earnings per ordinary share increased to 73.3 pence in 1998, from 6.4 pence in 1997, primarily due to the increase in profits on the sale of fixed assets, investments, businesses and associates. Earnings dilution included the tax benefit on the conversion of some share options by employees and, after taking into account the effect of dilutive share options, the diluted weighted average number of ordinary shares was 594.9 million in 1998 and 577.5 million in 1997.

Operating Profit by Division

The following table summarizes our operating profit by division.

	Operating profit before goodwill amortization and other items				Operating profit after goodwill amortization and other items			
	Year ended December 31				Year ended December 31			
	1998		1997		1998		1997	
	£m	%	£m	%	£m	%	£m	%
Pearson Education	99	30	60	24	(34)	(18)	60	24
FT Group	118	36	108	43	114	61	108	43
The Penguin Group	48	15	58	23	46	24	58	23
Pearson Television	61	19	26	10	61	33	26	10
Continuing Operations	326	100	252	100	187	100	252	100

Pearson Education

Pearson Education's sales increased by £139 million, or 25%, to £702 million in 1998, from £563 million in 1997. This increase was primarily due to the Simon & Schuster acquisition in November 1998, which contributed sales of £120 million in 1998. Excluding the impact of the Simon & Schuster acquisition, 1998 sales increased by £19 million, or 3%, compared to 1997.

Operating profit before goodwill amortization and other items increased by £39 million, or 65%, to £99 million in 1998 from £60 million in 1997, with the businesses acquired from Simon & Schuster contributing £22 million of the increase. Excluding the impact of the Simon & Schuster acquisition, 1998 operating profit increased by £17 million, or 28%, compared to 1997, attributable to a worldwide restructuring program and cost control measures. Operating profit in 1997 was reduced by restructuring costs of £12 million due to our new management team's initiative to restructure the worldwide financial, managerial and sales organization.

Sales at the US Schools division increased by £32 million, or 17%, to £218 million in 1998, from £186 million in 1997, primarily as a result of the adoption by many southern states of Addison Wesley Longman's new math program. 1998 was the first year of major new math adoptions from kindergarten up to eighth grade in a number of the southern states of the US. In addition, the US Schools business gained market shares in new biology and foreign language programs.

Sales in the US Higher Education and Professional Publishing division remained the same at £153 million in both 1998 and 1997.

Sales in the International division declined by £4 million, or 2%, to £209 million in 1998, from £213 million in 1997. The most significant cause of the decline in sales was the impact of general economic uncertainties in Asia and Latin America, which particularly affected the English language training business in Asia.

FT Group

Sales in the FT Group increased by £7 million, or 1%, to £683 million in 1998, from £676 million in 1997. Operating profit before internet enterprises and other items increased by £10 million, or 9%, to £118 million in 1998, from £108 million in 1997, primarily due to increased operating profit at the *Financial Times* newspaper.

Operating profit before goodwill amortization and other items at the *Financial Times* newspaper increased by £7 million, or 20%, to £42 million in 1998, from £35 million in 1997, partly due to an increase in circulation levels. The average daily circulation in December 1998 was 12.6% higher than in December 1997. The increase in operating profit was also partly attributable to a 17% increase in advertising revenues in 1998. In 1998, the strategy of investing in new print sites continued with sites opening in Milan and Chicago. This investment strategy, which started in 1996, is designed to increase circulation and advertising revenues in markets outside the United Kingdom through timely delivery of editions tailored to the particular geographic region or country.

Operating profit before goodwill amortization and other items at FT Interactive Data and FT Business remained at £19 million for both 1997 and 1998. However, during 1998 we sold a number of businesses, including the Law & Tax publishing business and the Register group. Excluding the operating losses of the businesses which were sold, operating profit increased by £5 million, or 26%, to £24 million in 1998, from £19 million in 1997.

Operating profit before goodwill amortization and other items at Les Echos Group increased by £3 million, or 33%, to £12 million in 1998, from £9 million in 1997, primarily due an increase in sales at the newspaper. In 1998, average annual circulation increased by 4% and advertising revenues increased by 20%.

Operating profit at Recolétos, however, was £30 million for both years due to significant investments made in 1998 in new products and services and in improving the sports newspaper, *Marca*. *Marca's* annual average circulation fell by 9% in 1998, due to increasing competition from other daily sports newspapers. *Expansión*, the financial and business publication, increased its average daily circulation by 22%. *Expansión's* advertising revenues increased by 25% in 1998.

Operating profit before goodwill amortization and other items from associates within the FT Group remained at £15 million in both 1997 and 1998 with The Economist Group contributing almost all of the reported operating profit.

The Penguin Group

Sales at the Penguin Group declined by £2 million, or 0.4%, to £523 million in 1998, from £525 million in 1997. Operating profit before goodwill amortization and other items decreased by £10 million, or 17.2%, to £48 million in 1998, from £58 million in 1997. Operating profit was reduced in 1998 by restructuring costs incurred as a result of the integration of Ladybird Books into the children's book group and the loss of income from Troll, the children's book publisher, which was sold in mid-1997.

Excluding the above factors and portfolio and exchange rate changes, operating profit before goodwill amortization and other items increased by £3 million, or 6%, to £52 million in 1998, from £49 million in 1997, primarily due to increased frontlist trading in Penguin UK's general division. The growth was also attributable to increased trading in the children's book group, due in part to increased UK government funding for children's publishing.

Pearson Television

Sales at Pearson Television increased by £96 million, or 39%, to £343 million in 1998, from £247 million in 1997, principally due to the acquisition of All American Communications at the end of 1997. Operating profit before goodwill amortization and other items, excluding Pearson's share of Channel 5 losses and excluding income from its investment in BSB Holdings Ltd., increased by £25 million, or 54%, to £71 million in 1998, from £46 million in 1997, principally due to the acquisition of All American Communications at the end of 1997.

Discontinued Operations

In 1998, we sold our consumer software business, Mindscape Inc., for £91 million, giving rise to a loss of £11 million. In 1997, Mindscape Inc. contributed sales of £84 million and profits of £2 million. Also in 1998, we sold our visitor attractions business, The Tussauds Group, for £352 million, giving rise to a profit of £157 million, and our consumer magazines business, Pearson New Entertainment, for £125 million, giving rise to a profit of £41 million. In 1997, The Tussauds Group contributed sales of £107 million and profits of £22 million, and Pearson New Entertainment contributed sales of £91 million and profits of £6 million. We treated the sales and operating profits of these businesses as ''discontinued'' in our consolidated financial statements in 1998. The profit or loss on the sale of these businesses was treated as an exceptional item and has been included in consolidated profit before interest, but excluded from consolidated operating profit.

Liquidity and Capital Resources

Cash flows and financing during the six months ended June 30, 2000

Net cash outflow from operating activities was £200 million in the six months ended June 30, 2000, compared to £52 million in the six months ended June 30, 1999. The main reason for this increase in cash outflow was an increase in the cash required for operations due to a £137 million increase in inventory levels, including £132 million at Pearson Education where we have taken advantage of early order programs offered at major US printers. We generally made capital expenditures to replace or upgrade existing equipment, but our 2000 capital expenditures also included the costs associated with a warehousing integration program at Pearson Education. Capital expenditures increased by £24 million, or 59%, to £65 million in the six months ended June 30, 2000, compared to £41 million in the six months ended June 30, 1999. Depreciation increased by £3 million, or 7%, to £44 million in the six months ended June 30, 2000, compared to £41 million in the six months ended June 30, 1999. Net cash used in our internet enterprises was £88 million in the six months ended June 30, 2000, compared to £4 million in the six months ended June 30, 1999, and was used for marketing, editorial, technical and other operating expenses.

The sale of investments provided cash inflow of £3 million in the six months ended June 30, 2000, compared to £108 million in the six months ended June 30, 1999 which included £80 million from the sale of several of the businesses acquired from Simon & Schuster.

The acquisition of businesses accounted for a cash outflow of £482 million in the six months ended June 30, 2000, compared to £17 million in the six months ended June 30, 1999. The principal acquisition was the purchase of DK for £310 million. The sale of associates contributed a cash inflow of £394 million in the six months ended June 30, 2000, compared to £12 million in the six months ended June 30, 1999. The primary source of cash inflow from the sale of associates in the six months ended June 30, 2000, was the £392 million net proceeds from the disposal of the Lazard Houses.

Interest paid increased to £105 million in the six months ended June 30, 2000, compared to £98 million in the six months ended June 30, 1999.

Cash flows and financing during 1999

Net cash inflow from operating activities increased 8% to £433 million in 1999, from £402 million in 1998. The main reason for this increase was an increase in operating profit of £187 million, before goodwill amortization, which was partly offset by an increase in cash required for operations due to increased inventory levels. Inventory levels increased in 1999 in anticipation of increased sales levels, primarily at Pearson Education. We generally made capital expenditures to replace or upgrade existing equipment, but our 1999 capital expenditures also included the acquisition of a new printing press at Recolétos and the costs associated with warehousing integration programs at Pearson Education and the Penguin Group. Capital expenditures decreased by £23 million, or 18%, to £102 million in 1999, from £125 million in 1998. Depreciation increased by £16 million, or 24%, to £82 million in 1999, from £66 million in 1998. Net cash used in our internet enterprises was £32 million in 1999 and was used for marketing, editorial, technical and other operating expenses. We expect this to increase in future periods as we continue to invest in our internet enterprises.

The sale of investments provided cash inflow of £624 million in 1999, compared to £199 million in 1998. Of this cash inflow, we received £438 million from the sale of our interest in BSB Holdings Ltd. and £184 million from the sale of several of the businesses acquired from Simon & Schuster.

The acquisition of businesses accounted for a cash outflow of £249 million in 1999, compared to £2,936 million in 1998. The principal acquisitions in 1999 were the purchase of Thomson Financial Securities Management for £93 million and the purchase of 23.2% of Recolétos for £136 million, and the principal acquisition in 1998 was the Simon & Schuster acquisition. The sale of businesses contributed a cash inflow of £44 million in 1999, compared to £718 million in 1998. The primary sources of cash inflow from the sale of businesses in 1999 were disposal of our Extel research products business for £18 million and the disposal of the medical division of Les Echos

Group for £19 million. The primary sources of cash from the sale of businesses in 1998 were the £91 million disposal of Mindscape Inc., the £125 million disposal of Pearson New Entertainment and the £352 million disposal of The Tussauds Group.

Interest paid increased to £182 million in 1999, from £88 million in 1998, primarily due to the higher level of debt during 1999.

Cash flows and financing during 1998

Net cash inflow from operating activities increased 97% to £402 million in 1998, from £204 million in 1997. This increase resulted primarily due to decreased inventory of £39 million, decreased operating receivables of £77 million and increased operating payables of £117 million. Capital expenditures increased by £15 million, or 14%, to £125 million in 1998, from £110 million in 1997. Depreciation increased by £1 million, or 1.5%, to £66 million in 1998, from £65 million in 1997. Capital expenditures were, in general, related to replacements and upgrades to existing equipment, the acquisition of a new printing press at Recolétos and costs associated with a warehousing integration program at the Penguin Group.

The sale of investments in 1998 provided an increase of £51 million, or 34%, to cash inflow to £199 million in 1998, from £148 million in 1997. Of this cash inflow, we received £160 million from the sale of our 6.3% shareholding in Société Européenne des Satellites and £28 million from the sale of our 2.7% shareholding in Flextech plc in 1998. In 1997, we received £111 million from the sale of our 10% shareholding in Television Broadcasts Limited.

The acquisition of businesses accounted for a cash outflow of £2,936 million in 1998 and £269 million in 1997. Our principal acquisition in 1998 was Simon & Schuster's education, business and professional and reference publishing divisions for £2,868 million. In 1997, our principal acquisition was All American Communications for £247 million. The sale of businesses contributed a cash inflow of £718 million in 1998 and £54 million in 1997. The primary sources of cash from the sale of businesses in 1998 were the disposal of Mindscape Inc. for £91 million, Pearson New Entertainment for £125 million and The Tussauds Group for £352 million. In 1997, cash inflow from the sale of businesses resulted from the disposal of Churchill Communications for £57 million.

NCS Acquisition

We have agreed to purchase all of the outstanding capital stock of NCS for approximately $2.5 billion. We intend to finance this acquisition with the proceeds of the rights offering. However, our acquisition of NCS is not conditioned upon the full subscription of the rights offering. To the extent the rights offering is not fully subscribed, we may be required to borrow under our credit facility a portion of the funds required to complete the acquisition.

Capital Resources

We believe our working capital is sufficient to meet our current requirements. At June 30, 2000, our net debt was £2,544 million compared to net debt of £2,540 million at June 30, 1999. Net debt is defined as all short-term, medium-term and long-term borrowing, less all cash and liquid resources. Liquid resources comprise short-term deposits of less than one year and investments that are readily realizable and held on a short-term basis. Short-term, medium-term and long-term borrowing amounted to £2,913 million at June 30, 2000, compared to £2,891 million at June 30, 1999. At June 30, 2000, cash and liquid resources were £369 million, compared to £351 million at June 30, 1999.

Borrowings

Our borrowings fluctuate by season due to the effect of the school year on the working capital requirements of the educational book business. Assuming no acquisitions or disposals, our maximum level of net debt normally occurs in July, and our minimum level of net debt normally occurs in December.

In July 2000, we negotiated a $2.5 billion credit facility with a group of international banks. The credit facility refinanced all existing committed bank debt. The credit facility is a term revolving credit facility which matures in July 2005. As of the date of this prospectus approximately $670 million is available under this facility. The credit facility contains two key covenants measured for each 12 month period ending June 30 and December 31:

- We must maintain the ratio of our profit before interest and tax to our interest payable at no less than 3:1; and
- We must maintain the ratio of our net debt to our EBITDA at no more than 4:1.

The covenants provide for the exclusion from the ratio calculations of specified amounts of internet-related expenditures. We are currently in compliance with these covenants.

Treasury Policy

We hold financial instruments for two principal purposes: to finance our operations and to manage the interest rate and currency risks arising from our operations and from our sources of financing.

We finance our 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. We borrow principally in US dollars, sterling and euro 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. For a more detailed discussion of our borrowing and use of derivatives, see ''—Quantitative and Qualitative Disclosures about Market Risk''.

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 us.

Accounting Principles

The following summarizes the principal differences between UK GAAP and US GAAP in respect of our financial statements. See Note 34 to our consolidated financial statements appearing elsewhere in this prospectus.

Prior to January 1, 1998, under UK GAAP, goodwill was written off to the profit and loss reserve in the year of acquisition. Under US GAAP, as well as UK GAAP from January 1, 1998, goodwill is recognized as an asset, and amortization expense is recorded over useful lives ranging between 5 and 20 years. Intangible assets under UK GAAP are recognized only when they may be disposed of without also disposing of the business to which they relate, and for that reason it is rare that intangible assets are separately identified and recorded apart from goodwill. Under US GAAP, there is no similar requirement with respect to intangible assets, and they should be recognized separately from goodwill when they are separately identifiable and measurable. Under US GAAP, intangible assets such as publishing rights, television production and distribution rights, non-compete agreements, software, databases and advertising relationships have been recognized and are being amortized over a range of useful lives between two and 16 years. The difference in goodwill and intangible assets also creates a difference in the gain or loss recognized on the disposal of a business due to amortization expense taken with respect to the goodwill and intangible assets, as UK GAAP requires that goodwill be removed from the profit and loss reserve upon disposal and factored into the gain or loss on disposal calculation.

Under UK GAAP, the liability method is used in recording deferred taxation, and consideration is given to whether or not the liability will be realized within the foreseeable future. This can result in the full potential liability not being recognized. Deferred tax assets are rarely recognized under UK GAAP. Under US GAAP, the full provision method is used, meaning that all deferred tax assets and liabilities are recorded. An assessment is then made with respect to whether the deferred tax assets are realizable, and a determination is made as to whether a valuation allowance is necessary with respect to the deferred tax assets. The principal differences we recognize relate to deferred tax assets in the United States.

Acquisition adjustments have arisen with respect to the Pearson Education acquisition of Simon & Schuster during 1998. Under US GAAP, the criteria necessary for recognizing some restructuring costs in acquisition accounting for the Simon & Schuster acquisition have been met, and a provision for these costs has been included in the purchase price allocation. Under UK GAAP, these types of restructuring costs are recorded as period costs when incurred and may not be included in the allocation of the purchase price.

Under UK GAAP, there are no specific criteria which must be fulfilled in order to record derivative contracts such as interest rate swaps, currency swaps and forward currency contracts as a hedging instrument. Accordingly, based upon our intention and stated policy with respect to entering into derivative transactions, they have been recorded as hedging instruments for UK GAAP. This means that unrealized gains and losses on these instruments are typically deferred and recognized when realized. Under US GAAP, our derivative contracts do not meet the prescriptive criteria for hedge accounting, and are recorded at market value at each period end, with changes in their fair value being recorded currently in the profit and loss account.

Under UK GAAP, the cost of providing pension benefits is expensed over the average expected useful service lives of eligible employees, using long-term actuarial assumptions. Under US GAAP, the annual pension costs comprise the estimated cost of benefits accruing in the period, and actuarial assumptions are adjusted annually to reflect current market and economic conditions. Additionally, under US GAAP, part of the surplus, which is the excess of plan assets over plan liabilities, is recognized on the balance sheet. The remainder of the unrecognized surplus is spread over the employees' remaining service lifetimes.

Under UK GAAP, no compensation costs associated with non-qualified stock option plans are recognized if the value of the option at the date of grant is equal to or greater than the market value on that date. Under US GAAP, we have adopted the fair value method of accounting for options. Compensation expense is determined based upon the fair value at the grant date, and has been estimated using the Black Scholes model. Compensation cost is recognized over the service life of the awards, which is normally equal to the vesting period. Compensation expense is also recognized under US GAAP with respect to UK qualified non-compensatory plans, such as the Save as You Earn option plan and the Worldwide Save for Shares plan, as these plans offer employees a discount of greater than 15% from market value.

For a further explanation of the differences between UK GAAP and US GAAP, see Note 34 to the consolidated financial statements.

Year 2000

We did not experience any significant Year 2000 related disruptions. We successfully implemented a comprehensive Year 2000 compliance program that included assessment, testing, remediation, and contingency planning in the areas of critical business computer systems and critical plant floor equipment.

We estimate that our total Year 2000 compliance costs were approximately £19 million, which represents the cost of remedial work required to make all of our systems Year 2000 compliant. It does not include the cost of upgrades or hardware replacement, which has been capitalized.

Quantitative and Qualitative Disclosures about Market Risk

Introduction

Our principal market risks are changes in interest rates and currency exchange rates. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage our risk exposure. For this purpose, we primarily use interest rate swaps, interest rate caps and collars, forward rate agreements, currency swaps and forward foreign exchange contracts. Managing market risks are the responsibility of the group financial director who acts pursuant to policies approved by our board of directors. A treasury committee of the board receives regular reports on our treasury activities, which our outside advisers also review periodically.

We have a policy of not undertaking any speculative transactions, and we hold the derivative and other financial instruments for purposes other than trading.

We have formulated our policies for hedging exposures to interest rate and foreign exchange risk, and have used derivatives without regard to existing or future US GAAP requirements on hedge accounting. We are satisfied that the present policies achieve our objectives, and that the near equivalence between the carrying book value and fair value of our financial liabilities and derivative contracts confirms this. However, our existing derivative contracts do not qualify for hedge accounting under US GAAP.

The following discussion and tables address market risk only and do not present other risks that we face in the normal course of business, including country risk, credit risk and legal risk.

Interest Rates

Our financial exposures to interest rates arise primarily from our borrowings, particularly those in US dollars. We manage our exposure by borrowing at fixed and variable rates of interest, and by entering into derivative instruments. Objectives approved by our board concerning the proportion of outstanding fixed rate debt govern our use of these financial instruments.

Our objectives are applied to core net debt, which is year-end borrowings net of year-end cash and liquid funds. Those objectives are that for between 50% and 65% of current core debt, the rate of interest should be fixed or capped for the next two years, and that for between 40% and 60%, the rate of interest should be fixed or capped from two years to a date five years from the present. Within these target ranges the proportion that is hedged is triggered by a formula based on historical interest rate frequencies.

In 1998, however, our objective was to hedge at least one-third of our core sterling and US dollar net borrowings for five years. We changed our policy in recognition of increased interest rate risk due to the greater level of core net debt following the acquisition of the Simon & Schuster educational business in November 1998.

The principal method to hedge interest rate risk is to enter into an agreement to pay a fixed-rate and receive a variable rate, known as a swap. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and variable-rate amounts calculated by reference to an agreed notional principal amount. The majority of these contracts are US dollar denominated, and some of them have deferred start dates, in order to maintain the desired risk profile as other contracts mature. The variable rates received are normally based on three-month LIBOR, and the dates on which these rates are set do not exactly match those of the hedged borrowings. We believe that our portfolio of these types of swaps is an efficient hedge of our portfolio of variable rate borrowings.

In addition, from time to time we issue bonds or other capital market instruments to refinance existing bank debt. To avoid the rate unduly influencing the interest expense on a single transaction, it is our normal practice to enter into a related derivative contract effectively converting the interest rate profile of the bond transaction to that of the debt which it is refinancing. Most often this is a variable interest rate denominated in US dollars. In several cases, the bond issue was denominated in a different currency than the debt being refinanced and we have entered into a related interest rate and currency swap in order to maintain an unchanged borrowing risk profile.

The table below lists for each of the years 2000 to 2004 the notional amounts and weighted average interest rates, as of December 31, 1999, for both our borrowings and our currency and interest rate swaps.

	Maturities									
	2000	**2001**	**2002**	**2003**	**2004**	**There after**	**Total 1999**	**Fair Value 1999**	**Total 1998**	**Fair Value 1998**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowings and other financial liabilities										
Fixed rate										
US $	-	-	-	-	-	153	153	155	148	160
Average rate						7.38%	7.38%		7.38%	
Sterling	-	-	100	-	125	346	571	616	325	388
Average rate			10.75%		9.50%	8.01%	8.82%		10.19%	
Euro	-	-	-	-	341	-	341	324	-	-
Average rate					4.63%		4.63%			
Variable rate										
US $	61	155	155	817	-	-	1,188	1,188	1,718	1,718
Average rate	6.55%	7.18%	7.38%	7.45%			7.36%		5.76%	
Sterling	-	-	-	80	-	-	80	80	292	292
Average rate				7.41%			7.41%		5.90%	
Euro	-	-	-	-	-	-	-	-	159	159
Average rate									4.09%	
Other	1	-	-	-	-	-	1	1	11	11
Interest rate and currency swaps[3][4]										
Pay US $ variable/ Receive Sterling fixed	-	-	102 (100)	-	120 (125)	153 (150)	375 (375)	(13)	117 (125)	(33)
US $ variable rate[2]			6.86%		7.96%	7.33%	7.41%		6.31%	
GBP fixed rate			7.00%		10.41%	7.00%	8.13%		10.41%	
Pay US $ variable/ Receive Euros fixed	-	-	-	-	97 (93)	-	97 (93)	8	-	-
US $ variable rate[2]					7.62%		7.62%			
EUR fixed rate					4.63%		4.63%			
Interest rate swaps[3]										
US $										
Variable to fixed[1]	50	90	-	422	252	310	1,124	(32)	1,090	38
Average pay rate	5.64%	6.15%	-	6.02%	5.98%	6.36%	6.11%		6.11%	-
Average receive rate[2]	6.40%	6.75%	-	6.92%	6.96%	7.10%	6.94%		5.32%	-
Fixed to variable	-	-	-	-	-	155	155	(2)	151	(18)
Average pay rate[2]	-	-	-	-	-	7.04%	7.04%		5.37%	
Average receive rate	-	-	-	-	-	7.23%	7.23%		7.23%	
Sterling										
Variable to fixed	40	30	-	-	-	-	70	-	40	1
Average pay rate	7.16%	4.98%	-	-	-	-	6.22%		7.16%	
Average receive rate[2]	6.68%	6.68%	-	-	-	-	6.68%		5.45%	
Fixed to variable[1]	-	-	100	100	-	20	220	-	120	(6)
Average pay rate[2]	-	-	6.88%	6.45%	-	6.61%	6.66%		5.40%	
Average receive rate	-	-	6.60%	7.00%	-	7.46%	6.86%		6.74%	
Euros										
Fixed to variable	-	-	-	-	248	-	248	11	-	-
Average pay rate[2]	-	-	-	-	5.75%	-	5.75%		-	
Average receive rate	-	-	-	-	4.63%	-	4.63%		-	

(Footnotes on following page)

(1) The nominal value of US $ ''variable to fixed'' interest rate swaps includes £118 million (£491 million in 1998) of deferred start contracts that do not provide fixed rate cover on the balance sheet date. In addition, £100 million of sterling ''fixed to variable'' interest rate swaps maturing in 2003 are forward starting once the equivalent nominal value in 2002 matures.

(2) All variable rate legs of the interest rate swaps pay or receive every three months on a margin above or below three-month LIBOR. Three-month LIBOR rates at December 31, 1999 for the US dollar, euro and sterling were 6.00%, 3.34% and 6.08%, respectively. The average interest rate payable on net debt at December 31, 1999 was 6.3% and averaged 6.4% during the whole year.

(3) The ''variable to fixed'' interest rate swaps are used wholly for the hedging of our portfolio of variable rate borrowings. The ''fixed to variable'' interest rate swaps are used wholly for the conversion of capital market transactions to a floating rate basis.

(4) The currency swap converts sterling and euro to US dollars at an average of $1.61 and $1.04, respectively.

Our interest-bearing financial assets of £328 million, consisting of floating rate cash and deposits, earn interest based on relevant national equivalents to the London Interbank Depository Rate. In 1998, we held £345 million of interest-bearing financial assets. The fair value approximates to the carrying value due to their short maturity periods of less than three months.

Currency Exchange Rates

Although we are based in the UK, we have significant investments in overseas operations. The most significant currency for us is the US dollar, followed by the euro and sterling.

Our policy is to manage the currency composition of our core borrowings in US dollars, euros and sterling in order to approximate the percentages of those currencies as reflected in our forecast operating profit. We use external borrowings and currency swaps to manage this exposure. This policy aims to dampen the impact of changes in foreign exchange rates on consolidated interest cover and earnings. While long-term core borrowing is now limited to US dollars, euros and sterling, we still borrow small amounts in other currencies, typically for seasonal working capital needs.

At December 31, 1999, the percentages of aggregate net borrowings in our three core currencies were: US dollar 80%, or £1,641 million, euro 9%, or £188 million, and sterling 11%, or £224 million. Taking into account the Lazard Houses disposal and a €650 million bond issue in February 2000, on a pro forma basis the respective percentages were: US dollar 76%, euro 15% and sterling 9%. This corresponds to the 1999 forecast of operating profit by currency of US dollar 76%, euro 16% and sterling 8%.

We are also exposed to currency exchange rates in our cash transactions and our investments in overseas transactions. Cash transactions—typically for purchases, sales, interest or dividends—require cash conversions between currencies. Fluctuations in currency exchange rates affect the cash amounts that we pay or receive.

Investments in overseas operations are consolidated for accounting purposes by translating values in one currency to another currency, in particular from US dollars to sterling. Fluctuations in currency exchange rates affect the currency values recorded in our accounts, particularly those in sterling, although they do not give rise to any realized gain or loss, nor to any currency cash flows.

Forward Foreign Exchange Contracts

We use forward foreign exchange contracts where a specific major project or forecasted cash flow, including acquisitions and disposals, arises from a business decision that has used a specific foreign exchange rate. Our policy is to effect transactional conversions between currencies, for example, to collect receivables or settle payables at the relevant spot exchange rate.

Our forward exchange contracts that relate to cash flow conversion are summarized by currency below for 1999. We had no forward foreign exchange contracts in 1998. The receive euros/pay sterling contracts have a weighted average maturity of nine months. These contracts match exactly the forecast cash flows for start-up costs on *Financial Times Deutschland.* All other contracts have a maturity of less than one month.

Foreign exchange contracts for cash flow conversion

	Contract Amount	Gain/(Loss)
	£m	**£m**
Receive euros / Pay sterling[(1)(4)]	£10	
Average contractual exchange rate	£0.65	£(0.3)
Receive US dollars / Pay sterling[(2)(3)(4)]	£279	£1
Average contractual exchange rate	$1.62	

(1) The receive euros/pay sterling contracts have a weighted average maturity of nine months. These contracts match exactly the forecast cash flows for start-up costs on *Financial Times Deutschland.*
(2) All other contracts have a maturity of less than one month.
(3) The £279 million of receive US dollars/pay sterling contracts relates to the announced disposal of Lazard banking houses that closed on March 3, 2000 for £410 million. In addition to the purchase price, we received a £26 million dividend.
(4) There were no material outstanding contracts of this nature in 1998.

We seek to offset purchases and sales in the same currency, even if they do not occur simultaneously. In addition, our debt and cash portfolios management gives rise to temporary currency shortfalls and surpluses. Both of these activities require us to use short-dated swaps between currencies. The table below summarizes our 1999 position by currency pair. We had no outstanding contracts of that type in 1998.

Foreign exchange contracts due to timing differences

	Contract Amount	Gain/(Loss)
	£m	**£m**
Receive US dollars / Pay euros[(1)(2)]	£47	-
Average contractual exchange rate	$1.01	

(1) These contracts, with a maturity of less than one month, transferred US dollar cash balances into euros in order to partially fund the purchase of a further 20% stake in Recolétos.
(2) There were no outstanding contracts of this nature in 1998.

Although we prepare our consolidated accounts in sterling, we have invested significant sums in overseas assets, particularly in the US. Therefore, fluctuations in currency exchange rates, particularly between the US dollar and sterling, and also between the euro and sterling, are likely to affect shareholders' funds and other accounting values.

The introduction of the euro on January 1, 1999 allowed greater revenue and cost offsetting than previously available operating in separate currencies, therefore reducing our market rate.

BUSINESS

Introduction

Pearson is a global media company with its principal operations in the education, business information, consumer publishing and television markets. We have significant operations in the US and generate more than half our revenues from that market. On July 31, 2000, we announced an agreement to acquire NCS for a purchase price of approximately $2.5 billion. NCS is a leading testing and educational services company in the US. The combination of NCS and Pearson Education will create an integrated education company with strong market positions in curricular content, online learning, assessment, enterprise applications for US schools and professional accreditation.

We intend to finance the acquisition of NCS through the rights offering. We believe the rights offering to be the most efficient means for us to raise the necessary funds.

Pearson plc

We create and manage intellectual property, which we promote and sell to our customers under well-known brand names, to inform, educate and entertain. We deliver our content in a variety of forms and through a variety of channels, including books, newspapers, television programs and internet services.

We use online capabilities in our back office, our supply chains, our base businesses and new businesses we create. The internet is already both an integral part of each of our businesses and a facilitator of new product and distribution opportunities.

Although we seek to build businesses that are worth more together than apart because of the synergies they offer each other, our operations break down into four core areas:

- **Pearson Education** is a leading international publisher of textbooks, supplementary materials and electronic education programs for elementary and secondary school, higher education and business and professional markets. In the US, our Scott Foresman, Addison Wesley Longman, Prentice Hall and Allyn & Bacon brands have enabled us to capture significant shares in the kindergarten through 12th grade markets. Our higher education business has been pre-eminent in the US for many years. Our international education business is the global leader in the English language teaching materials market and has a major position in the textbook and educational materials market outside the US, including being the largest textbook and school program provider in a number of local markets. In addition, we are a leader in using technology to educate, including online assessment and digital courseware through the Computer Curriculum Corporation, as well as products such as the Waterford Early Reading Program and the KnowZone. Our education offerings also extend to business education, where FT Knowledge provides distance learning for the corporate and post-secondary markets and has entered into several agreements with major business schools and other educational institutions in the US and worldwide. We are currently developing the Learning Network, a vertically integrated, internet-delivered community linking parents, teachers and students with educational opportunities. On June 29, 2000, we announced the purchase of an 87% interest in FamilyEducation Network, Inc., an online network for parents, teachers and students. We are working to form strategic alliances with other internet content providers, to put in place the necessary technological infrastructure and management team for the Learning Network to develop a marketing program. We expect to launch the Learning Network in the Fall of 2000.

  NCS, which will become a part of Pearson Education upon completion of the acquisition, is the United States' largest commercial processor of student assessment tests for kindergarten through 12th grade. NCS offers a secure internet-based electronic testing delivery and reporting capacity, allowing it to participate in the professional certification market. It also provides software, services, systems applications and internet-based technologies for the collection, management and interpretation of data in education. NCS seeks to use internet-based technologies to increase its market penetration and offer additional innovative products and services to its customers in the education field.

- **The FT Group** consists of our international newspaper, print and online financial information, business magazine and professional publishing interests. Our flagship product is the *Financial Times*, known internationally for its premium editorial content and international scope. Building upon the success of the *Financial Times,* we have developed a global information portal (FT.com), an online personal finance resource (FTYourMoney.com), and a European online financial news website (FTMarketWatch.com). We have also developed a pan-European network of leading business newspapers and related online business portals, including *Financial Times Deutschland*, *Les Echos* and *Expansión,* for the German, French and Spanish-speaking markets. We own Recolétos, a Spanish media group which, in addition to *Expansión,* publishes *Marca*, the leading Spanish sports newspaper, and we hold a 50% stake in *The Economist*, an international weekly current affairs and business magazine. We also own 60% of Data Broadcasting Corporation, a supplier of electronic database services to US and UK securities professionals. Data Broadcasting Corporation has a 34% ownership interest in MarketWatch.com, whose web properties, CBS.MarketWatch.com and bigcharts.com, are among the most popular destinations for financial and market news on the web.
- **The Penguin Group** is one of the premier English language publishers in the world, with brand imprints such as Penguin, Avery, Dutton, Putnam and Viking. We publish an extensive portfolio of fiction and non-fiction, literary and commercial works from authors such as Tom Clancy, Clive Cussler, Dick Francis, Patricia Cornwell and Nick Hornby. We are one of the pre-eminent classics publishers and own or have rights to some of the most highly prized and enduring brands in children's publishing, featuring the books of Roald Dahl and such popular characters as Spot, Peter Rabbit and Madeline. We have a strong frontlist of new books by bestselling authors, and a backlist of more than 25,000 popular titles. In 1999, titles published by Penguin Putnam, as we are known in the US, spent a record 262 weeks on *The New York Times* bestseller list. Our recent acquisition of Dorling Kindersley, or DK, a leading international publisher of illustrated reference books, will add breadth to our portfolio. DK offers many products with illustrations and graphics that are particularly well-suited for online delivery, and DK has invested in converting its properties into a digital format. As a result, this acquisition also gives us many more opportunities for online rights exploitation.
- **Pearson Television** was recently merged with CLT-Ufa, the television and broadcasting business owned by Germany's Bertelsmann AG, and Belgium's Audiofina, to create the RTL Group. The combined company is an integrated pan-European company with activities in television production, online delivery and broadcasting, including the well-known RTL television stations. The RTL Group is Europe's largest radio and television broadcast company by revenue and its shares are traded on the London Stock Exchange. The terms of the merger, which closed on July 25, 2000, provide us with a 22% interest in the RTL Group, and representation on its board.

Competitive Strengths

We have achieved leading positions in our markets by capitalizing on our competitive strengths:

- **Powerful Brands**—We have made a substantial investment to develop and promote our quality brands. Our brands create customer loyalty and facilitate the use of new distribution channels and our entry into new markets.

- **Rich Content**—Each of our businesses creates and manages informative, educational and entertaining content. The quality, depth and originality of our products reinforce the strength of our brands and attract customers, partners and talented employees.
- **International Scale**—We have operations around the world and publications in English, French, Spanish, German and many other languages. Our large business presence in many local markets enables us to move rapidly to capitalize on international opportunities.
- **Attractive Customer Base**—Our products appeal to a range of customers — institutions, businesses and a broad group of consumers of all ages and interests. We have a highly educated customer base with a substantial discretionary spending capacity.
- **Proven Management Team**—Since 1997, a new management team has transformed the company into a simpler, more integrated media enterprise focused on our core businesses. Since we started this process, we have publicly set clear financial goals and consistently met or exceeded them.

Our Strategies

We focus on media businesses in growing markets and categories where we have or we can attain strong, sustainable market positions. We use our content and brands in our existing businesses and to develop new ones. We have integrated the internet into each of our businesses to enhance our customers' experiences, improve our ability to reach customers and increase the value of our content.

- **Pearson Education** constantly seeks ways to make products more attractive to teachers, students, parents and professionals. Over 1,200 of our approximately 49,000 college textbooks have interactive companion websites with online study guides to elaborate on text concepts, and chat rooms and bulletin boards to facilitate interaction between students and faculty. We continue to invest in a range of electronic learning tools to support our programs. We are also developing the Learning Network, an interactive online community of parents, students and teachers, to further expand the distribution of our content and generate new revenue streams. In addition, we are seeking to expand our international reach to benefit from our market expertise and build scale.

  Our acquisition of NCS will transform Pearson Education into an integrated education company.The combined business will be well-placed to create new market opportunities through developing customized learning in which testing and curriculum work together. The combined business will connect schools and homes, enabling parents to play a more active role in the education of their children.
- **The FT Group** aims to be the leading source of strategic information, intelligence, analysis and commentary for senior managers and institutional and individual investors around the world. We are building on the strength of our flagship brand, the *Financial Times*, to create a pan-European network of national business newspapers and websites, including *Les Echos* in France, *Expansión* in Spain and *Financial Times Deutschland* in Germany. With *The Wall Street Journal*, we have also launched *Vedomosti*, a Russian language business newspaper.

  We use the well recognized brand and premium content of the *Financial Times* to develop new websites with diverse revenue models. We continue to invest in FT.com, our leading global business information portal, to further enhance its content, include more international company and market information and add more sophisticated tools intended to increase the ''stickiness'' of the site. We have launched FTYourMoney.com to capitalize on the rapidly growing personal finance market in the UK and FTMarketWatch.com to capture the expanding market of European investors who make their investment decisions online or look to the internet for quick, market-oriented news.

- **The Penguin Group** continues to strengthen its frontlist, working globally to extend its stable of bestselling authors and identify new talent. We are digitizing our business—all of our new titles and over half of our backlist titles have been converted to an electronic digital format to enable ''printing on demand'' and ''e-book'' delivery. We are also building online communities around authors and genres to strengthen our relationship with our readers and to create new revenue streams.

  We recently acquired DK, a publisher of illustrated products such as travel and children's reference books. We believe that DK's high quality illustrated publications, many of which have been converted to a digital format permitting online delivery, will provide us access to new customers and markets, expand our product offerings and enhance our online marketing efforts.

- **Pearson Television's** recently completed merger to form the RTL Group offers Pearson Television the opportunity to take its quality content into new distribution channels that are offered by our media partners. The RTL Group will continue Pearson Television's development of online versions of television shows, such as *The Price is Right*, and the building of online communities around popular serial dramas.

We are working to capture the full synergistic potential that exists among our media businesses through the sharing of content and distribution channels. For example, FT Knowledge, our online distance learning business, results from the merger of Pearson Education's higher education textbooks and professional publishing resources with the FT Group's distance learning and management education resources. Longman Penguin Readers are simplified classics for new English speakers, combining Pearson Education's English language training resources and Penguin's classics library. Content from Penguin and the FT Group will be featured on our Learning Network.

NCS Acquisition

NCS is a leading testing and educational services company in the US. For its fiscal year ended January 29, 2000, NCS had revenues of $630 million, compared to $505 million for the prior fiscal year, and income from operations of $70 million, compared to $55 million for the prior fiscal year. At January 29, 2000, NCS had total assets of $450 million, total long-term debt of $2 million, total cash and cash equivalent of $27 million and total stockholders' equity of $276 million.

We have agreed to acquire all of the outstanding shares of NCS for approximately $2.5 billion, or $73 per share. Our merger agreement requires us to launch a cash tender offer for all of the issued and outstanding shares of NCS's common stock on or before August 7, 2000. The tender offer will remain open for 23 business days, unless extended in accordance with the merger agreement, and will be conditioned on the tender of a sufficient number of shares to give us ownership of at least a majority of the fully diluted outstanding shares of NCS. After the completion of the tender offer, NCS will merge with us, and the remaining shareholders of NCS other than us will receive the same cash consideration per share as offered in the tender offer. We intend to finance the NCS acquisition with the proceeds of the rights offering.

We believe the acquisition of NCS is an important step in the development of Pearson Education, providing the following opportunities:

- **Integrating educational programs.** The combination of curricular content, testing, and educational applications creates opportunities to provide schools, universities, colleges and professional and training organizations a comprehensive range of education solutions, encompassing curricular and training programs, assessment and testing and educational services, including student curriculum, instructional and financial management software.
- **Customizing learning.** Combining NCS's assessment tools with our curricular content will enable us to create customized learning programs individually tailored for each student.

- **Extending customer reach.** Our salesforce will market NCS's instruction management software, assessment tools and school administrative software to kindergarten through 12th grade school districts to supplement NCS's own direct salesforce.
- **Accelerating the development of new online products.** NCS's online business will complement our business enabling us to offer electronic end-to-end learning solutions.
- **Developing a new market, with parents as customers.** NCS's products will enable us to reach parents with new educational content, creating new revenue opportunities for our educational publishing business. It will also extend the scale and reach of our Learning Network, enabling it to reach directly a much bigger audience of parents and students.
- **Moving into new professional markets.** Our professional publishing and corporate training business will enable NCS to market its testing and assessment skills to meet the growing demand for accreditation in a wide range of professions and disciplines.
- **Widening international spread.** With major educational publishing operations around the world, Pearson Education will enhance NCS's international presence.

Operating Divisions

Pearson Education

Pearson Education is one of the world's largest publishers of textbooks and paper and online teaching materials based on published sales figures and independent estimates of sales. Pearson Education serves the growing demands of teachers, students, parents and professionals throughout the world for stimulating effective education programs. In 1999, Pearson Education had sales of £1,725 million, or 52% of Pearson's total sales.

An integral part of Pearson Education's strategy is the creation of interactive education communities through the development of an online education network. On June 29, 2000, we announced the purchase, for $129 million, of an 87% interest in FamilyEducation Network, Inc., or FEN, an online network for parents, teachers and students. America Online, Inc. will continue to be a minority shareholder in FEN, along with FEN's founders. In addition, we also announced a three-year agreement with AOL under which our Learning Network will be an anchor tenant on the main screen of AOL's Research and Learn Channel, providing educational content for all stages of a person's life, from pre-school to adult learning, including ongoing education and professional training. We expect to launch the Learning Network in the Fall of 2000. We are currently working to identify internet content providers with whom we may form alliances in connection with the Learning Network. We are also working on the Learning Network's technological infrastructure and on assembling its management team within Pearson. The final step in connection with the Learning Network's launch will be the development of a marketing program. We expect the Learning Network will require significant further investment in the future before becoming profitable.

Upon completion of the NCS acquisition, its operations will become part of Pearson Education. NCS is the US's largest commercial processor of student assessment tests for kindergarten through 12th grade. It is the largest single provider of student curriculum, instructional and financial management software to schools. NCS provides schools with suites of integrated software modules, along with professional services designed to meet the reporting needs of administrators and the curriculum needs of teachers. NCS also provides large scale performance measurement projects, including program design, item development, program management, software development, printing packaging, distribution, collection, processing, scoring and reporting. Among its other services, NCS provides large scale project management for student financial aid applications and other post-secondary applications.

In a world shaped by an increasingly knowledge-based economy, there is a large appetite for education in both the developed and developing worlds. Governments, corporations and individuals see education as a necessary component for success and are willing to invest in it. Favorable demographics, the spread of public education in the developing world and increasing demand to learn English are all factors driving this growth. The international market for educational programs includes not only local language textbooks, but also English language teaching materials and professional publications.

Pearson Education's Well Known Brands	
Prentice Hall	a secondary school publisher of engineering, math, science and humanities titles and a higher education publisher in every discipline
Scott Foresman	a publisher of reading, math and science titles for elementary school
Addison Wesley Longman	a higher education publisher of science, math and business titles
Allyn & Bacon	a publisher of education, social science and humanities titles for the higher education market
Macmillan USA and Pearson Professional Technical Reference	publishers of computer books
Silver Burdett Ginn	a publisher of math and music titles for the elementary school market

The internet provides an ideal medium for our quality education programs, which we create and sell for use with our textbooks and as stand-alone products. Our internet initiatives also include the creation of the Learning Network, an internet-delivered network of education services. Both our base products and the development of the Learning Network have been facilitated by minority investments in internet companies, including:

- Copernicus, which provides customized, local education portals, marketed as EdGate, for teachers, parents and students,
- Blackboard, an internet infrastructure company whose learning software backs up online teaching environments in over 1,800 American colleges and universities, and
- Score! Learning, a local education service provider that provides online coaching, testing and support and is developing, with Pearson, an internet version.

Pearson Education has three principal divisions—US schools, higher education and professional publishing and international. Each division contributes approximately one-third of Pearson Education's revenues.

US Schools

Pearson Education is a leading US school publisher for kindergarten through 12th grade, with a comprehensive range of textbooks, supplementary materials and electronic education programs. We believe that our market share in this segment is approximately 25%. Pearson Education's premier elementary school imprint, Scott Foresman, and premier secondary school imprint, Prentice Hall School, publish high quality programs covering subjects such as reading, literature, math, science and social studies. In addition, these groups publish online assessment and digital courseware through the Computer Curriculum Corporation, as well as programs such as the Waterford Early Reading Program and the KnowZone. We also publish supplementary teaching aids for both elementary and secondary schools and teacher-written activity books.

With over 90% of education spending in this segment in the US financed at the state or local level, the US Schools division's major customers are state education boards and local school districts. In the US, 20 states, which account for over 50% of the total kindergarten through 12th grade US school population of some 52 million students, buy educational programs by means of periodic statewide ''adoptions''. These adoptions cover programs in the core subject areas. Typically, a state committee selects a short-list of education programs from which the school districts then make individual choices. We actively seek to keep as many of our offerings as possible on the approved list in each state and we market directly to the school districts. In the 30 states without adoptions, or ''open territories'', local school districts choose education programs from the extensive range available. We actively market to school districts in open territories as well. Our revenues are split evenly between adoption states and open territory states.

Higher Education and Professional Publishing

Pearson Education is America's largest publisher of educational textbooks and related materials for colleges and universities. We publish across all of the main fields of study with imprints such as Prentice Hall, Addison Wesley Longman and Allyn & Bacon. We market primarily to college professors who choose the texts to be purchased by their students. Over 1,200 of Pearson Education's approximately 49,000 college textbooks have an interactive companion website with online study guides to reinforce text concepts, and chat rooms and bulletin boards to facilitate interaction between students and faculty. An increasing number of our programs 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.

We also publish textbooks and reference books for industry professionals, with a particular strength in computers and information technology where we are the world's largest publisher. Our imprints in this area include Macmillan USA, Pearson Professional Technical Reference, Prentice Hall, Addison Wesley Longman and Adobe Press. Many of these publications are also available both on the internet and via CD-ROM. Online sales have grown rapidly. We work closely with many independent online retailers and operate our own portal for IT professionals, InformIT.

International

Pearson Education has sales, distribution and publishing operations in 35 countries throughout the world. We produce textbooks, English language teaching materials (in which we are a global leader) and professional publications. Our international division also represents translations and imprints of our US higher education and professional publications.

Our publications are primarily in English and are marketed to the English speaking markets. In addition to English, we also publish in the local language in a number of countries, including Germany, France, Spain, Italy, Mexico, Colombia, Brazil, Hong Kong, Japan and South Korea. In a number of English speaking countries, we are the largest publisher of school materials.

FT Knowledge

At the end of 1998, we combined our distance learning management education operations into one business, FT Knowledge. These operations include online MBA and online business skills courses. FT Knowledge is a leading provider of business education and management development programs. We specialize in providing education that is highly relevant to the needs of businesses and their employees. Linking up with some of the most respected academic institutions, we operate around the world to create virtual universities and online business schools for a variety of courses. On July 28, 2000 we acquired The Forum Corporation, one of America's top corporate training companies, for $90 million.

The FT Group

The FT Group is an integrated print and online operation comprising newspapers, print and online financial information, business magazines and professional publishing interests. The FT Group aims to be the leading source of strategic information, intelligence, commentary and analysis for senior managers and institutional and individual investors around the world. The *Financial Times*, the group's flagship publication, is generally recognized as the world's leading international business newspaper. In 1999, the FT Group had sales of £687 million, or 21% of Pearson's total sales.

Business is now global, and the demand for strategic business information—the combination of news, data, comment, analysis and context in which the FT Group excels—is growing fast. In addition to professional and business consumers, individuals around the world are demanding such strategic business information. The FT Group is very well positioned to supply information and benefit from these trends.

Since 1997, we have:

- Expanded the circulation and geographic reach of the *Financial Times* in all forms through active promotion of its brand and rich content,
- Extended the FT brand to the internet through FT.com, a global business information portal,
- Invested in more editorial talent, and created an integrated newsroom serving both the newspaper and FT.com, and
- Continued to develop a pan-European network of national business newspapers and related online services.

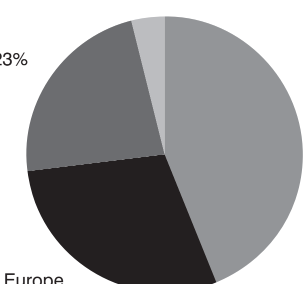
Primarily Print Services	
Financial Times	Regarded as the leading international business newspaper (FT.com)
Les Echos Group	Publishes France's leading business and financial newspaper and leading business website (lesechos.fr)
Recolétos	Publishes *Expansión*, Spain's leading business and financial newspaper and *Marca*, the leading Spanish sports newspaper; has a 30% interest in *El Mundo*, a leading daily newspaper, and operates one of Spain's leading business and financial websites (expansiondirecto.com)
Financial Times Deutschland	A new German language business newspaper with an integrated online business news and data service (ftd.de) (50% interest)
BDFM	Publishes South Africa's leading daily and weekly financial newspapers and website (bdfm.co.za) (50% interest)
The Economist Group	Publishes one of the world's leading weekly business and current affairs magazines (economist.com) (50% interest)
Financial Times Business	Publishes *Investors Chronicle, The Banker, Money Management* and *Financial Advisor*

Primarily Online Services	
FT.com	One of the leading portals on the web for global business information (FT.com)
FTYourMoney.com	A leading source for independent personal finance information in the UK (FTYourMoney.com)
FT Interactive Data	One of the world's leading sources of securities pricing and specialist financial information (intdata.com and dbc.com) (60% interest)
eSignal	An online real-time streaming quotation service for brokers and active traders (esignal.com) (60% interest)
MarketWatch.com	Popular destination on the web for financial and market news (CBS.MarketWatch.com and bigcharts.com) (34% interest)
FTMarketWatch.com	Real-time financial and market news for the European market (FTMarketWatch.com) (under development)
FT Energy	An online and print service providing expert analysis, database information systems and consulting services for the energy industry

Other	
Financial Times Conferences	Organizes high-level strategic events for the international business community
FTSE International	A joint venture with the London Stock Exchange providing the investment community with the top UK indices and, together with the Amsterdam Stock Exchange, publishes the Eurotop family of indices (FTSE.com)

The Financial Times Newspaper

The *Financial Times* is a leading international daily business newspaper. Its average audited daily circulation of 440,000 copies in December 1999, which was 14% greater than the prior year, gives the *Financial Times* the second largest circulation of any English language business daily in the world. The *Financial Times* derived approximately three-quarters of its revenue in 1999 from advertising and approximately one-quarter from circulation. The geographic distribution of the *Financial Times'* average daily circulation was:



The *Financial Times* draws upon an extensive network of international correspondents and its editorial skills to produce unique, informative and timely business information. We believe that we have the largest number of correspondents of any English language daily newspaper in the world. For production and distribution, the *Financial Times* uses computer-driven communications and printing technology for timely delivery of the various editions of the newspaper to the appropriate geographic markets. In 1998, we established printing sites in Milan, Chicago, Boston and San Francisco, improved our distribution network in the US and began a sustained marketing effort centered in the US and Europe.

Increased corporate finance, merger and acquisition activity and European economic integration have fuelled the appetite for increased business coverage in Europe. To add to our pan-European pre-eminence with the *Financial Times*, the FT Group, in partnership with Gruner + Jahr, a subsidiary of Bertelsmann AG, the German media group, recently inaugurated *Financial Times Deutschland* and its related online business news and data service. *Financial Times Deutschland* provides German-language coverage of business issues that is complementary to the *Financial Times'* international coverage.

In 1999, the *Financial Times*, *The Wall Street Journal* and Independent Media (publisher of *The Moscow Times*) jointly launched *Vedomosti*, a daily Russian language business newspaper. Drawing content from a staff of 20 Russian reporters, as well as translated pieces from both the *Financial Times* and *The Wall Street Journal*, *Vedomosti* plans to expand from its present circulation in Moscow and St. Petersburg into a national daily newspaper.

Financial Times Internet Businesses

Under the FT brand, we distribute business and personal finance information to a global audience via the internet. We maintain and continue to extend a network of leading European and US business and financial news, private investor and personal finance web services. To date, our internet investment has been primarily focused on the development of FT.com. Our websites include:

- *FT.com*, a leading global business information portal that combines agenda-setting editorial content with comment and analysis, relevant financial data, discussion groups, unique dossiers on key business people and innovative tools to search the web, manage a working day and seek out leisure opportunities,
- *FTYourMoney.com*, an online source of independent personal finance information and guidance aimed at consumers who seek to manage their own finances better. FTYourMoney.com seeks to capitalize on the rapidly growing personal finance market in the UK and then to roll-out similar websites in other countries, and
- *FTMarketWatch.com*, a joint venture between the FT Group and MarketWatch.com that launched in June 2000, provides free, real-time financial and market news to Europe's community of private investors. The new website is modelled on CBS.MarketWatch.com. Through our ownership of Data Broadcasting Corporation, we also own 34% of MarketWatch.com.

The following operating statistics show that, similar to the *Financial Times*, FT.com has quickly shown an ability to attract a large number of users:

	January	February	March
		(in millions)	
Users	1.0	1.1	1.2
Page views	18.0	22.0	24.0

FT Interactive Data

FT Interactive Data supplies market data to US and UK securities professionals, including trading houses, custodians and fund managers. Its most significant activity in sales is the supply of database services, which are primarily delivered electronically, covering a wide range of pricing, dividend, corporate action and descriptive information. FT Interactive Data has a database of 3.5 million securities, including hard-to-value, fixed income instruments. This information allows institutional investors efficiently to value their portfolios. FT Interactive Data operates under the trade name Interactive Data Corporation in the US and EXSHARE in the UK. FT Interactive Data also operates FTSE International, a joint venture with the London Stock Exchange, that provides the professional investment community with the FTSE 100 and European economic and market indices.

In 1999, we acquired the Thomson Financial Securities business, a unit of the Thomson Corporation. These assets include Muller Data Corporation and Muniview, municipal bond valuation businesses based in the US, and Valorinform, an international valuation business based in the UK. In February 2000, FT Interactive Data merged with Data Broadcasting Corporation, a Nasdaq-listed company that is one in the leading providers of real-time financial market data to traders and individual investors. We own a 60% stake in the combined business.

Financial Times Business

Financial Times Business provides magazines and web services for professionals in the finance and energy sectors. It publishes the UK personal finance magazine *Investors Chronicle,* as well as *The Banker*, *Money Management* and *Financial Adviser*. Its energy business, based in the US, operates under the brands Research Data International and E-Source and produces management studies, consultancy work and newsletters.

Les Echos Group

The Les Echos Group publishes newspapers and magazines for the French speaking market. The French language financial newspaper, *Les Echos*, has the highest daily circulation of any business newspaper in France. LesEchos.com, the newspaper's website, is the leading business website in France. The Les Echos Group also publishes a business magazine called *Enjeux-Les Echos.*

Recolétos

We have a 99.6% stake in Recolétos, a Spanish media group that we built with its Spanish promoters over several years. Recolétos' publishing businesses in Spain and Portugal include *Marca*, a leading sports newspaper for the region with an average annual circulation of 397,000 in 1999, *Expansión*, a daily business newspaper, *Actualidad Economica,* a weekly business magazine, and *Telva*, a monthly women's magazine. It is also developing its internet activities as it seeks to extend the reach of its print-based products. The group is has announced plans for a public offering of a minority stake.

Investments and Associates

In addition to interests outlined elsewhere, we hold non-controlling interests in several other media companies, including a 50% stake in The Economist Group, which owns *The Economist*, an international weekly current affairs and business magazine. We also own a 50% stake in *Business Day* and *Financial Mail,* the leading daily and leading weekly financial publications in South Africa, respectively.

The Penguin Group

Penguin is one of the premier English language publishers in the world. We publish an extensive range of titles, including the very best new fiction and non-fiction, literary prize winners and commercial blockbusters. Our titles range from history and science to essential reference. We are also one of the pre-eminent classics publishers and own some of the most highly prized and enduring brands in children's publishing, featuring popular characters such as Spot, Peter Rabbit and Madeline, as well as the books of Roald Dahl. We rank in the top three in all major English speaking markets—the US, UK, Australia, New Zealand, Canada, India and South Africa. The Penguin Group combines a frontlist of new books by best-selling authors with a backlist of more than 25,000 popular titles. In 1999, Penguin Group titles spent a record 262 weeks on *The New York Times* bestseller lists and, in the UK, the Penguin Group nearly doubled its share of *The Guardian's* Top 100 Bestsellers. In 1999, the Penguin Group had sales of £565 million, representing 17% of Pearson's total sales.

Revenues are split approximately evenly between frontlist and backlist titles, minimizing Penguin's exposure to volatility in either market. The Penguin Group earns over 90% of its revenues from the sale of hard cover and paperback books. The balance comes from audio books and from the sale and licensing of intellectual property rights, such as the Beatrix Potter series of fictional characters. We also sell a range of titles on CD-ROM and cassette and act as a book distributor for a number of smaller publishing houses.

We sell directly to bookshops and through wholesalers. Retail bookshops normally maintain relationships with both publishers and wholesalers and use the channel which best serves the specific requirements of an order. In the last few years, we have also seen a significant growth in online purchasing directly by consumers, which currently accounts for approximately 5% of US sales and a growing percentage of UK sales.

We publish under the following imprints and have many well known authors.

Penguin Group Imprints		Penguin's Representative
Adult	**Children**	**Authors**
Penguin	Dial	Tom Clancy
Putnam	Dutton	Patricia Cornwell
Avery	Viking	Clive Cussler
Berkley Books	Ladybird	Dick Francis
Dutton	Penguin	Alex Garland
Hamish Hamilton	Puffin	Sue Grafton
Michael Joseph	Frederick Warne	Nick Hornby
Plume		Beatrix Potter
Signet		Sue Townsend
Viking		

The Penguin Group's gateway internet site, Penguin.com, provides access to its focused websites in the US, Canada, UK and Australia. Websites have also been developed to target certain niche audiences. For example, Penguinclassics.com has an entire online world for the classics—with anthologies, original essays, interviews and discussions and links to other classics sites. It is the favored classics site on Amazon UK. In addition, we have developed the award-winning PeterRabbit.com and we are extending rapidly our range of author websites, live webcasts and subject-specific sites, such as one for readers of romance novels. The Penguin Group aims to use the internet to increase the commercial efficiency of its existing publishing operations and to exploit its popular brands and unique content, and to continue to convert its library into digital formats suitable for e-book delivery, printing on demand and other forms of distribution.

On May 12, 2000, we completed our acquisition of Dorling Kindersley Holdings plc, or DK, an international publisher of illustrated reference books, for £310 million.

We believe that the combination of DK, the Penguin Group and Pearson's educational and other businesses will provide us with strategic benefits, including:

- *Complementary product lines*. DK's illustrated reference books are distinct from Penguin's existing product lines, providing access to new and sophisticated customers in both English-speaking and foreign markets.
- *Market coverage*. Many of DK's illustrated products will reinforce our ages 4-18 market coverage and take the Penguin Group into large segments of the consumer market where we are not currently present. DK also takes the Penguin Group into non-English language markets and provides the basis for establishing local publishing operations outside the English speaking world founded on illustrated books with international appeal.
- *Digital illustration library and new media opportunities.* This acquisition provides the Penguin Group and other Pearson operating companies with a digitized, primarily wholly-owned library of high quality text and picture-based intellectual property. We can develop and use this library as a digital platform for e-books, online education products and other new formats in the future.
- *Enhanced return due to synergies*. The combination with the Penguin Group will allow DK to realize substantial economies of scale and integration savings.
- *Business extensions.* DK provides a large and immediate opportunity for two of our operating companies, the Penguin Group and Pearson Education, to integrate DK's brand and database content into their markets in appropriate formats. Its reference books, for instance, will enhance the research service of the education network as well as provide supplemental products to be sold by Pearson Education's large sales force.

Pearson Television

On July 25, 2000, Pearson Television was merged with CLT-Ufa, the television and broadcasting business owned by Germany's Bertelsmann AG, and Belgium's Audiofina, to create the RTL Group. The combined company is an integrated pan-European company with activities in television production, online delivery and broadcasting, including the well-known RTL television stations. The RTL Group is Europe's largest radio and television broadcast company by revenue and is listed on the London Stock Exchange. The terms of the merger, which closed on July 25, 2000, provide that we will own a 22% interest in the RTL Group. We currently own 20.5% of the group, which will increase to 22% upon the transfer of certain remaining assets of Pearson Television. This transfer remains subject to government approvals.

Marjorie Scardino, our chief executive officer, and John Makinson, our finance director, are directors. Pearson Television's former chief executive, Richard Eyre, will be the RTL Group's executive director responsible for content and strategy.

In 1999, Pearson Television had sales of £355 million, or 10% of Pearson's total sales.

Competition

All of Pearson's businesses operate in highly competitive environments.

Pearson Education competes with other publishers and creators of educational materials. These companies include large international companies, such as McGraw-Hill, Houghton Mifflin and Thomson. Competition is based on the ability to deliver quality products that appeal to the school boards, educators and government officials making purchasing decisions, at competitive prices. NCS competes with numerous commercial processors of student assessment tests including in-house systems, national and regional providers, data processing service bureaus and test publishers.

FT Group competes with other companies engaged in the publishing of business news, such as *The Wall Street Journal*. The FT Group competes with other newspapers and information sources for readership by offering timely and expert journalism, and competes for advertisers with other forms of media based on the ability to offer an effective means for advertisers to reach their target audience.

The Penguin Group competes with other publishers of fiction and non-fiction books. As such, principal competitors include Random House and Harper Collins. Publishers compete by developing a portfolio of books that are in demand by continually seeking out and promoting talented writers and by offering their works at competitive prices.

Intellectual Property

Our principal intellectual property assets consist of our trademarks and other rights in our brand names, particularly Financial Times and Penguin and the various imprints of Pearson Education, and copyrights in our content. We believe we have taken all appropriate available legal steps to protect our intellectual property in all relevant jurisdictions.

Raw Materials

Paper is one of the principal raw materials used by each of Pearson Education, the FT Group and the Penguin Group. We purchase most of our paper through our central purchasing department located in the US. We have not experienced and do not anticipate difficulty in obtaining adequate supplies of paper for their operations, with sourcing available from numerous suppliers. While local prices fluctuate depending upon local market conditions, we have not experienced extensive volatility in fulfilling paper requirements.

Government Regulation

The manufacture of certain of our products in various markets is subject to governmental regulation relating to the discharge of materials into the environment. Our operations are also subject to the risks and uncertainties attendant to doing business in numerous countries. Some of the countries in which we conduct these operations maintain controls on the repatriation of earnings and capital and restrict the means available to us for hedging potential currency fluctuation risks. The operations that are affected by these controls, however, are not material to Pearson as a whole. Accordingly, these controls have not significantly affected our international operations. Regulatory authorities may have enforcement powers that could have an impact on us. We believe, however, that we have taken and continue to take measures to comply with all applicable laws and governmental regulations in the jurisdictions where we operate so that the risk of these sanctions does not represent a material threat to us.

We have minority investments in a number of broadcasting entities that hold licenses granted by various governmental authorities. These licenses generally are subject to renewal at prescribed periods and are subject to forfeiture for failure to comply with the rules and regulations of these authorities. We hold investments in entities that are dependent upon these licenses, but we are not dependent upon any particular licenses.

Organizational Structure

We have interests in subsidiaries and other entities throughout the world. Below is a list of our significant subsidiaries, including name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.

Name	Country of Incorporation/ Residence	Percentage Interest/ Voting Power
Pearson Inc.	United States	100
Pearson AG	Switzerland	100
Whitehall Electric Investments Limited	England and Wales	100
Whitehall Trust	England and Wales	100
Rycade Capital Corporation Inc.	United States	100
Financial Times Limited	England and Wales	100
FT Group Limited	England and Wales	100
Prentice Hall Inc.	United States	100
Pearson Business Services Inc.	United States	100
Data Broadcasting Corporation	United States	60

History and Development

During the past three years, we have concentrated on developing our four media business divisions: education, business information, consumer publishing and television. In 1997, we acquired All American Communications, a US television producer, for £247 million. We also obtained a 24% stakeholding in Channel 5, the fifth UK terrestrial television channel, and made a financial commitment of £47 million. This later increased to 29%. Our largest acquisition was in 1998, when we acquired the educational, business & professional and reference publishing businesses of Simon & Schuster from Viacom International Inc. for £2,868 million. We combined these publishing units with Addison Wesley Longman to form the world's largest educational publisher—Pearson Education. In 1999, we acquired the Thomson Financial Securities Management business, a unit of The Thomson Corporation, for £93 million. In February 2000, we merged our FT Interactive Data business, which was then called FT Asset Management, with Data Broadcasting Corporation, one of America's leading providers of real-time financial market data to traders and individual investors. The FT Group has retained a 60% stake in the combined business.

On June 29, 2000, we announced the purchase, for $129 million, of an 87% Interest in FamilyEducation Network, Inc., or FEN, an online network for parents, teachers and students.

On May 12, 2000, we completed the acquisition of DK, an international illustrated reference publisher, for £310 million. We will combine DK with the Penguin Group.

On July 25, 2000, Pearson Television merged with CLT-Ufa to form the RTL Group, a pan-European integrated broadcast and content company in which we will retain a 22% interest.

On July 31, 2000, we announced our agreement to acquire NCS for approximately $2.5 billion.

To focus on our four principal businesses, we have disposed of several ancillary businesses over the last three years. In 1997, we sold Churchill Livingstone, a medical publishing business, for £57 million. In 1998, we sold our Law & Tax publishing business for £66 million and Pearson New Entertainment, which included Future Publishing, a consumer magazine business, for £125 million. Also in 1998, we sold Mindscape Inc., a developer and publisher of consumer software, for £91 million and The Tussauds Group, our visitor attractions business, for £352 million. In September 1999, we sold our investment in BSB Holdings Ltd. to Vivendi for £408 million.

During 1999, we also sold six of Simon & Schuster's business & professional and reference publishing businesses, which did not fit with the rest of Pearson Education's operations, for an aggregate of £209 million. The businesses sold included the following:

- Macmillan Library Reference USA Inc., a publisher of materials for high school, college and public libraries, for £52 million,
- Macmillan General Reference USA Inc., a full range reference book publisher, for £50 million,
- Jossey-Bass Inc. Publishers, a diversified publisher of business management books and journals, for £49 million, and
- Appleton & Lange Inc., a medical textbook company for £28 million.

On March 3, 2000, we completed the sale of our interests in the Lazard Houses for £410 million paid at closing, together with dividend payments totalling £26 million.

Property, Plant and Equipment

Our headquarters is located at leasehold premises in London, England. We own or lease approximately 280 properties in 24 countries worldwide, the majority of which are located in the UK and the US.

All of the properties owned and leased by us are suitable for their respective purposes and are in good operating condition.

We own the following principal properties:

General Use of Property	Location	Area in Square Feet
Warehouse	Pittstown, Pennsylvania, US	510,000
Warehouse	West Nyack, New York, US	501,912
Warehouse	Kirkwood, New York, US	409,000
Offices/Warehouse	Ringwood, Victoria, Australia	274,159
Offices	Old Tappan, New Jersey, US	212,041
Warehouse	Harlow, UK	164,853
Offices	Reading, Massachusetts, US	158,527
Offices	Stoneham, Massachusetts, US	48,769

We lease the following principal properties:

General Use of Property	Location	Area in Square Feet
Offices	Upper Saddle River, New Jersey, US	474,801
Offices	Hudson, New York, US	271,952
Warehouse/Offices	Harmondsworth, UK	250,658
Warehouse	Bittleswell, UK	210,000
Offices	London, UK	152,986
Offices	Harlow, UK	98,000
Offices	Madrid, Spain	72,839
Offices	Bedford, Massachusetts, US	64,349

Employees

The average number of persons employed by us during each of our last three fiscal years were as follows:

- 18,306 in fiscal 1997,
- 18,400 in fiscal 1998, and
- 23,872 in fiscal 1999.

The significant increase in the number of our employees in 1999 resulted from the Simon & Schuster acquisition in November 1998.

We, through our subsidiaries, have entered into collective bargaining agreements with employees in various locations. Our management has no reason to believe that we would not be able to renegotiate any such agreements on satisfactory terms. We encourage employees to contribute actively to the business in the context of their particular job roles and believe that the relations with our employees are generally good. We do not employ a significant number of temporary employees.

The table set forth below shows for 1999 the average number of persons employed in each of our operating divisions in the UK, the US, other locations and in total.

Business Unit	UK	US	Other	Total
Pearson Education	1,761	9,970	2,394	14,125
FT Group	2,158	1,034	1,790	4,982
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

Legal Proceedings

We and our subsidiaries are defendants in a number of legal proceedings including, from time to time, government and arbitration proceedings, which are incidental to our and their operations. We do not expect that the outcome of pending proceedings, either individually or in the aggregate, will have a significant effect on our financial position or profitability nor have any such proceedings had any such effect in the recent past. To our knowledge, there are no material proceedings in which any member of senior management or any of our affiliates is a party adverse to us or any of our subsidiaries or in respect of which any of those persons has a material interest adverse to us or any of our subsidiaries.

MANAGEMENT

Directors and Senior Management

We are managed by our board of directors and, under the direction of the board, by the Pearson management committee. We refer to the executive director members of the board of directors, the chairman of the board of directors and the chief executives of each of the four operating divisions as our ''senior management''.

The following table sets forth information concerning each of our directors and members of senior management, as of June 30, 2000.

Name	Age	Position
Lord Stevenson	55	Chairman
Marjorie Scardino	53	Chief Executive, Director
David Bell	53	Director for People
John Makinson	45	Finance Director
Lord Burns	56	Non-executive Director
Gillian Lewis	56	Non-executive Director
Reuben Mark	61	Non-executive Director
Vernon Sankey	51	Non-executive Director
Rana Talwar	52	Non-executive Director
Peter Jovanovich	51	Chief Executive of Pearson Education
Stephen Hill	40	Chief Executive of the FT Group
David Wan	46	Chief Executive of the Penguin Group
Richard Eyre	46	Chief Executive of Pearson Television

Lord Stevenson has been a non-executive director since 1986 and became executive chairman in 1997. He is a member of our treasury committee. He is also chairman of Halifax plc and AerFi Group plc, and a non-executive director of Manpower Inc.

Marjorie Scardino joined the board and became chief executive in January 1997. She trained and practiced as a lawyer for nine years from 1976 to 1985, and published a weekly newspaper in the US for seven years from 1978 to 1985. In 1985, she joined The Economist Group as president of its North American operations and was its chief executive from 1993 until joining us. She is also a non-executive director of America Online Inc. and of ConAgra Inc.

David Bell became a director in March 1996 and became chairman of the FT Group in 1996. He was chief executive of the *Financial Times* from 1993 to 1998. In July 1998, he was appointed our director for people with responsibility for the recruitment, motivation, development and reward of employees. He is also a non-executive director of VITEC Group plc and chairman of the Millennium Bridge Trust.

John Makinson 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. He is a member of our treasury committee.

Lord Burns became a non-executive director in 1999 and currently serves on our audit and personnel committees. He was the UK government's chief economic advisor 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.

Gillian Lewis became a non-executive director in 1992 and currently serves as the chair of our personnel committee. She has been managing partner of Heidrick & Struggles in the UK, the Republic of Ireland, Middle East and the Republic of South Africa since 1998. Prior to becoming managing partner of UK operations at Heidrick & Struggles, she was the practice managing partner for the consumer practice of Heidrick & Struggles.

Reuben Mark became a non-executive director in 1988 and currently serves on our audit and personnel committees. He became chief executive of the Colgate Palmolive Company in 1984, and became chairman in 1986. He has held these positions since then. He is also a director of Citigroup Inc. and of Time Warner Inc.

Vernon Sankey became a non-executive director in 1993 and currently serves as the chair of our audit committee and as a member of our treasury committee. He is non-executive chairman of Thomson Travel Group plc and a non-executive director of Allied Zurich plc, Zurich Allied AG and Zurich Financial Services. He is also a board member of the Food Standards Agency and a member of the International Advisory Board for Korn/Ferry International.

Rana Talwar became a non-executive director in March 2000. He has been chief executive of Standard Chartered plc since 1998 and a governor of the London Business School since 1999. He is also currently a governor of the Indian School of Business. He was at Citicorp from 1969 to 1997, where he held a number of senior international management roles.

Peter Jovanovich became chairman and chief executive of Addison Wesley Longman in 1997. In 1998, following the Simon & Schuster acquisition, he became chief executive of Pearson Education. He also serves on the board of the Association of American Publishers and the board of the Alfred Harcourt Foundation. Prior to that he was president of McGraw-Hill's Educational and Professional Publishing Group from 1995 to 1997, and its chairman in 1997.

Stephen Hill has been chief executive officer of the FT Group since 1998. From 1996 to 1998, he was the chief executive officer of the *Financial Times.* Prior to that, from June 1995, he was chief executive of Westminster Press.

David Wan became chief executive officer of the Penguin Group in January 2000. From 1998 to January 2000, he was chief financial officer of the Penguin Group. From 1989 to 1998, he was President of Simon & Schuster's US school publishing business, which we acquired in 1998.

Richard Eyre became chief executive of Pearson Television in January 2000. Prior to January 2000, he was chief executive of Capital Radio from 1991 to 1997 until he became chief executive of ITV Network in 1997. On July 25, 2000, Pearson merged Pearson Television into the RTL Group. Effective on that date, Mr. Eyre ceased being a member of our senior management.

Compensation of Senior Management

The main components of compensation for our senior management are base salary, annual bonuses, long-term incentives, pension benefits and other market specific benefits.

Base salary

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

Annual bonus

Annual bonus awards for senior management and some executives can be up to 100% of their annual base salary. In order to receive the maximum bonus, an employee must meet financial targets set by the personnel committee of the board. In 1999, those targets related to our stated goals of increasing earnings per equity share, revenue growth, margin improvement and cash generation. With respect to members of our management committee who are not directors, 80% of their bonus relates to the performance of the operating division of which they are chief executive, and the remaining 20% relates to our performance overall. The bonus given to Greg Dyke, the former executive director and chief executive officer of Pearson Television, also relates to the performance of Pearson Television. The personnel committee of the board will continue to review our bonus plans and has the authority to revise the bonus limits and targets in the future. The personnel committee also may award individual discretionary bonuses. The personnel committee did not award discretionary bonuses for 1999. Bonuses are not considered pensionable earnings.

Long-term incentive plans

Long-term incentive plans are intended to align the interests of senior management and other employees with those of shareholders. The personnel committee reviews the operation of long-term incentive plans on a regular basis, taking into account UK legislative and regulatory developments, particularly with regard to performance targets and evolving UK best practice.

Pearson Reward Plan

In 1999, our shareholders approved adoption of a new long-term incentive plan called the Pearson reward plan. Awards under this plan have been made in 1999 and 2000. The plan has two elements:

- premium-priced options linked to the rise in our share price over three to seven years, and
- our ordinary shares in the form of equity incentives, for the 1999 award linked to the three-year cumulative growth in our free cash flow.

The personnel committee has the option to consider and specify other criteria for making awards. Recipients are not eligible for grants of conventional options under our share option plans in any year they receive an award under the Pearson reward plan. The chairman of the board of directors is not eligible for this plan.

Annual bonus share matching plan

In 1998, our shareholders approved a share matching plan that permits senior management and other senior executives, excluding the chairman of the board, to take up to 50% of the after-tax value of an annual bonus in the form of our ordinary shares. We will match these shares on a before-tax basis at a rate of one matching share for every two shares held for three consecutive years, with an additional share for every two shares held for a total of five consecutive years. However, we only will match if we employ the potential recipient at the time of the grant and if we experience real average growth in our adjusted earnings per share of at least 3% per year during the relevant period.

Incentive Share Plan

We introduced our incentive share plan in 1993 to reward senior management and a select group of other senior executives based on our performance over the medium to long-term, as measured by total shareholder return relative to the average of the FTSE 100 total return index. The three-year performance period for the incentive share plan awards we made in 1997 ended on

December 31, 1999. Since our total shareholder return outperformed that of the FTSE 100 by 105% over the three-year period and our adjusted earnings per equity share for 1999 were higher than those for 1996, 150% of the shares awarded in 1997 were released to the participants in 1999. There remains one outstanding award, relating to Lord Stevenson, which matures in April 2002. No new awards will be made under this plan.

Executive Share Option Plan

In 1998, our shareholders approved an executive share option plan pursuant to which options are awarded to senior management and other executives and managers, based on guidelines approved by our personnel committee. These guidelines govern the total number of options that may be granted and the frequency of awards to individual grantees. Options awarded under this plan are granted at value on the date of grant. The chairman of the board is not eligible to participate in this plan.

Special Share Option Plan

In 2000, we made a special award of share options to some of our key employees. In particular, we made awards to people working on our internet initiatives.

Restricted Shares

In addition to share options and performance shares, awards of restricted shares have been granted in 2000 to certain people working on our internet initiatives.

Retirement benefits

In 1999, we accrued or set aside £0.6 million for the pension, retirement or similar benefits of senior management.

Non-executive Directors' Remuneration

The board of directors determines fees for non-executive directors with regard to market practice and within limits contained in our articles of association. The board reviews these fees annually with the assistance of an outside advisor. Non-executive directors receive no pay or benefits other than reimbursement for expenses incurred in connection with their directorships and do not participate in our annual bonus plan, incentive share plan or share option plan.

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 of the board each receive an additional fee of £5,000 per annum. Starting in January 2000, non-executive director fees were increased by £10,000 per annum, which may be taken in the form of our ordinary shares.

Remuneration of Senior Management

Excluding contributions to pension funds and related benefits, senior management remuneration for 1999 was as follows:

	Salaries/Fees	Bonus	Other[1]	Release of awards made in 1997 under the incentive share plan	Total
			(in £ thousands)		
Chairman					
Lord Stevenson	268	-	-	-	268
Executive directors					
Marjorie Scardino	465	465	54	1,533	2,517
David Bell	270	270	17	589	1,146
Greg Dyke[2]	215	122	10	-	347
John Makinson	310	310	15	-	635
Senior management as a group (9 persons)[3]	2,433	1,875	110	2,122	6,540

(1) For Marjorie Scardino, David Bell, Greg Dyke and John Makinson, ''other'' includes company car and health care benefits. Also included in ''other'' for Marjorie Scardino is £34,180 in respect of housing costs.

(2) Greg Dyke resigned as an executive director and chief executive officer of Pearson Television in 1999.

(3) Includes the chief executives of the four operating divisions. We are not required to make public disclosure of individual compensation arrangements of non-directors in the UK and, therefore, do not include individual disclosure of the compensation paid to the chief executives of our four operating divisions in this prospectus. As stated in footnote 2 above, the senior management remuneration table also includes remuneration paid to Greg Dyke, who was a director and the chief executive officer of Pearson Television in 1999.

Share Options of Senior Management

This table sets forth for each director, and for members of senior management as a group, the number of share options held as of June 30, 2000 as well as the exercise price and the range of expiration dates of these options.

	Options Held	Exercise Price (in pence)
Lord Stevenson	2,243	769(1)
Total	2,243	
Marjorie Scardino	163,300	1,090(1)
	2,535	769(1)
	33,557	1,537(2)
	33,557	1,845(2)
	33,557	2,152(2)
	33,021	2,579(2)
	33,021	3,095(2)
	33,021	3,611(2)
Total	365,569	
David Bell	26,500	654(1)
	18,300	1,090(1)
	1,186	436(1)
	596	578(1)
	581	593(1)
	448	769(1)
	165	1,022(1)
	181	1,599(1)
	16,701	1,537(2)
	16,701	1,845(2)
	16,701	2,152(2)
	16,684	2,579(2)
	16,684	3,095(2)
	16,684	3,611(2)
Total	148,112	
John Makinson	50,000	635(1)
	18,000	545(1)
	32,800	654(1)
	66,000	758(1)
	27,300	1,090(1)
	2,984	578(1)
	19,176	1,537(2)
	19,176	1,845(2)
	19,176	2,152(2)
	19,068	2,579(2)
	19,068	3,095(2)
	19,068	3,611(2)
Total	311,816	
Senior management as a group (8 persons)(3)	1,392,437	

(1) Granted under the share option plans and exercisable between 2000 and 2008.
(2) Granted under the Pearson reward plan and exercisable between 2001 and 2009.

(3) Includes the chief executives of the four operating divisions. We are not required to make public disclosure of individual compensation arrangements of non-directors in the UK and, therefore, do not include individual disclosure of the option information for the chief executives of our four operating divisions in this prospectus.

Share Ownership of Senior Management

The table below sets forth the number of ordinary shares held by each of our directors, and by members of senior management as a group, as at June 30, 2000. Additional information with respect to the share options held by, and bonus and incentive awards for, these persons is set out above in ''Remuneration of Senior Management'' and ''Share Options of Senior Management''. The total number of ordinary shares held by senior management as of June 30, 2000 was 274,312, representing less than 1% of the issued share capital on June 30, 2000.

	Ordinary shares(1)	Options-ordinary shares	Incentive share plan and Pearson reward plan ordinary shares(2)	Annual bonus matching shares(3)
Lord Stevenson	70,788	2,243	65,807	-
Marjorie Scardino	55,770	365,569	104,661	40,139
John Makinson	17,598	311,816	59,989	22,621
David Bell	32,516	148,112	52,318	14,406
Senior management as a group (8 persons)(4)	274,312	1,392,437	382,665	120,222

(1) Amounts include shares acquired by individuals under the annual bonus matching plan.
(2) The number of ordinary shares shown represents the maximum number of ordinary shares, plus, in the case of the incentive share plan, accumulated share dividend ordinary shares included in the original award that may be transferred to the employee.
(3) These ordinary shares are held in trust and represent the maximum award required to provide our matching contribution of ordinary shares in respect of that part of the bonus taken in ordinary shares by each director. The ordinary shares only vest if the performance and other conditions of the plan are met.
(4) Includes the chief executives of the four operating divisions. We are not required to make public disclosure of individual compensation arrangements of non-directors in the UK and, therefore, do not include individual disclosure of the shares and share options held by the chief executives of its four operating divisions in this prospectus.

Our executive directors, as possible beneficiaries, are also deemed to be interested in Pearson Employee Share Trust Limited, the trustee of which held 754,318 of our ordinary shares on June 30, 2000.

Employee Share Ownership Plans

Profit Sharing Plan

Since 1998, we have operated a profit sharing plan available to all employees who:

- have worked for us for at least six months of the relevant fiscal year, and
- we employ at the time we make payment under the plan.

All payments made under the plan are determined in the discretion of the board after consideration of our profitability for the year. Payment under the plan may be in the form of cash and/or our ordinary shares. Payment under the plan was 3% of salary plus 15 ordinary shares for fiscal year 1998 and 2% of salary plus 10 ordinary shares for fiscal year 1999. We intend to continue the plan in fiscal year 2000.

Save-for-Shares Plan

In 1998, we introduced a worldwide save-for-shares plan. Under this plan, our employees worldwide have the option to save a portion of their monthly salary over periods of three, five or seven years. At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equal to 80% of the market price prevailing at the commencement of the employee's participation in the plan.

In the US, due to restrictions under US law, stock appreciation rights are used instead of share options. The savings period is two years and the discount to the market price is 15%. This arrangement will be replaced by a stock purchase plan under Section 423 of the Internal Revenue Code of 1986 subsequent to this offering.

Board Practices

Our board of directors currently is comprised of four executive directors, including the chairman, who is a part-time director, and five non-executive directors. Our articles of association provide that at every annual general meeting, one-third of the board of directors, or the number nearest to one-third, shall retire from office. The directors to retire each year are the directors who have been longest in office since their last election or appointment. A retiring director is eligible for re-election. If at any annual general meeting, the place of a retiring director is not filled, the retiring director, if willing to continue, is deemed to have been re-elected, unless at or prior to such meeting it is expressly resolved not to fill the vacated office, or unless a resolution for the re-election of that director has been put to the meeting and lost.

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

Audit Committee

Vernon Sankey chairs this committee and Lord Burns and Reuben Mark are members. The ''terms of reference'' of the committee require that its members be non-executive directors with financial and accounting experience. The committee provides the board with a vehicle to appraise our financial management and reporting and to assess the integrity of our accounting procedures and financial controls. Our 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 directors.

Personnel Committee

Gillian Lewis chairs this committee and Lord Burns and Reuben Mark are members. They 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 our four operating divisions. The committee also recommends the chairman's remuneration to the board of directors for its decision and reviews our management development and succession plans.

Treasury Committee

The members of this committee are Lord Stevenson, John Makinson and Vernon Sankey. The committee sets the policies for our treasury department and reviews its procedures on a regular basis.

PRINCIPAL STOCKHOLDERS

To our knowledge, as of June 30, 2000, no person or group was the beneficial owner of 3% or more of our issued and outstanding ordinary share capital, except for Telefónica Media SA which owned 30,527,674 ordinary shares representing 4.89% of our outstanding ordinary shares.

On July 24, 2000, 306 recordholders with registered addresses in the US held 63,907,606 ordinary shares, including those held through ADSs, which represented approximately 10% of our outstanding ordinary shares. Because some of our ordinary shares and ADSs are held by nominees, these numbers may not accurately represent the number of beneficial owners in the US.

DESCRIPTION OF SHARE CAPITAL

Share Capital

The ordinary shares, par value 25p, represent our only authorized class of share capital. The table below sets forth:

- the number of ordinary shares authorized at the end of our 1999 fiscal year and as of June 30, 2000,
- the number of ordinary shares issued as of June 30, 2000, and
- a reconciliation of the number of ordinary shares issued at the beginning and end of our 1999 fiscal year and the number of ordinary shares issued as of June 30, 2000.

	Number	£m
Authorized		
At December 31, 1999	894,000,000	£224
As of June 30, 2000	916,000,000	229
Issued		
At January 1, 1999	609,554,547	152
Issued under share option and employee share plans during 1999	3,115,620	1
At December 31, 1999	612,670,167	153
Issued under January 2000 share placing	11,500,000	3
Issued under share option and employee share plans during 2000	1,052,766	0
As of June 30, 2000	625,222,933	£156

The Pearson Employee Share Trust, an English trust we established to hold ordinary shares to be distributed under various executive and employee share plans and the two Pearson Employee Share Ownership Trusts established in Jersey, which contain both ordinary shares held under options and restricted shares for senior management and a selected group of other executives, together held 953,057 ordinary shares with a market value of £19 million on December 31, 1999. As of June 30, 2000, these two trusts held 3,410,317 ordinary shares with a market value of £72 million.

Outstanding Options

The table below sets forth the outstanding options for our ordinary shares as of December 31, 1999 and as of June 30, 2000:

	Date of grant	Number of options outstanding (December 31, 1999) (in thousands)	Number of options outstanding (June 30, 2000) (in thousands)	Original subscription price (in pence)	Exercise period
Worldwide save-for-shares plans	1992	39	—	242	1997-2000
	1994	100	84	509	1999-2002
	1995	429	420	436	2000-2003
	1996	335	330	578	2001-2004
	1997	422	399	593	2000-2005
	1998	1,225	1,151	769	2000-2006
	1999	1,416	1,333	1,022-1,086	2001-2007
	2000	—	630	1,599-1,658	2003-2008
	Total:	3,966	4,370		
Executive share option plans	1990	148	—	307-334	1993-2000
	1991	59	46	364-377	1994-2001
	1992	100	53	327-379	1995-2002
	1993	125	—	396	1996-2003
	1994	265	198	635	1997-2004
	1995	438	266	545	1998-2005
	1996	999	511	654-682	1999-2006
	1997	2,410	2,208	744-757	2000-2007
	1998	2,971	2,815	948-1,090	2001-2008
	1999	3,479	3,383	1,210-1,285	2002-2009
	2000	—	5,909	2,501	2003-2010
	Total:	10,994	15,389		

The subscription prices have been rounded down to the nearest whole pence.

History of Share Capital

In addition to issues under our scrip dividend plan and share option and employee share plans, we have made two issuances of additional ordinary shares during the last three years. In January 2000, we issued 11.5 million ordinary shares, representing approximately 2% of our then existing issued ordinary share capital. Those shares were subscribed for by institutional investors at a price of £22.00 per share. The proceeds of that placement were to finance further investment to expand existing and to develop new internet-related businesses. We issued 28.9 million ordinary shares in August 1998, representing approximately 5% of our then existing issued ordinary share capital. These shares were subscribed for by institutional investors at a price of £11.35 per share. The proceeds of that placement were used to provide funds for the Simon & Schuster acquisition. In addition, at our annual general meeting held on May 12, 2000, we were authorized, subject to certain conditions, to acquire up to 62 million of our ordinary shares by purchases in the open market.

Memorandum and Articles of Association

We summarize below the material provisions of our memorandum and articles of association, which have been filed as an exhibit to the registration statement of which this prospectus is a part.

We have multiple business objectives and purposes and are authorized to do such things as the board may consider to further our interests or incidental or conducive to the attainment of our objectives and purposes. We are registered with the Registrar of Companies and our entry number is 53723.

Interested Directors

A director shall not be disqualified from contracting with us by virtue of his or her office or from having any other interest, whether direct or indirect, in any contract or arrangement entered into by or on behalf of us. An interested director must declare the nature of his or her interest in any contract or arrangement entered into by or on behalf of us at the first meeting of directors at which any such contract or arrangement is discussed or the first meeting of directors after the director has obtained an interest in the contract or arrangement. If a director wishes to enter into a contract with us to sell or purchase substantial non-cash property interests (defined as being greater than £2,000 and exceeding the lesser of £100,000 or 10% of our net assets), approval by the shareholders in a general meeting is required. Directors' interests in contracts or arrangements entered into by or on behalf of us must be disclosed in the notes to our audited annual accounts. A director may not vote on any contract or arrangement or any other proposal in which he or she has, together with any interest of any person connected with him or her, an interest which is, to his or her knowledge, a material interest, otherwise than by virtue of his or her interests in shares, debentures or other securities of or otherwise in or through us. If a question arises as to the materiality of a director's interest or his or her entitlement to vote and the director does not voluntarily agree to abstain from voting, that question will be referred to the chairman of the board or, if the chairman also is interested, to a person appointed by the other directors who is not interested. The ruling of the chairman or that other person, as the case may be, will be final and conclusive. A director will not be counted in the quorum at a meeting in relation to any resolution on which he or she is prohibited from voting.

A director will be entitled to vote, and be counted in the quorum, on any resolution concerning any of the following matters:

- the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or her or by any other person at the request of or for the benefit of us or any of our subsidiaries,
- the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of ours or any of our subsidiaries for which he or she has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security,
- any proposal relating to us or any of our subsidiaries where we are offering securities in which a director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which a director is to participate,
- any proposal relating to another company, provided that he or she and any persons connected with him or her do not, to his or her knowledge, hold an interest in shares, as defined under UK law, representing 1% or more of either any class of the equity share capital, or the voting rights, in such company,

- any proposal relating to an arrangement for the benefit of our employees or any of our subsidiaries that does not award him or her any privilege or benefit not generally awarded to the employees to whom such arrangement relates, and
- any proposal concerning insurance that we propose to maintain or purchase for the benefit of directors or for the benefit of persons, including directors.

Where proposals are under consideration concerning the appointment of two or more directors to offices or employment with us or any company in which we are interested, these proposals may be divided and considered separately and each of these directors, if not prohibited from voting under the proviso of the fourth clause above, will be entitled to vote and be counted in the quorum with respect to each resolution except that concerning his or her own appointment.

Borrowing Powers

The board of directors may exercise all powers to borrow money and incur debt. The board shall restrict any borrowings in order to ensure that the aggregate amount of undischarged debt will not at any time, without our prior authorizing resolution, exceed a sum equal to twice the aggregate of the adjusted capital and reserves, as calculated in accordance with article 90 of our articles of association.

Other Provisions Relating to Directors

Under the articles of association, directors are paid out of our funds for their services as we may from time to time determine by ordinary resolution. Directors currently are not required to be qualified by owning our shares. While the Companies Act 1985 states that no director may be appointed after he reaches the age of 70, our articles of association provide for the reappointment, after retirement, of directors attaining the age of 70. This is permissible under the Companies Act 1985.

Annual General Meetings and Extraordinary General Meetings

Shareholders' meetings may be either annual general meetings or extraordinary general meetings. However, the following matters are ordinarily transacted at an annual general meeting:

- sanctioning or declaring dividends,
- consideration of the accounts and balance sheet,
- ordinary reports of the board of directors and auditors and any other documents required to be annexed to the balance sheet,
- as holders of ordinary shares vote for the election of one-third of the members of the board of directors at every annual general meeting, the appointment or election of directors in the place of those retiring by rotation or otherwise,
- appointment or reappointment of, and determination of the remuneration of, the auditors, and
- the renewal, limitation, extension, variation or grant of any authority of or to the board, pursuant to the Companies Act 1985, to allot securities.

Business transacted at an extraordinary general meeting may also be transacted at an annual general meeting.

We hold a general meeting as our annual general meeting within fifteen months after the date of the preceding annual general meeting, at a place and time determined by the board. The board may call an extraordinary general meeting at any time and for any reason. The board must convene an extraordinary general meeting if requested to do so by shareholders holding not less than one-tenth of our issued share capital.

Three shareholders present in person and entitled to vote will constitute a quorum for any general meeting. If a quorum for a meeting convened at the request of shareholders is not present within fifteen minutes of the appointed time, the meeting will be dissolved. In any other case, the general meeting will be adjourned to the same day in the next week, at the same time and place, or to a time and place that the chairman fixes. If at that rescheduled meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting, the shareholders present in person or by proxy will be a quorum. The chairman or, in his absence, the deputy chairman or any other director nominated by the board, will preside as chairman at every general meeting.

Ordinary Shares

Certificates representing ordinary shares are issued in registered form and, subject to the terms of issue of those shares, are issued following allotment or receipt of the form of transfer bearing the appropriate stamp duty by our registrar, Lloyds Bank Registrars, the Causeway, Worthing, West Sussex BN99 6DA, United Kingdom, telephone number +44-1903-502-541.

Voting Rights

Every holder of ordinary shares present in person at a meeting of shareholders has one vote on a vote taken by a show of hands. On a poll, every holder of ordinary shares who is present in person or by proxy has one vote for every ordinary share of which he or she is the holder. Voting at any meeting of shareholders is by a show of hands unless a poll is properly demanded. A poll may be demanded by:

- the chairman of the meeting,
- at least three shareholders present in person or by proxy and entitled to vote,
- any shareholder or shareholders present in person or by proxy representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting, or
- any shareholder or shareholders present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which the aggregate sum paid up is equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Dividends

Holders of ordinary shares are entitled to receive dividends out of our profits that are available by law for distribution, as we may declare by ordinary resolution, subject to the terms of issue thereof. However, no dividends may be declared in excess of an amount recommended by the board of directors. The board may pay interim dividends to the shareholders as it deems fit. We may invest or otherwise use all dividends left unclaimed for six months after having been declared for our benefit, until claimed. All dividends unclaimed for a period of twelve years after having been declared will be forfeited and revert to us.

Liquidation Rights

In the event of our liquidation, after payment of all liabilities, our remaining assets would be used to repay the holders of ordinary shares the amount they paid for their ordinary shares. Any balance would be divided among the holders of ordinary shares in proportion to the nominal amount of the ordinary shares held by them.

Other Provisions of the Articles of Association

Whenever our capital is divided into different classes of shares, the special rights attached to any class may, unless otherwise provided by the terms of the issue of the shares of that class, be varied or abrogated, either with the written consent of the holders of three-fourths of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of these holders.

In the event that a shareholder or other person appearing to be interested in ordinary shares fails to comply with a notice requiring him or her to provide information with respect to their interest in voting shares pursuant to section 212 of the Companies Act 1985, we may serve that shareholder with a notice of default. After service of a default notice, that shareholder shall not be entitled to attend or vote at any general meeting or at a separate meeting of holders of a class of shares or on a poll until he or she has complied in full with our information request.

If the shares described in the default notice represent at least one-fourth of 1% in nominal value of the issued ordinary shares, then the default notice may additionally direct that in respect of those shares:

- we will not issue shares or pay dividends, and
- we will not register transfers of shares unless the shareholder attaches to that transfer, when presented for registration, a certificate to the effect that after due and careful inquiry, the shareholder is satisfied that no person in default is interested in any of the ordinary shares which are being transferred or the transfer is an approved transfer, as defined in our articles of association.

No provision of our articles of association expressly governs the ordinary share ownership threshold above which shareholder ownership must be disclosed. Under the Companies Act 1985, any person who acquires, either alone or, in specified circumstances, with others:

- a material interest in our voting share capital equal to or in excess of 3%, or
- a non-material interest equal to or in excess of 10%,

comes under an obligation to disclose prescribed particulars to us in respect of those ordinary shares. A disclosure obligation also arises where a person's notifiable interests fall below the notifiable percentage, or where, above that level, the percentage of our voting share capital in which a person has a notifiable interest increases or decreases.

Limitations Affecting Holders of Ordinary Shares or ADSs

Under English law and our memorandum and articles of association, persons who are neither UK residents nor UK nationals may freely hold, vote and transfer ordinary shares in the same manner as UK residents or nationals.

With respect to the items discussed above, applicable UK law is not materially different from applicable US law.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Shares

The Bank of New York will issue the ADSs. The ownership interest in each ordinary share will be represented by one ADS. The ordinary shares or the right to receive ordinary shares will be deposited by us with a custodian, the London office of The Bank of New York. Each ADS will also represent securities, cash or other property deposited with The Bank of New York but not distributed to ADS holders. The Bank of New York's Corporate Trust office is located at 101 Barclay Street, New York, N.Y. 10286. Its principal executive office is located at One Wall Street, New York, N.Y. 10286.

You may hold ADSs either directly or indirectly through your broker or another financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should speak to your broker or financial institution for further information about those procedures.

The Bank of New York will actually hold the ordinary shares. You must rely on it to exercise the rights of a shareholder. The obligations of The Bank of New York are set out in an agreement among us, The Bank of New York and you, as an ADS holder. That agreement and the ADSs generally are governed by New York law.

The following is a summary of the agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire agreement and the ADR. Directions on how to obtain copies of these are provided in the section entitled ''Where You Can Find More Information''.

Share Dividends and Other Distributions

The Bank of New York has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

Cash. The Bank of New York will convert any cash dividend or other cash distribution we pay on the shares into US dollars, if it can do so on a reasonable basis and can transfer those dollars to the US. If that is not possible or if approval of any government is needed and cannot be obtained, the agreement allows The Bank of New York to distribute sterling to those ADS holders to whom it is possible to do so. The Bank of New York will hold the sterling it cannot convert for the account of the ADS holders who have not been paid. It will not invest the sterling and it will not be liable for the interest.

Before making a distribution, any withholding taxes that must be paid under applicable law will be deducted. See ''Tax Considerations'' for more information. The Bank of New York will distribute only whole US dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate at a time when The Bank of New York cannot convert the sterling, you may lose some or all of the value of the distribution.*

Ordinary Shares. The Bank of New York may distribute new ADSs representing any ordinary shares we may distribute as a dividend or free distribution, if we furnish it promptly with satisfactory evidence that it is legal for it to do so. The Bank of New York will only distribute whole ADSs. It will sell ordinary shares which would require it to use a fractional ADS and distribute the net proceeds in the same way it does cash. If The Bank of New York does not distribute additional ADSs, each ADS will also represent the new ordinary shares.

Rights to Receive Additional Ordinary Shares. If we offer holders of our ordinary shares any rights to subscribe for additional shares or any other rights, The Bank of New York may, after consultation with us, make these rights available to you. We first must instruct The Bank of New York to do so and furnish it with satisfactory evidence that it is legal for it to do so. If we fail to furnish this evidence or to give these instructions, and The Bank of New York decides it is practical to sell the rights, The Bank of New York will sell the rights and distribute the proceeds in the same way it does cash. The Bank of New York may allow rights that are not distributed or sold to lapse. In that case, you would receive no value for them.

If The Bank of New York makes rights available to you, upon instruction from you, it will exercise the rights and purchase the shares on your behalf. The Bank of New York will then deposit the ordinary shares and issue ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

The US securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after the exercise of rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the agreement except for the changes needed to put the restrictions in place.

Other Distributions. The Bank of New York will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York may either sell what we distributed and distribute the net proceeds in the same way it does cash or it may decide to hold what we distributed, in which case the ADSs will also represent the newly distributed property.

The Bank of New York is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, ordinary shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to ADS holders. This means that you may not receive the distribution we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, Withdrawal and Cancellation

The Bank of New York will issue ADSs if you or your broker deposit ordinary shares or evidence of rights to receive ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will register the appropriate number of ADSs in the names you request and will deliver the ADSs at its Corporate Trust office to the persons you request.

You may turn in your ADSs at The Bank of New York's Corporate Trust office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will deliver the underlying ordinary shares to an account designated by you and any other deposited securities underlying the ADSs at the office of the custodian. Or, at your request, risk and expense, The Bank of New York will deliver the deposited securities at its Corporate Trust office.

Voting Rights

You may instruct The Bank of New York to vote the ordinary shares underlying your ADSs only if we ask The Bank of New York to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares. However, you may not know about the meeting long enough in advance to withdraw the ordinary shares.

If we ask for your instructions, The Bank of New York will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will describe the matters to be voted on and explain how you, on a certain date, may instruct The Bank of New York to vote the ordinary shares or other deposited securities underlying your ADSs as you direct. For instructions to be valid, The Bank of New York must receive them on or before the date specified. The Bank of New York will try, as far as practical, subject to English law and the provisions of our articles of association, to vote or to have its agents vote the ordinary shares or other deposited securities as you instruct. The Bank of New York will only vote or attempt to vote as you instruct. However, if The Bank of New York does not receive your voting instructions, it will give a proxy to vote your ordinary shares to our designated representative.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York to vote your shares. In addition, The Bank of New York and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your ordinary shares are not voted as you requested.

Fees and Expenses

ADS holders must pay:	***For:***
$5.00 (or less) per 100 ADSs	Each issue of an ADS, including as a result of a distribution of ordinary shares or rights or other property
	Each cancellation of an ADS, including if the agreement terminates
$.02 (or less) per ADS	Any cash payment, except for distributions of cash dividends
Registration or Transfer Fees	Transfer and registration of ordinary shares on the share register of the foreign registrar from your name to the name of The Bank of New York or its agent when you deposit or withdraw ordinary shares
Expenses of The Bank of New York	Conversion of sterling to US dollars
	Cable, telex and facsimile transmission expenses
Taxes and other governmental charges The Bank of New York or the custodian have to pay on any ADS or ordinary share underlying an ADS, for example, stock transfer taxes, stamp duty, stamp duty reserve tax or withholding taxes	As necessary

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities underlying your ADSs. The Bank of New York may refuse to transfer your ADSs or allow you to withdraw the deposited securities underlying your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities underlying your ADSs to pay any taxes owed and you will remain liable for any deficiency. If it sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we change the nominal or par value of our ordinary shares; reclassify, split up or consolidate any of the deposited securities; distribute securities on the ordinary shares that are not distributed to you; or recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action, then:

- the cash, ordinary shares or other securities received by The Bank of New York will become deposited securities and each ADS will automatically represent its equal share of the new deposited securities; and
- The Bank of New York may, and will if we ask it to, distribute some or all of the cash, ordinary shares or other securities it received and may also issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

Amendment and Termination

We may agree with The Bank of New York to amend the agreement and the ADSs for any reason without your consent. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses, or prejudices an important right of ADS holders, it will only become effective 30 days after The Bank of New York notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADSs, and the agreement is amended.

The Bank of New York will terminate the agreement if we ask it to do so. The Bank of New York may also terminate the agreement if it has informed us that it would like to resign and we have not appointed a new depositary bank within 90 days. In both cases, The Bank of New York must notify you at least 30 days before termination.

After termination, The Bank of New York and its agents will be required to do only the following under the agreement:

- collect distributions on the deposited securities and deliver ordinary shares and other deposited securities upon cancellation of ADSs.

At any time after the expiration of one year from the date of termination, The Bank of New York may sell any remaining deposited securities by public or private sale. After that, The Bank of New York will hold the proceeds of the sale, as well as any other cash it is holding under the agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and will have no liability for interest. The Bank of New York's only obligation will be to account for the proceeds of the sale and other cash. After termination our only obligations will be with respect to indemnification and to pay certain amounts to The Bank of New York.

Limitations on Obligations and Liability to ADS Holders

The agreement expressly limits our obligations and the obligations of The Bank of New York, and it limits our liability and the liability of The Bank of New York. We and The Bank of New York:

- are only obligated to take the actions specified in the agreement without negligence or bad faith,

- are not liable if either is prevented or delayed by law or circumstances beyond our control from performing our obligations under the agreement,
- are not liable if either exercises discretion permitted under the agreement,
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the agreement on your behalf or on behalf of any other party, and
- may rely upon any documents they believe in good faith to be genuine and to have been signed or presented by the proper party.

In the agreement, we and The Bank of New York agree to indemnify each other under specified circumstances.

Requirements for Depositary Actions

Before The Bank of New York will issue or register transfer of an ADS, make a distribution on an ADS, or withdrawal of ordinary shares, The Bank of New York may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities,
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary, and
- compliance with regulations it may establish, from time to time, consistent with the agreement, including presentation of transfer documents.

The Bank of New York may refuse to deliver, transfer, or register transfers of ADSs generally when the books of The Bank of New York or we are closed, or at any time if The Bank of New York or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying ordinary shares at any time except:

- when temporary delays arise because The Bank of New York or we have closed transfer books or the deposit of shares in connection with voting at a shareholders' meeting, or paying a dividend on the ordinary shares,
- when you or other ADS holders seeking to withdraw ordinary shares owe money to pay fees, taxes and similar charges, or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the agreement.

Pre-Release of ADSs

In specified circumstances, subject to the provisions of the agreement, The Bank of New York may issue ADSs before deposit of the underlying ordinary shares. This is called a pre-release of the ADSs. The Bank of New York also may deliver ordinary shares upon cancellation of pre-released ADSs even if the ADSs are canceled before the pre-release transaction has been closed. A pre-release is closed as soon as the underlying ordinary shares are delivered to The Bank of New

York. The Bank of New York may receive ADSs instead of ordinary shares to close a pre-release. The Bank of New York may pre-release ADSs only under the following conditions:

- before or at the time of the pre-release, the person to whom the pre-release is being made must represent to The Bank of New York in writing that it or its customer owns the ordinary shares or ADSs to be deposited,
- the pre-release must be fully collateralized with cash or other collateral that The Bank of New York considers appropriate, and
- The Bank of New York must be able to close out the pre-release on not more than five business days' notice.

In addition, The Bank of New York will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although The Bank of New York may disregard the limit from time to time, if, in its judgment, it is appropriate to do so.

TAX CONSIDERATIONS

The following is a discussion of the material US federal income tax considerations and UK tax considerations arising from the US rights offering and from the acquisition, ownership and disposition of ordinary shares and ADSs by a US holder. A US holder is:

- an individual citizen or resident of the US,
- a corporation created or organized in or under the laws of the US or any of its political subdivisions, or
- an estate or trust the income of which is subject to US federal income taxation regardless of its source.

This discussion deals only with share rights, ADS rights, ordinary shares and ADSs that are held as capital assets by a US holder, and does not address tax considerations applicable to US holders that may be subject to special tax rules, such as:

- dealers or traders in securities or currencies,
- financial institutions or other US holders that treat income in respect of the share rights, ADS rights, ordinary shares or ADSs as financial services income,
- insurance companies,
- tax-exempt entities,
- US holders that hold the share rights, ADS rights, ordinary shares or ADSs as a part of a straddle or conversion transaction or other arrangement involving more than one position,
- US holders that own, or are deemed for US tax purposes to own, 10% or more of the total combined voting power of all classes of our voting stock,
- US holders that have a principal place of business or ''tax home'' outside the US, or
- US holders whose ''functional currency'' is not the US dollar.

For US federal income tax purposes, holders of ADSs will be treated as the owners of the ordinary shares represented by those ADSs.

The discussion below is based upon current UK law and the provisions of the US Internal Revenue Code of 1986 and regulations, rulings and judicial decisions as of the date of this prospectus; any such authority may be repealed, revoked or modified, perhaps with retroactive effect, so as to result in tax consequences different from those discussed below. This discussion is also based on the current Income Tax Treaty between the UK and the US. UK and US tax authorities have announced the commencement of discussions to update the Income Tax Treaty. There can be no assurance, however, as to whether these discussions will come to fruition or, if so, as to the impact of any resulting changes in the Income Tax Treaty on the summary tax consequences set forth below. In addition, the following discussion assumes that The Bank of New York will perform its obligations as depositary in accordance with the terms of the depositary agreement and any related agreements.

Because US and UK tax consequences may differ from one holder to the next, the discussion set out below does not purport to describe all of the tax considerations that may be relevant to you and your particular situation. Accordingly, you are advised to consult your own tax advisor as to the US federal, state and local, UK and other, including foreign, tax consequences of the US rights offering and of investing in the ordinary shares or ADSs. The statements of US and UK tax law set out below are based on the laws and interpretations in

force as of the date of this prospectus, and are subject to any changes occurring after that date.

The US Rights Offering

US Taxation of the US Rights Offering

Distribution of Share Rights or ADS Rights. A US holder of ordinary shares or ADSs will not be required to include any amount in income for US federal income tax purposes as a result of the distribution of share rights or ADS rights from Pearson.

In a tax-free distribution of rights, if the fair market value of the share rights or ADS rights on the date of distribution is less than 15% of the fair market value of the ordinary shares or ADSs with respect to which the share right or ADS right was distributed, then the tax basis of the share right or ADS right will be zero, unless the US holder elects to allocate its tax basis in the underlying ordinary shares or the underlying ADSs, as the case may be, between the ordinary shares or ADSs and the share right or ADS right in proportion to the relative fair market value of each on the date of distribution of the share right or ADS right. Any such election must be made in respect of all share rights or ADS rights distributed to the US holder, must be made in the original US federal income tax return filed by the US holder for the year in which the US holder receives the share rights or ADS rights, and once made, is irrevocable. If, on the date of distribution, the fair market value of the share right or ADS right is 15% or more of the fair market value of the ordinary shares or ADSs with respect to which the share right or ADS right was distributed, then there is no election available and a US holder must allocate tax basis between the share right or ADS right and the underlying ordinary shares or underlying ADSs in proportion to their respective fair market values.

As of the record date for the rights offering, the value of the share rights and ADS rights was approximately 13.7% of the ordinary shares or ADSs with respect to which they were distributed. We calculated this amount by dividing the excess of the £20.10 per share market price on the record date over the £10 per share subscription price for three share rights by the market price on that date of eleven ordinary shares. The value on the distribution date cannot be determined until that date.

In a tax-free distribution of rights, the holding period of a share right or an ADS right in the hands of a US holder will include the holding period of the underlying ordinary shares or the underlying ADSs, as the case may be, with respect to which the share right or ADS right was distributed.

Sale or Exchange of Share Rights or ADS Rights. On the sale or exchange of a share right or an ADS right, a US holder will recognize gain or loss in an amount equal to the difference between the amount realized upon the sale or exchange and the tax basis, if any, of the share right or the ADS right. Any gain or loss from the sale or exchange will be a capital gain or loss, and will be a long-term capital gain or loss if the combined holding period for the share right or ADS right and the ordinary share or ADS with respect to which the share right or ADS right was distributed is more than one year. Any US holder receiving cash with respect to an unexercised share right or ADS right will be treated either as if it sold the share right or ADS right for the cash received or as if it exercised the share right or ADS right and then sold the ordinary share or ADS for the cash received plus the issue price of the ordinary share or ADS.

Expiration of Share Rights or ADS Rights. If the share rights or ADS rights lapse, then no basis will be allocated to the rights and no loss will be recognized on their lapse. Any US holder that receives cash with respect to unexercised share rights or ADS rights will not be treated as though its share rights or ADS rights have lapsed for this purpose.

Exercise of Share Rights or ADS Rights. A US holder will not recognize gain or loss upon exercise of a share right or an ADS right.

Tax Basis of Ordinary Shares or ADSs. The tax basis of each ordinary share or ADS acquired upon exercise of a share right or an ADS right will equal the sum of the issue price of the ordinary share or ADS and the tax basis, if any, for the share right or the ADS right exercised. The holding period of any ordinary share or ADS acquired through the exercise of a share right or an ADS right will begin with and include the date of exercise.

UK Taxation of the US Rights Offering

UK Capital Gains Tax. A US holder who is not resident or, in the case of an individual, ordinarily resident in the United Kingdom will not normally be liable for UK taxation on capital gains realized on the disposal of his share rights or ADS rights unless the US holder carries on a trade in the United Kingdom through a branch or agency and such share rights or ADS rights are or have been used, held or acquired for the purposes of such trade, branch or agency. The distribution of share rights and ADS rights will not be treated as a dividend for purposes of UK taxation.

UK Estate and Gift Tax. The same rules generally apply as set forth below with respect to ordinary shares or ADSs.

UK Stamp Duty and Stamp Duty Reserve Tax. The general rules with respect to ordinary shares and ADSs are set out below. Stamp duty reserve tax at a rate of 1.5% of the actual consideration paid for ordinary shares will be payable on the issue of ordinary shares attributable to the exercise of ADS rights. Each holder of an ADS right must pay this amount to the ADS subscription agent with the ADS subscription price.

Ownership of Ordinary Shares or ADSs

UK Income Taxation of Distributions

Under the Income Tax Treaty, subject to certain exceptions, a US holder who is a resident of the US (and is not a resident of the UK) for purposes of the Income Tax Treaty is entitled to receive, in addition to any dividend that we pay, a payment from the Inland Revenue in respect of such dividend equal to the tax credit to which an individual resident in the UK for tax purposes would have been entitled had he received the dividend (which is currently equal to one-ninth of the dividend received), reduced by a UK withholding tax equal to an amount not exceeding 15% of the sum of the dividend paid and the UK tax credit payment. At current rates the withholding tax entirely eliminates the tax credit payment but no withholding in excess of the tax credit payment is imposed upon the US holder. Thus, for example, a US holder that receives a $100.00 dividend also will be treated as receiving from the Inland Revenue a tax credit payment of $11.11 (one-ninth of the dividend received), but the entire $11.11 payment will be eliminated by UK withholding tax, resulting in a net $100.00 distribution to the US holder.

US Income Taxation of Distributions

Distributions that we make with respect to the ordinary shares or ADSs, other than distributions in liquidation and distributions in redemption of stock that are treated as exchanges, will be taxed to US holders as ordinary dividend income to the extent that the distributions do not exceed Pearson's current and accumulated earnings and profits. The amount of any distribution will equal the sum of the cash distribution and its associated UK tax credit payment; thus, as described above under ''—UK Income Taxation of Distributions'', the recipient of a $100.00 cash distribution will be deemed to have received a total distribution of $111.11. Distributions, if any, in excess of our current and accumulated earnings and profits will constitute a nontaxable return of capital to a US holder and will be applied against and reduce the US holder's tax basis in its ordinary shares or ADSs. To the extent that these distributions exceed the tax basis of the US holder in its ordinary shares or ADSs, the excess generally will be treated as capital gain.

Dividends that we pay will not be eligible for the dividends received deduction generally allowed to US corporations under Section 243 of the Code.

In computing its US federal income tax liability, a US holder generally may elect for each taxable year to claim a deduction or, subject to the limitations on foreign tax credits generally, a US foreign tax credit for foreign income taxes withheld from any distributions paid on the ordinary shares or ADSs. The Internal Revenue Service has confirmed in a recent revenue procedure that, in the case of US holders and subject to certain limitations, a foreign tax credit may be claimed for the amount of UK withholding taxes deemed to be imposed under the Income Tax Treaty. As discussed above (see ''—UK Income Taxation of Distributions''), the amount of UK withholding tax deemed to be imposed is equal to one-ninth of the associated cash distribution, or $11.11 on a $100.00 cash distribution. To qualify for this credit, a US holder must make an election on Form 8833 (Treaty-Based Return Position Disclosure), which must be filed with its tax return for the relevant taxable year, in addition to any other filings that may be required. For US foreign tax credit purposes, dividends that we pay generally will be treated as foreign-source income and as passive income, subject to the separate foreign tax credit limitation for passive income. The availability of foreign tax credits depends on your particular circumstances.

In the case of distributions in sterling, the amount of the distributions generally will equal the US dollar value of the sterling distributed, determined by reference to the spot currency exchange rate on the date of receipt of the distribution by the US holder in the case of shares or by The Bank of New York in the case of ADSs, regardless of whether the US holder reports income on a cash basis or an accrual basis. The US holder will realize separate foreign currency gain or loss only to the extent that this gain or loss arises on the actual disposition of sterling received. For US holders claiming tax credits on a cash basis, taxes withheld from the distribution are translated into US dollars at the spot rate on the date of the distribution; for US holders claiming tax credits on an accrual basis, taxes withheld from the distribution are translated into US dollars at the average rate for the taxable year.

UK Taxation of Capital Gains

Under the Income Tax Treaty, each country generally may tax capital gains in accordance with the provisions of its domestic law. Under present UK law, a US holder that is not a resident, and, in the case of an individual, not ordinarily resident, in the UK for UK tax purposes and who does not carry on a trade, profession or vocation in the UK through a branch or agency to which ordinary shares or ADSs are attributable will not be liable for UK taxation on capital gains or eligible for relief for allowable losses, realized on the sale or other disposal (including redemption) of these ordinary shares or ADSs, subject to exceptions applicable to persons who are temporarily non-resident in the UK.

US Income Taxation of Capital Gains

Upon a sale or exchange of ordinary shares or ADSs to a person other than Pearson, a US holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the US holder's adjusted tax basis in the ordinary shares or ADSs. Any gain or loss recognized will be capital gain or loss and will be long-term capital gain or loss if the US holder has held the ordinary shares or ADSs for more than one year.

Gain or loss realized by a US holder on the sale or exchange of ordinary shares or ADSs generally will be treated as US-source gain or loss for US foreign tax credit purposes.

Estate and Gift Tax

The current Estate and Gift Tax Convention between the US and the UK generally relieves from UK Inheritance Tax (the equivalent of US Estate and Gift Tax) the transfer of ordinary shares or of ADSs where the transferor is domiciled in the US, for the purposes of the Convention. This relief will not apply if the ordinary shares or ADSs are part of the business property of an individual's permanent establishment in the UK or pertain to the fixed base in the UK of a person providing independent personal services. If no relief is given under the Convention, Inheritance Tax may be charged on the amount by which the value of the transferor's estate is reduced as a result of any transfer made by way of gift or other gratuitous transfer by an individual, in general within seven years of death, or on the death of an individual. In the unusual case where ordinary shares or ADSs are subject to both UK Inheritance Tax and US Estate or Gift Tax, the Convention generally provides for tax paid in the UK to be credited against tax payable in the US or for tax paid in the US to be credited against tax payable in the UK based on priority rules set forth in the Convention.

Stamp Duty

No stamp duty or stamp duty reserve tax (SDRT) will be payable in the UK on the purchase or transfer of an ADS, provided that the ADS, and any separate instrument or written agreement of transfer, remain at all times outside the UK and that the instrument or written agreement of transfer is not executed in the UK. Stamp duty or SDRT is, however, generally payable at the rate of 1.5% of the amount or value of the consideration or, in some circumstances, the value of the ordinary shares, where ordinary shares are issued or transferred to a person whose business is or includes issuing depositary receipts, or to a nominee or agent for such a person.

A transfer for value of the underlying ordinary shares will generally be subject to either stamp duty or SDRT, normally at the rate of 0.5% of the amount or value of the consideration. A transfer of ordinary shares from a nominee to its beneficial owner, including the transfer of underlying ordinary shares from the Depositary to an ADS holder, under which no beneficial interest passes is subject to stamp duty at the fixed rate of £5.00 per instrument of transfer.

Close Company Status

We believe that the close company provisions of the UK Income and Corporation Taxes Act 1988 do not apply to us.

PLAN OF DISTRIBUTION

We and the underwriters named in the table below have entered into a standby underwriting agreement, as amended by a supplemental agreement, with respect to the rights offering both outside and inside the US. Pursuant to the terms of this underwriting agreement, if you do not exercise your share rights or ADS rights by the end of the subscription period, the underwriters have agreed to endeavor to procure subscribers for the new ordinary shares underlying the unsubscribed rights at a price in excess of the subscription price and expenses of sale. In the event the underwriters are unable to procure subscribers for the unsubscribed ordinary shares on those terms, they have severally agreed, subject to certain conditions, to subscribe for up to 150 million of the unsubscribed ordinary shares at the £10 per share subscription price. With respect to this purchase, the underwriters will subscribe for the percentage of those underwritten ordinary shares indicated in the following table.

Underwriter	Percentage of Unsubscribed Shares
With respect to the first 82,000,000 underwritten ordinary shares	
Goldman Sachs International	72.222%
Cazenove & Co.	27.778%
With respect to the remaining underwritten ordinary shares	
Goldman Sachs International	50%
Cazenove & Co.	50%

The underwriters' obligations to subscribe for any unsubscribed ordinary shares will be reduced by the number of ordinary shares that are taken up during the subscription period or sold after the subscription period ends as a result of the underwriters' efforts to procure subscribers for those ordinary shares.

In the event that the underwriters, acting solely as our agent, procure subscribers on your behalf, the underwriters or their agents, including other broker-dealers, are entitled to receive and retain any commissions or other fees paid in connection with the resulting sales. Any proceeds in excess of these expenses and the subscription price, which will be paid to us, will be paid pro rata to the unexercising holders.

We have agreed to pay the underwriters a commission of £7.5 million, which represents 0.5% of the aggregate subscription price of the underwritten ordinary shares, which is £1.5 billion. We will also pay the underwriters an additional commission of 0.1%, or £1.5 million, per seven-day period, or any part of that period, after August 30, 2000 until the date that is the earliest of:

- the date on which the sub-underwriters learn the number of shares that they will sub-underwrite,
- the third business day in London after the end of the subscription period, or
- the date on which the underwriters' obligations under the underwriting agreement cease.

The underwriters will pay, by reallocating a portion of their own commission, any sub-underwriters 0.4% of the aggregate subscription price of ordinary shares that each sub-underwriter sub-underwrites. The underwriters will also pay, by reallocating a portion of their own commission, to the sub-underwriters an additional commission of 0.1%, per seven-day period, or any part of that period, after August 30, 2000 until the date that is the earliest of:

- the date on which the sub-underwriters learn the number of shares that they will sub-underwrite,
- the third business day in London after the end of the subscription period, or
- the date on which the underwriters' obligations under the underwriting agreement cease.

In the event that the underwriters or sub-underwriters are required to pay us the subscription price and take up the unsubscribed ordinary shares, any resale of the unsubscribed ordinary shares by the underwriters or sub-underwriters will be for their own account and not on behalf of the unexercising holders. The proceeds from any resale will belong to them. These proceeds could be deemed underwriting compensation.

The underwriters may distribute the ordinary shares in the US in one or more of the following types of transactions:

- transactions, which may include block transactions, on the New York Stock Exchange,
- exchange distributions and/or secondary distributions in accordance with the rules of the New York Stock Exchange,
- over-the-counter market transactions,
- negotiated transactions, or
- a combination of any of these transactions.

These transactions may be effected by selling the ordinary shares to or through the US selling agents of the underwriters or other dealers, at:

- fixed prices, which may be changed,
- prevailing market prices at the time of the sale,
- prices related to prevailing market prices, or
- negotiated prices.

Dealers that engage in these transactions may receive compensation in the form of discounts, concessions or commissions from the underwriters, sub-underwriters or subsequent purchasers of the ordinary shares.

Other terms relating to the distribution of the share rights and ADS rights, as well as the distribution of new ordinary shares and new ADSs, are described under ''The US Rights Offering'' above.

We have been advised by the underwriters that they expect to make offers and sales of the unsubscribed ordinary shares outside of the US and inside the US through their respective selling agents. This prospectus may be used in connection with the offers and sales, or resales, to persons located in the US. The underwriters may distribute the unsubscribed shares in the form of ordinary shares or ADSs. A deposit of ordinary shares will be necessary to distribute ADSs, which will cause the imposition of a 1.5% UK tax on the issue price of the ordinary shares.

In connection with the offering, the underwriters may purchase and sell ordinary shares, ADSs, share rights or ADS rights in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of any of these securities than they could be required to purchase in the offering. Stabilizing transactions consist of various bids for or purchases of any of these securities made by the underwriters in the open market prior to the completion of the offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the ordinary shares, ADSs, share rights or ADS rights and may maintain or otherwise affect the market price of those securities. As a result, the price of those securities may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

We will apply to list the ADRs representing the ADSs on the New York Stock Exchange under the symbol ''PSO''. We do not intend to list the ADS rights, but you may trade them in the over-the-counter market. Our ordinary shares are listed on the London Stock Exchange under the symbol ''PSON''. The share rights will trade on the London Stock Exchange.

The underwriters, their US selling agents and their respective affiliates may perform investment banking services for us from time to time. Affiliates of the underwriters have advised us in connection with the NCS acquisition.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of ordinary shares that may be offered.

We estimate that our share of the total expenses, excluding the commissions paid to the underwriters or sub-underwriters, in connection with the offering will be approximately £6 million or $9 million.

We have agreed to indemnify the underwriters and their US selling agents against liabilities under the Securities Act.

SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

We are a public company with limited liability incorporated under the laws of England and Wales. Most of our senior management and some of the experts named in this prospectus are not residents of the US. A substantial portion of our assets and all or a substantial portion of the assets of these named persons are or may be located outside the US. As a result, it may not be possible for investors to effect service of process within the US upon us or these persons or to enforce against us or them judgments obtained in US courts. We have been advised by our legal advisors, Freshfields Bruckhaus Deringer, that there is substantial doubt as to the enforcement in England, in original actions or in actions for enforcement of judgments of US courts, of liabilities predicated upon US federal securities laws, including civil liabilities under those laws.

We have expressly submitted to the jurisdiction of the US federal and New York state courts sitting in The City of New York for the purpose of any suit, action or proceeding arising out of this offering, and we have appointed Pearson Inc., New York, New York, to accept service of process.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the US Securities and Exchange Commission a registration statement on Form F-1 under the Securities Act with respect to the securities offered in this prospectus. This prospectus, which forms a part of the registration statement, does not contain all the information in the registration statement. Portions of the registration statement contain exhibits and schedules which have been omitted from this prospectus as permitted by the rules and regulations of the SEC. For further information about us and our ordinary shares offered in this prospectus, we refer you to the registration statement and to its exhibits and schedules. You may inspect the registration statement, including all its exhibits and schedules, without charge at the principal office of the SEC located at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC in Chicago, Illinois and New York, New York. You may obtain copies of this material from the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, we have applied for listing on the New York Stock Exchange. You may inspect reports and other information about us at the office of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Upon completion of this offering, we will be subject to the informational requirements of some US federal securities laws and, therefore, we will be required or have agreed to file periodic reports and other information with the SEC, except as described below. As a foreign private issuer, we will be exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements. Additionally, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, under the Exchange Act, we are not required to publish financial statements as frequently, as promptly or containing the same information as US companies.

VALIDITY OF SECURITIES

The validity of the ordinary shares represented by the ADSs being registered hereunder will be passed upon by Freshfields Bruckhaus Deringer, our English counsel. The validity of the ADSs will be passed upon for us by Morgan, Lewis & Bockius LLP, and for the underwriters by Sullivan & Cromwell. Morgan, Lewis & Bockius LLP and Sullivan & Cromwell may rely upon Freshfields Bruckhaus Deringer with respect to matters of English law.

EXPERTS

The financial statements as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers, independent chartered accountants, given on the authority of said firm as experts in auditing and accounting.

The Simon & Schuster (Excluding Consumer) carve-out financial statements as of December 31, 1997, 1996 and 1995 and for each of the three years in the period ended December 31, 1997 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

UK PROSPECTUS

A copy of the UK prospectus relating to Pearson in accordance with the listing rules made under Section 142 of the UK Financial Services Act 1986 in connection with the offering of new shares and their admission to the Official List of the UK Listing Authority has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of such Act and is available for inspection at our registered office at 3 Burlington Gardens, London W1X 1LE, England. The contents of the referenced UK prospectus do not form part of, nor are they incorporated into, this prospectus.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Pearson plc

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in financial position (cash flows) and of changes in capital stock, reserves not available for distribution and unappropriated earnings (shareholders' equity) present fairly in all material respects, the financial position of Pearson plc and its subsidiaries at December 31, 1999 and 1998 and the results of their operations and their changes in financial position (cash flows) for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United Kingdom. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Accounting principles generally accepted in the United Kingdom vary in certain important (or significant) respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in sterling for each of the three years in the period ended December 31, 1999 and the determination of consolidated stockholders' equity and consolidated financial position also expressed in sterling at December 31, 1999 and 1998 to the extent summarised in Note 34 to the consolidated financial statements.

PricewaterhouseCoopers
London
6 March 2000,
except for the information
presented in Notes 31 and 34,
for which the date is 12 May 2000

PEARSON PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1999

		1999			1998			1997
	Note	Operating activities	Other items	Total	Operating activities	Other items	Total	Restated total
		£m	£m	£m	£m	£m	£m	£m
Sales								
Continuing operations		3,304	-	3,304	2,251	-	2,251	2,011
Acquisitions		28	-	28	-	-	-	-
		3,332	-	3,332	2,251	-	2,251	2,011
Discontinued operations		-	-	-	144	-	144	282
Total sales	2	3,332	-	3,332	2,395	-	2,395	2,293
Cost of sales	3	(1,414)	(10)	(1,424)	(1,127)	(49)	(1,176)	(1,114)
Gross profit		1,918	(10)	1,908	1,268	(49)	1,219	1,179
Net operating expenses—before goodwill amortization		(1,441)	(90)	(1,531)	(930)	(78)	(1,008)	(898)
Net operating expenses—goodwill amortization	3	(130)	-	(130)	(12)	-	(12)	-
Net operating expenses	3	(1,571)	(90)	(1,661)	(942)	(78)	(1,020)	(898)
Operating profit								
Continuing operations—Group		350	(100)	250	303	(127)	176	252
Acquisitions—Group		(3)	-	(3)	-	-	-	-
		347	(100)	247	303	(127)	176	252
Discontinued operations—Group		-	-	-	23	-	23	29
Total operating profit—Group		347	(100)	247	326	(127)	199	281
Share of operating profit of associates:								
Continuing operations		24	-	24	11	-	11	-
Acquisitions—after goodwill amortization of £1m		(1)	-	(1)	-	-	-	-
	13	23	-	23	11	-	11	-
Discontinued operations	13	48	-	48	40	-	40	47
Total share of operating profit of associates	13	71	-	71	51	-	51	47
Total operating profit analyzed between:								
Operating profit before internet enterprises and goodwill amortization	2	588	(100)	488	389	(127)	262	328
Internet enterprises	2	(39)	-	(39)	-	-	-	-
Goodwill amortization		(131)	-	(131)	(12)	-	(12)	-
Total operating profit	2	418	(100)	318	377	(127)	250	328

PEARSON PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT (Continued)

FOR THE YEAR ENDED DECEMBER 31, 1999

		1999			1998			1997
	Note	Operating activities	Other items	Total	Operating activities	Other items	Total	Restated total
		£m	£m	£m	£m	£m	£m	£m
Continuing operations:								
Profit on sale of fixed assets and investments	4			352			142	23
(Loss)/profit on sale of businesses and associates	5			(44)			50	33
Discontinued operations:								
Profit/(loss) on sale of businesses and associates	5			-			215	(212)
				308			407	(156)
Continuing operations:								
Profit/(loss) on sale of businesses and associates by an associate	13			1			11	(1)
Profit before interest				627			668	171
Net interest payable—Group	6			(145)			(36)	(37)
Net interest payable—associates	13			(2)			(3)	(5)
Total net interest payable				(147)			(39)	(42)
Profit before taxation				480			629	129
Taxation	7			(180)			(188)	(89)
Profit after taxation				300			441	40
Equity minority interests				(6)			(4)	(2)
Profit for the financial year				294			437	38
Dividends on equity shares	8			(138)			(126)	(112)
Profit/(deficit) retained				156			311	(74)
Adjusted earnings per equity share before internet enterprises	9			53.3p			42.0p	34.9p
Adjusted earnings per equity share after internet enterprises	9			48.5p			42.0p	34.9p
Earnings per equity share	9			48.2p			74.1p	6.6p
Diluted earnings per equity share	9			47.5p			73.3p	6.4p
Dividends per equity share	8			22.5p			21.0p	19.5p

Note:
1997 has been restated to reflect the adoption of FRS 9 ''Associates and Joint Ventures'' and FRS 14 ''Earnings Per Share''. There were no ''other items'' in 1997.

PEARSON PLC

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1999

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

PEARSON PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1999

	Note	1999	1998	1997
		£m	£m	£m
Net cash inflow from operating activities	27	433	402	204
Dividends from partnerships and other associates		44	53	40
Interest received		41	52	35
Interest paid		(182)	(88)	(72)
Debt issue costs		(5)	(21)	-
Dividends paid to minority interests		(1)	(3)	(1)
Returns on investments and servicing of finance		(147)	(60)	(38)
Taxation		(156)	(80)	(75)
Purchase of tangible fixed assets		(102)	(125)	(110)
Sale of tangible fixed assets		36	14	22
Purchase of investments		(24)	(53)	(12)
Sale of investments	14/17	624	199	148
Capital expenditure and financial investment		534	35	48
Purchase of subsidiary undertakings		(249)	(2,936)	(269)
Net cash acquired with subsidiary undertakings		-	(2)	3
Purchase of associates		(54)	(13)	(67)
Sale of subsidiary undertakings		44	718	54
Net cash disposed with subsidiary undertakings		(3)	(17)	(1)
Sale of associates		12	77	46
Acquisitions and disposals	25/26	(250)	(2,173)	(234)
Equity dividends paid		(132)	(113)	(106)
Net cash inflow/(outflow) before management of liquid resources and financing		326	(1,936)	(161)
Disposal of asset backed securities		-	-	89
Liquid resources acquired		(9)	(1,261)	(123)
Liquid resources disposed		10	1,306	123
Management of liquid resources	27	1	45	89
Issue of equity share capital		18	344	27
Capital element of finance lease rentals		(11)	(1)	(1)
Unsecured bank loans repaid		-	(141)	-
Loan facility (repaid)/advanced		(1,112)	2,115	-
4.625% euro Bonds 2004 advanced		358	-	-
7% Sterling Bonds 2014 advanced		250	-	-
Loan stock repaid		-	-	(68)
Net movement in other borrowings		202	(280)	184
Financing		(295)	2,037	142
Increase in cash in the year	27	32	146	70

PEARSON PLC

STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES

FOR THE YEAR ENDED DECEMBER 31, 1999

	1999	1998	1997
	£m	£m	£m
Profit for the financial year	294	437	38
Other net gains and losses recognized in reserves:			
Currency translation differences	36	(8)	(20)
Total recognized gains relating to the year	330	429	18

NOTE OF HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED DECEMBER 31, 1999

	1999	1998	1997
	£m	£m	£m
Reported profit before taxation	480	629	129
Realization of property revaluations	-	2	2
Historical cost profit on ordinary activities before taxation	480	631	131
Historical cost profit/(loss) retained after taxation, equity minority interests and dividends	156	313	(72)

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1999

	1999	1998	1997
	£m	£m	£m
Profit for the financial year	294	437	38
Dividends on equity shares	(138)	(126)	(112)
	156	311	(74)
Other net recognized gains/(losses) relating to the year (see above)	36	(8)	(20)
Goodwill arising on prior year acquisitions	-	(16)	(402)
Goodwill written back	63	262	233
Shares issued	18	347	27
Net movement for the year	273	896	(236)
Equity shareholders' funds at beginning of the year	1,048	152	388
Equity shareholders' funds at end of the year	1,321	1,048	152

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 Pearson plc (the ''Company'') and all its subsidiary and associated undertakings (the ''Group'' or ''Pearson'') made up to December 31. 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 January 1, 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 capitalized and amortized 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 January 1, 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 December 31.

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 December 31. 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.

1 Accounting policies (Continued)

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; 1997: $1.63) and the year end rate was $1.61 (1998: $1.66; 1997: $1.65).

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 recognize this obligation over the expected service lives of the employees concerned.

g) Channel 5

The Group's share of certain Channel 5 initial costs is being amortized. These costs will be amortized 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 capitalized 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 assets 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 realizable value.

1 Accounting policies (Continued)

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 cost incurred in the development of titles prior to their publication, are included within stocks and are amortized over their estimated economic lives.
- Advances to authors are included within debtors net of any provision required for net realizable value and are expensed at contracted rates based on sales of the related titles.
- Television program production costs are included within stocks and are amortized 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 realizable 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.

2 a) Analysis of sales and operating profit

	1999			1998			1997	
	Sales	Operating profit before internet enterprises, goodwill amortization & other items	Operating profit after internet enterprises, goodwill amortization & other items	Sales	Operating profit before internet enterprises, goodwill amortization & other items	Operating profit after internet enterprises, goodwill amortization & other items	Sales	Restated operating profit
	£m	£m	£m	£m	£m	£m	£m	£m
Business sectors								
FT Group	687	150	103	683	118	114	676	108
Pearson Education	1,725	257	36	702	99	(34)	563	60
The Penguin Group	565	65	64	523	48	46	525	58
Pearson Television	355	68	67	343	61	61	247	26
Continuing operations	3,332	540	270	2,251	326	187	2,011	252
Discontinued operations	-	48	48	144	63	63	282	76
	3,332	588	318	2,395	389	250	2,293	328
Geographical markets supplied								
United Kingdom	544	46	(4)	497	38	35	487	39
Continental Europe	518	110	103	461	109	106	382	73
North America	1,990	340	134	1,078	157	30	916	110
Asia Pacific	200	29	23	161	16	11	179	23
Rest of World	80	15	14	54	6	5	47	7
Continuing operations	3,332	540	270	2,251	326	187	2,011	252
Discontinued operations	-	48	48	144	63	63	282	76
	3,332	588	318	2,395	389	250	2,293	328

Note:
''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 are 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 withdrawal of the Group from the banking business following its disposal of Lazard on March 3, 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.

1997 operating profit is stated after restructuring costs of £34m which were classified as exceptional within operating activities. These related to FT Group, £14m, Pearson Education, £12m, Pearson Television, £4m and discontinued businesses, £4m, and are shown mainly within United Kingdom, £16m, and North America, £17m.

Analyses of the profits of associates are shown in note 13.

2 a) Analysis of sales and operating profit (Continued)

	1999			1998			1997		
	Total by source	Inter-regional	Sales	Total by source	Inter-regional	Sales	Total by Source	Inter-regional	Sales
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Geographical source of sales									
United Kingdom	820	(52)	768	728	(52)	676	703	(46)	657
Continental Europe	394	(6)	388	355	(6)	349	302	(7)	295
North America	1,991	(18)	1,973	1,108	(28)	1,080	928	(19)	909
Asia Pacific	159	(4)	155	129	(4)	125	144	(7)	137
Rest of World	50	(2)	48	22	(1)	21	13	-	13
Continuing operations	3,414	(82)	3,332	2,342	(91)	2,251	2,090	(79)	2,011
Discontinued operations	-	-	-	144	-	144	284	(2)	282
	3,414	(82)	3,332	2,486	(91)	2,395	2,374	(81)	2,293

Note:
The table above analyzes 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.

2 b) Analysis of capital employed

	1999 Capital employed £m	1998 Capital employed £m
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

	1999	1998			1997		
	Total	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	£m	£m	£m	£m	£m	£m	£m
Cost of sales	(1,424)	(1,138)	(38)	(1,176)	(1,003)	(111)	(1,114)
Distribution costs	(289)	(168)	(1)	(169)	(123)	(3)	(126)
Administration and other expenses	(1,470)	(848)	(85)	(933)	(701)	(143)	(844)
Other operating income (see below)	98	79	3	82	68	4	72
Net operating expenses	(1,661)	(937)	(83)	(1,020)	(756)	(142)	(898)
Analyzed as:							
Net operating expenses-before exceptional items and goodwill amortization	(1,446)	(854)	(83)	(937)	(726)	(138)	(864)
Net operating expenses-exceptional items	(85)	(71)	-	(71)	(30)	(4)	(34)
Net operating expenses-goodwill amortization	(130)	(12)	-	(12)	-	-	-
Net operating expenses	(1,661)	(937)	(83)	(1,020)	(756)	(142)	(898)

Note:
The following amounts are included in the 1999 totals in respect of acquisitions: cost of sales £14m (1998: £74m; 1997: £15m) and net operating expenses £17m (1998: £95m; 1997: £13m). The exceptional expense of £95m in 1999 (1998: £120m; 1997: £34m) is included within cost of sales £10m (1998: £49m; 1997: £nil) and administration and other expenses £85m (1998: £71m; 1997: £34m) (see note 2).

3 Analysis of consolidated profit and loss account (Continued)

	1999 £m	1998 £m	1997 £m
Other operating income:			
Income from other investments:			
Listed	-	-	2
Unlisted	3	14	13
BSBH loan stock interest	1	4	4
Other operating income (mainly royalties, rights and commission income)	94	64	53
	98	82	72
Profit before taxation is stated after charging:			
Depreciation	82	66	65
Operating lease rentals:			
Plant and machinery	22	17	12
Properties	61	41	36
Other	12	4	5
Year 2000 compliance costs	5	7	-
Auditors' remuneration:			
Audit	2	2	2
Non-audit—UK (Company £nil; 1998: £nil, 1997: £nil)	2	2	2
Non-audit—Other	2	2	-

Note:
In addition to the non-audit fees (UK) of £2m (1998: £2m; 1997: £2m), consultancy fees of £6m (1998: £7m; 1997: £8m) have been incurred in respect of systems development. These fees have been capitalized. Fees of £2m (1998: £2m; 1997 £nil) were also incurred in the UK in respect of acquisition and disposals. These fees have also been capitalized. Audit fees of the Company amounted to £0.1m (1998: £0.1m; 1997: £0.1m).

4 Profit on sale of fixed assets and investments

	1999 £m	1998 £m	1997 £m
Continuing operations:			
Profit on disposal of interest in BSB Holdings Ltd (BSBH) (see note 14)	348	-	-
Profit on sale of investments in Société Européenne des Satellites	-	133	-
Profit on sale in investment in Flextech plc	-	27	24
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)	(1)
	352	142	23
Taxation	(93)	(40)	(4)

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

	1999	1998	1997
	£m	£m	£m
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)	-
Profit on sale of Churchill Livingstone	-	2	30
Profit on sale of Troll Communications LLC	-	-	13
Net loss on sale of other businesses and associates	(13)	(17)	(10)
	(44)	50	33
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)	-
Provision against goodwill on the sale of Mindscape Inc.	-	-	(212)
	-	215	(212)
Taxation	5	(63)	(1)

6 Net interest payable—Group

	1999	1998	1997
	£m	£m	£m
Interest payable and similar charges:			
On borrowing repayable wholly within five years not by installments	(155)	(43)	(32)
On borrowing repayable wholly or partly after five years	(29)	(44)	(45)
	(184)	(87)	(77)
Interest receivable and similar income:			
On deposits and liquid funds	29	48	37
On discounted proceeds on businesses held for resale (see note 17)	7	-	-
Amortization of swap proceeds (see note 20)	3	3	3
Net interest payable	(145)	(36)	(37)

7 Taxation

	1999 £m	1998 £m	1997 £m
UK:			
Corporation tax at 30.2% (1998: 31%; 1997: 31.5%)	104	134	37
Deferred taxation	6	(4)	11
Double taxation relief	(1)	(1)	(1)
Tax on franked investment income	4	-	-
Associates	9	8	5
Overseas:			
Overseas taxation	52	45	30
Deferred taxation	-	1	2
Associates	6	5	5
	180	188	89
	%	%	%
Tax rate reconciliation			
UK tax rate	30.2	31.0	31.5
Effect of utilization of tax losses in the US	(7.7)	(2.7)	(4.3)
Other items	2.5	(0.3)	2.2
Tax rate reflected in adjusted earnings	25.0	28.0	29.4
Effect of profits/(losses) excluded from adjusted earnings	12.5	1.9	39.5
Tax rate reflected in earnings	37.5	29.9	68.9

Note:
The Group continues to have substantial tax losses available in the US, which are not recognized 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.

The 1997 tax rate has been affected by two significant factors:

- The Group has substantial tax losses in the US which have not been recognized in the accounts and more than offset 1997 profits, so reducing the Group tax rate reflected in adjusted earnings.
- There is no tax payable on the profit arising from the disposal of Television Broadcasts Limited and the tax payable on the disposal of Flextech plc is reduced by capital losses brought forward. The provision against goodwill on the sale of Mindscape Inc. has had no impact on 1997 tax.

8 Dividends

	1999		1998		1997	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Interim paid	8.6	53	8.0	47	7.5	43
Final proposed	13.9	85	13.0	79	12.0	69
Dividends for the year	22.5	138	21.0	126	19.5	112

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 amortization has also been excluded from 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		1997	
	£m	Earnings per share (p)	£m	Earnings per share (p)	£m	Earnings per share (p)
Basis earnings	294	48.2	437	74.1	38	6.6
Less:						
(Profit) on sale of fixed assets and investments: continuing operations	(352)	(57.7)	(142)	(24.1)	(23)	(4.0)
Loss/(profit) on sale of businesses and associates: continuing operations	44	7.2	(50)	(8.5)	(33)	(5.8)
(Profit)/loss on sale of businesses and associates: discontinued operations	-	-	(215)	(36.4)	212	37.0
(Profit)/loss on sale of businesses and associates by an associate: continuing operations	(1)	(0.2)	(11)	(1.9)	1	0.2
Add:						
Internet enterprises	39	6.4	-	-	-	-
Goodwill amortization	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	5	0.9
Adjusted earnings before internet enterprises	325	53.3	248	42.0	200	34.9
Internet enterprises	(39)	(6.4)	-	-	-	-
Taxation on internet enterprises	10	1.6	-	-	-	-
Adjusted earnings after internet enterprises	296	48.5	248	42.0	200	34.9
Earnings	294		437		38	
Taxation on the conversion of ordinary shares	(1)		(1)		(1)	
Diluted earnings	293		436		37	
Weighted average number of equity shares (millions)—for earnings and adjusted earnings	610.2		589.8		572.8	
Effect of dilutive share options	7.0		5.1		4.7	
Weighted average number of equity shares (millions)—for diluted earnings	617.2		594.9		577.5	
Adjusted earnings per equity share before internet enterprises	53.3p		42.0p		34.9p	
Adjusted earning per equity share after internet enterprises	48.5p		42.0p		34.9p	
Earnings per equity shares	48.2p		74.1p		6.6p	
Diluted earnings per equity share	47.5p		73.3p		6.4p	

Note:
1997 weighted average number of equity shares has been restated in accordance with FRS14 ''Earnings Per Share''.

10 Employee information

	1999	1998	1997
	£m	£m	£m
Staff costs			
Wages and salaries	702	476	454
Social security costs	75	54	46
Post-retirement costs	26	13	10
	803	543	510

	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
Average number employed 1997				
FT Group	3,093	902	1,834	5,829
Pearson Education	818	2,498	1,279	4,595
The Penguin Group	895	1,728	582	3,205
Pearson Television	278	40	362	680
Other	124	93	-	217
Continuing operations	5,208	5,261	4,057	14,526
Discontinued operations	3,187	424	169	3,780
	8,395	5,685	4,226	18,306

10 Employee information (Continued)

	1999	1998	1997
	£m	£m	£m
Post-retirement costs			
Defined benefit pension schemes			
UK Group plan: regular pension cost	8	8	9
UK Group plan: amortization of surplus	(3)	(9)	(13)
Net pension charge/(credit)	5	(1)	(4)
Other defined benefit pension schemes	11	6	6
Defined contribution pension schemes	6	5	6
Medical benefits	4	3	2
	26	13	10

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 January 1, 1999, using the projected unit method of valuation, of the principal funded UK scheme, and the principal assumptions are shown in the table below. The net assets of the UK Group plan at December 31, 1999 are included in the pension plan accounts at £1,192m (unaudited).

	UK group plan
Assets at market value at latest full actuarial valuation on January 1, 1999	£1,038m
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; 1997: £48m).

10 Employee information (Continued)

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

	Goodwill total 1999	Goodwill total 1998
	£m	£m
Cost		
At December 31	2,342	-
Exchange differences	71	(6)
Additions (see note 25)	187	2,348
Disposals (see note 26)	(1)	-
At December 31	2,599	2,342
Amortization		
At December 31	(12)	-
Provided in the year	(130)	(12)
At December 31	(142)	(12)
Net carrying amount		
At December 31	2,457	2,330

12 Tangible fixed assets

	1999			
	Freehold and leasehold property	Plant and equipment	Assets in course of construction	Total
	£m	£m	£m	£m
Cost or as valued				
At December 31, 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 December 31, 1999	235	537	21	793
Depreciation				
At December 31, 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 December 31, 1999	(81)	(307)	-	(388)
Net book value				
At December 31, 1998	171	246	18	435
At December 31, 1999	154	230	21	405

12 Tangible fixed assets (Continued)

	1998			
	Freehold and leasehold property	Plant and equipment	Assets in course of construction	Total
	£m	£m	£m	£m
Cost or as valued				
At December 31, 1997	319	485	37	841
Exchange differences	-	2	-	2
Reclassifications	-	13	(13)	-
Owned by subsidiary undertakings acquired	42	205	1	248
Capital expenditure	15	60	34	109
Disposals	(7)	(43)	(35)	(85)
Owned by subsidiary undertakings disposed	(120)	(195)	(6)	(321)
At December 31, 1998	249	527	18	794
Depreciation				
At December 31, 1997	(71)	(264)	-	(335)
Exchange differences	-	-	-	-
Reclassifications	1	(1)	-	-
Impairment in value	(6)	(5)	-	(11)
Provided in the year	(10)	(56)	-	(66)
Subsidiary undertakings acquired	(12)	(93)	-	(105)
Disposals	3	37	-	40
Subsidiary undertakings disposed	17	101	-	118
At December 31, 1998	(78)	(281)	-	(359)
Net book value				
At December 31, 1997	248	221	37	506
At December 31, 1998	171	246	18	435

Freehold and leasehold property

Net book value includes: freehold of £113m (1998: £133m), 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 (1998: £40m), is not depreciated.

Capital commitments

The Group had capital commitments for fixed assets, including finance leases, already under contract amounting to £20m at December 31, 1999 (1998: £45m).

12 Tangible fixed assets (Continued)

Other notes

The net book value of Group tangible fixed assets includes £23m (1998: £20m) in respect of assets held under finance leases. Depreciation on these assets charged in 1999 was £2m (1998: £1m).

13 Associates

	1999		1998	
	Valuations	Book value	Valuations	Book value
	£m	£m	£m	£m
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 F-90. The valuations of unlisted partnerships and other associates are at directors' valuations as at December 31, 1999. If realized at these values there would be an estimated liability for taxation, at year end rates, of £161m (1998: £68m). The Group had no capital commitments to subscribe for further capital and loan stock.

	Equity	Share of loans	Reserves	Total	Goodwill	Total net assets
	£m	£m	£m	£m	£m	£m
Summary of movements						
At December 31, 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 amortization	-	-	-	-	(1)	(1)
At December 31, 1999	98	67	43	208	26	234

13 Associates (Continued)

	Equity	Share of loans	Reserves	Total
	£m	£m	£m	£m
Summary of movements				
At December 31, 1997	87	107	4	198
Exchange differences	(2)	-	-	(2)
Additions	2	11	-	13
Goodwill written back	16	-	1	17
Owned by subsidiary undertakings disposed	-	(6)	-	(6)
Disposals	(26)	(47)	22	(51)
Retained loss for the year	-	-	(24)	(24)
At December 31, 1998	77	65	3	145

Note:
During 1998 the Group sold its 40.5% share in Port Aventura SA for £56m giving rise to a profit on sale of £28m before tax estimated at £6m. This includes compensation of £18m from Port Aventura SA for the cancellation of the management agreement. During 1998 the Group also sold its 20% share in the Canadian Financial Post for £13m giving rise to a profit on sale of £8m before tax estimated at £4m.

	1999		1998		1997	
	Operating Profit	Total net assets	Operating Profit	Total net assets	Operating profit	Total net assets
	£m	£m	£m	£m	£m	£m
Analysis of partnerships and other associates						
Business sectors						
FT Group	14	63	15	6	16	(3)
Pearson Education	6	7	4	5	3	5
The Penguin Group	-	-	-	-	1	1
Pearson Television	3	15	(8)	23	(20)	49
Continuing operations	23	85	11	34	-	52
Discontinued operations	48	149	40	111	47	146
	71	234	51	145	47	198
Geographical markets supplied and location of net assets						
United Kingdom	-	2	(3)	18	(16)	40
Continental Europe	10	56	6	7	5	6
North America	8	14	5	1	6	(1)
Rest of World	5	13	3	8	5	7
Continuing operations	23	85	11	34	-	52
Discontinued operations	48	149	40	111	47	146
	71	234	51	145	47	198

13 Associates (Continued)

	1999	1998
	£m	£m
Reconciliation to retained profit/(loss)		
Operating profit of partnerships and other associates	71	51
Net interest payable of other associates	(2)	(3)
Profit on sale of business by an associate	1	11
UK taxation	(9)	(8)
Overseas taxation	(6)	(5)
Distributions receivable in respect of the year from partnership interests	(2)	(59)
Dividends (including tax credits) from unlisted associates	(12)	(11)
Retained profit/(loss) for the year	41	(24)

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.

	1999	1998	1997
	£m	£m	£m
Sales	299	239	225
Fixed assets	98	57	130
Current assets	165	126	126
Liabilities due within one year	(105)	(88)	(101)
Liabilities due after one year or more	(73)	(61)	(80)
Net assets	85	34	75

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

	1999	1998	1997
	£m	£m	£m
Profit before tax	48	53	43
Taxation	(7)	(7)	(6)
Profit after taxation	41	46	37
Fixed assets	26	28	48
Current assets	3,399	5,151	3,925
Liabilities due within one year	(2,819)	(4,829)	(3,753)
Liabilities due after one year or more	(457)	(239)	(97)

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; 1997: £930m). Pearson also held direct interests in Lazard Frères & Co., a New York Limited Liability Company.

13 Associates (Continued)

	Country of incorporation or registration	Beneficial interest %	Class of share	Share capital millions
Interest in the Lazard Houses				
Lazard Partners Limited Partnership	US	50.0		Partnership
(which, with direct interest in the US and French partnerships gives the following interest in the Lazard Houses):				
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	SFr 1	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 interest are interests in partnership profits.

14 Other fixed asset investments

	1999		1998	
	Valuation	Book value	Valuation	Book value
	£m	£m	£m	£m
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 realized at valuation there would be an estimated liability for taxation, at year end rates, of £10m (1998: £49m).

14 Other fixed asset investments (Continued)

	BSBH	Other	Total
	£m	£m	£m
Summary of movements			
At December 31, 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 December 31, 1999	-	99	99
Valuation at December 31, 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 December 31, 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.

	BSBH	Other	Total
	£m	£m	£m
Summary of movements			
At December 31, 1997	90	50	140
Exchange differences	-	5	5
Additions	-	53	53
Owned by businesses disposed	-	(5)	(5)
Disposals	-	(27)	(27)
Release of provisions for permanent diminution in value	-	2	2
Book value at December 31, 1998	90	78	168
Valuation at December 31, 1998	255	78	333

15 Stocks

	1999	1998
	£m	£m
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

	1999	1998
	£m	£m
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

	1999		1998	
	Valuation	Book value	Valuation	Book value
	£m	£m	£m	£m
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 realized at valuation there would be no liability for taxation.

	1999	1998
	£m	£m
Summary of movements		
At December 31	153	8
Exchange differences	5	-
Owned by businesses acquired (see note 25)	27	151
Disposals	(181)	(6)
At December 31	(4)	153

18 Cash at bank and in hand

	1999		1998	
	Group	Company	Group	Company
	£m	£m	£m	£m
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

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 summarized 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 reviewed periodically by a Group of external professional advisers. The treasury department is not a profit center, 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.

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

19 Financial instruments (Continued)

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 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.

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 receivable, 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

19 Financial instruments (Continued)

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%.

Short-term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

	1999		1998	
	Group	**Company**	**Group**	**Company**
	£m	**£m**	**£m**	**£m**
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 installments 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 installments	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 December 31, 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.

19 Financial instruments (Continued)

	1999			1998		
	Group finance leases	Group other financial liabilities	Group total	Group finance leases	Group other financial liabilities	Group Total
	£m	£m	£m	£m	£m	£m
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

	1999		1998	
	Group	Company	Group	Company
	£m	£m	£m	£m
Borrowing by instrument				
Unsecured				
10.75% Sterling Bonds 2002	100	-	100	-
9.5% Sterling Bonds 2004	120	-	117	-
4.625% euro 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

	1999	1998
	£m	£m
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.

19 Financial instruments (Continued)

	1999				
	Borrowings	Total variable rate	Total fixed rate	Weighted average interest rate	Weighted Average period for which rate is fixed-years
	£m	£m	£m	%	
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
euro	248	248	-	-	-
	2,323	1,168	1,155		

	1998				
	Borrowings	Total variable rate	Total fixed rate	Weighted average interest rate	Weighted Average period for which rate is fixed-years
	£m	£m	£m	%	
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.

19 Financial instruments (Continued)

	1999		
	Other financial liabilities	Total fixed rate	Total no interest paid
	£m	£m	£m
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

	1998			
	Other financial liabilities	Total variable rate	Total fixed rate	Total no interest paid
	£m	£m	£m	£m
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.

	1999				
	Net foreign monetary assets/(liabilities)				
	US dollar	Sterling	euro	Other	Total
	£m	£m	£m	£m	£m
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

19 Financial instruments (Continued)

	1998 Net foreign monetary assets/(liabilities) US dollar £m	Sterling £m	French francs £m	Spanish peseta £m	Other £m	Total £m
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)

	1999 Cash at bank and in hand £m	Short-term deposits £m	Other financial assets £m	Total £m
Currency and interest rate risk profile of financial assets				
US dollar	183	7	1	191
Sterling	5	17	2	24
euro	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 (Continued)

	1998			
	Cash at bank and in hand	Short-term deposits	Other financial assets	Total
	£m	£m	£m	£m
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%.

19 Financial instruments (Continued)

	1999		1998	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
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 swaps	-	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 December 31, 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 December 31, 1999 the Group had £473m (1998: £117m) of such contracts outstanding.

19 Financial instruments (Continued)

	Unrecognized			
	Gains	Losses	Total net gains/ (losses)	Deferred gains
	£m	£m	£m	£m
Gains and losses on hedges at December 31, 1998	50	(41)	9	7
Gains and losses arising in previous years that were recognized in 1999	(2)	-	(2)	(3)
Gains and losses arising before December 31, 1998 that were not recognized in 1999	48	(41)	7	4
Gains and losses arising in 1999 that were not recognized in 1999	3	24	27	-
Unrecognized gains and losses on hedges at December 31, 1999	51	(17)	34	4
Of which: Gains & losses expected to be recognized in 2000	2	(1)	1	3
Gains & losses expected to be recognized in 2001 or later	49	(16)	33	1

20 Other creditors

	1999 £m	1998 £m
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 unamortized 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 amortized over the remaining life of the bonds. £1m (1998: £5m) is due after one year. None of the amount falls due after five years.

21 Deferred taxation

	1999 £m	1998 £m
Summary of movements		
At December 31	20	37
Exchange differences	(3)	1
Subsidiary undertakings acquired/(disposed)	(2)	(14)
Net charge/(release) in the year	6	(3)
Transfer to current taxation	-	(1)
At December 31	21	20

	1999 £m	1998 £m
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

	1999		
	Post-retirement	Other	Total
	£m	£m	£m
At December 31, 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
Utilized	(21)	(62)	(83)
At December 31, 1999	95	111	206

	1998		
	Post-retirement	Other	Total
	£m	£m	£m
At December 31, 1997	34	141	175
Exchange differences	-	(1)	(1)
Subsidiary undertakings acquired/disposed	63	31	94
Deferred consideration arising on acquisitions	-	1	1
Transfers	-	7	7
Released	(1)	(1)	(2)
Provided	14	47	61
Utilised	(10)	(72)	(82)
At December 31, 1998	100	153	253

Note:
Post-retirement provisions, based on actuarial assumptions, are in respect of pensions, £35m (1998: £30m) and post-retirement medical benefits, £60m (1998: £70m). 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 utilized. Included within the year end balance is £10m which relates to the purchase of All American Communications in 1997, the utilization 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 utilized, £4m released, £3m provided in respect of the Simon & Schuster acquisition, and £6m provided in respect of warranty and legal claims, the amount and timings of the settlement of which is unknown.

c. Reorganization and redundancies, £27m (1998: £51m). During the year £3m has been released, £10m provided and £33m utilized mainly in respect of the integration of Simon & Schuster following its acquisition in 1998. The balance is expected to be utilized in the year ended December 31 2000 and is based on current reorganization 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 utilized, £4m charged and £2m removed through disposals.

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

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

23 Share capital

	1999 Number ('000)	1999 £m
Authorized		
Ordinary shares of 25p each	894,000	212
At December 31, 1999	894,000	212
Called up, allotted and fully paid		
Ordinary shares of 25p at December 31, 1998	609,555	152
Issued under share option and employee share schemes	3,115	1
At December 31, 1999	612,670	153

	1998 Number ('000)	1998 £m
Authorized		
Ordinary shares of 25p each	846,000	212
At December 31, 1998	846,000	212
Called up, allotted and fully paid		
Ordinary shares of 25p at December 31, 1997	576,772	144
Issued under share option and employee share schemes	3,611	1
Issued under scrip dividend scheme	292	-
Issued under placing	28,880	7
At December 31, 1998	609,555	152

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 FRS 4. 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 for Share'' 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. Shares issued include £nil (1998: £3m) under the scrip dividend plan.

23 Share capital (Continued)

	When granted	Number of shares ('000)	Original subscription price (p)	Exercise period
Options outstanding at December 31, 1999				
Worldwide Save for Shares plans	1992	39	242	1997-2000
	1994	100	509	1999-2002
	1995	429	436	2000-2003
	1996	335	578	2001-2004
	1997	422	593	2000-2005
	1998	1,225	769	2000-2006
	1999	1,416	1,022-1,086	2001-2007
		3,966		
Executive share option plans	1990	148	307-334	1993-2000
	1991	59	364-377	1994-2001
	1992	100	327-379	1995-2002
	1993	125	396	1996-2003
	1994	265	635	1997-2004
	1995	438	545	1998-2005
	1996	999	654-682	1999-2006
	1997	2,410	744-757	2000-2007
	1998	2,971	948-1,090	2001-2008
	1999	3,479	1,210-1,285	2002-2009
		10,994		
Options outstanding at December 31, 1998				
Worldwide Save for Shares plans	1991	64	299	1996-1999
	1992	268	242	1997-2000
	1994	478	509	1999-2002
	1995	583	436	2000-2003
	1996	455	578	2001-2004
	1997	601	593	2000-2005
	1998	1,674	769	2000-2006
		4,123		
Executive share option plans	1989	10	376	1992-1999
	1990	231	307-334	1993-2000
	1991	59	364-377	1994-2001
	1992	275	327-379	1995-2002
	1993	125	396	1996-2003
	1994	460	635	1997-2004
	1995	658	545	1998-2005
	1996	1,316	654-682	1999-2006
	1997	2,605	744-757	2000-2007
	1998	3,167	948-1,090	2001-2008
		8,906		

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

24 Reserves

	1999				
	Share premium account	Revaluation reserve	Other reserves	Profit and loss account	Total
	£m	£m	£m	£m	£m
Summary of movements					
At December 31, 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 December 31, 1999	517	-	-	651	1,168
Analyzed as:					
Partnerships and other associates	-	-	-	43	43
Group excluding partnerships and other associates	517	-	-	608	1,125

	1998				
	Share premium account	Revaluation reserve	Other reserves	Profit and loss account	Total
	£m	£m	£m	£m	£m
Summary of movements					
At December 31, 1997	158	3	1	(154)	8
Exchange differences	-	-	-	(8)	(8)
Premium on issue of 33m equity shares	340	-	-	(1)	339
Goodwill arising	-	-	-	(16)	(16)
Goodwill written back	-	-	-	262	262
Realization of revaluation reserve	-	(2)	-	2	-
Profit retained for the year	-	-	-	311	311
At December 31, 1998	498	1	1	396	896
Analyzed as:					
Partnerships and other associates	-	-	1	2	3
Group excluding partnerships and other associates	498	1	-	394	893

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 (1998: £nil) of impaired goodwill was written off through the profit and loss account. During 1999 Pearson plc received £20m (1998: £17m) on the issue of shares in respect of the exercise of options awarded under various share option plans. Employees paid £18m (1998: £16m) to the Group for the issue of these shares and the balance of £2m (1998: £1m) comprised contributions to the qualifying employee share ownership trust (QUEST) from subsidiary undertakings.

25 Acquisitions

In November 1998 the Group acquired the education, reference and business & professional publishing divisions of Simon & Schuster Inc. All acquisitions have been consolidated applying acquisition accounting principles.

	1999	1998		
	Total	Simon & Schuster	Other	Total
	£m	£m	£m	£m
Acquisition analysis of subsidiaries and businesses				
Tangible fixed assets	(4)	126	17	143
Stocks	(2)	299	-	299
Debtors	9	306	5	311
Current asset investments	27	151	-	151
Creditors	(20)	(236)	(22)	(258)
Provisions	10	(86)	-	(86)
Deferred taxation	1	(1)	2	1
Equity minority interests	32	-	2	2
Net borrowing acquired	-	(3)	1	(2)
Net assets acquired at fair value	53	556	5	561
Fair value of consideration:				
Cash	(267)	(2,865)	(53)	(2,918)
Deferred cash consideration	(4)	-	1	1
Costs accrued	(2)	(3)	(1)	(4)
Net prior year adjustments	33	-	(4)	(4)
Total consideration	(240)	(2,868)	(57)	(2,925)
Goodwill arising	187	2,312	52	2,364
Analyzed as:				
Goodwill capitalized	187	2,312	36	2,348
Goodwill written off to reserves	-	-	16	16
	187	2,312	52	2,364

Note:
Goodwill written off to reserves relates to acquisitions made before January 1, 1998. 1999 includes final fair value adjustments in respect of Simon & Schuster which was acquired in 1998 (see page F-47).

25 Acquisitions (Continued)

	1999	1998		
	Total	Simon & Schuster	Other	Total
	£m	£m	£m	£m
Acquisition goodwill and fair values				
Acquisition cost	240	2,868	57	2,925
Book value of net assets acquired	37	569	15	584
Simon & Schuster final fair value adjustments (see below)	22	-	-	-
Other fair value of adjustments	(6)	(13)	(10)	(23)
Fair value to the Group	53	556	5	561
Goodwill arising	187	2,312	52	2,364

	Provisional fair value Dec 31, 1998	Revaluations	Other items	Final fair value Dec 31, 1999
	£m	£m	£m	£m
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 realizable value.

b. Debtors have been reduced by £12m to bring them to their net realizable 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.

25 Acquisitions (Continued)

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 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.

	1999		
	Cost	Net assets acquired	Goodwill
	£m	£m	£m
Total goodwill arising on acquisitions			
Subsidiaries and businesses (see page F-46)	240	53	187
Associates	54	25	29
	294	78	216

	1998		
	Cost	Net assets acquired	Goodwill
	£m	£m	£m
Total goodwill arising on acquisitions			
Subsidiaries and businesses (see page F-46)	2,925	561	2,364
Associates	13	13	-
	2,938	574	2,364

25 Acquisitions (Continued)

	1999	1998	1997
	£m	£m	£m
Cash flow from acquisitions			
Cash–current year acquisitions (see page F-46)	267	2,918	252
Deferred payments for prior year acquisitions and other items	(18)	18	17
Net cash outflow	249	2,936	269

Note:
Contributions to the cash flow from acquisitions in 1999 are as follows: net cash inflow from operating activities £1m (1998: £15m; 1997:£1m), returns on investments and servicing of finance £nil (1998: £(1)m; 1997: £(1)m), taxation £nil (1998: £(1)m; 1997: £nil) and capital expenditure and financial investment £nil (1998: £(7)m; 1997: £nil).

26 Disposals

	1999	1998	1997
	Total	Total	Total
	£m	£m	£m
Disposal analysis of subsidiaries and businesses			
Intangible assets	(1)	-	-
Tangible fixed assets	(14)	(203)	(4)
Investments	-	(5)	-
Associates	-	(6)	-
Stocks	(4)	(16)	(12)
Debtors	(20)	(66)	(14)
Creditors and taxation	22	84	3
Provisions	5	(8)	(3)
Deferred taxation	1	13	(1)
Equity minority interest	-	(30)	1
Net cash	(3)	(11)	(1)
Net assets disposed of	(14)	(248)	(31)
Proceeds received	57	762	62
Deferred consideration	-	2	3
Costs	(19)	(42)	(4)
Net prior year adjustments	(5)	-	(1)
Profit on sale	19	474	29
Goodwill written back	(63)	(245)	(9)
Net (loss)/profit on sale	(44)	229	20

Note:
During 1999 the Group sold its Extel research products business for £19m giving rise to a loss of £19m.

During 1998 the Group sold Mindscape Inc. for £91m giving rise to a profit of £59m, Pearson New Entertainment business for £125m with a profit of £121m and The Tussauds Group for £352m generating a profit of £171m.

During 1997 the Group sold Churchill Livingstone for £57m with a profit of £30m.

26 Disposals (Continued)

	1999	1998	1997
	£m	£m	£m
Total goodwill written back on disposal			
On disposal of subsidiaries	63	245	221
On disposal of associates	-	16	11
On disposal by associates	-	1	1
	63	262	233
Cash flow from disposals			
Cash–current year disposals (see page F-50)	57	762	62
Costs paid	(9)	(38)	(3)
Deferred receipts and payments from prior year disposals and other amounts	(4)	(6)	(5)
Net cash inflow	44	718	54

Note:
Contributions to the cash flow from disposals in 1999 are as follows: net cash inflow from operating activities £4m (1998: £45m; 1997: £1m), returns on investment and servicing of finance £nil (1998: £(3)m; 1997: £(1)m), taxation £nil (1998: £(11)m; 1997: £nil) and capital expenditure and financial investment £nil (1998: £(14)m; 1997: £nil).

27 Notes to consolidated statement of cash flows

	1999			1998			1997		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
a) Reconciliation of operating profit to net cash inflow from operating activities									
Operating profit—total	270	48	318	187	63	250	252	76	328
Share of profit of partnerships and other associates	(23)	(48)	(71)	(11)	(40)	(51)	-	(47)	(47)
Depreciation charges	82	-	82	54	12	66	49	16	65
Goodwill amortization	130	-	130	12	-	12	-	-	-
(Increase)/decrease in stocks	(57)	-	(57)	43	1	44	7	(2)	5
(Increase) in debtors	(71)	-	(71)	(67)	5	(62)	(131)	(8)	(139)
Increase/(decrease) in creditors	127	-	127	113	-	113	(8)	4	(4)
(Decrease)/increase in operating provisions	(33)	-	(33)	2	-	2	(3)	(1)	(4)
Other and non-cash items	8	-	8	28	-	28	(1)	1	-
Net cash inflow from operating activities*	433	-	433	361	41	402	165	39	204
Purchase of fixed assets and finance leases	(113)	-	(113)	(113)	(13)	(126)	(93)	(18)	(111)
Sale of operating tangible fixed assets	24	-	24	12	1	13	14	-	14
Dividends from partnerships and other associates	12	32	44	12	41	53	13	27	40
Other	8	-	8	25	2	27	10	2	12
Operating cash flow	364	32	396	297	72	369	109	50	159

*Net cash inflow from 1999 includes a £54m (1998: £7m; 1997: £9m) outflow relating to exceptional items charged in 1999 and a £36m (1998: £14m; 1997: £11m) outflow relating to exceptional items charged in prior years.

27 Notes to consolidated statement of cash flows (Continued)

	Cash	Overdrafts	Sub-total	Short-term deposits	Debt due within one year	Debt due after one year	Finance leases	Total
	£m	£m	£m	£m	£m	£m	£m	£m
b) Analysis of net debt								
At December 31, 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 December 31, 1999	288	(38)	250	40	(9)	(2,276)	(15)	(2,010)
At December 31, 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 December 31, 1998	305	(67)	238	40	(5)	(2,552)	(19)	(2,298)
At December 31, 1996	139	(69)	70	160	(105)	(555)	(2)	(432)
Exchange differences	(8)	(11)	(19)	-	-	(3)	-	(22)
Acquired with subsidiary*	-	-	-	-	(54)	(66)	-	(120)
Transfers	-	-	-	-	(8)	8	-	-
Net cash flow	13	57	70	(89)	(123)	7	1	(134)
At December 31, 1997	144	(23)	121	71	(290)	(609)	(1)	(708)

*Excluding cash and overdrafts

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

27 Notes to consolidated statement of cash flows (Continued)

	1999	1998	1997
	£m	£m	£m
c) Reconciliation of net cash flow to movement in net debt			
Decrease in net debt from net cash flow	32	146	70
(Increase) in net debt from management of liquid resources	(1)	(45)	(89)
Decrease/(increase) in net debt from other borrowings	302	(1,694)	(116)
Decrease in finance leases	11	1	1
Acquired with subsidiary	-	(19)	(120)
Disposed with subsidiary	1	6	-
Debt issue costs	5	21	-
Other non-cash items	(12)	(1)	-
Exchange differences	(50)	(5)	(22)
Movement in net debt in the year	288	(1,590)	(276)
Net debt at beginning of year	(2,298)	(708)	(432)
Net debt at end of year	(2,010)	(2,298)	(708)

Tax paid

Includes £100m (1998: £3m; 1997: £4m of credits) relating to items excluded from operating profit.

28 Commitments under leases

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

	Land and buildings	Other
	£m	£m
For leases expiring:		
In 2000	6	3
Between 2001 and 2004	17	19
Thereafter	40	5
	63	27

At December 31, 1998, the Group had commitments under leases other than finance leases, to make payments in 1999 as follows:

	Land and buildings	Other
	£m	£m
For leases expiring:		
In 1999	6	2
Between 2000 and 2003	25	18
Thereafter	32	6
	63	26

29 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.

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 December 31, 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 programs 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 programs 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

30 Related parties (Continued)

Group treasury transactions. The Group also uses the Lazard Houses to provide professional advice. Fees for such services for the year to December 31, 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 January 26, 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 February 1, 2000 Pearson issued €650,000,000 Bonds due 2007, the proceeds of which were used to repay existing bank debt.

On February 15, 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 February 29, 2000 the merger of Pearson's asset valuation business with the Data Broadcasting Corporation, announced in November 1999, was completed.

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

On March 31, 2000 Pearson announced that it had made a recommended cash offer of approximately £311m for Dorling Kindersley Holdings plc, the world-wide illustrated reference publisher. This offer went unconditional on May 9, 2000.

On April 7, 2000 Pearson announced the merger of Pearson Television with CLT-UFA, Europe's largest broadcaster, whereby following the completion of the transaction Pearson will own 22% of the enlarged company.

32 Company balance sheet as at December 31, 1999

	Note	1999 £m	1998 £m
Fixed assets			
Investments:			
Subsidiaries	33	2,401	2,598
Own shares held	33	8	-
		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	18	7	6
		3,650	4,066
Creditors—amounts falling due within one year			
Short-term borrowing	19	(130)	(172)
Subsidiaries		(1,844)	(2,082)
Taxation		(20)	(5)
Other creditors		(4)	-
Accruals and deferred income	33	(30)	(28)
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 borrowings	19	(1,412)	(2,186)
Subsidiaries		(280)	(225)
Accruals and deferred income	33	(3)	(5)
Provisions for liabilities and charges			
Deferred taxation	33	(1)	(1)
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	23	153	152
Share premium account	33	517	498
Special reserve	33	397	397
Other reserves	33	50	50
Profit and loss account	33	1,131	782
Equity shareholders' funds		2,248	1,879

33 Notes to the company balance sheet

	1999	1998
	£m	£m
Tangible fixed assets (leasehold property)		
Cost	1	1
Depreciation	(1)	(1)
Net book value	-	-

Note:
There were no capital commitments for fixed assets at December 31, 1999 or December 31, 1998.

	1999	1998
	£m	£m
Investment in subsidiaries		
At December 31	2,598	1,963
Acquisition from subsidiaries	-	22
Subscription for additional share capital in subsidiaries	3	700
Disposals	(195)	(89)
Revaluations	(5)	2
At December 31	2,401	2,598

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

	1999	1998
	£m	£m
Deferred taxation		
At December 31	(1)	-
Charged in the year	-	(1)
At December 31	(1)	(1)

Note:
Deferred taxation derives from other timing differences.

Own shares held

Amounts included within own shares 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 unamortized 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

33 Notes to the company balance sheet (Continued)

amortized over the remaining life of the bonds. £1m (1998: £5m) is due after one year. None of the amount falls due after five years.

	Share premium account	Special reserve	Other reserves	Profit and loss account	Total
	£m	£m	£m	£m	£m
Reserves					
Summary of movements					
At December 31, 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 December 31, 1999	517	397	50	1,131	2,095

	Share premium account	Special reserve	Other reserves	Profit and loss account	Total
	£m	£m	£m	£m	£m
Reserves					
Summary of movements					
At December 31, 1997	158	397	50	688	1,293
Premium on issue of 33m equity shares	340	-	-	-	340
Profit for the financial year	-	-	-	220	220
Dividends	-	-	-	(126)	(126)
At December 31, 1998	498	397	50	782	1,727

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.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom (''UK GAAP''), which differ in certain material respects from generally accepted accounting principles in the United States (''US GAAP''). Such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

The following is a summary of the material adjustments to consolidated profit for the financial year and consolidated shareholders' funds that would have been required in applying the significant differences between UK and US GAAP.

Reconciliation of consolidated profit for the financial year

	Note	Year ended December 31 1999	1998
Profit for the financial year under UK GAAP		**294**	437
US GAAP adjustments:			
Goodwill amortization	(i)	**(40)**	(68)
Intangible amortization	(i)	**(178)**	(91)
Gain from sale of businesses	(ii)	**22**	97
Restructuring costs	(iii)	**(6)**	(13)
Pensions and other post-retirement benefits	(iv)	**8**	12
Deferred taxation	(v)	**32**	25
Options	(vii)	**(8)**	(4)
Derivatives	(viii)	**13**	(22)
Capitalized costs	(ix)	**-**	(3)
Acquisition adjustments	(x)	**16**	55
Partnerships and associates	(xi)	**(15)**	5
Taxation effect of US GAAP adjustments	(v)	**60**	14
Total US GAAP adjustments		**(96)**	7
Profit for the financial year under US GAAP		**198**	444
Profit from continuing operations (less charge for applicable taxes 1999: £70m, 1998: £120m)		**168**	122
Profit from discontinued operations (less charge for applicable taxes 1999: £18m, 1998: £28m)		**30**	322
Profit for the financial year under US GAAP		**198**	444

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

	Note	Year ended December 31 1999	Year ended December 31 1998
Presentation of earnings per equity share under US GAAP		**(p)**	**(p)**
Earnings per equity share	(xv)		
Basic:			
Continuing operations		**27.5**	20.7
Discontinued operations		**4.9**	54.6
Total		**32.4**	75.3
Diluted:			
Continuing operations		**27.2**	20.5
Discontinued operations		**4.9**	54.1
Total		**32.1**	74.6
Average shares outstanding (millions)		**610.2**	589.8
Dilutive effect of stock options (millions)		**7.0**	5.1
Average number of shares outstanding assuming dilution (millions)		**617.2**	594.9

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Reconciliation of consolidated shareholders' funds

	Note	Year ended December 31 1999 £m	1998 £m
Shareholders' funds under UK GAAP		**1,321**	1,048
US GAAP adjustments:			
Goodwill	(i)	**591**	753
Intangibles	(i)	**1,322**	1,194
Goodwill amortization	(i)	**(362)**	(343)
Intangible amortization	(i)	**(522)**	(336)
Restructuring costs	(iii)	**7**	9
Pensions and other post-retirement benefits	(iv)	**4**	(4)
Deferred taxation	(v)	**464**	364
Leases	(vi)	**(4)**	(4)
Derivatives	(viii)	**36**	23
Capitalized costs	(ix)	**(3)**	(3)
Acquisition adjustments	(x)	**3**	5
Partnerships and associates	(xi)	**(4)**	11
Ordinary dividends	(xii)	**85**	81
Fixed asset investments	(xiii)	**19**	-
Interest in shares of Pearson plc	(xiv)	**(10)**	(2)
Taxation effect of US GAAP adjustments	(v)	**(332)**	(328)
Total US GAAP adjustments		**1,294**	1,420
Shareholders' funds under US GAAP		**2,615**	2,468

A summary of the principal differences and additional disclosures applicable to the Group are set out below:

(i) Goodwill, intangibles and amortization

Both UK GAAP and US GAAP require purchase consideration to be allocated to the net assets acquired at their fair value on the date of acquisition, with the difference between the consideration and the fair value of the identifiable net assets recorded as goodwill. Under UK GAAP for periods ending prior to January 1, 1998, the Group has written off goodwill directly to the profit and loss reserve in the year of acquisition. If a subsidiary or a business is subsequently sold or closed, previously written off goodwill which was the result of the initial acquisition is taken into account in determining the profit or loss on sale or closure.

For the purposes of US GAAP, all goodwill written off against reserves under UK GAAP has been reinstated as an asset on the balance sheet and is being amortized using the straight line method over a range of estimated useful lives of between 5 and 20 years.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Under UK GAAP in order to recognize an intangible asset, the Group must be able to disposed of it without disposing of the business to which it relates. Accordingly under UK GAAP no acquired intangible assets have been recognized.

Under US GAAP, acquired assets such as publishing rights, television production and distribution rights, non-compete agreements, software, databases and advertising relationships have been recognized as intangible assets and are being amortized over a range of estimated useful lives of between 2 and 16 years.

The identified intangibles were determined based on independent appraisal and management evaluation and analysis. The carrying value of publishing rights was £534m and £642m at December 31, 1999 and 1998 respectively.

(ii) Gain from sale of businesses

In 1999 and 1998, gains or losses were recognized under UK GAAP on the disposal of a number of the Group's businesses. Adjustments made to reconcile US GAAP and UK GAAP have an effect on the net assets of these businesses and, accordingly, a corresponding impact on the gain or loss on disposal.

To the extent that goodwill previously written off under UK GAAP was brought to account in the disposal calculation and, under US GAAP, a portion of that goodwill was previously amortized, the carrying value of the goodwill being disposed of will be lower on a US GAAP basis giving rise to either additional profit on disposal or a decrease in the loss on disposal under US GAAP. Additionally, under US GAAP, it is necessary to factor into the disposal calculation any cumulative translation adjustment associated with the business, whereas under UK GAAP this is not required.

(iii) Restructuring costs

Under UK GAAP, prior to the implementation of Financial Reporting Standard 12 (FRS 12) *Provisions, Contingent Liabilities and Contingent Assets* in 1999, the recognition of restructuring provisions was allowable when a decision was taken to restructure part of a company's operations, and no specific criteria had to be fulfilled. US GAAP requires a number of specific criteria to be met before such anticipated costs can be recognized as a liability. Costs which do not meet the specific criteria under US GAAP are recognized as liabilities when an obligation exists to pay cash or otherwise sacrifice assets. Following implementation of FRS 12 criteria similar to that set forth under US GAAP must be met before a provision may be recorded under UK GAAP. Restructuring costs are classified as an operating expense of the business.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

The following table sets out the movements in restructuring provisions under US GAAP during the year:

	1999	1998
	£m	£m
At January 1	42	19
Exchange differences	1	-
Subsidiary undertakings acquired / disposed	1	20
Transfers	1	1
Released	(3)	-
Provided	14	7
Utilised	(31)	(5)
At December 31	25	42

The majority of the above restructuring provision relates to provisions established in respect of the integration of Simon & Schuster with our existing Education business and was established under US GAAP in purchase accounting. Included within this provision were redundancy costs related to employees in the following business functions: warehousing, administration and finance. The provision includes employee termination costs and other integration costs.

(iv) Pensions and other post-retirement benefits

Pensions

The Group operates defined benefit pension plans for its employees and former employees throughout the world. The largest defined benefit scheme is a funded scheme operated in the UK.

Under UK GAAP the cost of providing pension benefits is expensed over the average expected service lives of eligible employees in accordance with the provisions of Statement of Standard Accounting Practice 24 (SSAP 24) *Accounting for Pension Costs*. SSAP 24 aims to produce an estimate of cost based on long-term actuarial assumptions. Variations from the regular pension cost arising from, for example, experience deficiencies or surpluses, are charged or credited to the profit and loss account over the expected average remaining service lives of current employees in the schemes.

Under US GAAP, the annual pension cost comprises the estimated cost of benefits accruing in the period as determined in accordance with Statement of Financial Accounting Standards 87 (SFAS 87) *Employers Accounting for Pensions*, which requires readjustment of the significant actuarial assumptions annually to reflect current market and economic conditions. Under SFAS 87, part of the surplus (the excess of plan assets over plan liabilities), the majority of which for the Group is attributable to prior acquisitions, has been recognized in the balance sheet. The remainder of the unrecognized surplus is spread over the employees' remaining service lifetimes.

In the UK, the majority of the pension benefits for Pearson employees are provided by the Pearson Group Pension Plan.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

In addition, in the UK, there is a closed defined benefit plan with no active members (the Westminster Press Pension Plan). Although this plan has a large surplus the Group does not believe that it will be able to gain benefit from this surplus in the future. Under UK GAAP this plan and the associated pension credit has not been recognized. US GAAP requires calculations to be carried out for all defined benefit plans regardless of the funded status and likely use of any surplus. Thus the US GAAP numbers in respect of the UK schemes include amounts in respect of the Westminster Press Pension Plan.

In the US, the Group sponsors several defined benefit plans to which employees participate.

In accordance with SFAS 132, *Employer's Disclosures about Pensions and Other Post-retirement Benefits*, the components of net periodic pension cost for all Group-sponsored schemes are as follows:

	Year ended December 31			
	UK schemes		Non-UK schemes	
	1999	1998	1999	1998
	£m	£m	£m	£m
Components of pension expense:				
Service cost	16	17	12	5
Interest cost	61	62	4	4
Expected return on plan assets	(78)	(89)	(4)	(4)
Amortization of unrecognized transition asset	(3)	(3)	-	-
Amortization of unrecognized prior service cost	-	-	-	-
Amortization of unrecognized net loss	3	-	-	-
Net periodic pension cost/(benefit)	(1)	(13)	12	5
Curtailment	-	-	-	-
Total benefit cost/(benefit)	(1)	(13)	12	5

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

The following table sets out the benefit obligation and plan assets of the UK pension plans in accordance with US GAAP:

	UK schemes as at December 31	
	1999	1998
	£m	£m
Change in benefit obligation:		
Benefit at prior measurement date	1,005	912
Service cost	16	17
Interest cost	61	62
Plan participants' contribution	5	5
Actuarial (gain)/loss	(61)	54
Special termination benefits	-	-
Benefits paid	(51)	(45)
Benefit obligation at current measurement date	975	1,005
Change in plan assets:		
Fair value of plan assets at prior measurement date	988	1,014
Actual return on plan assets	170	14
Employer contribution	-	-
Plan participants' contribution	5	5
Benefits paid	(51)	(45)
Fair value of plan assets at current measurement date	1,112	988
Funded status	137	(17)
Unrecognized actuarial (gain)/loss	(27)	129
Unrecognized transition asset	(12)	(15)
Unrecognized prior service cost	-	-
Net amount recognized	98	97

As at December 31, 1999 none of the UK plans had an accumulated benefit obligation in excess of the plan assets. As at December 31, 1998 the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the UK pension plan with an accumulated benefit obligation in excess of plan assets were £965m, £948m and £931m respectively. For the two US plans where the accumulated benefit obligations exceeded plan assets, these amounts were £6m, £6m and £nil, respectively (1998: £6m, £6m and £nil)

For the Westminster Press Pension Plan in the UK, it was assumed that there was a substantive commitment that pension benefits would increase in the future at an annual rate of 4%. For the main UK plan, pension increases are assumed to be in accordance with legal requirements. No pension increases are anticipated for the US pension plans.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

The following table sets out the benefit obligation and plan assets of the non-UK pension plans in accordance with US GAAP:

	Non-UK schemes as at December 31	
	1999	1998
	£m	£m
Change in benefit obligation:		
Benefit at prior measurement date	62	52
Adjustment due to change in measurement date	(9)	-
As restated	53	52
Service cost	12	5
Interest cost	4	4
Plan participants' contribution	-	-
Plan amendments	-	(5)
Acquisition	-	6
Actuarial (gain)/loss	(3)	4
Foreign exchange impact	2	-
Benefits paid	(9)	(4)
Benefit obligation at current measurement date	59	62
Change in plan assets:		
Fair value of plan assets at prior measurement date	47	44
Adjustment due to change in measurement date	(1)	-
As restated	46	44
Actual return on plan assets	6	5
Employer contribution	1	2
Plan participants' contribution	-	-
Foreign exchange impact	1	-
Benefits paid	(9)	(4)
Fair value of plan assets at current measurement date	45	47
Funded status	(14)	(15)
Unrecognized actuarial gain	(12)	-
Unrecognized transition asset	(1)	(1)
Unrecognized prior service cost	(3)	(3)
Net amount recognized	(30)	(19)

Plan assets are held in separately administered trusts and consist principally of listed debt and equity securities.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Assumptions used to determine the pension cost for the defined benefit plans under US GAAP were:

	Year ended December 31			
	1999 (%)		1998 (%)	
	UK	Non-UK	UK	Non-UK
Discount rate	6.50	7.25	6.25	6.75
Rate of return on assets	8.00	9.00	8.00	9.00
Salary growth	4.25	4.50	4.00	4.50
Pension increases	2.75	n/a	2.50	n/a

The Group also sponsors defined contribution pension plans covering employees in Australia, India, Mexico and certain employees in Germany. Contributions are recognized as paid and during 1999 amounted to £6m (1998: £5m).

Other post-retirement benefits

The Group also provides post-retirement health care plans for certain employees. Additional disclosures required under US GAAP are as follows:

	US post-retirement medical plans	
	1999	1998
	£m	£m
Net periodic benefit cost:		
Service cost	1	1
Interest cost	3	2
Expected return on plan assets	-	-
Amortization of transitional obligation/(asset)	-	-
Amortization of prior service cost	-	-
Recognized net actuarial (gain)/loss	-	-
Net periodic benefit cost	4	3
Change in benefit obligation:		
Benefit obligation at beginning of year	49	14
Adjustment due to change in measurement date	1	-
As restated	50	14
Service cost	1	1
Interest cost	3	2
Plan participants' contributions	-	-
Plan amendments	-	(1)
Acquisition	-	34
Actuarial gain	(3)	-
Benefits paid	(3)	(1)
Foreign exchange impact	2	-
Benefit obligation at current measurement date	50	49

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

	US post-retirement medical plans	
	1999	1998
	£m	£m
Change in plan assets:		
Fair value at beginning of year	-	-
Actual return on plan assets	-	-
Acquisition	-	-
Employer contribution	3	1
Plan participants' contributions	-	-
Foreign exchange impact	-	-
Benefits paid	(3)	(1)
Fair value at current measurement date	-	-
Funded status	(50)	(49)
Unrecognized net actuarial loss	1	3
Unrecognized transition obligation/(asset)	-	-
Unrecognized prior service cost	(1)	(1)
Amounts contributed to plan during fourth quarter	1	-
Prepaid/(accrued) benefit cost	(49)	(47)
Amount recognized in statement of financial position consist of:		
Prepaid benefit cost	-	-
Accrued benefit liability	(49)	(47)
Intangible asset	-	-
Accumulated other comprehensive income	-	-
Net amount recognized	(49)	(47)
Assumptions used to determine the post-retirement benefit costs under US GAAP were:		
Discount rate	7.25%	6.75%

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered medical benefits was assumed for 2000. The rate was assumed to decrease 0.5% annually to 5.0% in 2004 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the results:

	1999 £m		1998 £m	
	+1%	−1%	+1%	−1%
Effect on post retirement benefit obligation at December 31	4	(4)	3	(3)

There would be no material effect on service cost and interest cost.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

(v) Deferred taxation

Under UK GAAP, a provision is recorded for deferred taxation under the liability method, at the expected applicable rates, to the extent that such taxation is expected to crystallise within the foreseeable future. This means that the full potential liability is not necessarily provided. Additionally, deferred tax assets are recognized only when they are expected to be recoverable within the foreseeable future.

Under US GAAP, deferred taxation is provided for on a full liability basis. Under the full liability method, deferred taxation assets or liabilities are recognized for differences between the financial and taxation basis of assets and liabilities and for tax loss carry forwards at the statutory rate at each reporting date. A valuation allowance is established when it is more likely than not that some portion or all of the deferred taxation assets will not be realized. The reconciling items in 1998 and 1999 reflect the impact of recording the full contingent provision and deferred tax assets, net of valuation allowance.

The following table analyzes profit before taxation on a UK GAAP basis:

	1999	1998
	£m	£m
United Kingdom	339	467
Overseas	141	162
Total profit before taxation	480	629

Classification of the Group's deferred tax (liabilities and assets) under US GAAP is as follows:

	1999			
Deferred tax analysis	**Current assets**	**Current liabilities**	**Non-current assets**	**Non-current liabilities**
	£m	£m	£m	£m
Fixed asset and investment related	-	-	28	(55)
Receivable related	106	-	-	-
Inventory related	59	-	-	-
Pension provisions	-	-	54	-
Other provisions and accruals	48	-	-	-
Undistributed earnings	-	(19)	-	-
Interest	10	(9)	-	-
Intangibles	-	-	-	(151)
Goodwill	-	-	-	(11)
Tax losses	-	-	183	-
Other	10	(10)	9	(57)
	233	(38)	274	(274)
Valuation allowance	(38)	-	(45)	-
	195	(38)	229	(274)

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Deferred tax analysis	1998 Current assets	Current liabilities	Non-current assets	Non-current liabilities
	£m	£m	£m	£m
Fixed asset and investment related	-	-	51	(49)
Receivable related	88	-	-	-
Inventory related	46	-	-	-
Pension provisions	-	-	34	-
Other provisions and accruals	52	-	-	-
Undistributed earnings	-	(15)	-	-
Interest	26	(5)	-	-
Intangibles	-	-	-	(178)
Goodwill	-	-	-	(36)
Tax losses	-	-	162	-
Other	10	(14)	7	(25)
	222	(34)	254	(288)
Valuation allowance	(65)	-	(72)	-
	157	(34)	182	(288)

The movements in the valuation allowance are set out below:

Valuation allowance	1999	1998
	£m	£m
At January 1	(137)	(87)
Change in estimate	63	-
Current year loss	(6)	(50)
Exchange	(3)	-
At December 31	(83)	(137)

The recognized deferred tax asset is based upon the expected future utilization of tax loss carryforwards and the reversal of other temporary differences. For financial reporting purposes, the Group has recognized a valuation allowance for those benefits for which realization does not meet the more likely than not criteria.

The valuation allowance has been recognized in respect of the tax loss carryforwards. The Group continually reviews the adequacy of the valuation allowance and is recognizing these benefits only as reassessment indicates that it is more likely than not that the benefits will be realized. The reduction in the valuation allowance in 1999 results from planned disposals (principally Lazards) which will create taxable income in 2000 against which previously recognized tax losses may be offset.

The majority of the Group's tax losses expire within 20 years.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Provision has only been made for UK or additional foreign taxes on undistributed earnings of foreign subsidiaries where there is an intention to remit such earnings. No provision has been made in respect of other foreign earnings because they are intended to be permanently reinvested. It is not practicable to estimate the amount of additional tax that might be payable on these other foreign earnings.

(vi) Leases

UK GAAP defines a finance (capital) lease as one that transfers substantially all the risks and rewards of ownership of an asset to the lessee. US GAAP sets out certain defined criteria, and if any one of the criteria are met, the lease must be treated as a capital lease. Accordingly, the Group has certain leases for which the classification is operating under UK GAAP and finance under US GAAP.

(vii) Options

The Group maintains savings related share option schemes, a bonus matching share option scheme, a profit sharing award scheme and further share option schemes for selected employees.

Annual bonus share matching plan

The share matching plan permits Senior Management, as well as other senior executives in Pearson, to take up to 50% of any after tax annual bonus in the form of Ordinary Shares. These shares will be matched by Pearson on a before-tax basis at a rate of one matching share for every two shares held for three years, with an additional one share for every two shares held for a total of five years. Matching is conditional upon the recipient remaining employed by Pearson at the time of grant and to real average growth in Pearson's adjusted earnings per share of at least 3% per year during the relevant period.

Long-term incentive plans

Long-term incentive plans are intended to align the interests of Senior Management, other senior executives, managers and other employees with those of shareholders. The Personnel Committee reviews the operation of long-term incentive plans on a regular basis, taking into account UK legislative and regulatory developments, particularly with regard to performance targets and evolving UK best practice. In 1999, the Company's shareholders approved adoption of a new long-term incentive plan called the Pearson Reward Plan in which Senior Management now participate.

The Pearson Reward Plan has two elements: (1) Pearson Premium Options (PPOs) linked to the rise in the Pearson share price over three to seven years and (2) Pearson shares in the form of Pearson Equity Incentives (PEIs) linked to the three-year cumulative growth in Pearson's free cash flow (operating cash flow less tax liabilities on operating activities and interest paid). To date there has been only one award under this plan (made in 1999) which award was based on free cash flow. The Personnel Committee has the option to consider and specify other measures but has not

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

done so. Senior Management are not eligible for grants of conventional options under the Share Option Plan in any year in which they receive an award under the Pearson Reward Plan.

Incentive Share Plan

The Company's Incentive Share Plan was introduced in 1993 to reward Senior Management 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. There remains one outstanding award, which matures in April 2002. No new awards have been or will be made under this plan.

Executive Share Option Plan

In 1998, the Company's shareholders approved an Executive Share Option Plan pursuant to which options at market value on the date of grant are granted to Senior Management and other senior executives based on guidelines approved by the Personnel Committee. These guidelines govern the total number of options which may be granted and the frequency of awards to individual grantees.

Employee Share Ownership Plans

Profit Sharing Plan

Pearson operates a profit sharing plan available to all employees who (1) have worked for Pearson for at least six months of the relevant fiscal year and (2) who are employed by Pearson at the time payment under the plan is made. All payments made under the plan are determined at the discretion of the Pearson board after consideration of Pearson's profitability for the year. Payment under the plan may be in the form of cash and/or Pearson's Ordinary Shares.

Save-for-Shares Plan

In 1998, Pearson introduced a Worldwide Save-for-Shares Plan. Under this plan, Pearson's employees worldwide are invited to save a portion of their monthly salary over a period from two to seven years (at the employee's option). At the end of this period, the employee has the option to purchase Ordinary Shares with the accumulated funds at a purchase price equal to 80% of the market price prevailing at the time the employee's participation in the plan commenced.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Activity with respect to the share option schemes is as follows:

	1999		1998	
Executive share options plans	**Shares**	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
	('000)	**£**	**('000)**	**£**
Outstanding at January 1	8,906	8.02	8,626	6.24
Granted	3,494	12.15	3,189	10.76
Exercised	(1,157)	5.94	(2,296)	5.59
Surrendered or expired	(249)	9.26	(613)	7.90
Outstanding at December 31	10,994	9.53	8,906	8.02
Save for Share Plans				
Outstanding at January 1	4,123	6.03	4,702	4.42
Granted	1,472	10.22	1,723	7.69
Exercised	(958)	4.43	(1,093)	2.91
Surrendered or expired	(671)	7.12	(1,209)	4.86
Outstanding at December 31	3,966	7.77	4,123	6.03

Share options outstanding and exercisable at December 31, 1999 are as follows:

	Share options outstanding			Share options exercisable	
Range of exercise prices (in £)	**Shares**	**Weighted Average Remaining Contractual Life**	**Weighted Average exercise price**	**Shares**	**Weighted Average Exercise Price**
	('000)		**£**	**('000)**	**£**
0–3	39	N/a	N/a	39	2.42
3–6	2,156	1 Year	3.85	906	4.73
6–9	4,899	4 Years	7.63	1,264	8.50
9–12	4,387	6 Years	10.60	N/a	N/a
12–15	3,479	9 Years	12.15	N/a	N/a

Under UK GAAP, the Group does not recognise compensation costs under share option schemes that have not been approved by the Inland Revenue unless the exercise price is at a discount to the open market value at date of grant. Under US GAAP, the compensation expense associated with the Pearson Incentive Share Plan, Annual Bonus Matching Plan, the Pearson Reward Plan, the Executive Share Option schemes, the Save as You Earn Scheme and the Worldwide Save for Shares Plan, in consideration for services received, is recognized in accordance with SFAS 123, *Accounting For Stock-Based Compensation* (SFAS 123).

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Under SFAS 123, compensation expense is determined based upon the fair value at the grant date for awards, and has been estimated using the Black Scholes model. Such compensation cost is recognized over the service life of the awards, normally the equivalent to the vesting period of such awards.

Generally, option plans which are available to all employees and provide a discount no greater than 15% are considered non-compensatory under SFAS 123. The Save as You Earn Option Scheme and Worldwide Save for Shares Plan are considered compensatory under SFAS 123 since the discount is 20%. The total compensation cost (equal to the 20% discount) is recognized over the period beginning on the grant date.

The following weighted-average assumptions were assumed in determining the fair value of options for the Pearson Incentive Share Plan, Annual Bonus Matching Plan, the Pearson Reward Plan, the Executive Share Option schemes, the Save as you Earn scheme and the Worldwide Save for Shares plan: exercise price is equal to the fair value of the stock on the grant date; risk-free interest rate is the gilt rate (ranging from 4.23% to 8.27%) for securities whose maturity equals the expected life of the options on the grant date; expected lives of 2 to 7 years; expected volatility ranging from 21.3% to 31.2% and a dividend yield of between 1.62% and 4.47%.

(viii) Derivatives

The additional US GAAP derivative and financial instrument disclosures are presented below. This information should be read in conjunction with Note 19.

Under UK GAAP, the Group's derivatives are recorded as hedging instruments. Amounts payable or receivable in respect of interest rate swaps are accrued with net interest payable over the period of the contract. Unrealized gains and losses on currency swaps and forward currency contracts are deferred and recognized when paid.

Under US GAAP, derivative contracts, such as interest rate swaps, currency swaps and forward currency contracts are recorded at market value. All gains and losses are included in income. The instruments used to manage the risks' exposure do not meet the prescriptive criteria for hedge accounting under US GAAP, in particular SFAS 52 *Foreign Currency Translation* and SFAS 80 *Accounting for Futures Contracts* and the related literature providing guidance on these matters.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

The contract/notional principal amounts of derivative instruments that are off-balance-sheet under UK GAAP, by category and by currency, are listed below. The unrealized foreign exchange gain/loss on currency swaps are reflected in the balance sheet under UK GAAP.

Interest rate swaps	Maturity	1999	1998	1997
		£m	£m	£m
US dollar				
Pay variable / receive fixed	**2006**	**155**	151	152
Av fixed rate		7.23%		
Av variable rate		7.04%		
Pay fixed / receive variable	**2000/2009**	**1,006**	599	267
Av fixed rate		6.06%		
Av variable rate		6.94%		
Forward start pay fixed / receive variable	**2003**	**118**	491	76
Av fixed rate		6.44%		
Av variable rate		6.99%		
Sterling				
Pay variable / receive fixed	**2002/2008**	**120**	120	120
Av fixed rate		6.74%		
Av variable rate		6.83%		
Pay fixed / receive variable	**2000/2001**	**70**	40	40
Av fixed rate		6.22%		
Av variable rate		6.68%		
Forward start pay variable / receive fixed	**2003**	**100**	-	-
Av fixed rate		7.00%		
Av variable rate		6.45%		
Euro				
Pay variable / receive fixed	**2004**	**248**	-	-
Av fixed rate		4.63%		
Av variable rate		5.75%		

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

	Maturity	1999	1998	1997
		£m	£m	£m
Currency and interest rate swaps				
Pay US dollar variable / receive sterling fixed at $1.61	**2002/2014**			
At inception of contract		**375**	125	125
At balance sheet date		**375**	117	117
Av fixed rate		8.13%		
Av variable rate		7.41%		
Pay US dollar variable / receive Euro fixed at $1.04	**2004**			
At inception of contract		**93**	-	-
At balance sheet date		**97**	-	-
Av fixed rate		4.63%		
Av variable rate		7.62%		
Forward foreign exchange contracts		347	13	50

The above financial instruments represent trading instruments which do not qualify for hedge accounting under US GAAP. The Group does not meet the designation and correlation tests criteria which are not a requirement to obtain hedge accounting under UK GAAP. In line with Pearson treasury policy, these are however not trading instruments and are transacted solely to match underlying financial exposures.

The principal method the Group uses to manage its interest rate risk is to enter into swaps to pay a fixed rate and receive a floating rate. The majority of these contracts are US dollar denominated, and some of them have a deferred start date, in order to maintain the desired risk profile as other contracts mature. The variable rates received are normally based on 3 month LIBOR, and the dates on which these rates are set do not exactly match those of the borrowings that are being hedged. The Group believes that its portfolio of such swaps is an efficient hedge of its portfolio of variable rate borrowings.

The Group from time to time issues bonds or other capital market instruments to refinance existing bank debt. In order to avoid undue concentration of interest expense being set by the rate on a single transaction, it is the Group's normal practice on such occasions to enter into a related derivative contract which has the effect of converting the bond transaction to the same interest rate profile as the debt which it is refinancing (i.e most often a floating rate US dollar interest rate basis). In several cases the bond issue has been in a different currency than the debt being refinanced and the Group has entered into a related interest rate and currency swap in order to maintain an unchanged borrowing risk profile.

The Group's policy concerning the proportion of fixed rate debt in its debt portfolio is that between 50% and 65% of current core debt (i.e. year end total borrowings net of year end cash and liquid funds) should be hedged for the next two years, and that between 40% and 60% should be hedged from two years to a date five years from the present. Within these target ranges the proportion that is hedged is triggered by a formula based on historical interest rate frequencies. Taking into account the effect of all derivative contracts, the proportion of net borrowings that were

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

hedged at the end of 1999 was £1,155m, representing 58% of the year-end financial liability portfolio, at an average fixed rate of 6.41%. This compares to a proforma hedged proportion of 53% in 1998.

Of the £347m of outstanding foreign exchange contracts at December 31,1999, £279m of receive US dollars/pay Sterling contracts relate to the announced disposal of Lazard banking houses which completed on March 3, 2000 for £436m. In addition, a further £47m of receive US dollars/pay Euros contracts, with a maturity of less than one month, transferred surplus US dollar cash balances into Euros to temporarily fund the purchase of a further 20% stake in Recoletos.

Credit risk represents the possibility that the Group would suffer a loss if a counterparty was to default on its obligations to the Group. Credit risk exposure arises primarily from the placement of surplus cash funds with financial institutions, as well as from interest rate, currency swap and foreign exchange products. For derivative financial instruments, total credit exposure consists of current and potential exposure. Current credit exposure represents the replacement cost of the transaction. Potential credit exposure is a statistically based estimate of the future replacement cost of the transaction. The Group has established policies and procedures to manage the level and composition of its credit risk on both a transaction and a portfolio basis. In managing the aggregate credit extension to individual counterparties, the Group measures the amount at risk on derivative financial instruments as the total of current and potential credit exposure. Additional financial instruments which potentially subject the Group to concentrations of credit risk consist of accounts receivable. Management believes the concentration of credit risk associated with accounts receivable is minimal due to the dispersion over many customers and different businesses.

Financial instruments with off balance sheet credit risk consist of interest rate swaps. The maximum accounting loss the Group would incur if counterparties failed completely to perform according to the contract terms would be £38m (£22m in 1998), £10m of which is accrued interest receivable (1998: £6m). 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 by the posting of collateral between parties on a quarterly annual basis.

In the Group's opinion there is no significant concentration of credit risk with any individual counterparty or groups of counterparties. The greatest accounting loss if a single party failed completely to perform according to the contract terms would be £17m (£15m in 1998), which is to a AA rated financial institution.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

The following table provides a comparison by category of the carrying values under UK GAAP and the fair values of the Group's financial assets and liabilities (both on and off balance sheet).

Primary financial instruments	1999 Book Value	1999 Fair Value	1998 Book Value	1998 Fair Value	1997 Book Value	1997 Fair Value
	£m	£m	£m	£m	£m	£m
Other financial assets	4	4	4	4	6	6
Other financial liabilities	(31)	(31)	(54)	(54)	(33)	(33)
Cash	288	288	305	305	144	144
Short term deposits	40	40	40	40	71	71
Short term borrowings	(47)	(47)	(72)	(72)	(313)	(313)
Medium and long term borrowings	(2,276)	(2,307)	(2,552)	(2,635)	(609)	(669)
	(2,022)	(2,053)	(2,329)	(2,412)	(734)	(794)
Derivative instruments						
Pay fix interest rate swaps	-	32	-	(28)	-	-
Pay variable interest rate swaps	-	(9)	-	13	-	16
Currency swaps	-	10	-	24	-	19
Foreign exchange contracts	-	1	-	-	-	-
Total	(2,022)	(2,019)	(2,329)	(2,403)	(734)	(759)

For a discussion of the basis for estimating the fair value for each category of financial instruments, refer to Note 19.

(ix) Capitalized costs

The Group has capitalized certain amounts under UK GAAP for computer hardware, software and consulting services. Under US GAAP, certain of these costs cannot be capitalized and must be expensed as incurred. The resulting adjustment takes into consideration the treatment of these costs, as well as any depreciation taken in subsequent periods.

(x) Acquisition adjustments

Acquisition adjustments principally relate to restructuring provisions recognized under US GAAP in purchase accounting for HarperCollins Educational and Simon & Schuster as a reduction of goodwill under Emerging Issues Task Force 95-3 (EITF 95-3) *Recognition of Liabilities in Purchase Accounting*. Under UK GAAP these costs were treated as period costs and were recorded as exceptional items in the profit and loss account.

(xi) Partnerships and associates

There is no difference under UK and US GAAP for the accounting for partnerships and associates. However the accounts of partnerships and associates must be adjusted from UK to US GAAP. which has an impact on the results of the partnerships and associates, as well as the carrying value of the investment in these entities. Principal differences identified with respect to the

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Group's investments in partnerships and associates include: goodwill amortization, pensions, capitalized costs, derivatives, and goodwill impairment charges.

(xii) Ordinary dividends

Under UK GAAP, ordinary dividends proposed are provided for in the year in respect of which they are recommended by the Board of Directors although approval of the final dividend will not take place until the Annual General Meeting subsequent to the year-end. Under US GAAP, such dividends are provided for in the year in which they are declared and approved by the Board of Directors.

(xiii) Fixed asset investments

Under UK GAAP, fixed asset investments are stated at cost less provisions for diminution in value, or as revalued by the directors. Under US GAAP, SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities,* requires debt and equity securities with readily ascertainable market values be adjusted to market value at the end of each period. Unrealized market value gains and losses are charged to earnings if the securities are traded for short-term profit. Otherwise securities are classified as ''available for sale'' and unrealized gains and losses are reported as a separate component of other comprehensive income until realized.

At December 31, 1999 and 1998 all securities covered by SFAS 115 were designated by management as available for sale. Proceeds and gross gains from the sale of available for sale securities were £28m and £27m under UK GAAP respectively for the year ended December 31, 1998. There were no sales of available for sale securities in 1999.

(xiv) Interest in shares of Pearson plc

Under UK GAAP, shares in Pearson plc held by the employee share ownership trusts are recorded in the balance sheet within fixed asset investments at December 31, 1999 and debtors at December 31, 1998. These shares are recorded at cost including expenses. Under US GAAP, shares in Pearson plc held by the employee share ownership trusts are recorded as an offset to equity.

(xv) Presentation of earnings per equity share

US GAAP requires presentation of basic and diluted earnings per equity share (EPS) using both income from continuing operations and net income. Therefore, an entity that reports a discontinued operation, an extraordinary item or cumulative effect of an accounting change must present basic and diluted EPS for those line items. Accordingly, the Group has presented EPS for continuing and discontinued operations.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

(xvi) Other disclosures required by US GAAP

Presentation in the Financial Statements

Under UK GAAP, operating profit may be shown before specific costs that under US GAAP would be included within operating profit. Additionally, the presentation of earnings per share is not limited to basic and diluted earnings per share on the net profit or loss for the period attributable to ordinary shareholders. Presentation of operating profit before certain costs and additional earnings per share data is allowable when management believe that it provides useful information to an investor and presents a true and fair view of the Company's results. Under US GAAP, costs such as internet operations, goodwill amortization and other items would be included within operating profit. Earnings per share may only be presented on a basic and diluted basis for profit or loss from continuing operations, profit or loss from discontinued operations and net profit or loss for the period. Accordingly, the presentation of ''operating profit before internet operations, goodwill amortization and other items'' as well as ''adjusted earnings per equity share after internet enterprises'' and ''adjusted earnings per equity share before internet enterprises'' is not allowed under US GAAP.

Comprehensive income

SFAS 130 *Reporting Comprehensive Income* requires prominent presentation of a primary statement showing total recognized gains and losses (total comprehensive income). The total gains and losses recognized in the period attributable to shareholders' comprises net income plus gains and losses recognized directly in equity, such as movements in foreign currency translation differences. The Group has opted to display comprehensive income in accordance with UK GAAP. Total gains and losses are presented in the UK GAAP primary statement under ''Statement of total recognized gains and losses''. The movements in shareholders' funds between the beginning of the year and the end of the year are presented in the UK GAAP primary statement ''Reconciliation of movements in equity shareholders' funds''. The components of equity shareholders' funds on a UK GAAP basis are shown in the following disclosure.

	1999	1998	1997
	£m	£m	£m
Called up share capital	153	152	144
Share premium account	517	498	158
Revaluation reserve	-	1	3
Other reserves	-	1	1
Retained earnings	600	383	(175)
Cumulative currency translation difference	51	13	21
Equity shareholders' funds at end of the year	1,321	1,048	152

Cash flow information

Under UK GAAP, the Consolidated Cash Flow Statements are presented in accordance with FRS 1, as revised, *Cash Flow Statements*. The statements prepared under FRS 1 present

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

substantially the same information as that required under US GAAP as interpreted by SFAS 95 *Statement of Cash Flows*.

The definition of ''cash flow'' differs between UK and US GAAP. Cash flow under UK GAAP represents increases or decreases in ''cash'', which comprises cash in hand and repayable on demand and overdrafts. Under US GAAP, cash flow represents increases or decreases in ''cash and cash equivalents'', which include short term, highly liquid investments with original maturities of less than 90 days, and exclude overdrafts.

Under UK GAAP, cash flows are presented for operating activities; dividends received from partnerships and other associates; returns on investments and servicing of finance; taxation; capital expenditure and financial investment; acquisitions and disposals; equity dividends paid; management of liquid resources and financing. US GAAP requires the classification of cash flows as resulting from operating, investing and financing activities.

Cash flows under UK GAAP in respect of interest received, interest paid, investment income and taxation would be included within operating activities under US GAAP. Capital expenditure and financial investment, dividends received from partnerships and associates, and cash flows from acquisitions and disposals would be included within investing activities under US GAAP. Equity dividends paid would be included within financing activities under US GAAP. Management of liquid resources may be included within financing activities or the liquid resources may be considered a cash equivalent under US GAAP, depending on the nature of the liquid resources.

A summary of the Group's operating, investing and financing activities, classified in accordance with US GAAP, are as follows:

	1999	1998
	£m	£m
Net cash provided by operating activities	136	286
Net cash provided by/(used in) investing activities	328	(2,085)
Net cash (used in) / provided by financing activities	(460)	1,961
Foreign exchange differences	(22)	(30)
Net increase in cash and cash equivalents	(18)	132
Cash and cash equivalents under US GAAP at the beginning of the year	337	205
Cash and cash equivalents under US GAAP at the end of the year	319	337

Segments

Pearson has determined that its reportable segments are those that are based on the Group's method of internal reporting, which disaggregates its business by product category. The Group's segments are strategic business units that offer different products and services.

The Group's business units and reportable segments are as follows:

- FT Group—publisher of daily business newspapers and provider of online business information

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

- Pearson Education—publisher of educational materials, including textbooks and teaching materials, as well as electronic educational programs
- The Penguin Group—publisher of English language fiction and non-fiction books for adults and children
- Pearson Television—television production company involved in production of new programs and distribution of proprietary programming

The accounting policies of the segments are the same as those described in Note 1. The Group's management evaluates the performance of its segments and allocates resources to them based on underlying sales growth and trading margin improvement. There are no material inter-segment revenues.

The Group's segments are the same under UK GAAP and information with respect to the segments is presented in Note 2 to the financial statements. The Group has also separately disclosed information with respect to discontinued operations.

Discontinued operations

In 1999, discontinued operations relate to the withdrawal of the Group from the banking business following its disposal of its investment in Lazard on March 3, 2000. In 1998, discontinued operations have been restated to include the results of Lazard, as well as reflecting 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. All disposals were accomplished thruogh the sale of the various operations.

At December 31, 1999 and 1998, the carrying value of the investment in Lazard on an UK GAAP basis was £149m and £111m, respectively. At December 31, 1998, due to the disposal dates, there were no assets and liabilities on the balance sheet associated with Mindscape, Pearson New Entertainment and The Tussauds Group. For the year ended December 31, 1999 and 1998, income from operations on an UK GAAP basis for Lazard was £48m and £53m respectively, including a profit in 1998 of £11m on the sale of a business. The gain arising on the disposal of Lazard will be recognized in the 2000 results. The proceeds on its disposal were received in 2000. For the year ended December 31, 1998 on a UK GAAP basis, Mindscape, Pearson New Entertainment and The Tussauds Group had a combined operating profit of £21m prior to disposal, and a total gain on disposal of £215m was recognized. Total proceeds of £568m were received during 1998 upon the sale of Mindscape, Pearson New Entertainment and The Tussauds Group.

The Group analyses turnover and operating profit between continuing and discontinued operations. Under US GAAP, the operating profit from discontinued operations would be shown on a separate line in the profit and loss statement below income from continuing operations.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Significant acquisitions

During 1998, the Group acquired the Simon & Schuster educational, business & professional and reference businesses (Simon & Schuster). The following unaudited pro-forma information presents the results of operations of the Group as if the acquisition had taken place on January 1, 1998:

	Year ended December 31, 1998 (unaudited)
Sales (£m)	3,368
Profit for the financial year (£m)	301
Basic earnings per equity share	51.0p
Diluted earnings per equity share	50.4p

The Group's 1999 results consolidate Simon & Schuster for the full year, and accordingly a pro-forma presentation is not necessary.

The unaudited pro-forma information has been prepared for comparative purposes only and includes certain adjustments, such as additional amortization expense as a result of goodwill and an increased interest expense on acquisition debt. They do not purport to be indicative of the results of operations that actually would have resulted if the acquisition had been effective at the beginning of 1998.

Revenue Recognition

Pearson Education: Revenues are generally recognized when goods are shipped to customers or services rendered, net of a provision for estimated returns.

FT Group: Subscription income is recorded as revenue as earned. Deferred subscription revenue, which primarily represents amounts received from customers in advance of newspaper delivery, is included in revenue over the subscription term. Advertising revenue is recognized when the advertisement appears in the newspaper.

Penguin: Revenues are generally recognized when goods are shipped to customers or services rendered, net of a provision for estimated returns.

Pearson Television: Revenues from all television sources are recognized upon availability of the film for telecast and when certain other conditions are met. Television series initially produced for the networks and first-run syndication are generally licensed to domestic and foreign markets concurrently. The more successful series are later syndicated in domestic markets and in certain foreign markets. The length of the revenue cycle for television series will vary depending on the number of seasons a series remains in active production. Revenues arising from television license agreements are recognized in the period that the films or television series are available for telecast and when certain other conditions are met. License agreements for the telecast of television product in the broadcast network, syndicated television and cable television markets are routinely entered into in advance of their available date for telecast. Cash received in connection with such contractual rights for which revenue is not yet recognizable is classified as deferred revenue.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Because deferred revenue generally relates to contracts for the licensing of television product which have already been produced, the recognition of revenue for such completed product is principally only dependent upon the commencement of the availability period for telecast under the terms of the related licensing agreement and when certain other conditions are met.

All divisions: Online advertising revenue is recognized ratably during the period in which the advertising is displayed and obligations are satisfied.

Lease commitments

The following is a summary of future minimum rental payments for all leases with terms greater than one year:

1999	Capital Lease	Operating Lease
	£m	£m
Fiscal year ending December 31,		
2000	7	90
2001	5	81
2002	2	72
2003	1	64
2004	1	52
Thereafter	1	397
Total minimum lease payments	17	756
(Less) Interest element	(2)	N/a
Present value of net minimum lease payments	15	N/a

1998	Capital Lease	Operating Lease
	£m	£m
Fiscal year ending December 31,		
1999	10	89
2000	6	71
2001	3	64
2002	1	56
2003	1	52
Thereafter	-	364
Total minimum lease payments	21	696
(Less) Interest element	(2)	N/a
Present value of net minimum lease payments	19	N/a

The total operating lease expense for 1999 is £95m (1998: £62m).

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Borrowings

The weighted average interest rate on short-term borrowings outstanding was 5.5% and 6.4% as at December 31, 1999 and 1998, respectively.

The Group's debt matures as follows

	1999
	£m
Due in:	
2000	47
2001	155
2002	590
2003	561
2004	466
Thereafter	504
Total	2,323

The Group was in compliance with all debt covenants as at December 31, 1999 and 1998.

Fixed Assets

Fully depreciated assets still being utilised by the Group have the following historical cost values:

	1999	1998
	£m	£m
Freehold buildings	2	5
Long lease property	1	1
Short lease property	4	-
Plant & machinery	52	45
Fixtures & fittings	34	68
Total	93	119

In 1998 there was one property which was not being utilised. Its net book value was £15m. There was no such facility in 1999.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Computer software costs

The following table sets forth the amount of computer software costs capitalized in plant & machinery.

	1999	1998
	£m	£m
Cost at December 31	89	58
Depreciation at December 31	(38)	(31)
Net book value at December 31	51	27
Depreciation charged in the year	7	5

Consolidation

The consolidated financial statements include the accounts of the Group and majority-owned and controlled subsidiaries. Under UK GAAP, the investments in companies in which the Group is unable to exercise control but has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method, which is consistent with the equity method under US GAAP. Accordingly, the Group's share of the net earnings of these companies is included in consolidated net income. The investments in other companies are carried at cost or fair value, as appropriate. Inter-company accounts and transactions are eliminated upon consolidation.

Allowance for doubtful receivables

The Group has recorded an allowance for doubtful receivables as at December 31,1999 of £463m (1998: £401m) of which £456m (1998: £392m) is in respect of receivables due within one year.

Advertising costs

The Group maintains an accounting policy of expensing advertising costs as incurred.

The Group recorded advertising costs during the year ended December 31, 1999 and 1998 of £146m and £112m, respectively.

Stocks

Stocks are valued at the lower of cost and net realizable value. Cost is calculated on a first in first out basis by reference to the invoiced value of supplies and attributable costs of bringing stocks to their present location and condition. Net realizable value is the estimated market value less selling costs.

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

Exceptional items

Exceptional profits or losses on the sale of fixed assets and investments, businesses and associates do not meet the definition of ''extraordinary'' under US GAAP and, accordingly, are classified as operating items.

Total assets and total liabilities

US GAAP requires that total assets and total liabilities are disclosed. Total assets and total liabilities under UK GAAP are shown below.

	1999	1998
	£m	£m
Total assets	5,350	5,317
Total liabilities	4,029	4,269

Use of estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Accounting estimates have been used in these financial statements to determine reported amounts, including realizability, of useful lives of tangible and intangible assets, income taxes and other items. Actual results could differ from those estimates.

Companies Act 1985

The Consolidated Financial Statements do not constitute ''statutory accounts'' within the meaning of the Companies Act 1985 of Great Britain for any of the periods presented. Statutory accounts for the years ended December 31, 1999, 1998 and 1997 have been filed with the United Kingdom's Registrar of Companies. The auditors have reported on these accounts. Their reports were unqualified and did not contain statements under Section 237 (2) or (3) of that Act.

These Consolidated Financial Statements include all material disclosures required by generally accepted accounting principles in the United Kingdom including those Companies Act 1985 disclosures relating to the profit and loss account and balance sheet items.

Recently issued accounting standards

FRS 15 *Tangible Fixed Assets* sets out the requirements for accounting for the initial measurement, valuation and depreciation of tangible fixed assets. Valuations remain optional, but if valuations are performed then all assets of the same class should be revalued and revaluation should be kept current. FRS 15 must be adopted for accounting periods ending on or after March 3, 2000, and accordingly will be adopted in Pearson's interim statement as at and for the period ending June 30, 2000. The implementation of FRS 15 is not expected to have a material impact on either the results of operations or the disclosures.

FRS 16 *Current Tax* discusses the recognition and disclosure of current tax, in particular withholding tax and tax credits. The most significant change introduced by FRS 16 is that dividends

34 Summary of principal differences between United Kingdom and United States generally accepted accounting principles (Continued)

received from UK companies should no longer be grossed up for the imputed tax credit, but should instead be recorded at the amount received or receivable. The effect of applying FRS 16 for the first time should be treated as a change in accounting policy. FRS 16 must be adopted for accounting periods ending on or after March 3, 2000, and accordingly will be adopted in Pearson's interim statement as at and for the period ending June 30, 2000. The implementation of FRS 16 is not expected to have a material impact on the results of operations.

Securities and Exchange Commission Staff Accounting Bulletin (''SAB'') 101 *Revenue Recognition in Financial Statements* was issued on December 6, 1999 and provides an interpretation of when the revenue recognition criteria have been met. If a transaction is within the scope of specific authoritative literature that provides revenue recognition guidance, that literature should continue to be applied. However, in the absence of authoritative literature addressing a specific arrangement or a specific industry, SAB 101 is designed to provide additional guidance as to the criteria that will be applied by the SEC. SAB 101 is to be adopted in the second quarter of the financial year beginning after December 15, 1999 (financial year 2000 for Pearson). Pearson has complied with SAB 101 for the period ending December 31, 1999.

Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires that, upon adoption, all derivative instruments (including certain derivative instruments embedded in other contracts) be recognized in the balance sheet at fair value, and that changes in such fair values be recognized in earnings unless specific hedging criteria are met. Changes in the values of derivatives that meet these hedging criteria will ultimately offset related earnings effects of the hedged items; effects of certain changes in fair value are recorded in equity pending recognition in earnings. For US GAAP purposes the Group's derivative instruments did not qualify for hedge accounting in 1999 or 1998. Accordingly, the adoption of SFAS133 should not have a materially different effect than that shown in the US GAAP reconciliation.

PEARSON PLC

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

AS AT DECEMBER 31, 1999

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.

	Country of incorporation or registration
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

PEARSON PLC

PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

AS AT DECEMBER 31, 1999

Associates

	Country of incorporation or registration	Beneficial Interest	Class of Share	Share Capital	Accounting year end
		%		£m	
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 F-27.

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

PEARSON PLC
INTERIM RESULTS FOR THE SIX MONTHS TO JUNE 30, 2000
(UNAUDITED)

The financial information included on the following pages F-92 through F-100 represents the consolidated financial position of Pearson plc and its subsidiaries as of June 30, 2000 and the results of their operations and changes in their financial position (cash flows) prepared in accordance with UK GAAP. This financial information is included because it is publicly available in the UK and has been publicly distributed to shareholders in the UK and provided to the London stock exchange. This financial information has been prepared in accordance with UK GAAP and has not been reconciled to accounting principles generally accepted in the US.

PEARSON PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS TO JUNE 30, 2000

(unaudited)

	Note	2000 half year £m	1999 half year restated £m	1999 full year restated £m
Sales	2			
Continuing operations		1,490	1,306	3,332
Acquisitions		55	-	-
Total sales		1,545	1,306	3,332
Operating profit	2			
Continuing operations—group		(13)	13	247
Acquisitions—group		(6)	-	-
Total operating (loss)/profit—group		(19)	13	247
Share of operating profit of associates and joint ventures:				
Continuing operations		5	12	23
Acquisitions		(5)	-	-
		-	12	23
Discontinued operations		8	21	48
Total share of operating profit of associates and joint ventures		8	33	71
Total operating profit analysed between:				
Operating profit before internet enterprises, goodwill amortisation and other items		156	133	588
Internet enterprises		(84)	(7)	(39)
Goodwill amortisation		(72)	(63)	(131)
Other items		(11)	(17)	(100)
Total operating (loss)/profit		(11)	46	318
Continuing operations:				
Profit on sale of fixed assets and investments	3	2	22	349
(Loss) on sale of businesses and associates	4	(15)	(17)	(44)
Discontinued operations:				
Profit on sale of businesses and associates	4	231	-	-
		218	5	305
Profit on sale of businesses and associates by an associate—continuing operations		-	-	1
Profit before interest		207	51	624
Net finance costs				
Net interest payable—group		(67)	(70)	(145)
Net interest payable—associates and joint ventures		(1)	(1)	(2)
Arrangement fee	5	(16)	-	-
		(84)	(71)	(147)
Profit/(loss) before taxation		123	(20)	477
Taxation	7	(32)	(18)	(177)
Profit/(loss) after taxation		91	(38)	300
Equity minority interests		(3)	(3)	(6)
Profit/(loss) for the financial period		88	(41)	294
Dividends on equity shares		(58)	(54)	(138)
Profit/(deficit) retained		30	(95)	156
Adjusted earnings per equity share before internet enterprises	6	10.0p	7.1p	53.3p
Adjusted (loss)/earnings per equity share after internet enterprises	6	(0.6)p	6.3p	48.5p
Earnings/(loss) per equity share	6	14.2p	(6.6)p	48.2p
Diluted earnings/(loss) per equity share	6	13.8p	(6.5)p	47.5p
Dividends per equity share	8	9.2p	8.6p	22.5p

1999 has been restated to reflect the adoption of FRS16 ''Current Tax''.

The results for the 1999 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.

PEARSON PLC

CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2000

(UNAUDITED)

	2000 half year £m	1999 half year £m	1999 full year £m
Fixed assets			
Intangible assets	3,018	2,340	2,457
Tangible assets	453	435	405
Investments:			
Associates	289	208	234
Other	191	291	99
	3,951	3,274	3,195
Current assets			
Stocks	945	724	691
Debtors	1,233	1,093	1,132
Investments	3	5	4
Cash at bank and in hand	369	351	328
	2,550	2,173	2,155
Creditors—amounts falling due within one year			
Short-term borrowing	(902)	(594)	(47)
Other creditors	(1,356)	(1,162)	(1,441)
	(2,258)	(1,756)	(1,488)
Net current assets	292	417	667
Total assets less current liabilities	4,243	3,691	3,862
Creditors—amounts falling due after more than one year			
Medium and long term borrowing	(2,011)	(2,297)	(2,276)
Other creditors	(58)	(43)	(32)
	(2,069)	(2,340)	(2,308)
Provisions for liabilities and charges			
Deferred taxation	(17)	(22)	(21)
Other provisions for liabilities and charges	(213)	(222)	(206)
Net assets	1,944	1,107	1,327
Capital and reserves			
Called up share capital	156	153	153
Share premium account	774	504	517
Profit and loss account	901	413	651
Equity shareholders' funds	1,831	1,070	1,321
Equity minority interests	113	37	6
	1,944	1,107	1,327

PEARSON PLC

STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES

FOR THE SIX MONTHS TO JUNE 30, 2000

(UNAUDITED)

	2000 half year	1999 half year	1999 full year
	£m	£m	£m
Profit/(loss) for the financial period	88	(41)	294
Other net gains and losses recognised in reserves:			
Currency translation differences	97	71	36
Total recognised gains relating to the period	185	30	330

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

FOR THE SIX MONTHS TO JUNE 30, 2000

	2000 half year	1999 half year	1999 full year
	£m	£m	£m
Profit/(loss) for the financial period	88	(41)	294
Dividends on equity shares	(58)	(54)	(138)
	30	(95)	156
Currency translation differences	97	71	36
Goodwill written back	126	40	63
Shares issued	257	6	18
Net movement for the period	510	22	273
Equity shareholders' funds at beginning of the period	1,321	1,048	1,048
Equity shareholders' funds at end of the period	1,831	1,070	1,321

PEARSON PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS TO JUNE 30, 2000
(UNAUDITED)

	Note	2000 half year £m	1999 half year £m	1999 full year £m
Net cash (outflow)/inflow from operating activities	9	(200)	(52)	433
Dividends from associates and joint ventures		43	31	44
Interest received		23	30	41
Interest paid		(105)	(98)	(182)
Debt issue costs		-	-	(5)
Dividends paid to minority interests		-	-	(1)
Returns on investments and servicing of finance		(82)	(68)	(147)
Taxation		(30)	(33)	(156)
Purchase of tangible fixed assets		(65)	(41)	(102)
Sale of tangible fixed assets		8	10	36
Purchase of investments		(90)	(19)	(24)
Sale of investments		3	108	624
Capital expenditure and financial investment		(144)	58	534
Purchase of subsidiary undertakings		(482)	(17)	(249)
Net debt acquired with subsidiary undertakings		(19)	-	-
Purchase of associates and joint ventures		(88)	(48)	(54)
Sale of subsidiary undertakings		3	31	44
Net cash disposed with subsidiary undertakings		-	(3)	(3)
Sale of associates and joint ventures		394	12	12
Acquisitions and disposals		(192)	(25)	(250)
Equity dividends paid		(87)	(79)	(132)
Net cash (outflow)/inflow before management of liquid financing resources and financing		(692)	(168)	326
Liquid resources acquired		(49)	(9)	(9)
Liquid resources disposed		44	10	10
Collateral deposit placed		(61)	-	-
Management of liquid resources		(66)	1	1
Issue of equity share capital		257	6	18
Capital element of finance lease rentals		(4)	(5)	(11)
Loan facility repaid		(676)	(326)	(1,112)
4.625% €uro Bonds 2004 advanced		-	-	358
7% Sterling Bonds 2014 advanced		-	-	250
6.125% €uro Bonds 2007 advanced		368	—	—
Loan notes advanced		131	—	—
Net movement in other borrowings		597	525	202
Financing		673	200	(295)
(Decrease)/increase in cash in the period		(85)	33	32

PEARSON PLC

Notes to the Interim Results

for the six months to June 30, 2000
(Unaudited)

1. Basis of preparation

The interim results for the six months to June 30, 2000 have been prepared in accordance with the accounting policies set out in the 1999 Annual Report. FRS15 ''Tangible Fixed Assets' has been adopted. FRS16 ''Current Tax' has also been adopted and comparative figures have been restated to reflect that UK dividend income is now presented net of UK tax credits.

2. Sector analysis

	Sales		
	2000 half year	1999 half year	1999 full year
	£m	£m	£m
Pearson Education	647	554	1,725
FT Group	408	330	687
The Penguin Group	326	263	565
Pearson Television	164	159	355
Continuing operations	1,545	1,306	3,332

Sales in respect of internet enterprises, the group's discrete internet operations, are included within the FT Group £16m (1999 half year: £2m; 1999 full year: £7m).

	Operating Profit (before internet enterprises, goodwill amortisation and other items)			Operating Profit (after internet enterprises, goodwill amortisation and other items)		
	2000 half year	1999 half year	1999 full year	2000 half year	1999 half year	1999 full year
	£m	£m	£m	£m	£m	£m
Pearson Education	(26)	(38)	257	(108)	(116)	36
FT Group	109	86	150	35	77	103
The Penguin Group	33	31	65	25	31	64
Pearson Television	32	33	68	29	33	67
Continuing operations	148	112	540	(19)	25	270
Discontinued operations	8	21	48	8	21	48
	156	133	588	(11)	46	318

The results of internet enterprises are included within Pearson Education £19m (1999 half year: £nil; 1999 full year: £3m), within FT Group £64m (1999 half year: £7m; 1999 full year: £36m) and within Pearson Television £1m (1999 half year: £nil; 1999 full year: £nil).

Other items comprises exceptional items of £11m (1999 half year £15m; 1999 full year £95m) and Year 2000 compliance costs of £nil (1999 half year £2m; 1999 full year £5m). Exceptional items comprise integration costs of £8m (1999 half year £15m; 1999 full year £95m) following the acquisition of Simon & Schuster in 1998 which all relate to the Pearson Education business sector and integration costs of £3m following the acquisition of Dorling Kindersley in May 2000 which all

2. Sector analysis (Continued)

relate to the Penguin Group business sector. Discontinued operations relate to the withdrawal of the Group from the banking business following its disposal of Lazard on March 3, 2000.

Included in the analysis of operating profit above are the following amounts in respect of associates and joint ventures:

	2000 half year	1999 half year	1999 full year
	£m	£m	£m
Pearson Education	4	4	6
FT Group	(8)	7	14
Pearson Television	4	1	3
Continuing operations	-	12	23
Discontinued operations	8	21	48
	8	33	71

3. Profit on sale of fixed assets and investments

	2000 half year	1999 half year	1999 full year
	£m	£m	£m
Profit on disposal of interest in BSB Holdings Ltd	-	16	345
Loss on sale of fixed assets relating to the Simon & Schuster acquisition	-	-	(3)
Net profit on sale of other investments and property interests	2	6	7
Continuing operations	2	22	349
Taxation	-	(3)	(90)

4. (Loss)/profit on sale of businesses and associates

	2000 half year	1999 half year	1999 full year
	£m	£m	£m
Loss on sale of Extel research products business	-	(16)	(19)
Loss on closure of Simon & Schuster businesses	-	(3)	(12)
Net (loss)/profit on sale of other businesses	(15)	2	(13)
Continuing operations	(15)	(17)	(44)
Profit on sale of Lazard—discontinued operations	231	-	-
Taxation	(31)	(3)	5

5. Arrangement fee

The amortisation of an arrangement fee in respect of a borrowing facility has been accelerated due to the early redemption of the facility.

6. Earnings and adjusted earnings per equity share

In order to show results from operating activities on a comparable basis two adjusted earnings per equity share are presented. Firstly, an adjusted earnings per equity share is presented which excludes profits or losses on the sale of fixed assets and investments, businesses and associates (see notes 3 and 4), Year 2000 compliance costs, integration costs in respect of the acquisitions of Simon & Schuster and Dorling Kindersley and the accelerated amortisation of a financing arrangement fee. 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 on new internet enterprises, a second adjusted earnings per equity share is presented in which the results of these are also excluded from earnings.

	2000 half year	1999 half year	1999 full year
	£m	£m	£m
Profit/(loss) for the financial period	88	(41)	294
Adjustments:			
(Profit) on sale of fixed assets and investments: continuing operations	(2)	(22)	(349)
Loss on sale of businesses and associates: continuing operations	15	17	44
(Profit) on sale of businesses and associates: discontinued operations	(231)	-	
(Profit) on sale of businesses and associates by an associate:			
Continuing Operations	-	-	(1)
Internet enterprises	84	7	39
Interest on internet enterprises	2	-	-
Minority share of internet enterprises	(2)	-	-
Goodwill amortisation	72	63	131
Simon & Schuster integration costs	8	15	95
Dorling Kindersley integration costs	3	-	-
Arrangement fee	16	-	-
Year 2000 compliance costs	-	2	5
Taxation on above items	9	2	67
Adjusted earnings before internet enterprises	62	43	325
Internet enterprises	(84)	(7)	(39)
Interest on internet enterprises	(2)	-	-
Minority share of internet enterprises	2	-	-
Taxation on internet enterprises	18	2	10
Adjusted (loss)/earnings after internet enterprises	(4)	38	296
Profit/(loss) for the financial period	88	(41)	294
Tax on the conversion of ordinary shares	(1)	-	(1)
Diluted earnings	87	(41)	293
Weighted average number of equity shares (millions)			
—for earnings and adjusted earnings	620.4	609.7	610.2
Effect of dilutive share options	8.2	6.8	7.0
Weighted average number of equity shares (millions)			
—for diluted earnings	628.6	616.5	617.2
Adjusted earnings per equity share before internet enterprises	10.0p	7.1p	53.3p
Adjusted (loss)/earnings per equity share after internet enterprises	(0.6)p	6.3p	48.5p
Earnings/(loss) per equity share	14.2p	(6.6)p	48.2p
Diluted earnings/(loss) per equity share	13.8p	(6.5)p	47.5p

PEARSON PLC

Notes to the Interim Results (Continued)

for the six months to June 30, 2000
(Unaudited)

7. Taxation

The tax rate provided in the profit and loss account for the half year is based on the estimated effective rate for the full year and is analysed as follows:

	2000 half year %	1999 half year %	1999 full year %
United Kingdom tax rate	30.0	30.2	30.2
Effect of utilisation of tax losses in the USA	(4.5)	(10.6)	(7.7)
Other items	(0.5)	5.4	2.5
Tax rate reflected in adjusted earnings	25.0	25.0	25.0
Effect of profits/(losses) excluded from adjusted earnings	1.0	n/a	12.5
Tax rate reflected in earnings	26.0	n/a	37.5

Taxation is analysed as:

	2000 half year £m	1999 half year £m	1999 full year £m
Parent and subsidiaries	28	10	162
Associates	4	8	15
	32	18	177

The group continues to have substantial tax losses available in the US which are not recognised in the accounts and hence the tax rate reflected in adjusted earnings is lower than the UK tax rate.

8. Dividends

The directors have declared an interim dividend of 9.2p per equity share, payable on October 27, 2000 to shareholders on the register at the close of business on August 11, 2000.

9. Note to consolidated statement of cash flows

	2000 half year £m	1999 half year £m	1999 full year £m
Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities			
Total operating (loss)/profit	(11)	46	318
Share of profit of associates and joint ventures	(8)	(33)	(71)
Depreciation charges	44	41	82
Goodwill amortisation	70	63	130
(Increase) in stocks	(137)	(69)	(57)
Decrease/(increase) in debtors	37	46	(71)
(Decrease)/increase in creditors	(199)	(114)	127
(Decrease) in operating provisions	(6)	(29)	(33)
Other and non-cash items	10	(3)	8
Net cash (outflow)/inflow from operating activities	(200)	(52)	433
Purchase of fixed assets and finance lease payments	(69)	(46)	(113)
Sale of operating tangible fixed assets	5	2	24
Dividends from associates and joint ventures	43	31	44
Other	3	4	8
Operating cash flow	(218)	(61)	396
Analysed as:			
Operating cash flow before internet enterprises and other items	(104)	(8)	540
Cash effect of other items	(26)	(49)	(110)
Cash effect of internet enterprises	(88)	(4)	(34)
Operating cash flow	(218)	(61)	396

10. Exchange rates

Pearson earns a significant proportion of its sales and profits in overseas currencies, the most prominent being the US dollar and the Euro. The relevant rates are as follows:

	£ versus US$			£ versus Euro		
	2000 half year £m	1999 half year £m	1999 full year £m	2000 half year £m	1999 half year £m	1999 full year £m
Average for operating profits	1.56	1.61	1.61	1.65	1.50	1.53
Period end rate	1.51	1.58	1.61	1.58	1.53	1.61

Report of Independent Accountants

To the Board of Directors and
Shareholders of Viacom Inc.:

In our opinion, the accompanying carve-out balance sheets and the related carve-out statements of operations and of cash flows presents fairly, in all material respects, the financial position of Simon & Schuster (Excluding Consumer), as defined in Note 1 to the financial statements (the ''Company''), at December 31, 1997, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion expressed above.

PricewaterhouseCoopers LLP, New York
June 17, 1998

Simon & Schuster (Excluding Consumer)

Carve-out Statements of Operations

	January 1, 1998 through November 27, 1998	Year Ended December 31,		
	(unaudited)	1997	1996	1995
	$m	$m	$m	$m
Revenues	1,663	1,915	1,784	1,631
Expenses				
Operating	(700)	(757)	(689)	(573)
Selling, general and administrative	(872)	(851)	(816)	(781)
Depreciation and amortization (note 1)	(142)	(145)	(135)	(126)
Total expenses	(1,714)	(1,753)	(1,640)	(1,480)
Operating (loss)/income	(51)	162	144	151
Other income/(expense)				
Net interest income/(expense)(note 3)	1	(6)	(5)	(6)
Other items, net (note 9)	(15)	(8)	8	(1)
(Loss)/earnings before income taxes	(65)	148	147	144
Provision for income taxes (note 6)	(2)	(82)	(80)	(78)
Net (loss)/earnings	(67)	66	67	66

See notes to carve-out financial statements.

Simon & Schuster (Excluding Consumer)
Carve-out Balance Sheet

	November 27, 1998	December 31,		
	(unaudited)	1997	1996	1995
	$m	$m	$m	$m
Assets				
Current assets				
Cash	41	35	31	45
Receivables, less allowances for sales returns and doubtful accounts of $181 (1998), $204 (1997), $176 (1996) and $162 (1995)	473	545	502	407
Inventories (note 1)	287	284	278	319
Prepaid and other current assets	125	98	90	76
Total current assets	926	962	901	847
Property and equipment, net (note 1)	163	165	171	160
Intangibles, net (note 1)	2,851	2,941	3,011	3,052
Prepublication costs, net of accumulated amortization of $423 (1998), $312 (1997), $240 (1996) and $187 (1995) (note 1)	326	325	314	270
Other assets	114	124	89	105
	4,380	4,517	4,486	4,434
Liabilities and Viacom Equity Investment				
Current liabilities				
Accounts payable	123	223	229	193
Accrued expenses	103	78	96	91
Royalty payable	74	87	83	78
Subscription liability	44	44	43	38
Accrued compensation	227	192	183	176
Other current liabilities	72	71	83	126
Current portion of long-term debt (note 3)	22	26	7	41
Total current liabilities	665	721	724	743
Long-term debt (note 3)	23	27	22	14
Deferred income taxes (note 6)	14	21	19	-
Other liabilities	13	5	15	8
Commitments and contingencies (note 7)				
Viacom equity investment (note 4)	3,665	3,743	3,706	3,669
	4,380	4,517	4,486	4,434

See notes to carve-out financial statements.

Simon & Schuster (Excluding Consumer)

Carve-out Statements of Cash Flows

	January 1, 1998 through November 27, 1998	Year Ended December 31,		
	(unaudited)	1997	1996	1995
	$m	$m	$m	$m
Operating activities				
Net earnings	(67)	66	67	66
Adjustments to reconcile net earnings to net cash flow from operating activities				
Gain on sale of investment	-	-	(8)	-
Depreciation and amortization	142	145	135	126
Decrease/(increase) in receivables	62	(46)	(90)	(19)
(Increase)/decrease in inventories	(4)	(14)	37	(98)
(Increase)/in other assets	(40)	(54)	(34)	(31)
Increase in prepublication costs	(1)	(13)	(50)	(49)
(Decrease)/increase in accounts payable and other liabilities	(51)	(29)	34	33
Net cash flow from operating activities	41	55	91	28
Investing activities				
Capital expenditures	(28)	(34)	(31)	(42)
Proceeds from dispositions	2	14	42	10
Acquisitions, net of cash acquired	-	(13)	(49)	(54)
Proceeds from sale of buildings and equipment	-	16	6	5
Net cash flow from investing activities	(26)	(17)	(32)	(81)
Financing activities				
Net distributions to Viacom	(76)	(157)	(147)	(43)
Amounts paid by Viacom on behalf of Publishing (excluding consumer)	75	134	116	104
Principal payment on capital lease obligations	(1)	(11)	(4)	(2)
Repayments of long-term debt, net	(7)	-	(38)	-
Net cash flow from financing activities	(9)	(34)	(73)	59
Net increase/(decrease) in cash	6	4	(14)	6
Cash at beginning of year	35	31	45	39
Cash at end of year	41	35	31	45
Noncash investing and financing activities				
Property and equipment acquired under capitalized leases	13	21	16	11

See notes to carve-out financial statements.

Simon & Schuster (Excluding Consumer)

Notes to Carve-out Financial Statements

For the period January 1, 1998 through November 27, 1998 (unaudited) and the three years ended December 31, 1997

1. Description of Business and Summary of Significant Accounting Policies

Simon & Schuster (Excluding Consumer) consists of Simon & Schuster and its subsidiaries, which are wholly-owned by Viacom Inc. (''Viacom''), excluding the Consumer division (the ''Company''). The Company publishes and distributes books, audiobooks, software (including CD-ROM products, educational textbooks, supplemental educational materials, multimedia curricula, and information and reference materials for schools, businesses and professionals. The Company's flagship imprints include Allyn & Bacon, Computer Curriculum Corporation, Prentice Hall, Silver Burdett Ginn and Macmillan® USA. The Company also distributes its products directly as well as through third parties and delivers content and sells products on Internet Web sites operated by various imprints or linked to individual titles. The Company operates principally in one segment of business—the production, publication and sale of educational and professional materials.

On May 17, 1998, Viacom entered into an agreement to sell the Company to Pearson plc. for $4.6 billion in cash. Viacom will retain the Consumer division, including the Simon & Schuster name. The transaction was completed on November 27, 1998.

The accompanying carve-out financial statements and related notes reflect the carve-out historical results of operations, financial position and cash flows of the Company. These financial statements are not necessarily indicative of results that would have occurred if the Company had been a separate stand-alone entity during the periods presented or of future results of the Company.

Principles of combination

The carve-out financial statement include the accounts of the Company and all investments of more than 50% in subsidiaries. All significant intercompany transactions with combined entities have been eliminated. Investments in affiliated companies over which the Company has significant control or ownership of more than 20% but less than or equal to 50% are accounted for under the equity method. Investments of 20% or less are accounted for under the cost method. Investments in affiliates are included in Other Assets.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could subsequently differ from those estimates. The significant estimates that affect the financial statement include, but are not limited to, book returns, doubtful accounts, recoverability of advances to authors and recoverability of long-term assets such as intangibles, prepublication costs and software developed for external use.

Returns reserves

A provision for estimated sales returns is made at time of sale is generally based upon a percentage of gross sales using historical return rates.

1. Description of Business and Summary of Significant Accounting Policies (Continued)

Provision for doubtful accounts

The provision for doubtful accounts charged to expense was $17m, $17m, $15m and $12m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1997, respectively.

Inventories

Inventories, which consists principally of paper, printing costs, binding and in-bound freight costs and finished products are stated at the lower of cost (first-in, first-out) or net realizable value. Inventory is comprised of the following:

	January 1, 1998 through November 27, 1998	December 31,		
	(unaudited)	1997	1996	1995
	$m	$m	$m	$m
Raw materials	15	16	12	24
Work-in-process	25	23	24	38
Finished goods	247	245	242	257
Total	287	284	278	319

Property and equipment

Property and equipment is stated at cost. Depreciation is computed principally by the straight-line basis over the estimated useful lives as follows:

Building and building improvements	40 years for building; 10 years for building improvements
Leasehold improvements	lesser of useful life or lease term
Equipment and other	3 to 10 years

1. Description of Business and Summary of Significant Accounting Policies (Continued)

Balances of major classes of assets and allowances for depreciation and amortization are as follows:

	January 1, 1998 through November 27, 1998	December 31,		
	(unaudited)	1997	1996	1995
	$m	$m	$m	$m
Land	7	7	18	19
Building and building improvements	32	34	55	55
Leasehold improvements	20	20	17	12
Equipment and other	250	222	178	153
Total	309	283	268	239
Less: allowances for depreciation and amortization	(146)	(118)	(97)	(79)
Property and equipment, net	163	165	171	160

Maintenance and repair costs are charged to expense as incurred, and renewals and improvements that extend the useful life of the assets are capitalized. Depreciation expense, including capitalized lease and software amortization, was $52m, $46m, $37m and $30m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1997.

Property and equipment includes capital leases of $34m, $34m, $23m and $13m at November 27, 1998, December 31, 1997, 1996 and 1995, respectively, net of accumulated amortization of $32m, $18m, $8m and $4m, respectively. Amortization expense related to capital leases was $14m, $10m, $5m and $2m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1998.

In 1997, the Company sold its Englewood Cliffs, New Jersey facility resulting in a gain of $5m. In 1996, the Company sold its Paramus, New Jersey facility resulting in a gain of $2m.

1. Description of Business and Summary of Significant Accounting Policies (Continued)

Intangibles

Intangible assets consist of the following:

	January 1, 1998 through November 27, 1998	December 31,		
	(unaudited)	1997	1996	1995
	$m	$m	$m	$m
Goodwill	2,869	2,869	2,840	2,783
Publishing rights	441	441	441	441
Total	3,310	3,310	3,281	3,224
Less: accumulated amortization	(459)	(369)	(270)	(172)
Intangibles, net	2,851	2,941	3,011	3,052

Publishing rights are amortized on a straight-line basis over the estimated remaining economic life of the titles or contracts, which does not exceed 17 years.

The cost of acquired businesses in excess of the fair value of tangible assets and liabilities acquired (''goodwill'') is generally amortized using the straight-line method over estimated useful lives of up to 40 years. Amortization expense related to intangible assets was $90m, $99m, $98m and $96m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1997.

Prepublication costs

Prepublication costs include principally art, composition, typesetting, film, copy editing, proofreading and other nonrecurring preproduction costs related to product development. Units that publish products with life cycles longer than one year generally capitalize prepublication costs and amortize these costs over the life of the product up to 5 years. Expense related to prepublication costs, which is included in operating expenses, was $168m, $177m, $134m and $105m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1997, respectively.

Impairment evaluation

In 1996, the Company adopted Statement of Financial Accounting Standards (''SFAS'') 121 (''SFAS 121''), ''Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of.'' SFAS 121 establishes accounting standards for the evaluation and measurement of impairment of long-lived assets, including identifiable intangibles and goodwill. There was no material effect on the financial statements from the adoption of SFAS 121 because the Company's prior impairment recognition practice was generally consistent with SFAS 121. Under the provisions of SFAS 121, impairment is indicated when expected future cash flows are less than the related assets' carrying value. Accordingly, when indicators of impairment are present, the Company

1. Description of Business and Summary of Significant Accounting Policies (Continued)

evaluates the carrying value of the related asset, including goodwill, in relation to the fair value and the carrying value of the underlying assets is adjusted if the fair value is lower.

Revenue recognition

Revenues are generally recognized in the period when merchandise is shipped.

Foreign currency translation and transactions

The Company's foreign business' assets and liabilities are translated at exchange rates in effect at the balance sheet date, while results of operations are translated at average exchange rates for the respective periods. The resulting translation gains and losses are included as part of Viacom's equity investment. Foreign currency transaction gains and losses have been included in ''Other items, net''.

Income taxes

Income taxes are provided based on the liability method of accounting pursuant to SFAS 109, ''Accounting for Income Taxes'' (''SFAS 109''). Deferred income taxes are recorded to reflect the tax benefit and consequences of future years differences between the tax bases of assets and liabilities and their financial reporting basis.

Recent accounting pronouncements

In February 1997, the Financial Accounting Standards Board (''FASB'') issued SFAS 128, ''Earnings per Share'' which establishes standards for computing and presenting earnings per share and is effective for financial statements for both interim and annual periods ending after December 15, 1997. Given the nature of the capital structure of the combined entities that form the Company, earnings per share data has not been presented.

In June 1997, the FASB issued SFAS 130, ''Reporting Comprehensive Income'' (''SFAS 130''), effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for reporting and display of comprehensive income and its components in financial statements. The components of the Viacom Equity Investment, which include certain components required to be displayed by SFAS 130, are presented in note 4.

In June 1997, the FASB issued SFAS 131, ''Disclosures about Segments of an Enterprise and Related Information'' (''SFAS 131''), effective for fiscal years beginning after December 15, 1997. SFAS 131 establishes revised standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. In February 1998, the FASB issued SFAS 132, ''Employer's Disclosures about Pensions and Other Post-Retirement Benefits'' (SFAS 132''), which is effective for fiscal years beginning after December 15, 1997. SFAS 132 standardizes the disclosure requirements for pension and other post-retirement benefits and requires additional information on benefit obligations and the fair value of plan assets. Given the proposed sale of the Company and the nature of these financial

1. Description of Business and Summary of Significant Accounting Policies (Continued)

statements as described in note 1, the Company has not made an assessment relative to the impct of SFAS 131 and SFAS 132.

In June 1998, the FASB issued SFAS 133, ''Accounting for Derivative Instruments and Hedging Activities.'' SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for years beginning after June 15, 2000, as amended. Given the sale of the Company as described in note 1, no assessment relative to the impact of SFAS 133 has been made.

There are no other recently issued accounting pronouncements that are anticipated to have a material impact on the Company.

Unaudited financial information

The unaudited financial information for the period January 1, 1998 through November 27, 1998 has been prepared by management and includes all adjustments, consisting of recurring entries which management believes necessary to present fairly the financial position at November 27, 1998 and the results of operations and cash flows for the period January 1, 1998 through November 27, 1998. The results of operations for the period January 1, 1998 through November 27, 1998 are not necessarily indicative of the operating results to be expected for the full year.

2. Acquisitions and Dispositions

In 1997, the Company acquired all the outstanding stock of Skylight Training & Publishing Inc. for approximately $5m in cash and a note for $14m payable from 1998 through 2002. In 1996, the Company acquired all the outstanding stock of Invest Learning, a company which provides technology-based adult basic skills training solutions for the adult education market, for approximately $31m in cash. The acquisitions were accounted for as purchases and the net assets and results of operations are included in the Company's consolidated financial statements from the date of each respective acquisition. The costs of the acquisitions were allocated on the basis of the estimated fair market value of the assets acquired and the liabilities assumed. The goodwill associated with these acquisitions is being amortized on a straight-line basis over estimated useful lives of up to 40 years.

In 1997, the Company disposed of Judy/Instructo, Good Apple, Fearon Teaching Aids, American Teaching Aids and Shining Star, which provide supplemental instruction manipulatives and supplemental teacher resource materials to the K-8 market. The businesses were sold for net cash consideration of $11m. Concurrent with the Asset Sale Agreement, a Transition Services Agreement and a Trademark License Agreement were entered into with the buyer, for net cash consideration of $6m. In 1995, the Company disposed of Prentice Hall Legal & Financial Services (''PHL&FS'') which represented the combination of Prentice Hall Corporate Services, Infosearch, Charles E. Simon and Statewide/PH OnLine. PHL&FS was sold to two separate buyers for net cash consideration of $30m and a 35% ownership interest in one of the buyers, valued at $21m,

2. Acquisitions and Dispositions (Continued)

respectively. This interest was subsequently sold in 1996. The Company did not realize any material gains or losses on the above dispositions except as discussed in note 9.

Acquisitions and divestitures noted above did not materially impact consolidated results, therefore no pro forma information is provided. The Company acquired and disposed of other businesses in the periods presented which are not considered material to the financial statements presented herein.

3. Debt

The Company's debt represents capital lease commitments, 7.8% promissory notes and other notes payable for acquisitions (see note 2).

The components of debt are as follows:

	November 27, 1998 (unaudited)	December 31,		
		1997	1996	1995
	$m	$m	$m	$m
Current				
Obligations under capital leases	15	12	7	3
Promissory notes	-	7	-	-
Notes payable	7	7	-	38
Total current debt	22	26	7	41
Long-Term				
Obligations under capital leases	16	20	15	7
Promissory notes	-	-	7	7
Notes payable	7	7	-	-
Total long-term debt	23	27	22	14
Total debt	45	53	29	55

Interest costs incurred and interest income, which also reflect amounts for certain intercompany loans between the Company and certain Viacom subsidiaries (see note 4), are summarized below:

	January 1, 1998 through November 27,1998 (unaudited)	Year Ended December 31,		
		1997	1996	1995
	$m	$m	$m	$m
Interest incurred	(3)	(9)	(8)	(10)
Interest income	4	3	3	4
	1	(6)	(5)	(6)

4. Viacom Equity Investment

An analysis of the Viacom equity investment activity is as follows:

	January 1, 1998 through November 27, 1998 (unaudited)	Year Ended December 31,		
		1997	1996	1995
	$m	$m	$m	$m
Balance as of the beginning of the year	3,743	3,706	3,669	3,542
Net (loss)/earnings	(67)	66	67	66
Net cash distributions to Viacom	(76)	(157)	(147)	(43)
Allocated charges from Viacom	75	134	116	104
Currency translation adjustment and other	(10)	(6)	1	-
Balance as of the end of the year	3,665	3,743	3,706	3,669

Viacom funds the working capital requirements of its businesses based upon a centralized cash management system. The Viacom equity investment includes accumulated equity as well as any payables and receivables due to/from Viacom resulting from cash transfers and other intercompany activity. Viacom generally does not charge the Company interest on intercompany balances; however, the Company has certain loans directly with certain Viacom subsidiaries on which interest is charged. The following is a summary of the allocated charges from Viacom that are reflected in the foregoing analysis of Viacom equity investment activity:

	January 1, 1998 through November 27, 1998 (unaudited)	Year Ended December 31,		
		1997	1996	1995
	$m	$m	$m	$m
Income and miscellaneous operating taxes	13	75	52	42
Salaries and benefits payments	44	47	53	50
Other	18	12	11	12
Allocated charges from Viacom	75	134	116	104

5. Related Party Transactions

Viacom provides the Company with certain general and administrative services, including insurance, legal, financial and other corporate functions. The charges for insurance and legal expenses were $3m, $5m, $5m and $7m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1997, respectively, and are included in selling, general and administrative expenses. The cost of financing activities and certain other corporate functions, which did not benefit the Company, were absorbed by Viacom. See note 8 for pension plan and additional employee benefit costs charged by Viacom to the Company.

The Company shares with the Consumer division certain general and administrative services, including warehousing and customer service functions, as well as certain other corporate functions, including purchasing, payroll, accounting and systems and technology support. The Company has

5. Related Party Transactions (Continued)

charged Consumer for Consumer's share of these services in the amount of $34m, $37m, $39m and $38m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1997, respectively.

Management believes that the methodologies used to allocate charges for the services described above from Viacom and to Consumer are reasonable.

The Company, through the normal course of business, is involved in transactions with companies owned by or affiliated with Viacom which did not have a material impact on the financial position or results of operations presented herein.

6. Income Taxes

The Company has been included in consolidated federal, state and local income tax returns filed by Viacom. However, the tax expense reflected in the carve-out Statements of Operations and tax liabilities reflected in the carve-out Balance Sheets have been prepared on a separate return basis as though the Company had filed stand alone income tax returns. The current income tax liabilities for the periods presented have been satisfied by Viacom. These amounts have been reflected in the Viacom equity investment in the carve-out Balance Sheets. In connection with the transactions described in note 1, Viacom has agreed to indemnify the Company against income tax assessments, if any, arising from federal, state or local tax audits for periods in which the Company was a member of Viacom's consolidated tax group.

Earnings accounted for under the equity method of accounting are shown net of tax on the carve-out Statements of Operations.

Earnings before income taxes are attributable to the following jurisdictions:

	January 1, 1998 through November 27, 1998 (unaudited)	Year Ended December 31, $m		
		1997	1996	1995
	$m	$m	$m	$m
United States	(55)	114	122	113
Foreign	(10)	34	25	31
	(65)	148	147	144

6. Income Taxes (Continued)

Components of the provision for income taxes are as follows:

	January 1, 1998 through November 27, 1998 (unaudited)	Year Ended December 31,		
		1997	1996	1995
	$m	$m	$m	$m
Federal				
Current	-	55	34	25
Deferred	3	2	29	30
State and local				
Current	-	13	9	10
Deferred	-	-	3	2
Foreign				
Current	9	12	5	11
Deferred	(10)	-	-	-
Provisions for income taxes on earnings before income taxes	2	82	80	78

A reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on earnings before income taxes is as follows:

	January 1, 1998 through November 27, 1998	Year Ended December 31,		
	(unaudited)	1997	1996	1995
Statutory U.S. tax rate	(35.0%)	35.0%	35.0%	35.0%
Amortization of goodwill	32.1	20.5	20.5	18.7
State and local taxes, net of federal tax benefit	0.1	5.3	5.1	5.1
Effect of foreign operations	3.0	(6.1)	(6.7)	(5.5)
Other, net	2.1	0.7	0.5	0.9
Effective tax rate	2.3%	55.4%	54.4%	54.2%

6. Income Taxes (Continued)

The following is a summary of the deferred tax accounts in accordance with SFAS 109.

	November 27, 1998	December 31,		
	(unaudited)	1997	1996	1995
	$m	$m	$m	$m
Current deferred tax assets				
Sales returns and allowance	46	57	50	44
Publishing costs	14	10	9	10
Employee compensation and other related expenses	46	35	30	28
Net operating loss	13	-	-	-
Net current deferred tax assets	119	102	89	82
Noncurrent deferred tax liabilities				
Fixed asset basis differences	(120)	(107)	(83)	(52)
Intangible asset basis differences and other reserves	(13)	(16)	(25)	(17)
Net noncurrent deferred tax liabilities	(133)	(123)	(108)	(69)
Net deferred tax (liabilities)/assets	(14)	(21)	(19)	13

7. Commitments and Contingencies

The Company has long-term noncancelable lease commitments for various real property, office space, and equipment which expire at various dates. Certain leases contain renewal and escalation clauses for a proportionate share of operating expenses.

At November 27, 1998, minimum rental payments under noncancelable leases, net of sublease income are as follows:

	Operating	Capital
	$m	$m
1999	46	17
2000	36	10
2001	30	4
2002	22	3
2003	20	1
2004 and thereafter	142	1
Total minimum lease payments	296	36
Less amount representing interest	-	(4)
Present value of net minimum payments	296	32

Rent expense was $31m for the period January 1, 1998 through December 31, 1998 and $55m, $56m and $48m for the three years ended December 31, 1997, respectively.

7. Commitments and Contingencies (Continued)

The Company has entered into various purchase commitments with third party vendors in the ordinary course of business, that include cancellation penalties upon termination. Management does not consider these to be material to the Company's results of operations, financial position or liquidity.

The Company has royalty advance commitments which are not reflected on the balance sheet as of November 27, 1998 aggregating approximately $30m. The advance commitments are primarily contingent upon delivery of finished manuscripts and or products at various stages of completion.

The Company is involved in ordinary and routine litigation incidental to its business. Management believes that any ultimate liability resulting from those actions or claims will not have a material adverse effect on the Company's results of operations, financial position or liquidity.

The Company has entered into various acquisitions and dispositions of businesses. These transactions include indemnification clauses in the sale and purchase agreements. There are no material indemnification claims pending against the Company.

8. Pension Plans and Other Employee Benefits

Viacom has a noncontributory defined benefit pension plan covering substantially all of its employees, including the employees of the Company. Retirement benefits are based principally on years of service and salary. Viacom has charged the Company for pension expense of $5m, $7m, $6m and $12m for the period January 1, 1998 through November 27, 1998 and for the three years ended December 31, 1998, respectively. The related pension liability was $42m, $37m, $29m and $34m at November 27, 1998 and December 31, 1997, 1996 and 1995, respectively.

Viacom also provides other employee benefits to the Company's employees, including certain post employment benefits, medical and dental insurance costs and contributions to a 401(K) savings plan and medical benefits to substantially all of the retirees of the Company. Viacom charged the Company $5m, $8m, $9m and $14m for the period January 1, 1998 through November 27, 1998, and for the three years ended December 31, 1997, respectively for these benefits. The related liability for these other employee benefits was $96m, $105m, $106m and $102m at November 27, 1998 and December 31, 1997, 1996 and 1995, respectively. December 31, 1997, 1996 and 1995, respectively.

Management believes that the methodologies used to allocated pension and other employee benefit charges to the Company are reasonable.

9. Other Items, Net

''Other items, net'' principally reflects foreign currency transaction losses for the periods presented and, for 1996, reflects a gain of $8m from the Company's sales of an equity investment (see note 2).

10. Operations by Geographic Area

	November 27, 1998	December 31,		
	(Unaudited)	1997	1996	1995
	$m	$m	$m	$m
Revenues				
United States	1,371	1,557	1,489	1,378
International	292	358	295	253
Total revenues	1,663	1,915	1,784	1,631
Operating income				
United States (1)	(44)	116	105	114
International	(7)	46	39	37
Total operating income	(51)	162	144	151
Identifiable assets				
United States (2)	4,161	4,235	4,230	4,230
International	219	282	256	204
Total identifiable assets	4,380	4,517	4,486	4,434

Intercompany transfers between geographic areas are not significant.

(1) Includes all intangible amortization.

(2) Includes all intangible assets.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including September 26, 2000, all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

PEARSON

Rights Offering of Ordinary Shares and American Depositary Shares

PROSPECTUS

Joint Global Coordinators

Goldman Sachs International **Cazenove & Co.**

Goldman, Sachs & Co. **Cazenove Inc.**

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The follow table sets forth the expenses (other than underwriting compensation we expect to incur) in connection with the rights offering. All of these amounts (except the SEC registration fee) are estimated.

SEC registration fee	$ 87,516
New York and London Stock Exchange fees and related expenses	225,000
NASD and Blue Sky fees and expenses	15,000
Printing and engraving costs	750,000
Legal fees and expenses	2,000,000
Accounting fees and expenses	3,000,000
Registrar and Depositary fees and expenses	300,000
Miscellaneous	2,500,000
Total	$8,877,516

Item 14. Indemnification of Directors and Officers

Subject to applicable English law, our directors and officers will be indemnified by us and/or exempted by us from all costs, charges, losses and liabilities incurred by them in the actual or purported exercise or discharge of their powers or duties. This indemnity and exemption includes any liability incurred by them in defending any civil or criminal proceedings which relate to anything done or alleged to have been done by them as our officer or employee and in which judgment is given in their favor; or where proceedings are disposed of without any finding or admission of any material breach of duty on their part; or in which they are acquitted or in respect of which relief from liability is granted.

Our directors have the power to purchase and maintain insurance for, or for the benefit of, any persons that are or were at any time a director or officer of us or any company we control or that is part of our group (a ''Relevant Company'') or that are or were trustees of any pension fund or employees' share scheme in which employees of any Relevant Company are interested. Such insurance may include insurance against any liability incurred by them in respect of any act or omission in the actual or purported exercise or discharge of their powers or duties in relation to any Relevant Company, or such pension fund or employees' share scheme.

Item 15. Recent Sales of Unregistered Securities

The following information is furnished with regard to all securities issued by us within the last three years which were not registered under the Securities Act of 1933, as amended (the ''Securities Act''). Also set forth is the section of the Securities Act or rule of the Securities and Exchange Commission under which exemption from registration was claimed.

Ordinary Shares

In August 1998, we sold 28.9 million ordinary shares to institutional investors for an aggregate consideration of approximately £328,000,000.

In January 2000, we sold 11.5 million ordinary shares to institutional investors for an aggregate consideration of approximately £253,000,000.

Options

From time to time over the past three years, the Company has granted to its employees and to others options to purchase ordinary shares at a range of exercise prices. Certain of these options have been exercised and others remain outstanding. Set forth below is information regarding the grant and exercise of options within the last three fiscal years:

	Year ended December 31,			Six months ended June 30, 2000
	1997	1998	1999	
		(in thousands)		
Number of options granted	3,790	4,912	4,966	6,547
Number of options exercised	3,900	3,389	2,115	965
Options outstanding at year end	13,328	13,029	14,960	19,759
Exercise price range of grants (pence)	744-757	948-1,090	1,210-1,285	1,599-2,501

The securities issued in the foregoing transactions were either (i) offered and sold pursuant to Regulation S outside the United States to persons not citizens or residents of the United States, (ii) offered and sold in reliance upon exemptions from the Securities Act registration requirements set forth in Sections 3(b) and 4(2) of the Securities Act, or any regulations promulgated thereunder, relating to sales by an issuer not involving any public offering, or (iii) in the case of certain options to purchase ordinary shares, such offers and sales were pursuant to compensatory arrangements made in reliance upon an exemption from registration under Rule 701 of the Securities Act. No underwriters were involved in the foregoing sales of securities.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit Number	Description
1.1	Underwriting Agreement dated 31 July 2000 between Pearson plc, Goldman Sachs International and Cazenove & Co.*
1.2	Form of Amending Agreement to Underwriting Agreement between Pearson plc, Goldman Sachs International and Cazenove & Co.*
3.1	Memorandum of Association*
3.2	Articles of Association*
4.1	Specimen certificate for ordinary shares of Pearson plc, 25p par value*
4.2	Form of Amended Deposit Agreement between Pearson plc and The Bank of New York and Form of ADR*
4.3	Form of Rights Agency Agreement between Pearson plc and The Bank of New York*
4.4	Form of Provisional Allotment Letter*
4.5	Form of American Depositary Share Warrant*
5	Opinion of Freshfields Bruckhaus Deringer*
10.1	Stock Purchase Agreement dated as of May 17, 1998 among Viacom International Inc., Pearson plc and Pearson Inc. and Amendment No. 1 thereto (Simon & Schuster Acquisition Agreement)*
10.2	Agreement and Plan of Merger dated as of July 30, 2000 among Pearson plc, PN Acquisition Subsidiary Inc. and National Computer Systems, Inc.*
10.3	Amendment No. 1 to the Agreement and Plan of Merger dated as of August 4, 2000 among Pearson plc, PN Acquisition Subsidiary Inc. and National Computer Systems, Inc.*
10.4	Form of Service Contract for Executive Directors*
21	List of Subsidiaries*
23.1	Consent of PricewaterhouseCoopers
23.2	Consent of PricewaterhouseCoopers LLP
23.3	Consent of Freshfields Bruckhaus Deringer (contained in Exhibit 5)*
24	Powers of Attorney (included on signature page)*

* Previously filed

(b) Financial Statement Schedules

Item 17. Undertakings

The undersigned registrant hereby undertakes as follows:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

    (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

    (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act of 1933 if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the ''Calculation of Registration Fee'' table in the effective registration statement.

    (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the registration statement to include any financial statements required by Section 3-19 of Regulation S-X at the start of any delayed offering or throughout a continuous offering.

(5) The undersigned registrant hereby undertakes to provide to the underwriters certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(6) The undersigned registrant hereby undertakes to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by the underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters is to be made on terms differing from those set forth on the cover page of the prospectus, a post-effective amendment will be filed to set forth the terms of such offering.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of London, on August 8, 2000.

PEARSON PLC

By: /s/ JOHN MAKINSON

By: /s/ DAVID BELL

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Each person in so signing also makes, constitutes and appoints Marjorie Scardino, John Makinson and Peter Gill, and each of them acting alone, his or her true and lawful attorney-in-fact, with full power of substitution, to execute and cause to be filed with the Securities and Exchange Commission pursuant to the requirements of the Securities Act of 1933, as amended, any and all amendments and post-effective amendments to this registration statement, and including any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act, with exhibits thereto and other documents in connection therewith, and hereby ratifies and confirms all that said attorney-in-fact or his or her substitute or substitutes may do or cause to be done by virtue hereof.

Name	Title	Date
/s/ STEVENSON Lord Stevenson	Chairman	August 8, 2000
/s/ MARJORIE SCARDINO Marjorie Scardino	Chief Executive Officer, Director (principal executive officer)	August 8, 2000
/s/ JOHN MAKINSON John Makinson	Finance Director (principal financial officer)	August 8, 2000

Name	Title	Date
/s/ PETER GILL Peter Gill	Director, Financial Operations (principal accounting officer)	August 8, 2000
/s/ DAVID BELL David Bell	Director	August 8, 2000
/s/ BURNS Lord Burns	Director	August 8, 2000
/s/ GILLIAN LEWIS Gillian Lewis	Director	August 8, 2000
/s/ REUBEN MARK Reuben Mark	Director	August 8, 2000
/s/ VERNON SANKEY Vernon Sankey	Director	August 8, 2000
/s/ RANA TALWAR Rana Talwar	Director	August 8, 2000

US Authorized Representative

Pearson Inc.

By: /s/ PHILIP HOFFMAN

Name: Philip Hoffman

Title: President

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