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Financial Calendar

Annual General Meeting, 12 May 1995

1994 final dividend payable, 2 June 1995

1995 interim results, 4 September 1995

1995 interim dividend payable, November 199

1995 preliminary results, March 1996

Report of the Directors

The directors have pleasure in presenting their annual report to shareholders, together with the financial statements for the year to 31 December 1994 on pages 10 to 40.

The principal activities of the Group are carried out in three main sectors: information, education and entertainment. More details of these and other activities, the development of the Group and its subsidiaries and likely future developments are given on pages 2 to 9 of the Annual Review. Sales and profits of the different sectors and geographical markets are given on pages 15 to 32 of the Annual Review. During the year Pearson acquired Mindscape Inc (formerly The Software Toolworks, Inc), Future Publishing Limited, The Register Group Limited, 40% of Port Aventura, and increased its stake in Recoletos Compañia Editorial SA to 56.7%.

Pearson sold its remaining 45% holding in Camco International Inc in September 1994.

Results and Dividends

The profit for the financial year to 31 December 1994 was £222.9m (1993: £148.0m). The profit retained/(deficit) for the year was £140.0m (1993: (£35.3m)) and has been transferred to/(from) reserves. A final dividend of 9.25p per share is proposed for the year to 31 December 1994. This, with the interim dividend already paid, makes a total for the year of 15p (1993: 13p). The final dividend will be paid on 2 June 1995 to shareholders on the register at the close of business on 24 April 1995 (the record date).

Post Balance Sheet Events

On 16 March 1995 Pearson acquired 10% of the capital of Television Broadcasts Limited, (TVB), a company listed on the Hong Kong Stock Exchange, at an aggregate cost of approximately £106m.

On 16 February 1995, the Group received £40m, being payment of interest and repayment of principal on loan stock held in BSB Holdings Limited.

Further details are given on page 21.

Scrip Dividend Alternative

The Company operates a scrip dividend scheme under which a total of 382,750 new ordinary shares was issued in respect of the last two dividends in response to elections for shares instead of cash made by over 4,200 shareholders on each occasion, saving approximately £2.4m in cash, and reducing advance corporation tax by £0.6m. Details of the scrip dividend alternative for the final dividend for 1994 will be posted on 27 April 1995 to shareholders who are on the register on 24 April 1995. If you would like further information about the scheme please contact our Registrar.

Corporate Governance

The Board has reviewed the Group's procedures in the light of the Code of Best Practice published by the Committee on Financial Aspects of Corporate Governance and, in the opinion of the directors, the Group fully complies with it and has done so throughout the year. Detailed guidelines in respect of the remaining two topics covered by the Code, internal control and going concern, were published towards the end of 1994 and your directors, therefore, consider it appropriate to include statements on these subjects although, in the case of internal controls, this is not yet mandatory.

Internal Financial Control – The Board of Directors has overall responsibility for internal financial control, which it exercises through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. This structure includes an Audit Committee, comprising three non-executive directors, which, with the Finance Director, has reviewed the effectiveness of the internal financial control environment of the Group. The Audit Committee meets regularly and considers, inter alia, reports from internal and external auditors covering such matters.

The internal control framework is designed to provide reasonable and not absolute assurance against material misstatement or loss. The following are its main features:

Financial reporting – there is a comprehensive budgeting system with an annual budget approved by the directors. Monthly trading results and indebtedness are reported against the corresponding figures for the budget and the previous year with corrective action taken by the directors as appropriate. More detailed financial information, including balance sheets and cash flow statements, is provided quarterly.

Treasury management – the Treasury Department operates within Board-approved guidelines. Major transactions are authorised outside the Department at the requisite level and there is an appropriate segregation of duties. Frequent reports are made to the Group Finance Director and quarterly summaries are prepared for the Board.

Risk Management – the identification of major business risks is carried out in conjunction with operating management and steps are taken to mitigate or eliminate these where possible. In addition the Group provides insurance cover either through its captive insurance subsidiary or externally depending on the scale of the risk in question.

Operating company systems – each operating company maintains financial controls and procedures appropriate to its own business environment and carries out local treasury activities, in both cases conforming to overall standards and guidelines.

Internal audit – the Group has a centralised Internal Audit Department with operations located both in the UK and the US, which reviews the systems and procedures in all major operating companies and reports regularly to the Audit Committee.

Going Concern – Having reviewed the Group's liquid resources and borrowing facilities and the 1995 and 1996 cash flow forecasts contained in the Group budget for the current year, the directors believe that the Group has adequate resources to continue as a going concern for the foreseeable future. For this reason, the financial statements have, as usual, been prepared on the going concern basis.

Auditors – Our auditors have reported to the Company that, in their opinion, the directors' comments above on going concern provide the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance) and explain the extent of compliance with the disclosures on internal financial control required by paragraph 4.5 of the Code and the comments in respect of both are not inconsistent with the information of which they are aware from their audit work on the financial statements, and the above statement appropriately reflects the Group's compliance with the other paragraphs of the Code specified by the London Stock Exchange for their review. They have not carried out the additional work necessary to, and do not, express any opinion on the effectiveness either of the Group's system of internal financial control or of its corporate governance procedures, nor of the ability of the Group to continue in operational existence.

American Depositary Receipts (ADRs)

Pearson introduced a sponsored Level One ADR programme in March 1995. Each ADR represents one ordinary share. The programme is administered by the Bank of New York, ADR Department, 101 Barclay Street, New York, NY 10286. The effect of this programme is to make it easier for American investors to hold Pearson shares. However, as holders of ADRs will not be registered shareholders, they will not automatically have the right to receive Pearson's Annual Review and Directors' Report and Accounts or other communications to shareholders, nor will they be able to attend or vote at the Company's Annual General Meeting or other shareholder meetings.

For further information, please contact the Bank of New York at the above address.

Directors

The directors are shown on page 11 of the Annual Review. Details of their interests in ordinary shares and options of Pearson plc are shown on page 5. Directors who retire by rotation are Mr J A B Joll, Mr M David-Weill, Mr R Mark and Ms G M Lewis, who, being eligible, offer themselves for re-election for a further three years. Mr Joll has a three-year rolling service contract.

Remuneration and Interests of Directors of Pearson plc

Policy statement – The remuneration of executive directors and other senior executives is determined by the Remuneration Committee, which is composed entirely of non-executive directors and which takes advice from a leading firm of remuneration and benefits consultants.

The Committee seeks to attract, retain and motivate high calibre senior executives through pay arrangements which are competitive and represent best practice, while also relating reward to performance and aligning the interests of directors with those of the shareholders.

The components of executive directors' remuneration are base salary, an annual cash bonus plan, share options, and an incentive share plan. In addition, the Company provides a company car, pension and health insurance benefits in line with those provided for executives in similar positions in other comparable companies.

The Committee's aim on base salaries continues to be to set them towards the upper quartile of the range paid to executives in similar positions in comparable companies, in return for above-average performance. This policy was established three years ago when annual bonuses, which had previously been unlimited, were capped. The salaries should reflect the experience, responsibilities, effectiveness and market value of the directors.

Under the annual bonus plan, bonuses up to a maximum of 50% of annual base salary can be earned to the extent that Pearson's adjusted earnings per share meets targets determined by the Remuneration Committee. In 1994 a minimum bonus could be earned at an adjusted earnings per share of 28p. In fact, the maximum bonus was earned as the target for maximum pay-out, i.e. adjusted earnings per share of 31p, was achieved. The Committee may also award individual discretionary bonuses, though none were made in 1994. Annual bonuses do not form part of pensionable earnings.

Report of the Directors

Executive directors are entitled to pensions of two-thirds of final base salary at the normal retirement age of 62 and are also eligible for dependants' pensions and lump sums on death in service. In addition, in 1988, (on the formation of the Pearson Group Pension Plan) all former members of the S. Pearson and Son Pension Scheme, including Michael Blakenham, James Joll and Mark Burrell, received pension enhancements equivalent to 40% of accrued service to 1 August 1988. The combined pension benefits are within Inland Revenue limits.

In 1994 the notional funding rate for the Pearson section of the Group Pension Plan, whose members include Michael Blakenham, James Joll, Mark Burrell and Frank Barlow was 20.2% of base salary. Within this, the notional funding rate for the above directors in aggregate was approximately 40%. In practice, the provision for the 1994 cost of benefits accruing under the plan was matched by amortisation of the surplus under SSAP 24 rules and no contributions were made to the fund. In addition, the company contributed £22,905 in matching the additional voluntary contributions (AVCs) made by each of the UK based executive directors. Expenses of $170,222 were allocated in respect of David Veit's retirement plan in 1994.

The following two sections provide details of directors' total and individual emoluments, while details of other share interests and long-term incentives, that is interests under the Incentive Share Plan and movements in share options are set out on pages 5 and 6.

Directors' emoluments:	**1994 £000's**	1993 £000's	1992 £000's	1991 £000's	1990 £000's	1989 £000's
Total	**2,470**	2,390	1,545	1,442	1,299	2,478
Base salaries	**1,270**	1,186	1,057	1,007	953	839
Bonus	**635**	593	55	60	–	1,294
Other emoluments, including pension contributions	**353**	392	292	251	224	269
Fees to non-executive directors	**212**	219	141	124	122	76

The total emoluments of directors increased by 3.3% and base salaries by 7.1% between 1993 and 1994.

Non-executive directors' fees decreased due to a reduction in the number of non-executive directors from nine to eight in the course of 1993. Non-executive directors receive a fee of £23,000 each, with a supplement of £7,000 paid to four overseas-based directors.

Remuneration of the chairman and other executive directors

Excluding contributions to pension funds, executive directors' remuneration was as follows:

Name:	**1994 Salary £000's**	**Bonus £000's**	**Other £000's**	**Total £000's**	1993 Salary £000's	Bonus £000's	Other £000's	Total £000's
Viscount Blakenham	**280**	**140**	**34**	**454**	246	123	34	403
F Barlow	**300**	**150**	**42**	**492**	275	138	40	453
M W Burrell	**195**	**97**	**40**	**332**	180	90	40	310
J A B Joll	**215**	**108**	**38**	**361**	197	99	37	333
D M Veit	**280**	**140**	**90**	**510**	289	144	12	445

Michael Blakenham had not received a salary increase for 24 months. David Veit did not receive a salary increase in 1994, but was allowed to retain his fees as a non-executive chairman of Camco and was the highest paid director in 1994. The sterling equivalent of his US dollar salary decreased due to exchange rate changes.

Non-executive directors' emoluments fell within the following ranges:

Banding £	**1994 Number**	1993 Number
10,001 to 15,000	**–**	1
20,001 to 25,000	**4**	4
25,001 to 30,000	**4**	4

Interests of Directors

Executive share options – The Company operates two UK Inland Revenue approved and two United States executive share option schemes. Options are granted to eligible executives under the 1988 Executive Share Option Scheme and the 1992 United States Executive Share Option Scheme.

The Remuneration Committee has established guidelines for the total number of executive share options which can be granted together with the frequency of awards and the progression to these maxima.

For executive directors, the policy is that the value of options granted in any 10-year period should not exceed the equivalent of four times annual earnings.

The policy allows for the granting of options in replacement of those already exercised based on an assessment of performance in accordance with the guidelines of institutional investors. No replacement options will, however, be granted until after September 1995, i.e. 7 years after the first grant under the 1988 scheme which first provided for the granting of such options.

Incentive share plan – In 1993 an incentive share plan was introduced on the recommendation of the Remuneration Committee. The plan is designed to reward executives of the Company in such a way that their total remuneration reflects the performance of the Company and the total return received by shareholders over the medium to longer term.

Under the plan, participants are conditionally awarded a certain number of Pearson shares which are held on their behalf in an employee share trust for a specified period. At the end of this period, the shares, together with the appropriate dividends on these shares, which are taken in the form of scrip and rolled up, are released to the extent that performance conditions, defined by the Remuneration Committee prior to the award, are met.

For the 1993 award, performance will be assessed over the 3-year period 1 January 1993 to 31 December 1995. No shares will be released unless the total return to Pearson shareholders over the 3-year period is better than the average equivalent return for the *FT-SE 100* companies and unless Pearson's adjusted earnings per share for 1995 is higher than in 1992. The maximum release of shares will be made if the total return to Pearson shareholders exceeds the equivalent average *FT-SE 100* figure by 25% over the period.

	Ordinary Shares		Options – Ordinary Shares		Incentive share plan – Ordinary Shares†		
Interests of directors were:	31.12.94	1.1.94	31.12.94	1.1.94	31.12.94	1.1.94	Maximum number of shares in lieu of adjustment on Royal Doulton Demerger
Viscount Blakenham	69,304	107,304	409,246	404,946	55,737	54,550	13,954
(non beneficial)	129,040	129,040	–	–	–	–	–
F Barlow	4,552	4,437	390,395	356,495	55,737	54,550	12,282
M W Burrell	1,031,312	1,031,312	286,623	286,623	38,706	37,882	9,841
(non beneficial)	65,040	65,040	–	–	–	–	–
M David-Weill	48,129,727*	48,105,224	–	–	–	–	–
P G Gyllenhammar	–	–	–	–	–	–	–
J-C Haas	29,537	29,537	–	–	–	–	–
Sir Simon Hornby	4,000	4,000	–	–	–	–	–
J A B Joll	–	–	130,147	127,747	38,706	37,882	6,639
G M Lewis	–	–	–	–	–	–	–
R Mark	7,600	7,600	–	–	–	–	–
V L Sankey	–	–	–	–	–	–	–
H D Stevenson	8,000	8,000	–	–	–	–	–
D M Veit	107,712	76,666	289,769	320,815	38,706	37,882	–

Executive directors of the Company, as possible beneficiaries, are also deemed to be interested in Pearson Employee Share Trustee Limited, the Trustee of which held 188,892 Pearson ordinary shares of 25p each at 31 December 1994 and 188,892 ordinary shares at 24 March 1995, the latest practicable date prior to the printing of this Report.

Movements in directors' options are analysed on page 6. At 24 March 1995 the interests of the directors were unchanged from those shown at 31 December 1994, except in the case of Frank Barlow, who exercised 1,192 SAYE options on 26 January 1995, thus increasing his holding by 1,192 ordinary shares to 5,744 ordinary shares of 25p each.

**M David-Weill's interests include 48,088,523 ordinary shares owned by companies associated with Lazard Frères et Cie, Paris.*

†The number of shares shown represents the maximum number of shares, plus accumulated scrip dividend shares, comprised in the original award which may be transferred to the individual concerned.

Report of the Directors

Movements in directors' interests in share options	Date of Grant	Options held at 1.1.94	Exercise price (pence)†	Options granted	Options exercised	Market price* on day of exercise (pence)	Options held 31.12.94
Viscount Blakenham							
UK Executive	12.04.88	30,000	342	–	–	–	30,000
	21.04.89	150,000	353	–	–	–	150,000
	24.04.90	220,000	329	–	–	–	220,000
	06.05.94	–	635	4,300	–	–	4,300
SAYE	05.10.89	1,192	301	–	–	–	1,192
	04.10.91	3,754	299	–	–	–	3,754
		404,946					409,246
F Barlow							
UK Executive	12.04.88	30,000	342	–	(30,000)	621	–
	21.04.89	100,000	353	–	–	–	100,000
	24.04.90	220,000	329	–	–	–	220,000
	06.05.94	–	635	63,900	–	–	63,900
SAYE	05.10.89	1,192	301	–	–	–	1,192
	04.10.91	3,754	299	–	–	–	3,754
	08.10.92	1,549	242	–	–	–	1,549
		356,495					390,395
M W Burrell							
UK Executive	21.04.89	100,000	353	–	–	–	100,000
	24.04.90	180,000	329	–	–	–	180,000
SAYE	26.05.88	2,632	318	–	–	–	2,632
	05.10.89	1,192	301	–	–	–	1,192
	04.10.91	1,250	299	–	–	–	1,250
	08.10.92	1,549	242	–	–	–	1,549
		286,623					286,623
J A B Joll							
UK Executive	24.04.90	120,000	329	–	–	–	120,000
	06.05.94	–	635	2,400	–	–	2,400
SAYE	08.10.92	7,747	242	–	–	–	7,747
		127,747					130,147
D M Veit							
US Executive	12.04.88	31,046	330	–	(31,046)	569	–
	21.04.89	103,489	341	–	–	–	103,489
	24.04.90	103,489	317	–	–	–	103,489
	11.05.90	82,791	334	–	–	–	82,791
		320,815					289,769

†The exercise prices have been rounded down to the nearest whole penny.

**Mid-market quotation at close of business on the date of exercise.*

No options lapsed during the year. The market price of the shares at 30 December 1994 was 555p and the range during 1994 was 554p to 725p.

Outstanding UK executive options granted before September 1988 become exercisable on the third anniversary of the grant and lapse if they remain unexercised after the seventh. Options granted from September 1988 onwards become exercisable on the third anniversary of the grant and lapse if they remain unexercised after the tenth.

Outstanding US executive options granted between 1988 and April 1990 become exercisable on the third anniversary of the grant and lapse if they remain unexercised after the seventh. Options granted from May 1990 onwards become exercisable on the third anniversary of the grant and lapse if they remain unexercised after the tenth.

SAYE options become exercisable on the fifth or seventh anniversary of the grant and lapse if not exercised within six months of that anniversary.

In all the above cases, special rules apply if a director ceases to be employed by the Company.

Demerger of Royal Doulton – Options granted under certain of the Company's employee share option schemes were adjusted following the demerger of Royal Doulton plc in December 1993. The Company's auditors, Coopers & Lybrand, confirmed that the adjustment was, in their opinion, fair and reasonable.

In the case of those employee share schemes which were not adjustable, option holders will be given a number of Pearson shares free of charge when they exercise their options to compensate for the dilution in value of the options resulting from the demerger. The outstanding maximum entitlements to free shares for directors are set out on page 5.

Personal Equity Plans (PEPs)

In 1992 Pearson introduced a Pearson Corporate PEP and a Pearson Single Company PEP. Both are open to existing and prospective shareholders in Pearson. Further information concerning Pearson PEPs is available from the Plan manager, Halifax Investment Services Limited (a member of IMRO) on telephone 01422 335991.

UK tax on capital gains

At 31 March 1982, the base date for capital gains tax, the value of each of the Company's ordinary shares (adjusted for the one for one capitalisation issues in May 1985 and June 1992), was 62p.

The market quotations of Pearson plc ordinary shares and Royal Doulton plc ordinary shares on the first day of dealing in Royal Doulton shares, as calculated in accordance with section 272(3) of the Taxation of Chargeable Gains Act 1992 and as derived from The Stock Exchange Daily Official List on 2 December 1993 were:

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

Royal Doulton left the Group in December 1993 and the demerger was on the basis of one Royal Doulton share for every ten Pearson shares held.

Employment

The Group employs 17,215 people, of whom 11,038 are employed in the UK. The UK-based Group companies comply with the various statutory requirements relating to the employment of disabled people and are equal opportunity employers, meaning that the sole criterion for selection and promotion is the individual's suitability for the position of employment offered.

Training and development – The Group is committed to the continuous improvement of employee performance by developing skills and expertise through training and development. Each operating company has developed its own in-house programmes and courses to meet the needs of its employees and its business. Pearson also encourages employees to develop their careers by taking up opportunities in other parts of the Group.

Employee share option scheme – The Pearson plc 'Save As You Earn' Share Option Scheme, introduced for UK employees in 1982 and renewed in 1992, attracts a high level of interest and participation. The most recent grant was taken up by over 1,700 employees, and a cumulative total of 21.5m options over ordinary shares has been granted, of which about 8m were outstanding at the end of the year.

Communications – Communications with employees continue to be developed through the distribution of the Pearson Group magazine, *Panorama*, the Chairman's Report to Employees and the Report to Members of the UK Pension Plan. The various companies also have their own channels such as briefing groups, videos, magazines and newsletters.

Report of the Directors

Contributions for charitable and political purposes

In 1994, charitable donations in the UK amounted to £486,000 (1993: £722,000) and overseas to £244,000 (1993: £545,000). Political contributions of £25,000 were made to each of the Conservative Party and the Labour Party. A contribution of £10,000 was made to the Centre for Policy Studies. (Contributions of £10,000 each were also made to three other think-tank bodies: DEMOS, the Institute for Public Policy Research and the Centre for Economic Performance at the London School of Economics. These are all registered charities, and our support for them is therefore included in the amount cited above for charitable donations.)

Property values

It is estimated that the current market value of properties is lower than book value by £9m. This shortfall is considered to be a temporary diminution and accordingly book value has been maintained.

Litigation

A petition was issued by London Merchant Securities plc (LMS) against Pearson and others and the case is currently being heard. LMS alleges that the affairs of BSB Holdings Limited (BSBH) have been conducted in a manner unfairly prejudicial to the interests of its members generally and in particular LMS. The allegations relate to the terms of the financing of BSkyB in May 1991, in the course of which Pearson acquired a direct interest in BSkyB. LMS seeks an order that would require part of the interest of Pearson (amongst others) to be transferred at par to LMS and/or monetary compensation. Leading counsel have advised the Company that they consider that the claim by LMS will fail.

Share capital

Details of share issues are given on page 31.

At the Extraordinary General Meeting held on 13 May 1994, the Company was authorised, subject to certain conditions, to acquire up to 55.1m of its ordinary shares by market purchase. This authority expires on the date of the forthcoming Annual General Meeting. Although circumstances have not merited using it and there are no plans at present to do so, shareholders are being asked to renew this authority.

At 24 March 1995, beneficial interests amounting to 3% or more of the issued ordinary share capital of the Company notified to the Company comprised:

	No. of Shares	%
Companies associated with Lazard Frères et Cie., Paris	48,088,523	8.69

Close Company Status

The Company is not a close company within the terms of the Income and Corporation Taxes Act 1988.

Capital Expenditure

The analysis of capital expenditure and details of capital commitments are shown on page 26.

Insurance of officers of the Group

During the year to 31 December 1994 the Group continued to provide liability insurance for its officers.

Annual General Meeting

The Notice convening the Annual General Meeting to be held at 12 noon on Friday, 12 May 1995 is contained on page 44 of the Annual Review.

Registered Auditors

In accordance with section 384 of the Companies Act 1985 a resolution proposing the appointment of Coopers & Lybrand as auditors to the Company, at a level of remuneration to be agreed by the directors, will be put to the shareholders at the Annual General Meeting.

Anette V Lawless

Anette Lawless SECRETARY

27 March 1995

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to select suitable accounting policies and apply them consistently and make judgements and estimates that are reasonable and prudent.

The directors must also state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements which must be prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors are responsible for the maintenance of adequate accounting records in compliance with the Companies Act 1985, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Report of the Auditors to the Members of Pearson plc

We have audited the financial statements on pages 10 to 40, including the emoluments of directors of Pearson plc on page 4.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1994 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London, 27 March 1995

Consolidated Profit and Loss Account

for the year ended 31 December 1994

	Notes	1994 £m	1993 £m
Sales turnover			
Continuing operations		**1,469.9**	1,319.6
Acquisitions		**80.2**	
Discontinued operations		**–**	550.5
	2	**1,550.1**	1,870.1
Cost of sales	3	**(775.8)**	(1,005.6)
Gross profit		**774.3**	864.5
Net operating expenses – normal	3	**(533.2)**	(628.4)
– exceptional	3	**31.3**	(20.0)
Operating profit			
Continuing operations		**265.1**	190.3
Acquisitions		**7.3**	
Discontinued operations		**–**	25.8
	2	**272.4**	216.1
Continuing operations			
Profit on sale of fixed assets	3	**26.4**	4.4
Discontinued operations			
Profit/(loss) on sale of businesses	3	**15.2**	(68.4)
Write back of provision on investment in BSkyB		**–**	71.4
Profit before interest		**314.0**	223.5
Net interest payable	4	**(16.2)**	(14.9)
Profit before taxation	7	**297.8**	208.6
Taxation	6	**(74.3)**	(60.3)
Profit after taxation		**223.5**	148.3
Equity minority interests		**(0.6)**	(0.3)
Profit for the financial year	A	**222.9**	148.0
Dividends on equity shares	B	**(82.9)**	(183.3)
Profit retained/(deficit)	18	**140.0**	(35.3)
Earnings per equity share	A	**40.4p**	27.0p
Adjusted earnings per equity share	A	**34.1p**	27.9p
Dividends per equity share	B	**15.0p**	13.0p

A Earnings per Equity Share

	1994 £m	1993 £m
Profit for the financial year	**222.9**	148.0
Adjustments:		
Permanent diminution in value	**3.6**	20.0
Continuing operations		
Profit on sale of fixed assets	**(26.4)**	(4.4)
Discontinued operations		
Profit/(loss) on sale of businesses	**(15.2)**	68.4
Write back of provision on investment in BSkyB	**–**	(71.4)
Taxation (see note 6)	**3.1**	(8.7)
Demerger of Royal Doulton – elimination of earnings	**–**	1.1
Adjusted earnings	**188.0**	153.0

	1994 pence per share	1993 pence per share
Earnings per equity share	**40.4**	27.0
Adjustments:		
Profit before taxation	**(6.9)**	2.3
Taxation	**0.6**	(1.6)
Demerger of Royal Doulton	**–**	0.2
Adjusted earnings per equity share	**34.1**	27.9
Weighted average number of equity shares issued	**551.6m**	547.6m

The adjusted earnings per equity share has been calculated in accordance with the recommendations of the Institute of Investment Management and Research and its definition of 'headline' earnings. This eliminates the distortions caused by including abnormal items.

Royal Doulton was demerged in 1993 as a dividend *in specie*, and accordingly its earnings have been eliminated when calculating Pearson's adjusted earnings for 1993.

B Dividends

		1994 £m	1993 £m
Interim paid	5.75p (5.375p)	**31.7**	29.4
Final proposed	9.25p (7.625p)	**51.2**	42.1
Dividends per equity share 15.0p (13.0p)		**82.9**	71.5
Demerger dividend *in specie* (see note 20)		**–**	111.8
		82.9	183.3

Consolidated Balance Sheet

as at 31 December 1994

	Notes	1994 £m	1993 £m
Fixed assets			
Tangible assets	9	**542.7**	507.6
Investments:			
Partnerships and associated undertakings	10	**143.5**	120.5
Other	11	**567.2**	153.5
		1,253.4	781.6
Current assets			
Stocks	13	**253.2**	233.1
Debtors	14	**517.5**	401.5
Investments	12	**7.8**	78.6
Cash and liquid funds	4	**366.7**	425.9
		1,145.2	1,139.1
Creditors due within one year:			
Short term borrowing	4	**156.0**	94.7
Other creditors	15	**579.3**	421.9
		735.3	516.6
Net current assets		**409.9**	622.5
Total assets less current liabilities		**1,663.3**	1,404.1
Creditors due after more than one year:			
Medium and long term borrowing	4	**357.1**	332.5
Other creditors	15	**20.5**	3.9
		377.6	336.4
Deferred taxation	6	**157.5**	4.3
Other provisions for liabilities and charges	16	**76.3**	63.3
Other liabilities		**611.4**	404.0
Net assets		**1,051.9**	1,000.1
Capital and reserves			
Called up share capital	17	**138.2**	137.6
Reserves:	18		
Share premium		**37.8**	28.7
Revaluation reserve		**313.4**	16.8
Other reserves		**1.4**	1.4
Profit and loss account		**545.3**	812.8
Equity shareholders' funds		**1,036.1**	997.3
Equity minority interests		**15.8**	2.8
		1,051.9	1,000.1

The financial statements were approved by the board of directors on 27 March 1995 and signed on its behalf by

Blakenham

J A B Joll

Statement of Total Recognised Gains and Losses

	1994 £m	1993 £m
Profit for the financial year	**222.9**	148.0
Other net gains and losses recognised in reserves:		
Unrealised surplus/(deficit) on revaluations	**298.8**	(8.5)
Exchange translation effect on:		
Profit for the financial year	**0.5**	(0.2)
Foreign currency net assets	**(18.8)**	7.1
	280.5	(1.6)
Total recognised gains and losses relating to the year	**503.4**	146.4

Reconciliation of Movements in Equity Shareholders' Funds

	1994 £m	1993 £m
Profit for the financial year	**222.9**	148.0
Dividends	**(82.9)**	(183.3)
	140.0	(35.3)
Other net recognised gains and losses relating to the year	**280.5**	(1.6)
Goodwill arising	**(443.0)**	(158.7)
Goodwill written back	**51.6**	127.0
Shares issued	**9.7**	13.9
Net movement for the year	**38.8**	(54.7)
Equity shareholders' funds at 1 January	**997.3**	1,052.0
Equity shareholders' funds at 31 December	**1,036.1**	997.3

There is no material difference between reported profits and historical cost profits.

Statement of Consolidated Cash Flow

for the year ended 31 December 1994

	Notes	1994 £m	1993 £m
Net cash inflow from operating activities	21	**248.8**	222.5
Returns on investments and servicing of finance:			
Interest received	21	**43.0**	30.4
Interest paid		**(37.0)**	(47.4)
Distributions received from partnerships and associated undertakings		**25.4**	24.9
Dividends paid		**(73.8)**	(66.1)
Net cash outflow from returns on investments and servicing of finance		**(42.4)**	(58.2)
Taxation	21	**(22.7)**	(55.1)
Investing activities:			
Purchase of tangible fixed assets		**(60.7)**	(71.3)
Acquisitions of businesses and investments	19	**(492.8)**	(186.4)
Sales of tangible fixed assets		**20.3**	11.6
Disposals of businesses and investments	20	**201.7**	243.7
Net movement of liquid portfolio investments	4,21	**(10.8)**	83.0
Net cash (outflow)/inflow from investing activities		**(342.3)**	80.6
Net cash (outflow)/inflow before financing		**(158.6)**	189.8
Financing:			
Issue of equity share capital		**9.7**	13.9
£125m 9.5% Bonds issued	21	**123.7**	–
Repayment of $110m term loans		**(69.6)**	–
Net repayment of other borrowings		**(9.8)**	(31.3)
Capital element of finance lease rentals		**(1.7)**	(2.5)
Net cash inflow/(outflow) from financing	4	**52.3**	(19.9)
(Decrease)/increase in cash and cash equivalents	4	**(106.3)**	169.9

Net Movement of Funds from Operations and Change in Net Debt

	1994 £m	1993 £m
Net cash inflow from operating activities	**248.8**	222.5
Purchase of fixed assets and finance leases	**(62.4)**	(73.8)
Sales of operating tangible fixed assets	**5.2**	6.2
Distributions from partnerships and associated undertakings	**25.4**	24.9
Other	**(2.4)**	10.0
Operating cash flow	**214.6**	189.8
Interest	**6.0**	(17.0)
Tax	**(22.7)**	(55.1)
Dividends	**(73.8)**	(66.1)
Net movement of funds from operations	**124.1**	51.6
Acquisitions of businesses and investments	**(480.5)**	(166.8)
Disposals of businesses and investments	**196.4**	235.2
Disposals of tangible fixed assets (excluded from operating profit)	**15.1**	5.4
New equity	**9.7**	13.9
Other (including non-operating provisions)	**(10.8)**	(21.8)
Net movement of funds	**(146.0)**	117.5
Net debt at beginning of year	**(1.3)**	(121.3)
Exchange differences on net borrowing	**0.9**	2.5
Net debt at end of year	**(146.4)**	(1.3)

Notes on the Accounts

1 Accounting policies

There have been no changes to accounting policies, but a policy has been added on capital instruments as policy N. FRS6 and 7 will be adopted for 1995.

A Basis of accounting – The financial statements 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.

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

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

D 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 9.

E Leases – Finance lease rentals are capitalised at the total amount of rentals payable under the leasing agreement (excluding finance charges) and depreciated in accordance with policy D 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 written off as incurred.

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

G Goodwill – Goodwill, being either the net excess of the cost of shares in subsidiary undertakings, partnerships and associated undertakings over the value attributable to their net tangible assets on acquisition or the cost of other goodwill by purchase, is deducted from reserves in the year of acquisition. On disposal or closure, goodwill previously written off to reserves is written back and the profit or loss is adjusted accordingly.

H Stocks – Stocks and work in progress are valued at the lower of cost and net realisable value, after deducting progress payments.

I Retained profits of overseas subsidiary and associated undertakings – No provision is made for any additional taxation, less double taxation relief, which would arise on the remittance of profits retained.

J Deferred taxation – Provision is made, by the liability method, at the expected applicable rates, for taxation deferred in respect of all timing differences between accounting and taxation treatment, including those arising from the revaluation of fixed assets, except when it is thought reasonably probable that the tax effects of such deferrals will continue for the foreseeable future. Full allowance is made for deferred taxation on timing differences arising from the provision of pensions and other post-retirement benefits for employees.

K 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.

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

M Research and development – Research and development expenditure is written off in the profit and loss account as incurred.

N Capital instruments – Capital instruments are included at cost, adjusted for discount accretion or premium amortisation where the intention is to hold them to maturity. Interest receivable thereon and the premium or discount where relevant is taken to the profit and loss account so as to produce a constant rate of return over the period to the date of expected redemption.

Forward foreign exchange contracts and other off-balance sheet instruments are valued at the market prices prevailing at the balance sheet date. Borrowing is classified according to the maturity date of the respective individual holdings.

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

The principal overseas currency for the group is the US dollar. The weighted average rate for the year against sterling was \$1.56 (\$1.50) and the year end rate was \$1.56 (\$1.48).

Notes on the Accounts

2 Analysis of Sales, Operating profit and Capital employed	Sales turnover 1994 £m	Sales turnover 1993 £m	Operating profit 1994 £m	Operating profit 1993 £m	Capital employed 1994 £m	Capital employed 1993 £m
Business sectors						
Information	**581.8**	487.1	**84.7**	60.2	**236.1**	230.5
Education	**352.6**	349.8	**51.2**	55.8	**244.1**	220.2
Entertainment	**615.7**	482.7	**129.5**	62.2	**905.8**	489.2
Investment Banking	**–**	–	**30.2**	36.4	**102.5**	98.3
Corporate expenses less other income	**–**	–	**(23.2)**	(4.3)	**(56.4)**	(34.2)
Permanent diminution in value	**–**	–	**–**	(20.0)	**–**	–
Continuing operations	**1,550.1**	1,319.6	**272.4**	190.3	**1,432.1**	1,004.0
Discontinued operations	**–**	550.5	**–**	25.8	**–**	65.0
	1,550.1	1,870.1	**272.4**	216.1	**1,432.1**	1,069.0
Geographical markets supplied and location of capital employed						
UK	**625.2**	495.8	**134.0**	56.7	**1,007.7**	648.8
Continental Europe	**184.9**	159.9	**28.0**	30.6	**80.5**	40.9
North America	**557.6**	507.5	**80.2**	76.9	**306.6**	285.0
Asia Pacific	**144.8**	122.0	**22.8**	19.1	**31.6**	21.5
Rest of World	**37.6**	34.4	**7.4**	7.0	**5.7**	7.8
Continuing operations	**1,550.1**	1,319.6	**272.4**	190.3	**1,432.1**	1,004.0
Discontinued operations	**–**	550.5	**–**	25.8	**–**	65.0
	1,550.1	1,870.1	**272.4**	216.1	**1,432.1**	1,069.0

UK operating profit for 1994 includes exceptional operating income of £31.3m (1993 exceptional operating expense £20.0m) (see note 3).

1993 figures have been restated to reflect the reclassification of business sectors in 1994. Discontinued operations in the above analyses include oil services and fine china. Analyses of the profits and net assets of partnerships and associated undertakings are shown in note 10.

The above table shows sales and operating profit analysed by the destination to which products and services are supplied. The table on the opposite page analyses sales of continuing operations by the geographic region from which the products and services originate. Inter-regional sales are those made between Pearson group companies in different regions.

Reconciliation of capital employed to net assets	1994 £m	1993 £m
Capital employed	**1,432.1**	1,069.0
Less: deferred tax	**(157.5)**	(4.3)
other provisions	**(76.3)**	(63.3)
net debt	**(146.4)**	(1.3)
Net assets	**1,051.9**	1,000.1

A reconciliation of operating profit to profit before taxation is shown on the face of the consolidated profit and loss account.

2 Analysis of Sales, Operating profit and Capital employed continued	Total by source **1994 £m**	1993 £m	Inter-regional **1994 £m**	1993 £m	Sales turnover **1994 £m**	1993 £m
Geographical source of sales						
Continuing operations:						
UK	**811.6**	656.9	**(54.9)**	(46.7)	**756.7**	610.2
Continental Europe	**132.0**	116.7	**(9.7)**	(7.2)	**122.3**	109.5
North America	**565.0**	516.3	**(12.3)**	(11.5)	**552.7**	504.8
Asia Pacific	**114.8**	91.1	**(4.1)**	(2.8)	**110.7**	88.3
Rest of World	**7.7**	7.0	**–**	(0.2)	**7.7**	6.8
	1,631.1	1,388.0	**(81.0)**	(68.4)	**1,550.1**	1,319.6

3 Analysis of Consolidated Profit and Loss Account	**Total 1994 £m**	Continuing 1993 £m	Discontinued 1993 £m	Total 1993 £m
Cost of sales	**(775.8)**	(656.0)	(349.6)	(1,005.6)
Distribution costs	**(122.1)**	(103.9)	(54.8)	(158.7)
Administration, research and other expenses	**(524.3)**	(469.0)	(119.0)	(588.0)
Other operating income (note 7)	**144.5**	99.6	(1.3)	98.3
Net operating expenses	**(501.9)**	(473.3)	(175.1)	(648.4)
Analysed as:				
Net operating expenses – normal	**(533.2)**	(453.3)	(175.1)	(628.4)
– exceptional income/(expense)	**31.3**	(20.0)	–	(20.0)

Included in the 1994 total are the following amounts relating to acquisitions: cost of sales £49.0m and net operating expenses of £23.9m representing administrative expenses.

Included in other operating income is exceptional income of £31.3m comprising the maiden dividend received from BSkyB. This initial maiden dividend was paid to shareholders prior to flotation and will not be repeated.

Included in 1993 administration, research and other expenses is an exceptional expense comprising a provision for permanent diminution in the value of Number One Southwark Bridge Road, the head office of The Financial Times.

Profit on sale of fixed assets	**1994 £m**	1993 £m
Disposals of land at Lakeside	**10.8**	3.1
Sale of subscription rights in S.E.S.	**12.5**	–
Redemption of BSkyB loan stock	**2.5**	–
Other fixed asset disposals	**0.6**	1.3
	26.4	4.4
Profit/(loss) on sale of businesses		
Profit/(loss) on disposal of Camco (see note 20)	**15.2**	(66.2)
Expenses of Royal Doulton demerger	**–**	(2.2)
	15.2	(68.4)

Notes on the Accounts

4 Treasury information

Analysis of changes in net debt during the year	Cash and cash equivalents £m	Liquid portfolio £m	Other borrowing £m	**1994 Total £m**	1993 Total £m
1 January					
Cash and liquid funds	220.8	205.1	–	**425.9**	420.0
Gross borrowing	(84.2)	–	(343.0)	**(427.2)**	(541.3)
	136.6	205.1	(343.0)	**(1.3)**	(121.3)
Exchange differences	1.5	(1.8)	0.3	**–**	2.0
Loan notes issued on acquisition	–	–	(7.1)	**(7.1)**	(0.2)
Deferred cash outflow	–	1.8	–	**1.8**	–
Net cash (inflow)/outflow	(106.3)	10.8	(44.3)	**(139.8)**	118.2
31 December	**31.8**	**215.9**	**(394.1)**	**(146.4)**	(1.3)
Analysed as:					
Cash and liquid funds	150.8	215.9	–	**366.7**	425.9
Gross borrowing	(119.0)	–	(394.1)	**(513.1)**	(427.2)

'Cash and cash equivalents' comprise those elements of short-term borrowing and cash and liquid funds as defined by FRS1.

The 1993 net cash outflow was represented by:	£m
Increase in cash and cash equivalents	169.9
Net disposals of liquid portfolio	(83.0)
Net repayment of other borrowing	31.3
	118.2

Analysis of changes in financing during the year	Share capital (including premium) £m	Finance lease obligations £m	Other borrowing £m	**1994 Total £m**	1993 Total £m
1 January	166.3	4.0	343.0	**513.3**	528.0
Exchange differences	–	–	(0.3)	**(0.3)**	2.5
New capital leases	–	0.5	–	**0.5**	3.1
Subsidiary undertakings acquired/(disposed)	–	0.9	–	**0.9**	(0.6)
Loan notes issued on acquisition	–	–	7.1	**7.1**	0.2
Net cash inflow/(outflow)	9.7	(1.7)	44.3	**52.3**	(19.9)
31 December	**176.0**	**3.7**	**394.1**	**573.8**	513.3

The 1993 net cash outflow was represented by:	£m
Issue of share capital	13.9
Capital element of finance lease rentals	(2.5)
Net repayment of other borrowing	(31.3)
	(19.9)

4 **Treasury information** continued

	1994 £m	1993 £m
Interest charge		
Interest payable:		
On borrowing repayable wholly within five years:		
Not by instalments	**(17.3)**	(22.1)
By instalments	**–**	(0.1)
On borrowing repayable wholly or partly after five years	**(24.1)**	(19.9)
Finance lease charges	**(0.2)**	(0.6)
Interest capitalised	**0.8**	0.6
	(40.8)	(42.1)
Interest receivable:		
On deposits and liquid funds	**22.4**	27.2
Amortisation of 1992 swap proceeds (see note 15)	**2.2**	–
Net interest payable	**(16.2)**	(14.9)
Interest cover	**x17**	x15

Interest cover is calculated by dividing net interest payable into operating profit.

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Cash and liquid funds				
Cash, bank current accounts and overnight deposits	**66.4**	74.2	**5.0**	23.4
Certificates of deposit and commercial paper	**89.0**	153.2	**58.2**	102.1
Money market fund units	**7.9**	7.6	**7.9**	7.6
UK government securities	**1.0**	39.1	**–**	–
Listed sterling asset backed floating rate notes	**73.6**	28.8	**42.1**	16.1
Listed US dollar asset backed floating rate notes	**49.9**	7.4	**49.9**	7.4
Other listed floating rate notes	**31.4**	4.9	**11.4**	4.9
Other listed securities	**19.7**	–	**19.7**	–
Term bank deposits	**3.9**	92.8	**–**	53.3
Other	**23.9**	17.9	**21.5**	17.9
	366.7	425.9	**215.7**	232.7
Listed securities, dealt on recognised Stock Exchanges, included above:				
Cost	**175.7**	80.2	**123.2**	28.4
Market value	**175.6**	82.0	**123.1**	28.5

Notes on the Accounts

4 Treasury information continued	Group **1994 £m**	Group 1993 £m	Company **1994 £m**	Company 1993 £m
Borrowing summary (by maturity)				
Short term				
Loan stocks and notes	**34.7**	5.3	**7.3**	0.2
Bank loans, overdrafts and commercial paper	**121.3**	89.4	**195.7**	153.3
Total due within one year	**156.0**	94.7	**203.0**	153.5
Medium and long term				
Loans or instalments thereof repayable:				
From one to two years	**0.4**	23.8	**–**	–
From two to five years	**8.4**	83.2	**–**	16.9
After five years – not by instalments	**348.3**	225.5	**125.5**	125.5
Total due after more than one year	**357.1**	332.5	**125.5**	142.4
Total borrowing	**513.1**	427.2	**328.5**	295.9

	1994 £m	1993 £m
Total group borrowing comprises, by currency:		
Sterling	**241.6**	235.0
US dollars	**204.4**	123.0
French francs	**25.7**	23.8
Spanish pesetas	**21.5**	8.4
Canadian dollars	**10.4**	28.1
Other currencies	**9.5**	8.9
	513.1	427.2

Analysis of borrowing	Group **1994 £m**	Group 1993 £m	Company **1994 £m**	Company 1993 £m
Total borrowing comprises:				
Secured bank loans and overdrafts	**0.3**	–	**–**	–
Unsecured loan stocks:				
10.5% Euro-sterling Bonds 2008	**100.0**	100.0	**100.0**	100.0
13.625%, 2007	**25.0**	25.0	**25.0**	25.0
9.5% Euro-sterling Bonds 2004	**122.8**	–	**–**	–
10.75% Euro-sterling Bonds 2002	**100.0**	100.0	**–**	–
Other	**12.9**	5.9	**7.8**	0.7
Variable rate Multi-Option Bank Facility	**–**	12.8	**–**	12.8
Unsecured bank loans and overdrafts, commercial paper and medium term notes	**152.1**	183.5	**195.7**	157.4
Total borrowing	**513.1**	427.2	**328.5**	295.9

Whilst the loan stocks are repayable within the periods stated, various powers also exist for the borrower to purchase them in the market, or otherwise, for cancellation. Premiums will be payable in certain circumstances. The £125m 9.5% Euro-sterling Bonds 2004 have been swapped into US dollars until redemption and are classified as US dollar borrowings.

After taking into account the various interest rate swaps entered into by the group, the interest rate exposure of the borrowings of the group at 31 December 1994 was £122.3m fixed rate and £390.8m floating rate.

The unsecured bank loans and overdrafts, commercial paper and medium term notes of the group are lower than those of the company because of bank offset arrangements.

4 Treasury information continued

Commitments under leases

At 31 December 1994, the group had commitments under leases, other than finance leases, to make payments in 1995 as follows:

	Land and buildings £m	Other £m
For leases expiring:		
In 1995	**2.0**	**0.7**
Between 1996 and 1999	**6.9**	**2.4**
Thereafter	**15.1**	**9.1**
	24.0	**12.2**

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 and uncalled capital in relation to subsidiary and associated undertakings. In addition there are contingent liabilities of the group in respect of legal claims (including litigation referred to in the Report of the Directors on page 8) and general partnership interests (see note 10).

5 Post balance sheet events

BSBH

BSB Holdings' (BSBH) cash receipts from BSkyB in 1994 were passed on to its shareholders in February 1995. Pearson received £25.1m by way of interest, to be included in operating profit in 1995, and £14.9m in further loan stock repayment, making a total of £40.0m.

TVB

In March 1995, Pearson acquired 10% of the equity share capital of Television Broadcasts Limited (TVB), Hong Kong's leading television broadcaster, for £106.0m. The acquisition will be accounted for as a fixed asset investment.

6 Taxation

	1994 £m	1993 £m
Taxation on profit on ordinary activities		
United Kingdom:		
Corporation tax at 33%	**36.6**	19.1
Deferred taxation	**(0.6)**	2.1
BSkyB consortium relief	**(9.5)**	–
Double taxation relief	**(2.6)**	(2.5)
Partnerships and associated undertakings	**8.2**	7.7
Tax on franked investment income	**0.2**	0.3
Overseas:		
Overseas tax	**17.8**	21.8
Deferred taxation	**15.4**	2.1
Partnerships and associated undertakings	**8.8**	9.7
	74.3	60.3

BSkyB consortium relief has been credited to the profit and loss account to the extent that income from BSkyB is taxable. At 31 December there was BSkyB consortium relief available for future income recognition of £11.7m, included in deferred income.

Notes on the Accounts

6 Taxation continued	**1994 %**	1993 %
Tax rate reconciliation		
UK tax rate	**33.0**	33.0
Effect of adjustments to profit for the financial year	**(2.4)**	(2.3)
Effect of BSkyB income	**(7.8)**	–
Effect of other prior year items	–	(2.6)
Effect of discontinued business – irrecoverable ACT	–	2.2
Effect of discontinued business – other	–	(1.4)
Other (net)	**2.2**	–
Tax rate	**25.0**	28.9

Taxation on adjustments to profit for the financial year (see page 11)	**1994 £m**	1993 £m
Permanent diminution in value	**(1.4)**	(1.1)
Continuing operations		
Net profit on sale of fixed assets	**0.7**	(8.1)
Discontinued operations		
Loss on sale of businesses	**3.8**	0.5
	3.1	(8.7)

The above adjustments include credits in 1993 of £13.6m in respect of prior years.

Deferred taxation	£m
Summary of movements	
31 December 1993	4.3
Exchange differences	1.6
Subsidiary undertakings acquired	(11.6)
Charge for the year	14.8
Transfer to current taxation	(2.4)
Revaluation of fixed assets	150.8
31 December 1994	**157.5**

Deferred taxation derives from	**1994 £m**	1993 £m
Capital allowances	**38.2**	34.7
Revalued assets	**152.0**	1.7
Other timing differences	**(19.9)**	(20.6)
ACT recoverable	**(12.8)**	(11.5)
	157.5	4.3
Deferred taxation not provided		
Relating to revalued assets and timing differences	**6.9**	2.2
Relating to gains subject to rollover relief	**20.0**	18.6
	26.9	20.8

7 Other Profit and Loss Account Disclosures

	1994 £m	1993 £m
Other income		
Profit from investment banking	**30.2**	36.4
Share of profits of other partnerships, associated undertakings and joint ventures	**18.9**	13.4
Income from other investments:		
Listed	**1.6**	2.0
Unlisted	**1.9**	1.2
BSkyB 'D' Loan stock interest	**0.7**	6.9
BSkyB guarantee fees	**17.1**	–
BSkyB maiden dividend	**31.3**	–
BSBH £70m senior loan stock interest	**8.1**	–
BSBH working capital facilities interest	**0.4**	–
Other operating income	**34.3**	38.4
	144.5	98.3

With the £25.1m referred to in note 5, all outstanding interest and guarantee fee payments from BSkyB and BSBH have now been received. Other operating income consists mainly of royalties and rights income.

	1994 £m	1993 £m
Other income includes		
Distributions receivable in respect of the year from partnership interests	**23.9**	25.1
Dividends (including tax credits) from unlisted associated undertakings	**6.4**	6.1
Profit before taxation is arrived at after charging		
Depreciation	**51.4**	66.8
Operating lease rentals:		
Plant and machinery	**11.4**	8.4
Properties	**24.5**	32.3
Auditors' remuneration:		
Audit (Company £0.1m; 1993 £0.1m)	**1.7**	1.9
Non-audit – Coopers & Lybrand		
UK (Company £0.1m; 1993 £0.6m)	**0.4**	2.0
Other	**0.3**	0.4
– Arthur Andersen	**0.3**	1.1
Research and development expenditure	**–**	10.8

Notes on the Accounts

8 Employee Information

The details of the emoluments of the directors of Pearson plc are shown on page 4 and form part of these audited financial statements.

Staff costs	1994 £m	1993 £m
Wages and salaries	**340.7**	483.6
Social security costs	**34.9**	46.7
Post-retirement costs	**8.1**	17.8
	383.7	548.1

Discontinued operations total staff costs in 1993 were £213.7m.

Average number employed 1994	UK	USA	Other	Total
Information	6,378	374	872	7,624
Education	829	1,609	1,149	3,587
Entertainment	3,739	1,461	691	5,891
Other	92	18	3	113
Continuing operations	**11,038**	**3,462**	**2,715**	**17,215**

Average number employed 1993	UK	USA	Other	Total
Information	5,797	262	662	6,721
Education	866	1,613	1,103	3,582
Entertainment	3,312	1,196	591	5,099
Other	91	18	3	112
Continuing operations	10,066	3,089	2,359	15,514

Discontinued operations in 1993 employed on average 11,762.

Post-retirement costs	1994 £m	1993 £m
Defined benefit pension schemes:		
UK group plan:		
Regular pension cost	**12.2**	13.9
Amortisation of surplus	**(12.2)**	(8.7)
Net pension cost	**–**	5.2
Other defined benefit pension schemes	**4.2**	7.8
Defined contribution pension schemes	**2.7**	2.7
Medical benefits	**1.2**	2.1
	8.1	17.8

8 Employee Information continued

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's finances. Pension costs are assessed in accordance with the advice of independent qualified actuaries.

The principal schemes are of the defined benefit type but there are a number of defined contribution schemes in the United States and a closed defined contribution scheme in the UK which now receives neither employers' nor members' contributions.

The results of the most recent valuations of the principal UK schemes, together with the principal assumptions used, are shown in the table below:

	UK group plan	Extel
Date of latest valuation	1 January 1994	31 December 1992
Assets at market value (£m)	452	63
Market value of assets subsequently transferred from Thames (£m)	183	-
Real return on investments	5.5%	4.5%
Real increase in earnings	2.5%	2.0%
Real increase in pensions in payment	0%	–0.5%
Level of funding*	118%	139%

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

Both the group and the Extel plans used the projected unit method of valuation.

The figures shown above for the group plan exclude investments valued at approximately £118m which have been transferred or allocated to pension funds of Royal Doulton and Camco following their demerger and divestment respectively.

On 1 October 1994 the Thames Television Pension Scheme was merged with the group plan.

In view of these results, all employers' contributions remain suspended for the time being and the valuation surpluses are being apportioned, in accordance with SSAP 24, over the expected remaining service lives of the current employees, resulting in a nil charge to profits (1993 £5.2m).

The group plan had a market value of £614m at 31 December 1994.

On 1 February 1995 the Extel Pension Fund was merged with the group plan.

The only other material schemes are in the United States. The charge to profit and loss account is calculated in accordance with US accounting principles but the result would not have been materially different had UK standards been applied. The total market value of the assets of the other defined benefit schemes, valued this year, was £30m (1993 £29m).

Notes on the Accounts

9 Tangible Fixed Assets	Freehold and leasehold property £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Cost or as valued				
31 December 1993	321.1	384.9	16.4	722.4
Exchange differences	(2.8)	(1.2)	(0.1)	(4.1)
Reclassifications	(0.3)	11.0	(10.7)	–
Transfers	(1.7)	0.4	–	(1.3)
Owned by subsidiary undertakings acquired	14.7	37.6	2.1	54.4
Capital expenditure	5.6	39.7	17.9	63.2
Capitalised interest	0.2	0.1	0.5	0.8
Disposals	(6.3)	(13.0)	–	(19.3)
31 December 1994	**330.5**	**459.5**	**26.1**	**816.1**
Depreciation				
31 December 1993	45.1	169.7	–	214.8
Exchange differences	(0.4)	(0.7)	–	(1.1)
Transfers	–	0.3	–	0.3
Provided in the year	7.6	43.8	–	51.4
Subsidiary undertakings acquired	0.3	18.1	–	18.4
Disposals	(0.4)	(10.0)	–	(10.4)
31 December 1994	**52.2**	**221.2**	**–**	**273.4**
Net book values				
31 December 1993	276.0	215.2	16.4	507.6
31 December 1994	**278.3**	**238.3**	**26.1**	**542.7**

The net book value of freehold and leasehold property includes: short leases of £13.8m (1993 £11.7m); long leases of £35.1m (1993 £34.0m); and £8.9m at valuations.

The cost of freehold and leasehold property is stated after a £20.0m provision for permanent diminution in value (1993 £20.0m).

Except for £76.4m of land and £2.1m of investment properties, 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, and plant and equipment at various rates between 5% and 33% per annum.

On an original cost basis, freehold and leasehold properties would have been included at a cost of £345.0m, with accumulated depreciation of £51.0m.

The net book value of group tangible fixed assets includes £5.2m in respect of assets held under finance leases. Depreciation on these assets charged in 1994 was £5.9m.

The net book value of group tangible fixed assets includes £5.4m in respect of capitalised interest.

Capital Commitments

The group had capital commitments for fixed assets, including finance leases, at 31 December 1994 amounting to £107.5m. This represented £26.0m already under contract and £81.5m authorised but not yet contracted, of which £9.0m was in respect of new Longman headquarters. The group also had capital commitments to subscribe for further capital in investments of £20.4m.

10 Partnerships and Associated Undertakings

	Valuations 1994 £m	Valuations 1993 £m	Book values 1994 £m	Book values 1993 £m
Analysis				
Partnership interests	**200.0**	200.0	**102.5**	98.3
Unlisted associated undertakings	**81.0**	84.7	**34.7**	16.5
Loans	**6.3**	5.7	**6.3**	5.7
	287.3	290.4	**143.5**	120.5

Principal associated undertakings are listed on page 40. The valuations of unlisted partnerships and associated undertakings are at directors' valuations as at 31 December 1994. If realised at these values there would be an estimated liability for taxation, at year end rates, of £28.0m.

Summary of movements	Equity £m	Loans £m	Share of reserves £m	Total £m
31 December 1993	65.9	5.7	48.9	120.5
Exchange differences	(0.5)	–	0.8	0.3
Additions	64.2	5.3	–	69.5
Owned by subsidiary undertakings acquired	0.3	–	–	0.3
Transfer to subsidiary undertakings	(11.7)	–	(9.3)	(21.0)
Retained profit for year	–	–	8.7	8.7
Goodwill written off	(30.3)	–	–	(30.3)
Goodwill written back by associated undertakings	–	–	0.2	0.2
Provision for losses and diminution in value	–	(4.7)	–	(4.7)
31 December 1994	**87.9**	**6.3**	**49.3**	**143.5**

Analysis of partnerships and associated undertakings	Profit 1994 £m	Profit 1993 £m	Net assets 1994 £m	Net assets 1993 £m
Business sectors				
Information	**18.3**	14.1	**14.3**	17.3
Education	**3.1**	1.9	**4.2**	4.9
Entertainment	**(2.5)**	–	**22.5**	–
Investment Banking	**30.2**	36.4	**102.5**	98.3
Other interests	**–**	(0.5)	**–**	–
Discontinued operations	**–**	(2.1)	**–**	–
	49.1	49.8	**143.5**	120.5
Geographical markets supplied and location of net assets				
UK	**21.9**	24.3	**100.4**	91.4
Continental Europe	**11.9**	12.8	**29.6**	13.9
North America	**12.0**	13.2	**10.2**	10.6
Rest of World	**3.3**	1.6	**3.3**	4.6
Discontinued operations	**–**	(2.1)	**–**	–
	49.1	49.8	**143.5**	120.5

Discontinued operations in 1993 were the associated undertakings of the group's interests in oil services and fine china.

Notes on the Accounts

10 Partnerships and Associated Undertakings continued

Interests in Lazard Partners Limited Partnership and the three Lazard Houses

A summary of the aggregate net tangible assets at 31 December is as follows:	Net assets 1994 £m	Net assets 1993 £m
Total assets	**3,433**	3,266
Total liabilities	**(3,068)**	(2,928)
Net tangible assets	**365**	338
Attributable to Pearson	**103**	98

The group's direct interest in Lazard Frères et Cie and Maison Lazard et Cie and its indirect interest in the Lazard Partnerships shown below, in all cases as general partners with unlimited liability, are held through a subsidiary company, registered in England, with no other material assets. The group's direct interest in Lazard Frères & Co is as a limited partner. The aggregate liabilities of these partnerships included above are £898m (1993 £787m).

	Country of incorporation or registration	Beneficial interest %	Class of share	Share capital £m
Lazard Partners Limited Partnership (which, with direct interests in the US and French partnerships gives the following interests in the Lazard Houses):	USA	50(53.6)		Partnership
Lazard Brothers & Co., Ltd	England	50(52.1)	Ord £1	25.4
		80(80.0)	Def £1	5.0
		50(52.1)	Sw Fr 1	0.4
Lazard Frères & Co	USA	9.2(9.6)		Partnership
Lazard Frères et Cie Maison Lazard et Cie	France	9.4(9.8)		Partnership

The beneficial percentages held for the Investment Banking partnership interests are interests in partnership profits. The figures shown in parentheses reflect the increase in Pearson's economic interests in the partnerships' distributable revenue profits for the seven years 1988 to 1994.

11 Other Investments (Fixed Assets)

	Valuations		Book values	
	1994 £m	1993 £m	**1994 £m**	1993 £m
Listed in Great Britain	**460.8**	11.3	**460.6**	11.0
Listed abroad	**0.1**	0.1	**0.1**	0.1
Unlisted	**212.7**	146.6	**106.5**	142.4
	673.6	158.0	**567.2**	153.5

Listed investment valuations are at middle market quotation, unlisted are at directors' valuations. The increase over last year in investments listed in Great Britain includes the revaluation of these investments to their middle market quotation at 31 December 1994, for which full provision for deferred taxation has been made. If all investments were realised at valuation there would be a further liability for taxation at year end rates estimated at £9.0m. Following the issue of new shares as part of the initial public offering of BSkyB on 14 December 1994, Pearson's combined direct and indirect holding was reduced from 17.5% to 14.0%. The holding continues to be accounted for as a fixed asset investment but the direct interest (9.7%) is now carried in the balance sheet at market value at 31 December each year. The indirect stake (4.3%), held through BSBH, is held at cost. The effect on the 1994 balance sheet is to increase the carrying value of the investment by £428.9m against which there is a deferred tax provision of £141.6m, the net increase of £287.3m being credited to revaluation reserve.

The shareholding in Yorkshire-Tyne Tees Television (13.9%) was also revalued giving rise to an increase in carrying value of £20.7m. The amount credited to revaluation reserve after allowing for deferred tax is £11.5m.

Details of the principal investments in which the group held more than 10% of the equity share capital are shown on page 40.

Summary of movements	BSkyB £m	BSBH £m	Other £m	Total £m
31 December 1993	24.1	93.7	35.7	153.5
Exchange differences	–	–	(0.2)	(0.2)
Additions	–	–	8.3	8.3
Owned by subsidiary undertakings acquired	–	–	0.1	0.1
Prior year cost adjustments	–	(3.2)	–	(3.2)
Provisions for diminution in value and losses	–	–	(6.1)	(6.1)
Repayments	(28.8)	(22.9)	–	(51.7)
Disposals	–	–	(0.3)	(0.3)
Net consortium relief receivable	4.7	0.8	–	5.5
Transfers of BSkyB consortium relief to deferred income	–	11.7	–	11.7
Revaluation	428.9	–	20.7	449.6
31 December 1994	**428.9**	**80.1**	**58.2**	**567.2**

12 Investments (Current Assets)

	Valuations		Book values	
	1994 £m	1993 £m	**1994 £m**	1993 £m
Listed abroad	**20.4**	154.5	**0.1**	65.0
Unlisted	**8.3**	14.1	**7.7**	13.6
	28.7	168.6	**7.8**	78.6

Listed investment valuations are at middle market quotation and unlisted investments are at directors' valuations. If all investments were realised at valuation there would be a liability for taxation, at year end rates, estimated at £7.0m.

Details of the principal investments in which the group held more than 10% of the equity share capital are shown on page 40.

Summary of movements	Camco £m	Other £m	Total £m
31 December 1993	65.0	13.6	78.6
Exchange differences	(3.8)	(0.3)	(4.1)
Additions	–	1.0	1.0
Disposals	–	(6.5)	(6.5)
Owned by businesses disposed	(61.2)	–	(61.2)
31 December 1994	**–**	**7.8**	**7.8**

Notes on the Accounts

13 Stocks	1994 £m	1993 £m
Raw materials	**19.6**	14.1
Work in progress	**84.8**	61.5
Finished stock	**148.8**	157.5
	253.2	233.1

The replacement cost of stocks and work in progress is not materially different from book value.

14 Debtors	1994 £m	1993 £m
Amounts falling due within one year		
Trade debtors	**337.4**	256.0
Partnerships and associated undertakings	**15.1**	12.8
Other debtors	**116.1**	93.5
Prepayments and accrued income	**43.5**	35.5
	512.1	397.8
Amounts falling due after one year		
Other debtors	**5.1**	3.5
Prepayments and accrued income	**0.3**	0.2
	5.4	3.7
	517.5	401.5

15 Other Creditors	1994 £m	1993 £m
Amounts falling due within one year		
Obligations under finance leases	**1.7**	1.6
Payments received on account	**0.7**	0.9
Trade creditors	**201.7**	136.8
Taxation	**60.8**	29.0
Social security and other taxes	**24.7**	19.4
Other creditors	**73.7**	76.3
Accruals and deferred income	**159.0**	115.8
Dividends	**57.0**	42.1
	579.3	421.9
Amounts falling due after one year		
Obligations under finance leases	**2.0**	2.4
Trade creditors	**0.1**	-
Other creditors	**2.4**	0.8
Accruals and deferred income	**16.0**	0.7
	20.5	3.9

Accruals and deferred income includes £17.6m relating to the unamortised profit arising out of the unwinding of a sterling interest rate swap. The swap was arranged in 1992 in connection with the issue of £100m 10.75% Euro-sterling Bonds 2002. The profit is being amortised over the remaining life of the Bonds, of which £15.1m is due after one year. Amounts falling due after five years are £5.2m.

16 Other provisions for liabilities and charges	Post-retirement £m	Other £m	Total £m
31 December 1993	30.7	32.6	63.3
Exchange differences	(0.8)	(0.7)	(1.5)
Subsidiary undertakings acquired	–	14.0	14.0
Transfer of deferred consideration from creditors	–	16.7	16.7
Released	(0.1)	(3.7)	(3.8)
Provided	8.1	15.9	24.0
Utilised	(8.0)	(28.4)	(36.4)
31 December 1994	**29.9**	**46.4**	**76.3**

Post-retirement provisions are in respect of pensions, £20.6m and post-retirement medical benefits, £9.3m.

Other provisions are mainly in respect of future costs relating to purchase of subsidiary and associated undertakings, litigation, reorganisations and redundancies, disposals and closures, and lease commitments in respect of vacated offices.

Amounts utilised include £12.7m in respect of provisions relating to subsidiary undertakings acquired.

17 Share capital of Pearson plc	Number (000's)	£m
Authorised		
Ordinary shares of 25p each	808,000	202.0
Preference shares of US$100 each	50	3.2
Preference shares of £1 each	100,000	100.0
		305.2
Called up and allotted		
Ordinary shares of 25p each fully paid 31 December 1993	550,218	137.6
Issued under share option and employee share schemes	2,248	0.5
Issued under scrip dividend scheme	383	0.1
31 December 1994	**552,849**	**138.2**

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 £9.7m (1993 £13.9m).

Options granted under certain of the company's employee share option schemes were adjusted following the demerger of Royal Doulton plc. In the case of those "Save As You Earn" and Executive share options which were not adjustable, compensation is to take the form of additional Pearson shares distributed from an employee share trust, when the options are exercised. If all of these options are exercised the maximum amount of equity shares to be issued is estimated at 452,083 under the "Save As You Earn" scheme and 111,245 under the Executive schemes.

Notes on the Accounts

17 Share capital of Pearson plc continued	When granted	Number of shares (000's)	Subscription price	Original exercise period
Options outstanding at 31 December 1994				
"Save As You Earn" share option schemes	1987	17	294p	1992-1995
	1988	106	318p	1993-1996
	1989	606	301p	1994-1997
	1990	1,684	265p	1995-1998
	1991	1,436	299p	1996-1999
	1992	3,012	242p	1997-2000
	1994	1,379	509p	1999-2001
Executive share option schemes	1988	448	329p-342p	1991-1998
	1989	615	341p-376p	1992-1999
	1990	1,393	307p-334p	1993-2000
	1991	698	364p-377p	1994-2001
	1992	1,564	327p-379p	1995-2002
	1993	162	396p-410p	1996-2003
	1994	1,919	629p-635p	1997-2004
		15,039		

The subscription prices have been rounded down, to the nearest penny.

18 Reserves	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Summary of movements					
31 December 1993	28.7	16.8	1.4	812.8	859.7
Exchange differences	–	(0.2)	–	(18.1)	(18.3)
Premium on 2.6m equity shares	9.1	–	–	–	9.1
Goodwill arising (see note 19)	–	–	–	(443.0)	(443.0)
Goodwill written back	–	–	–	51.6	51.6
Realisation of revaluation reserve	–	(2.0)	–	2.0	–
Revaluation of fixed assets	–	298.8	–	–	298.8
Profit for the year	–	–	–	140.0	140.0
31 December 1994	**37.8**	**313.4**	**1.4**	**545.3**	**897.9**
Analysed as:					
Associated undertakings	–	0.2	1.4	47.7	49.3
Group excluding associated undertakings	37.8	313.2	–	497.6	848.6

Goodwill written back to reserves is £51.4m on disposals by group companies (see note 20) and £0.2m arising within partnerships and associated undertakings.
The cumulative net goodwill written off is £1,042.5m.

19 Acquisitions

	1994 £m	1993 £m
Subsidiary undertakings and businesses	**453.0**	166.6
Changes in interests in existing subsidiary undertakings, including goodwill	**1.3**	1.9
Partnerships and associated undertakings, including goodwill	**69.5**	1.9
Fixed asset investments	**5.0**	27.7
Current asset investments	**1.0**	0.1
Less: transfer of associated undertaking to subsidiary undertaking status	**(21.0)**	–
Cost	**508.8**	198.2
Analysed as:		
Cash	**493.6**	180.7
Deferred consideration	**10.9**	17.3
Loan notes issued	**7.1**	0.2
Net prior year adjustments	**(2.8)**	–
Cashflow		
Cash – current year acquisitions	**493.6**	180.7
Utilisation of acquired provisions	**12.7**	19.7
Deferred payments for prior year acquisitions	**14.3**	1.4
Cash and cash equivalents acquired	**(27.8)**	(15.4)
Net cash outflow	**492.8**	186.4

The net cash outflow for 1994 acquisitions includes: £310.4m for Mindscape; £49.7m for Future Publishing; £32.7m for Port Aventura and £24.0m for Recoletos.

The contributions to the cashflow from acquisitions in 1994 are as follows: Net cash inflow from operating activities £3.5m, returns on investments and servicing of finance £(12.2)m, taxation £2.4m; and investing activities £(2.6)m.

	Cost £m	Net assets acquired £m	Goodwill £m
Subsidiary undertakings and businesses (see page 34)	453.7	41.0	412.7
Associated undertakings			
Port Aventura	32.7	25.2	7.5
Recoletos	31.0	8.2	22.8
Other	5.8	5.8	–
Less: transfer of associated undertaking to subsidiary undertaking status	(21.0)	(21.0)	–
	502.2	59.2	443.0

Notes on the Accounts

19 Acquisitions continued	Mindscape £m	Future Publishing £m	Recoletos £m	Other £m	**1994 Total £m**	1993 Total £m
Acquisition analysis of subsidiary undertakings and businesses						
Tangible fixed assets	1.5	2.3	27.9	4.3	**36.0**	20.8
Investments	–	–	0.1	0.3	**0.4**	25.2
Stocks	9.2	1.9	2.0	1.6	**14.7**	7.2
Debtors	12.5	7.1	14.6	7.7	**41.9**	22.1
Creditors	(12.1)	(9.0)	(21.9)	(16.1)	**(59.1)**	(36.5)
Provisions	(9.1)	–	–	(4.9)	**(14.0)**	(39.9)
Deferred taxation	14.3	–	(0.8)	(1.9)	**11.6**	–
Equity minority interests	–	–	(19.3)	1.0	**(18.3)**	1.1
Net cash/(borrowing) acquired	2.7	3.1	22.1	(0.1)	**27.8**	15.4
Net assets/(liabilities) acquired	19.0	5.4	24.7	(8.1)	**41.0**	15.4
Consideration	(313.1)	(52.8)	(15.1)	(51.7)	**(432.7)**	(166.6)
Transfer of associated undertaking to subsidiary undertaking status	–	–	(21.0)	–	**(21.0)**	–
Goodwill arising	294.1	47.4	11.4	59.8	**412.7**	151.2

Acquisition goodwill and fair values	Mindscape £m	Future Publishing £m	Recoletos £m	Port Aventura £m	Other £m	**Total £m**
Acquisition cost	313.1	52.8	46.1	32.7	57.5	**502.2**
Book value of net tangible assets acquired	19.9	7.4	12.1	25.2	6.4	**71.0**
Fair value adjustments	(0.9)	(2.0)	(0.2)	–	(8.7)	**(11.8)**
Fair value to the group	19.0	5.4	11.9	25.2	(2.3)	**59.2**
Goodwill arising written off to reserves	294.1	47.4	34.2	7.5	59.8	**443.0**

Provisional fair value adjustments in respect of Mindscape are detailed below. Other provisional fair value adjustments are: revaluations of £1.4m and other adjustments of £2.0m. Final fair value adjustments in respect of prior years are £7.5m.

Mindscape fair value table	Book value £m	Accounting policy alignment £m	Other adjustments £m	Fair value £m
Tangible fixed assets	2.3	(0.8)	–	1.5
Stocks	12.4	(1.7)	(1.5)	9.2
Debtors	21.3	(1.8)	(7.0)	12.5
Creditors	(12.1)	–	–	(12.1)
Provisions	(6.7)	–	(2.4)	(9.1)
Deferred taxation	–	–	14.3	14.3
Cash	2.7	–	–	2.7
Net assets acquired	19.9	(4.3)	3.4	19.0

The deferred taxation adjustment recognises tax benefits which are considered recoverable within the Pearson group.

20 Disposals	**1994 £m**	1993 £m
Subsidiary undertakings and businesses	**127.8**	130.3
Changes in interests in existing subsidiary undertakings, including goodwill	**1.6**	–
Fixed asset investments	**67.0**	3.9
Current asset investments	**5.3**	8.5
Proceeds	**201.7**	142.7
Analysed as:		
Cash	**200.1**	143.8
Deferred proceeds/(costs)	**1.6**	(1.1)
Cashflow		
Cash – current year disposals	**200.1**	143.8
Deferred receipts for prior year disposals	**1.6**	2.2
Cash and cash equivalents of disposed businesses	**–**	97.7
Net cash inflow	**201.7**	243.7

Disposals of subsidiary undertakings and businesses	**1994 Total £m**	1993 Total £m
Tangible fixed assets	**–**	(138.1)
Goodwill written back	**(51.4)**	(127.0)
Associated undertakings	**–**	(4.4)
Fixed asset investments	**–**	3.7
Stocks	**–**	(199.9)
Debtors	**–**	(143.7)
Current asset investments	**(61.2)**	–
Creditors and taxation	**–**	118.7
Provisions	**–**	17.4
Equity minority interests	**–**	2.3
Net borrowing disposed	**–**	97.7
Net assets disposed	**(112.6)**	(373.3)
Proceeds	**127.8**	130.3
Transfer to current asset investments	**–**	65.0
	15.2	(178.0)
Being:		
Profit/(loss) on disposal of Camco	**15.2**	(66.2)
Demerger dividend *in specie*	**–**	(111.8)

Notes on the Accounts

21 Notes on consolidated cash flow

Reconciliation of operating profit to net cash inflow from operating activities	1994 £m	1993 £m
Operating profit	**272.4**	216.1
Less: Profit of partnerships and associated undertakings	**(49.1)**	(49.8)
	223.3	166.3
Depreciation	**51.4**	66.8
Permanent diminution in value	**3.6**	20.0
Increase in stocks	**(11.1)**	(21.6)
Increase in operating debtors	**(81.6)**	(27.4)
Increase in operating creditors	**51.5**	26.6
Increase/(decrease) in operating provisions	**9.0**	(2.5)
Exchange adjustments	**0.4**	0.4
Other	**2.3**	(6.1)
Net cash inflow from operating activities	**248.8**	222.5

Interest received

Interest received includes £19.8m of proceeds from the unwinding of the interest rate swap on the £100m 10.75% Euro-sterling Bonds 2002.

Tax paid

Tax paid includes £9.4m of credits (1993 £9.8m of payments) relating to items excluded from operating profit. There were payments of £4.1m (1993 £12.0m) in relation to tax liabilities assumed on acquisition. During 1994, Certificates of Tax Deposit were tendered in the amount of £6.2m.

Liquid portfolio investments	1994 £m	1993 £m
Acquired	**(239.3)**	(113.5)
Disposed	**228.5**	196.5
Net movement	**(10.8)**	83.0

£125m 9.5% Bonds 2004 issued.

The Bonds were issued at a premium of £1.2m. The proceeds of the issue are shown net of expenses of £2.5m.

22 Company Balance Sheet as at 31 December 1994

	Notes	1994 £m	1993 £m
Fixed assets			
Tangible assets		**0.4**	0.5
Investments:			
Subsidiary undertakings		**1,695.2**	1,486.9
Other		**31.5**	2.8
		1,727.1	1,490.2
Deferred taxation recoverable		**5.8**	9.6
Debtors:			
Subsidiary undertakings – due within one year		**519.7**	380.4
– due after one year		**63.1**	162.8
Taxation		**–**	13.6
Other debtors		**0.1**	0.1
Prepayments and accrued income		**9.4**	11.1
Investments		**0.7**	2.8
Cash and liquid funds	4	**215.7**	232.7
Current assets		**814.5**	813.1
Creditors due within one year:			
Short term borrowing	4	**203.0**	153.5
Subsidiary undertakings		**1,019.5**	915.5
Taxation		**2.8**	–
Other creditors		**1.1**	0.7
Accruals and deferred income		**10.7**	8.6
Dividends		**51.2**	42.1
		1,288.3	1,120.4
Net current liabilities		**(473.8)**	(307.3)
Total assets less current liabilities		**1,253.3**	1,182.9
Creditors due after more than one year:			
Medium and long term borrowing	4	**125.5**	142.4
Subsidiary undertakings		**223.7**	100.0
Accruals and deferred income		**16.3**	–
Other provisions for liabilities and charges		**0.2**	0.2
Other liabilities		**365.7**	242.6
Net assets		**887.6**	940.3
Capital and reserves			
Called up share capital	17	**138.2**	137.6
Reserves:			
Share premium		**37.8**	28.7
Special reserve		**397.2**	397.2
Revaluation reserve		**20.2**	–
Other reserves		**50.1**	50.1
Profit and loss account		**244.1**	326.7
Equity shareholders' funds		**887.6**	940.3

The financial statements were approved by the board of directors on 27 March 1995 and signed on its behalf by

Blakenham
J A B Joll

Notes on the Accounts

22 Notes on the company balance sheet	1994 £m	1993 £m
Tangible fixed assets (leasehold property)		
Cost	**0.6**	0.6
Depreciation	**(0.2)**	(0.1)
Net book value	**0.4**	0.5

There were no capital commitments for fixed assets at 31 December 1994.

Investment in subsidiary undertakings	£m
31 December 1993	1,486.9
Acquisition of Register Group	16.6
Acquisition from subsidiary undertakings	3.7
Subscription for additional share capital in subsidiary undertakings	189.3
Provisions for diminution in value	(1.3)
31 December 1994	**1,695.2**

Shares are stated at cost less provisions for diminution in value or directors' 1969 valuations.

Other investments (fixed assets)	£m
31 December 1993	2.8
Revaluation	29.4
Disposal	(0.7)
31 December 1994	**31.5**

	Valuations		Book values	
	1994 £m	1993 £m	1994 £m	1993 £m
Listed in Great Britain	**31.5**	11.0	**31.5**	2.1
Unlisted	**–**	0.7	**–**	0.7
	31.5	11.7	**31.5**	2.8

Listed investments are at middle market quotation, unlisted are at directors' valuations.

Deferred taxation recoverable after one year	£m
Summary of movements	
31 December 1993	9.6
Provided on revaluation of fixed asset investment	(9.2)
Utilised	(7.4)
ACT on final dividend	12.8
31 December 1994	**5.8**

Deferred taxation recoverable derives from	1994 £m	1993 £m
Other timing differences	**2.2**	0.5
Revaluation of fixed asset investment	**(9.2)**	–
ACT	**12.8**	9.1
	5.8	9.6

22 **Notes on the company balance sheet** continued

Current investments

The investments are unlisted, valued by the directors at book value, and if realised at valuation there would be no liability for taxation on disposal. The movements during the year arose from disposals.

Accruals and deferred income

Accruals and deferred income includes £17.6m relating to the unamortised profit arising out of the unwinding of a sterling interest rate swap. The swap was arranged in 1992 in connection with the issue of £100m 10.75% Euro-sterling Bonds 2002. The profit is being amortised over the remaining life of the Bonds, of which £15.1m is due after one year.

Amounts falling due after five years are £5.2m.

Reserves	Share premium account £m	Special reserve £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Summary of movements						
31 December 1993	28.7	397.2	–	50.1	326.7	802.7
Premium on 2.6m equity shares	9.1	–	–	–	–	9.1
Revaluation of fixed asset investment	–	–	20.2	–	–	20.2
Profit for the financial year	–	–	–	–	0.3	0.3
Dividends	–	–	–	–	(82.9)	(82.9)
31 December 1994	**37.8**	**397.2**	**20.2**	**50.1**	**244.1**	**749.4**

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

Principal Subsidiary and Associated Undertakings, Partnerships and Investments

Subsidiary undertakings	Country of incorporation or registration	Business sector
The principal operating subsidiary undertakings are listed below. They operate mainly in the countries of incorporation or registration, the investments are in equity share capital and are all 100% owned unless stated otherwise.		
Financial Times Group Ltd	England	Information
Les Echos SA	France	
Recoletos Compañia Editorial SA (56.7%)	Spain	
Westminster Press Ltd	England	
Pearson Professional Ltd	England	
Addison-Wesley Publishing Co Inc	USA	Education
Longman Group UK Ltd	England	
Penguin Books USA Inc	USA	Entertainment
The Penguin Publishing Co Ltd	England	
Mindscape Inc	USA	
Future Publishing Ltd	England	
Thames Television Ltd†	England	
The Tussauds Group Ltd*	England	

Associated undertakings	Country of incorporation or registration	Beneficial interest %	Class of share	Share capital £m	Accounting year end
Information					
The Economist Newspaper Ltd	England	50	Ord 5p	1.1	March
		100	'B' 5p	0.1	
		Nil	'A' 5p		
		Nil	Trust 5p	–	
Entertainment					
Port Aventura SA	Spain	40	Pts 10,000	52.5	December

Investments					
The group held more than 10% of the following:					
Information					
The Financial Post Company	Canada	19.9		Partnership	December
Entertainment					
British Sky Broadcasting Group plc (Through its interest in BSB Holdings, the group has a further interest in BSkyB amounting to 4.3%).	England	9.7	Ord 50p	857.5	June
Yorkshire-Tyne Tees Television Holdings plc*	England	13.9	Ord 25p	12.4	September
Other interests					
Blackwell Land Co Inc	USA	37.4	Ord US$1	0.1	December

The investment in Blackwell Land is not held for the long term and is therefore not an associated undertaking.
The principal partnerships are shown on page 28.

† Of which 49% is directly owned by Pearson plc
** Direct investment of Pearson plc*

Shareholder Information

Analysis of Equity Shareholdings	Number of Holders	Percentage	Number of Shares held	Percentage
As at 31 December 1994				
Individuals	17,753	63.5	80,427,623	14.6
Nominees	7,272	26.0	127,415,486	23.0
Insurance companies	158	0.6	62,783,935	11.4
Pension funds	154	0.5	143,867,129	26.0
Banks	1,081	3.9	4,690,767	0.8
Other corporate bodies	1,539	5.5	133,664,218	24.2
	27,957	**100.0**	**552,849,158**	**100.0**
1 – 5,000	25,114	89.8	31,851,904	5.8
5,001 – 100,000	2,367	8.5	46,552,621	8.4
100,001 – 500,000	326	1.1	73,128,216	13.2
500,001 – 2,000,000	107	0.4	100,619,450	18.2
2,000,001 – 4,000,000	26	0.1	77,097,023	14.0
Over 4 million	17	0.1	223,599,944	40.4
	27,957	**100.0**	**552,849,158**	**100.0**

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Lloyds Bank Registrars
The Causeway, Worthing
West Sussex BN99 6DA

Auditors
Coopers & Lybrand

Broker
Cazenove & Co.

Bankers
Midland Bank plc
National Westminster Bank Plc

Solicitors
Freshfields
Herbert Smith

Financial Advisers
Lazard Brothers & Co., Ltd
Baring Brothers & Co. Ltd

Trustee for loan stocks
The Law Debenture Corporation p.l.c.

PEARSON plc

Registered Office
Until 8 May 1995:
Millbank Tower, London SW1P 4QZ

From 9 May 1995:
3 Burlington Gardens, London W1X 1LE

Registered number
53723 (England)

Telephone no: 0171-411 2000, Fax no: 0171-411 2390
Telex: 8953869

Five Year Summary

Sales	1990 £m	1991 £m	1992 £m	1993 £m	**1994 £m**
Continuing operations	1,044.8	1,078.4	1,145.0	1,319.6	**1,550.1**
Discontinued operations	490.3	522.0	490.7	550.5	**–**
Sales, excluding associated undertakings	1,535.1	1,600.4	1,635.7	1,870.1	**1,550.1**
Profits*					
Information	55.6	38.2	41.1	60.2	**84.7**
Education	31.5	38.1	42.5	55.8	**51.2**
Entertainment	34.5	23.5	41.6	62.2	**129.5**
Investment Banking	38.3	26.1	23.7	36.4	**30.2**
Corporate expenses less other income	(4.9)	(8.8)	(4.5)	(4.3)	**(23.2)**
Permanent diminution in value	–	–	–	(20.0)	**–**
Continuing operations	155.0	117.1	144.4	190.3	**272.4**
Discontinued operations	85.3	57.9	11.2	25.8	**–**
Operating profit	240.3	175.0	155.6	216.1	**272.4**
Profit/(loss) on disposals of businesses	0.7	8.0	–	(68.4)	**15.2**
Profit on sales of fixed assets	14.7	16.2	8.8	4.4	**26.4**
Provision on investment in BSkyB	(71.4)	–	–	71.4	**–**
Profit before interest	184.3	199.2	164.4	223.5	**314.0**
Net interest payable	(29.8)	(19.6)	(13.6)	(14.9)	**(16.2)**
Profit before taxation	154.5	179.6	150.8	208.6	**297.8**
Taxation	(66.2)	(44.8)	(44.4)	(60.3)	**(74.3)**
Equity minority interests	(0.8)	(0.7)	(1.1)	(0.3)	**(0.6)**
Profit for the financial year	87.5	134.1	105.3	148.0	**222.9**
Earnings per equity share	16.3p	24.7p	19.3p	27.0p	**40.4p**
Adjusted earnings per equity share†	25.1p	18.2p	17.3p	27.9p	**34.1p**
Dividends per equity share	11.625p	11.625p	12.0p	13.0p	**15.0p**

** Figures for 1990 to 1993 have been restated to reflect the reclassified business sectors.*

† Adjusted in accordance with page 11.

Capital employed	1990 £m	1991 £m	1992 £m	1993 £m	**1994 £m**
Net assets	711.5	981.1	1,058.3	1,000.1	**1,051.9**
Deferred tax and other provisions	26.8	45.8	85.6	67.6	**233.8**
Net debt	405.3	118.0	121.3	1.3	**146.4**
Capital employed	1,143.6	1,144.9	1,265.2	1,069.0	**1,432.1**
Cumulative goodwill written off	742.6	536.8	670.7	700.2	**1,042.5**
Gearing					
Debt/equity	57%	12%	11%	N/A	**14%**
Debt/adjusted equity (including goodwill)	28%	8%	7%	N/A	**7%**
Interest cover	x8	x9	x11	x15	**x17**
Share statistics					
Equity shares – weighted average	536.0m	543.6m	545.5m	547.6m	**551.6m**
Share price – Year end	328p	349p	390p	608p	**555p**
– High	403p	397p	459p	614p	**725p**
– Low	299p	295p	302p	356p	**554p**
Average number employed					
Continuing operations	16,239	15,555	15,499	15,514	**17,215**
Discontinued operations	13,171	12,937	12,467	11,762	**–**
	29,410	28,492	27,966	27,276	**17,215**

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