



REED ELSEVIER

INTERIM STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 1994

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REED ELSEVIER

TO THE SHAREHOLDERS OF
REED INTERNATIONAL P.L.C. AND ELSEVIER NV

This Interim Statement presents the results of the Reed Elsevier combined businesses for the six months ended 30 June 1994 together with the summary results covering the same period for both Reed International P.L.C. and Elsevier NV, the two parent holding companies.

Reed Elsevier is one of the world's leading publishing and information businesses. Its activities include scientific, professional, business and consumer publishing. It is well established in the USA, UK, the Netherlands and Australia and is expanding in continental Europe and Asia.

FINANCIAL HIGHLIGHTS: REED ELSEVIER COMBINED BUSINESSES

Combined results for the six months ended 30 June 1994

Full year 1993	£ million	six months 1994	six months 1993	% change
Highlights in reported currencies				
2,796	Sales	1,506	1,385	9%
558	Operating profit	340	295	15%
534	Profit before tax	332	297	12%
396	Profit attributable	251	222	13%
Headline numbers				
518	Headline profit before tax	314	281	12%
380	Headline profit attributable	231	206	12%
Operating performance				
20.0%	Operating margin	22.6%	21.3%	
550	Operating cash flow	217	162	
99%	Operating cash flow conversion	64%	55%	
Highlights in constant currencies (Restated on basis of 1993 full year average rates)				
2,796	Sales	1,506	1,378	9%
558	Operating profit	340	294	16%
518	Headline profit before tax	314	280	12%
380	Headline profit attributable	231	205	13%

FINANCIAL HIGHLIGHTS: PARENT COMPANIES

Results for the six months ended 30 June 1994

Shareholders' interests: Elsevier NV			Shareholders' interests: Reed International P.L.C.		
six months 1994 Dfl m	six months 1993 Dfl m	% change	six months 1994 £ m	six months 1993 £ m	% change
			Total profit attributable:		
713	611	17%	251	222	13%
2.84	2.75	3%	-	-	-
			Profit attributable:		
356	306		126	111	
-	-		7	7	
356	306	16%	133	118	13%
			Headline profit attributable:		
328	284	15%	122	109	12%
Dfl	Dfl	% change	pence	pence	% change
5.11	4.41	16%	23.6	21.0	12%
4.71	4.09	15%	21.8	19.5	12%
1.76	1.67	5%	8.4	7.5	12%
-	-	-	6.7	6.0	12%

The results for Elsevier NV reflect its 50% share of the Reed Elsevier combined businesses. The results for Reed International P.L.C. reflect its 52.9% economic interest, which arises from its 50% share of the Reed Elsevier combined businesses and its 5.8% shareholding in Elsevier NV.

CHAIRMEN'S STATEMENT

The strong results for the six months ended 30 June reflect organic growth, continuing efficiency improvements and the earnings accretive impact of last year's acquisitions. The Reed Elsevier combined figures show a headline pre-tax profit of £314 million, which is 12% higher than in the same period last year. On a like-for-like basis, adjusting for the lower pension credit announced last December, headline pre-tax profit has increased by 16%. Operating margin at 22.6% has improved by 1.3 points compared with last year.

We are pleased with the progress we are making in integrating last year's two major acquisitions – Official Airline Guides in the USA and Editions Techniques, the major French legal publisher – both of which will have more than covered their financing costs in their first full year of Reed Elsevier ownership. Performance highlights from other Reed Elsevier businesses include subscription renewals ahead of last year in scientific publishing; an all-time record half year profit contribution from exhibition organising; operating profit increases in excess of 25% from each of the three UK magazine and regional newspaper companies; and an improvement in advertising page yields at Cahnern Publishing Company.

At the parent company level Reed International P.L.C.'s headline earnings per share is up 12% to 21.8 pence at the interim stage, while Elsevier NV's is ahead by 15% at Dfl 4.71. The difference between the two

percentage gains is due to a strengthening of sterling versus the guilder since last year's first half. Recently sterling has weakened and if the current parities were to be maintained such a difference would not apply for the full year.

This satisfactory first half performance positions Reed Elsevier well for the full year. As a result, the Boards of Reed International and Elsevier have each decided to increase the interim dividend. For Reed International shareholders the increase will be 12% to 6.7 pence per share and for Elsevier shareholders it will be 5% to Dfl 1.76 per share. The lower increase in the Elsevier dividend reflects the impact that a 6% weakening of sterling versus the guilder since a year ago has on the calculation that equalises the two parent company dividends.

The Boards of the two parent companies have also announced their intention each to seek a New York Stock Exchange (NYSE) listing which, providing the necessary Securities and Exchange Commission and NYSE clearances are forthcoming, are expected to be effective from early October 1994. This move recognises the increasing importance of Reed Elsevier's businesses in the USA and the desire to achieve a broader ownership of Reed International and Elsevier shares. Elsevier has also announced a proposal to increase the marketability of its shares by undertaking a ten for one share split, which is expected to be effective in early October 1994.

We are confident of Reed Elsevier's prospects both for the second half of the current year and for the longer term.



P J Vinken
Chairman, Executive Board,
Elsevier NV



I A N Irvine
Chairman,
Reed International P.L.C.

REVIEW OF OPERATIONS

The Review of Operations summarises the performance trends for each of the major product areas. In the first six months of 1994 currency translation had no material effect on reported turnover and operating profit.

Full Year 1993	£ million	Turnover		% change actual rates	% change constant rates
		six months 1994	six months 1993		
499	Scientific and Medical	254	248	2%	3%
439	Professional	247	216	14%	14%
1,011	Business	579	515	12%	13%
847	Consumer	426	406	5%	6%
2,796	Total	1,506	1,385	9%	9%

Full Year 1993	£ million	Operating profit		% change actual rates	% change constant rates
		six months 1994	six months 1993		
154	Scientific and Medical	83	76	9%	11%
107	Professional	65	59	10%	9%
185	Business	135	101	34%	33%
112	Consumer	57	48	19%	21%
–	Pension credit reduction	–	11	–	–
558	Total	340	295	15%	16%

The £11 million lower SSAP 24 pension credit, that arises from the interim review of the UK pension fund announced last December, has been separately identified to aid comparison with the last half year. All figures quoted in the following commentary refer to percentage movements against the same period in the prior year at constant rates of exchange. These have been calculated using the 1993 full year average rates.

SCIENTIFIC AND MEDICAL

Operating profit from scientific publishing grew by 14% reflecting subscription renewal rates ahead of last year and further cost efficiencies. All of Elsevier Science's end markets have remained stable and there has been encouraging growth in newer markets such as Latin America. The move in the UK to a single office building in Oxford has been completed and the benefits have started to accrue. Plans are also being finalised to transfer the Butterworth-Heinemann journals into this enlarged Oxford publishing centre.

In medical publishing there has, as yet, been no improvement in the pharmaceutical markets and sales were 9% below last year. As a

result of last year's restructuring, underlying operating profit was 28% above last year. However, reorganisation of the US businesses led to a decline in reported operating profit versus the prior year when all such costs were charged in the second half.

PROFESSIONAL

Results in legal publishing were 22% ahead of last year. The contribution from Editions Techniques and a 40% equity interest in Giuffre (acquired in July 1993 and January 1994, respectively) were partly offset by restructuring costs at Butterworths. The latter involves a move to a single UK location which will result in significant cost savings from 1995 onwards.

REVIEW OF OPERATIONS

Reference publishing continues to show good underlying profit growth, with revenue well ahead at Martindale-Hubbell. However, the results were adversely impacted by publishing phasing and the overall growth in operating profit was restricted to 3%. The effect of phasing is expected to reverse in the second half.

In educational publishing, operating profit increased by 20%. As expected, the rate of growth in UK schools publishing has slowed due to changes in the National Curriculum. The second half is more significant in profit terms, largely due to the timing of the academic year in the UK.

BUSINESS

Operating profit in travel and information publishing increased by 35%, much of which reflects the impact of the acquisition of OAG where good progress has been made in achieving the expected synergies.

Exhibitions recorded a 60% growth in operating profit reflecting the favourable cycling of some major shows held every two years, the impact of several acquisitions and the ongoing benefits of cost reductions in the UK and US businesses following reorganisations undertaken in 1993.

In US business magazines, Cahners increased operating profit by 8% which largely reflects improved page yields and reduced staffing levels. In the UK, Reed Business Publishing's profit was 27% higher, helped by some useful gains in recruitment advertising revenue. In the Netherlands, Misset was able to maintain the same level of operating profit as last year in a difficult market.

CONSUMER

In the UK the first half performance at IPC Magazines showed a 40% improvement in operating profit reflecting higher circulation volumes and the progress of 1993 launches. Reed Regional Newspapers also benefited from improved economic conditions and its operating profit grew by 38%.

In the Netherlands advertising volumes have now stabilised after three years of decline. Circulation trends are satisfactory and Dagbladunie and Bonaventura recorded increases in operating profit of 15% and 28%, respectively.

Operating profit at Reed Consumer Books was below that of last year, reflecting weak UK sales. The first half accounts for a small proportion of the full year profit and is not a good indicator of full year prospects.

GEOGRAPHICAL COVERAGE

Turnover and operating profit by geographical origin are set out below:

£ million	Turnover		Operating profit	
	six months 1994	six months 1993	six months 1994	six months 1993
North America	534	489	134	107
UK	528	493	108	106
The Netherlands	254	249	63	55
Rest of Europe	111	82	23	18
Asia/Pacific	79	72	12	9
Total	1,506	1,385	340	295

The growth in North America and Rest of Europe largely reflects the impact of acquisitions, while in the UK the benefit from the improving economic conditions has been offset by the £11 million lower pension credit.

FINANCIAL REVIEW

The combined financial statements encompass the businesses of Reed Elsevier plc and Elsevier Reed Finance BV together with their two parent companies, Reed International P.L.C. and Elsevier NV (“the combined businesses”).

TURNOVER

Turnover in the first half of 1994 increased by 9% over the same period last year, although this partly reflects the impact of 1993’s second half acquisitions. The improving economic conditions in Reed Elsevier’s major markets, identified at the preliminary results stage, have so far had limited impact on advertising volumes except in the UK.

OPERATING PROFIT

Operating profit increased by 15% over the first half of 1993 and operating margin improved by 1.3 points to 22.6%. The first half of 1993 included a SSAP 24 pension credit of £16 million. As a result of an interim actuarial review as at April 1993, a lower pension credit was incorporated in the 1993 full year financial statements. The 1993 first half figures have not been restated but, on a like-for-like basis, the pension credit would have been £11 million lower at £5 million. Adjusting for this item increases the growth in operating profit by 5%. Acquisitions made in the first half of 1994 contributed £5 million to operating profit.

EXCEPTIONAL ITEMS

Exceptional items in the period are the profit on the final instalments from the investment in BSkyB (£40 million) and losses on the surrender or disposal of a number of property interests in the USA and UK that have become surplus to requirements, in most cases because of reductions in the workforce (£22 million). The 1993 exceptional item was the profit on the first instalment from the sale of the investment in BSkyB together with release of related provisions (£16 million). The “headline” numbers provided in this Interim Statement adjust the results calculated under

FRS3 for these exceptional items, as permitted under FRS3.

INTEREST AND TAX

Net interest expense increased from £14 million to £26 million, mainly due to the financing costs of acquisitions in the second half of 1993 and in 1994. Interest cover remains strong at 13 times.

The effective tax rate of 24.4% compares with 24.9% in last year’s first half. After excluding exceptional items and Elsevier NV’s tax credit entitlement from its Reed Elsevier plc dividend in both years, the underlying rate is 27.1% compared with 27.4% in the prior half year.

CASH FLOW

Operating cash flow was £217 million and free cash flow, after interest, tax, dividends and exceptional items amounted to £30 million. The ratio of operating cash flow to operating profit of 64% (55% in 1993 first half) is far lower than for the full year because of the seasonality of working capital.

Acquisition spend in the period was £62 million. The major transactions for which payments were made were OIP, a French exhibitions group; National Trade Productions, a US exhibitions business; and a 40% equity interest in Giuffre, an Italian legal publisher.

BALANCE SHEET

Net borrowings of £552 million at 30 June 1994 comprise gross borrowings of £934 million, principally in US dollars, and net cash of £382 million, mainly in Dutch guilders. The gross borrowings include £659 million repayable after more than one year and £275 million within one year. Despite a net cash outflow before financing of £33 million in the first six months, net borrowings at 30 June 1994 are £23 million lower than at 31 December 1993 due to exchange rate movements. The weakening of the US dollar and the strengthening of the Dutch guilder since 31 December 1993 have lowered reported net borrowings at 30 June 1994 by £50 million.

REED ELSEVIER: COMBINED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 1994

Year ended 31 December 1993	£ million	Six months ended		% change
		30 June 1994	30 June 1993	
2,796	Turnover	1,495	1,385	8%
	Continuing operations			
	Acquisitions	11		
2,796		1,506	1,385	9%
(1,124)	Cost of sales	(575)	(550)	
1,672	Gross profit	931	835	
(1,128)	Net operating expenses	(603)	(546)	
14	Income from interests in associated undertakings	12	6	
558	Operating profit	335	295	14%
	Continuing operations			
	Acquisitions	5		
558	Operating profit before exceptional items	340	295	15%
	Exceptional items			
16	Profit on sale of fixed asset investments	18	16	13%
574	Profit on ordinary activities before interest	358	311	15%
(40)	Net interest expense	(26)	(14)	
534	Profit on ordinary activities before taxation	332	297	12%
(137)	Tax on profit on ordinary activities	(81)	(74)	
397	Profit on ordinary activities after taxation	251	223	13%
(1)	Minority interests and preference dividends	-	(1)	
396	Profit attributable to parent companies' shareholders	251	222	13%
(227)	Ordinary dividends paid and proposed	(78)	(73)	
169	Retained profit transferred to combined reserves	173	149	16%

RECONCILIATION TO HEADLINE NUMBERS

Year ended 31 December 1993	£ million	Six months ended		% change
		30 June 1994	30 June 1993	
534	Profit before tax as reported above	332	297	12%
	Adjustment:			
(16)	Profit on sale of fixed asset investments	(18)	(16)	
518	Headline profit before tax	314	281	12%
396	Profit attributable as reported above	251	222	13%
	Adjustment:			
(16)	Profit on sale of fixed asset investments	(20)	(16)	
380	Headline profit attributable	231	206	12%

REED ELSEVIER COMBINED SUMMARISED BALANCE SHEET

As at 30 June 1994

As at 31 December 1993	£ million	As at 30 June 1994	As at 30 June 1993
2,386	Intangible assets	2,363	2,048
350	Tangible assets	367	308
114	Investments	150	111
2,850	Fixed assets	2,880	2,467
1,350	Current assets	1,191	1,299
(1,689)	Creditors: amounts falling due within one year	(1,349)	(1,266)
(339)	Net current (liabilities)/assets	(158)	33
2,511	Total assets less current liabilities	2,722	2,500
(701)	Creditors: amounts falling due after more than one year	(784)	(680)
(92)	Provisions for liabilities and charges	(76)	(42)
(4)	Minority interests	(4)	(4)
1,714	Net assets	1,858	1,774
1,714	Combined shareholders' funds	1,858	1,774

REED ELSEVIER COMBINED CASH FLOW STATEMENT

For the six months ended 30 June 1994

Year ended 31 December 1993	£ million	Six months ended	
		30 June 1994	30 June 1993
636	Net cash inflow from operating activities	257	212
(229)	Return on investments and servicing of finance	(161)	(129)
(105)	Taxation	(46)	(47)
(511)	Investing activities	(83)	(80)
(209)	Net cash outflow before financing	(33)	(44)
112	Financing activities	63	(197)
(97)	Increase/(decrease) in net cash and cash equivalents	30	(241)

The cash flow statement uses the captions required by the UK Financial Reporting Standard 1. Net cash equivalents include short term investments with an original maturity of within three months less short term borrowings payable within three months. Net cash inflow from operating activities includes operating profit, before depreciation and other non cash items, and working capital movements. Reed Elsevier focuses on operating cash flow as its key cash flow measure. Operating cash flow is measured after tangible fixed asset spend, proceeds from the sale of investments and tangible and intangible fixed assets and dividends from associated undertakings. A memorandum reconciliation is provided below.

Year ended 31 December 1993	£ million	Six months ended	
		30 June 1994	30 June 1993
636	Net cash inflow from operating activities	257	212
(122)	Payments to acquire tangible fixed assets	(51)	(61)
20	Sale of investments and tangible and intangible fixed assets	6	4
11	Dividends received from associated undertakings	5	3
5	Add back: exceptional reorganisation payments	—	4
550	Operating cash flow before exceptional items	217	162
99%	Operating cash flow % of operating profit	64%	55%

REED ELSEVIER: NOTES TO THE FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The interim financial statements for the six months ended 30 June 1994 and the comparative amounts to 30 June 1993 are unaudited and have been prepared on the basis of the accounting policies set out in the Reed Elsevier Annual Review 1993. The figures for the year ended 31 December 1993 are abridged from the combined financial statements set out in the Reed Elsevier Annual Review 1993 which have been audited.

2 EXCHANGE RATES

Profit and loss items are translated at the average exchange rates for the period and balance sheet items are translated at period end exchange rates. The appropriate rates for the major currencies were:

Profit and Loss		Balance Sheet		Profit and Loss Six months ended		Balance Sheet	
Full year 1993				30 June 1994	30 June 1993	30 June 1994	30 June 1993
2.79	2.87	Dutch guilders to sterling		2.84	2.75	2.76	2.86
1.50	1.48	US dollars to sterling		1.49	1.50	1.55	1.51
1.86	1.94	Dutch guilders to US dollars		1.91	1.83	1.78	1.89

3 SSAP 24 PENSION CREDIT

The allocation of the SSAP 24 pension credit to the four reporting segments, which is based on employees covered by the main UK fund, is set out below.

Full year 1993	£ million	Six months ended	
		30 June 1994	30 June 1993
—	Scientific and Medical	—	—
1	Professional	—	2
3	Business	2	6
5	Consumer	2	8
9	Total	4	16

4 CASH FLOW STATEMENT

- Net cash inflow from operating activities is stated after adjustments for non cash items including depreciation expenses of £32 million (1993: £29 million) and a net SSAP 24 pension credit of £4 million (1993: £16 million) which incorporates the effect of the main UK pension fund interim actuarial review.
- Net interest, tax and dividend payments totalled £213 million (1993: £179 million) leading to a free cash inflow in the period of £30 million (1993: cash outflow of £21 million).
- Returns on investments and servicing of finance include net interest payments of £13 million (1993: net receipts of £1 million) and dividends paid to the two parent companies' shareholders and minority interests of £153 million (1993: £134 million).
- Investing activities include payments for fixed assets of £51 million (1993: £61 million); disposal proceeds of £46 million (1993: £16 million), including BskyB exceptional receipts of £40 million (1993: £12 million); current year acquisition costs of £62 million (1993: £23 million); and other items of £16 million (1993: £12 million), including payments against acquisition provisions of £12 million.
- Financing activities include an increase in long term borrowings of £22 million (1993: decrease of £141 million) and a decrease of £36 million (1993: increase of £63 million) in short term investments with an original maturity of between three and 12 months.

ELSEVIER NV SUMMARY FINANCIAL INFORMATION



1 BASIS OF PREPARATION

The Elsevier results reflect Elsevier NV's 50% share of the Reed Elsevier combined businesses accounted for on an equity basis. The interim figures for the six months ended 30 June 1994 and the comparative amounts to 30 June 1993 are unaudited. The financial information in respect of the year ended 31 December 1993 has been derived from the audited statutory accounts of Elsevier NV for that year and the auditors, Coopers & Lybrand, have confirmed that "our opinion on such statutory accounts was unqualified".

2 PROFIT AND LOSS ACCOUNT

Year ended 31 December 1993	Dfl million	Six months ended		% change
		30 June 1994	30 June 1993	
	Share of profit before tax from Reed Elsevier combined businesses (50%)	471	408	15%
743				
(191)	Taxation	(115)	(102)	
552	Share of attributable profit	356	306	16%
	Allocation of profit:			
340	Proposed dividend	116	109	
212	Added to reserves	240	197	
552		356	306	
	Elsevier NV earnings per share:			
	Share of earnings from Reed Elsevier combined businesses (50%)	Dfl 5.11	Dfl 4.41	16%
Dfl 7.96				
Dfl (0.33)	Adjustments to arrive at headline EPS	Dfl (0.40)	Dfl (0.32)	
Dfl 7.63	Headline EPS	Dfl 4.71	Dfl 4.09	15%

3 PROPOSED SHARE SPLIT

The directors of Elsevier NV have proposed to split the ordinary shares of Dfl 1.00 par value into 10 ordinary shares of Dfl 0.10 par value. If this proposal is accepted by the Extraordinary General Meeting of Shareholders, convened for 30 August 1994, the split will be effective as from 4 October 1994. Following the share split, the equalisation ratio will become one Elsevier share = 0.769 Reed International shares.

4 DIVIDENDS

The directors of Elsevier NV have declared an interim dividend payment of Dfl 1.76 (1993 : Dfl 1.67). The dividend reflects the equalisation arrangements, under which Reed International and Elsevier dividends are equalised at the gross level. It has been calculated by applying the exchange rate in the period immediately preceding the interim results announcement of Dfl 2.73 (1993 : Dfl 2.89) to the Reed International gross dividend and multiplying the result by the current equalisation ratio of 7.69. The strengthening of the guilder versus sterling compared with the same period last year has resulted in a smaller percentage increase in the Elsevier dividend (+5%) compared with the Reed International dividend (+12%). The interim dividend will be paid before the proposed share split becomes effective.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Financial year end: 31 December 1994
Preliminary results for 1994: 15 March 1995
Annual General Meetings: 19 April 1995

DIVIDEND PAYMENT DATES

Interim Dividend Timetable
Ex dividend: 22 August 1994
Reed International P.L.C.'s record date: 9 September 1994
Payment: 3 October 1994

Final Dividend Timetable
Payment: May 1995

AUDITORS

Touche Ross & Co Hill House, 1 Little New Street, London EC4A 3TR	Deloitte & Touche Orlyplein 50, 1043 DP Amsterdam
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STOCKBROKERS

Cazenove & Co 12 Tokenhouse Yard, London EC2R 7AN	MeesPierson Rokin 55, 1012 KK Amsterdam
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ADR DEPOSITARY

Citibank NA
11 Wall Street, New York, NY 10043

STOCK EXCHANGE QUOTATIONS

Reed International P.L.C.'s shares are quoted on the stock exchanges in London and Amsterdam.

Its ordinary shares are also traded in the USA in the form of American Depositary shares evidenced by ADRs, under CUSIP number 758212880.

Elsevier NV's ordinary shares are quoted on the stock exchanges in Amsterdam and London.

Its ordinary shares are also traded in the USA in the form of American Depositary shares evidenced by ADRs, under CUSIP number 290259209.

In addition, Elsevier's ordinary shares are quoted on the stock exchanges in Basle, Geneva and Zurich and are also traded in the Freiverkehrsmarkt in Frankfurt.

This statement is being mailed to shareholders in Reed International P.L.C. on 11 August 1994 and will be available to shareholders in Elsevier NV upon request. Copies are available to the public from the registered offices of the respective companies.

Reed International P.L.C.
6 Chesterfield Gardens
London W1A 1EJ
Tel. +44 (0)71 499 4020
Fax. +44 (0)71 491 8212

Elsevier NV
Van de Sande Bakhuyzenstraat 4
1061 AG Amsterdam
Tel. +31 20 515 2368
Fax. +31 20 683 2617