

I N T E R I M S T A T E M E N T

For the Six Months Ended **30 September 1992**



REED INTERNATIONAL

CHAIRMAN'S STATEMENT

- Profit before tax up 10% to £94 million
- Earnings per share increase of 8%
- Interim dividend raised by 5% to 5.5p

I am encouraged by the results that have been achieved during these very difficult market conditions. The 10% increase in pre-tax profit understates the underlying improvement in our financial results against the prior year because unfavourable changes in the phasing of operating profit and lower disposal profit more than compensate for an increase in the SSAP24 pension credit. Following on from last year's strong cash performance, the operating cash inflow for the six months at £89.3 million has still improved by £4.0 million.

Operating profit shows a double digit increase in three of the four reporting segments that make a meaningful contribution in the first half; significantly it is those three where, over the past two years, the results have been impacted most by the economic downturn. Consumer Publishing reports a 60% profit increase, part of which is attributable to IPC Magazines' success in winning leadership in the TV listings market. In the Business to Business and Books segments the profit increases are 13% and 17%, respectively.

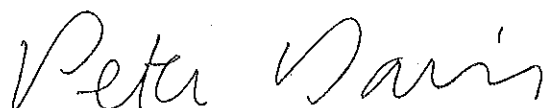
The operating profit declines in Exhibitions and Reference Publishing reflect particular circumstances and there is no underlying deterioration in financial performance. In the case of Exhibitions last year's first half included the results of some important biennial shows and a disposal profit, while timing differences also accounted for the lower profit in Reference Publishing. Only in Travel and Information Services have we seen an underlying fall in profit, caused partly by more difficult trading conditions in the hotel market for our US directories and partly by increased development spend.

This strong financial performance in difficult trading conditions is encouraging. Not only are the benefits showing of the rationalisation measures we have taken, but so also are the improvements we have made to our portfolio in recent years to strengthen market positions and move towards less cyclical, higher value added information publishing.

Unfortunately I am not able to report any signs of economic recovery. Only in US business advertising has there been any upturn but this is relatively weak and the improvements seen so far could be reversed if there is a setback to business confidence. In the UK we must now be concerned that unless the government is able to re-establish confidence in its economic policies, there will be a further decline in a number of our markets, instead of the hoped for recovery.

As a consequence of the proposed merger with Elsevier we will be changing our financial year-end date to 31 December and our results for a nine month period will be announced in March 1993.

Given the favourable profit trends the directors have approved an interim dividend payment of 5.5p, an increase of 5% on last year.



P J DAVIS

SUMMARISED CONSOLIDATED BALANCE SHEET
Unaudited Results for the Six Months Ended **30 September 1992**

As at 31 March 1992	<i>£ million</i>	As at	
		30 Sept 1992	30 Sept 1991
	Capital employed		
1,669.7	Publishing rights and other intangibles	1,724.8	1,545.5
158.9	Other fixed assets	161.0	155.8
73.1	Working capital	134.8	131.3
71.4	Associates and investments	72.1	72.8
1,973.1	Total	2,092.7	1,905.4
	Funded by		
1,370.3	Shareholders' funds	1,408.3	1,326.9
101.9	Other net liabilities	122.0	89.5
500.9	Net borrowings	562.4	489.0
1,973.1	Total	2,092.7	1,905.4
25.4%	Net debt/capital employed	26.9%	25.7%

SUMMARISED CASH FLOW STATEMENT
Unaudited Results for the Six Months Ended **30 September 1992**

Year ended 31 March 1992	<i>£ million</i>	Six months ended	
		30 Sept 1992	30 Sept 1991
308.8	Net cash inflow from operating activities	103.9	92.8
(103.9)	Returns on investments and servicing of finance	(78.3)	(62.2)
(48.5)	Tax paid	(9.0)	(21.1)
(230.6)	Investing activities	(60.6)	(69.2)
(74.2)	Net cash outflow before financing	(44.0)	(59.7)
233.5	Financing (outflow)/inflow	(38.8)	18.8
159.3	Decrease in net cash and cash equivalents	(82.8)	(40.9)

Cash equivalents include short-term investments with an original maturity of within 3 months less short-term borrowings payable within 3 months.

Net cash inflow from operating activities includes operating profit, before depreciation, and working capital movements. Reed International focuses on operating cash flow as its key cash flow measure. Operating cash flow is measured after tangible fixed asset spend, dividends from associated undertakings and proceeds of the sale of investments and tangible and intangible fixed assets. A memorandum reconciliation is provided below.

Year ended 31 March 1992	<i>£ million</i>	Six months ended	
		30 Sept 1992	30 Sept 1991
308.8	Net cash inflow from operating activities	103.9	92.8
(36.0)	Payments to acquire tangible fixed assets	(18.8)	(16.0)
15.6	Sale of investments and tangible and intangible fixed assets	1.9	8.5
4.5	Dividends received from associated undertakings	2.3	-
292.9	Operating cash flow	89.3	85.3
108.1%	Operating cash flow % of operating profit	80.1%	82.7%

REVIEW OF OPERATIONS

EXHIBITIONS

The **Reed Exhibition Companies** portfolio is heavily geared towards the second half and results for the first six months were in line with expectations. Operating profit for the segment fell by £4.3 million (69%) against the prior year which included £1.8 million of disposal profit.

A major cause of this profit decline was timing differences — where some major biennial events were held in the first half of last year — but the weaker economic conditions in the UK and Asia/Pacific were also contributory factors.

BUSINESS TO BUSINESS PUBLISHING

Cahners Publishing Company's operating profit was up \$4.7 million (19%), but the weaker US dollar restricted the sterling increase to 9%. Advertising volumes and yields showed a slight improvement on last year although performance varied considerably by sector. Healthcare and computing sectors showed strong growth, but in the electronics sector results were down on last year.

Reed Business Publishing remains the business worst affected by the downturn in UK advertising spend but the new management team is responding very well to the difficult market conditions. Although operating profit was £1.0 million lower (30%) this was largely a reflection of further restructuring costs.

After adjusting for restructuring costs and disposal profit there was a £2.1 million profit improvement in UK business publishing profit versus the prior year, which indicates the degree to which cost savings compensated for an 8% reduction in advertising revenue. In Australia operating profit was 32% higher in local currency, largely due to a strong performance from the medical titles.

CONSUMER PUBLISHING

Much of the £10.4 million (90%) increase in **IPC Magazines'** operating profit to £21.9 million was a consequence of the turnaround in results from the TV listings sector. The rest of the business also performed well, however, to improve profit by 11%, reflecting cost savings and other efficiencies which offset lower advertising revenue.

After the intense competitive activity last year, immediately following deregulation of the market, IPC's two TV listings titles now have market leadership and are achieving profit in line with original expectations. The transition to full sale or return for IPC's major titles has been achieved within acceptable cost parameters and is beginning to have the desired impact on circulation revenue.

Reed Regional Newspapers increased operating profit by 7% to £6.3 million despite a 3% fall in turnover. This was achieved through continued attention to cost savings and profit improvement initiatives. Trading conditions show few signs of any improvement.

REVIEW OF OPERATIONS

BOOKS

All three divisions of **Reed International Books** contributed to the £4.3 million (17%) increase in operating profit for the segment and the operating margin was 1.8 points higher at 17.6%.

The **Professional Division** increased its profit by 32%, helped by a 7% improvement in sales revenue. Three relatively small acquisitions outside the UK contributed to this profit gain. In the **Education Division**, Heinemann and Ginn continued to benefit from the good market acceptance of the titles that they have published for the new National Curriculum. Stronger results from the **Consumer Division** were attributable mainly to further cost reductions and a profit improvement at Book Club Associates.

REFERENCE PUBLISHING

With the *Martindale-Hubbell Law Directory*, Marquis' *Who's Who* and several other major titles all published later in the year, only a small proportion of **Reed Reference Publishing's** revenue falls in the first half. Operating profit for the segment was down £1.5 million (35%), mainly due to a phasing difference on the publication of the *Martindale-Hubbell Bar Register*. As expected the Marquis and NRPC directories had no impact on profit in the first half.

The integration of the Marquis and NRPC businesses is now complete and nine separate locations have been consolidated into the New Jersey headquarters.

TRAVEL AND INFORMATION SERVICES

There were three principal elements to the £4.8 million (16%) decline in operating profit from this segment: firstly, development expense was £1.5 million higher; secondly, a re-phasing of certain UK directory titles deferred a contribution of £1.4 million; and finally, profit from the hotel directories was impacted adversely by the extremely difficult trading conditions in this industry.

HTM International, publisher of the *Hotel & Travel Index*, suffered from the cut-backs in US hotel advertising spend but the international edition was still able to build on last year's successful launch and achieve higher revenue. Reservation volumes at **Utell**, the hotel reservation and representation company, were 19% ahead of last year but the weaker US dollar and shorter stays restricted the increase in operating profit.

The relaunch of the *ABC World Airways Guide* has been a success and this contributed to the 7% increase in operating profit at **ABC International**. The UK based directory publisher, **Reed Information Services**, coped well in weak markets and results from **Online** and **ICC**, the US based electronic publishing businesses, also remained satisfactory.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Unaudited Results for the Six Months Ended **30 September 1992**

Year ended 31 March 1992	<i>£ million</i>	Six months ended		%
		30 Sept 1992	30 Sept 1991	
	Turnover			
333.6	Books	172.7	165.4	4.4
99.0	Reference Publishing	29.5	23.3	26.6
249.9	Travel and Information Services	114.0	119.4	-4.5
141.4	Exhibitions	55.1	52.6	4.8
411.2	Business to Business Publishing	191.1	203.0	-5.9
395.4	Consumer Publishing	196.2	197.1	-0.5
1,630.5	Total	758.6	760.8	-0.3
	Operating profit			
51.9	Books	30.4	26.1	16.5
31.8	Reference Publishing	2.8	4.3	-34.9
68.0	Travel and Information Services	25.6	30.4	-15.8
30.5	Exhibitions	1.9	6.2	-69.4
36.4	Business to Business Publishing	17.1	15.1	13.2
52.4	Consumer Publishing	33.7	21.1	59.7
271.0	Total	111.5	103.2	8.0
(39.4)	Interest	(18.0)	(17.9)	0.6
231.6	Profit before taxation	93.5	85.3	9.6
(67.8)	Taxation: including overseas tax (£5.0m), 1991 (£9.5m)	(27.7)	(24.9)	
163.8	Profit after taxation	65.8	60.4	8.9
(0.4)	Minority interests	(0.2)	(0.1)	
(0.2)	Preference dividends	(0.1)	(0.1)	
163.2	Attributable profit before extraordinary items	65.5	60.2	
29.3p	Earnings per ordinary share	11.7p	10.8p	8.3

The figures for the year to 31 March 1992 are abridged from the group's full accounts for that period. They received a report from the auditors (which was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985) and have been filed with the Registrar of Companies. This statement is being posted to shareholders on 30 October 1992 and will be available to the public at the company's Registered Office. The interim dividend of 5.5p per share (1991: 5.25p) costing £30.7 million (1991: £29.2 million) will be paid on 8 January 1993 to shareholders on the Register on 20 November 1992.

NOTES

1. The average US dollar rate applied for earnings translation was \$1.86 in the period to 30 September 1992 versus \$1.70 in the comparable period last year. The adverse translation effects were £3.4 million and £1.1 million at the operating profit and pre-tax profit levels respectively.
2. There was £1.0 million (1991: £4.5 million) profit from minor title and property disposals and £3.3 million (1991: £2.3 million) of redundancy costs included in the results for the six months.
3. The group's main UK pension scheme, which covers the majority of UK employees, was valued by R. Watson & Sons, consulting actuaries, as at 1 April 1991 using the projected unit method. The valuation and resulting benefit improvements were not finalised until April 1992 and the resulting increase in the SSAP24 pension credit came the second half of the year to 31 March 1992. The comparative numbers have not been restated.

The impact of the net SSAP24 pension credit on the business segments is set out below.

Year ended 31 March 1992	£ million	Six months ended	
		30 Sept 1992	30 Sept 1991
5.4	Books	3.0	1.8
0.2	Reference Publishing	0.1	-
3.3	Travel and Information Services	1.6	1.2
0.8	Exhibitions	0.4	0.2
4.9	Business to Business Publishing	2.8	1.9
11.5	Consumer Publishing	6.2	4.1
26.1	Total	14.1	9.2

4. £29.6 million was spent on new acquisitions in the six months which contributed £0.2 million to operating profit in the period under Reed ownership.
5. The slight increase in net interest expense is the effect of higher net debt resulting from acquisition spend last year and in the current period (£4.7 million), in particular the Marquis and NRPC directories business, largely offset by lower US dollar interest rates (£2.1 million) and the impact of exchange translation on US dollar interest expense (£2.3 million). Interest cover was 6.2 times, slightly up on the level during the last half year.
6. The effective tax rate of 29.6% (1991: 29.2%) was little different between the two periods. A higher effective rate on US and rest of the world profit was offset by a lower rate on profit earned in the UK.
7. Net interest, tax and dividend payments totalled £89.6 million (1991: £83.3 million), giving a free cash outflow of £0.3 million (1991: £2.0 million inflow). The 1992 final dividend of £60.0 million (1991: £55.5 million) was paid during this period.
8. The increase in borrowings since 31 March 1992 results mainly from acquisition payments made in the six months.
9. The increase in working capital at 30 September 1992 compared with the same period last year is entirely due to the £31.4 million increase in the SSAP24 pension prepayment. This more than offsets the reduction in other working capital components.
10. Notes on the cash flow statement.
 - (i) Net cash inflow from operating activities is before a depreciation expense of £17.1 million (1991: £16.6 million) and a net SSAP24 pension credit of £14.1 million (1991: £9.2 million).
 - (ii) Returns on investments and servicing of finance include net interest payments of £21.2 million (1991: £8.2 million) and dividends paid to parent company shareholders and minority interests of £59.4 million (1991: £54.0 million).
 - (iii) Investing activities include payments for fixed assets of £18.8 million (1991: £16.0 million) less disposal proceeds of £1.9 million (1991: £8.5 million), current year acquisition costs of £29.6 million (1991: £41.1 million) and other items including payments against acquisition provisions.
 - (iv) Financing includes net repayments of long-term borrowings of £46.4 million (1991: net proceeds of £40.7 million) and a decrease of £6.2 million (1991: increase of £23.3 million) in short-term investments with an original maturity of between 3 and 12 months.
11. The Reed International year end is changing to December and for this year Reed will present accounts for the nine months to 31 December 1992. This change is in anticipation of the proposed merger with Elsevier NV.
12. Costs have been incurred by Reed International in the period to 30 September 1992 in connection with the proposed merger with Elsevier. These costs will be treated as an extraordinary item in the financial statements for the nine months to 31 December 1992.

