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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 (as restated per note 3 above). 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.

(8)

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.

(9)

See Note 35 to the consolidated financial statements included in this Annual Report entitled "Summary of principal differences between United Kingdom and United States generally accepted accounting principles".

Dividend Information

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 July or August of each year to be paid in October or 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.

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 New

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York, New York, on each of the respective payment dates for interim and final dividends. The final dividend for the 2000 fiscal year was paid on June 1, 2001.

Fiscal Year	Interim	Final	Total	Interim	Final	Total
	(pence per ordinary share)			(cents per ordinary share)		
2000	8.2	13.2	21.4	13.3	18.7	32.0
1999	7.7	12.4	20.1	12.6	18.7	31.3
1998	7.2	11.6	18.8	11.9	18.7	30.6
1997	6.7	10.7	17.4	11.2	17.6	28.8
1996	6.2	9.9	16.1	10.4	16.2	26.6

Future dividends will be dependent on our future earnings, financial condition and cash flow, as well as other factors affecting us. Historic dividend information has been restated to reflect the rights issue of equity shares in 2000.

Exchange Rate Information

The following table sets forth, for the periods indicated, information concerning the noon buying rate for sterling, expressed in dollars per sterling. The average rate is calculated by using the average of the noon buying rates in New York, New York, on each day during a monthly period, and on the last day of each month during an annual period. On June 1, 2001, the noon buying rate for sterling was £1.00 = \$1.42.

Month	High		Low	
May 2001	\$	1.44	\$	1.41
April 2001	\$	1.45	\$	1.42
March 2001	\$	1.47	\$	1.42
February 2001	\$	1.48	\$	1.44
January 2001	\$	1.50	\$	1.46
December 2000	\$	1.50	\$	1.44
Year Ended December 31	Average Rate			
2000	\$	1.52		
1999	\$	1.62		
1998	\$	1.66		
1997	\$	1.64		
1996	\$	1.57		

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Risk Factors

You should carefully consider the risk factors described below, as well as the other information included in this Annual Report. Our business, financial condition or results of operation could be materially adversely affected by any or all of these risks, or by other risks that we presently cannot identify.

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 and the internet. 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 and book publishing 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 take steps 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 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 as to the extent or timing of the revenue streams from our internet initiatives. 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 increased use of the internet.

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

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

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. Taken together, these factors could have a material adverse impact on the growth of Pearson Education and its future international business.

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Item 4. Information on the Company

Pearson

Pearson is a global media company with its principal operations in the education, business information and consumer publishing markets. We have significant operations in the United States, where we generate more than half our revenues, and in the United Kingdom and continental Europe. 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 focus increasingly on building the applications that deliver our content in the most effective way.

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.

Overview of Operating Divisions

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 three 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. Our September 2000 acquisition of National Computer Systems, Inc., or NCS, which now operates as NCS Pearson, has transformed Pearson Education into an integrated education company, linking curriculum, assessment and data management. In the United States, where Pearson Education primarily operates, 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 United States 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 United States, 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 Course Compass. 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 United States and worldwide. As the internet becomes an integral part of both the home and the classroom, our Learning Network, launched in September 2000, seeks to link teachers, parents and students in ways never possible before.