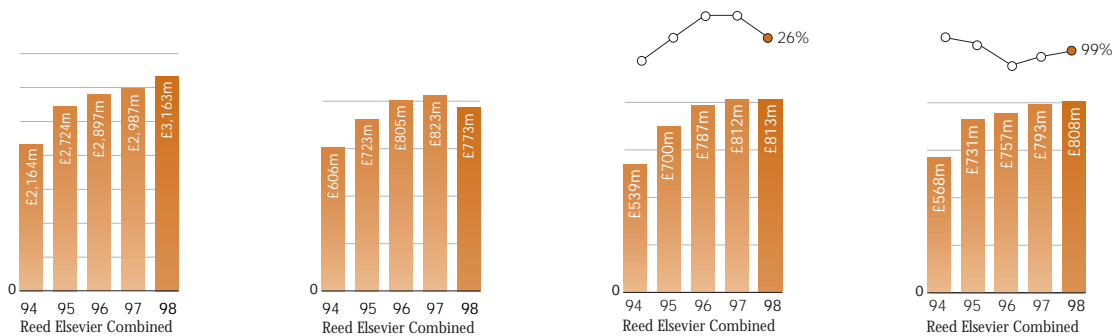


# Financial highlights

## REED ELSEVIER COMBINED Results for the year ended 31 December



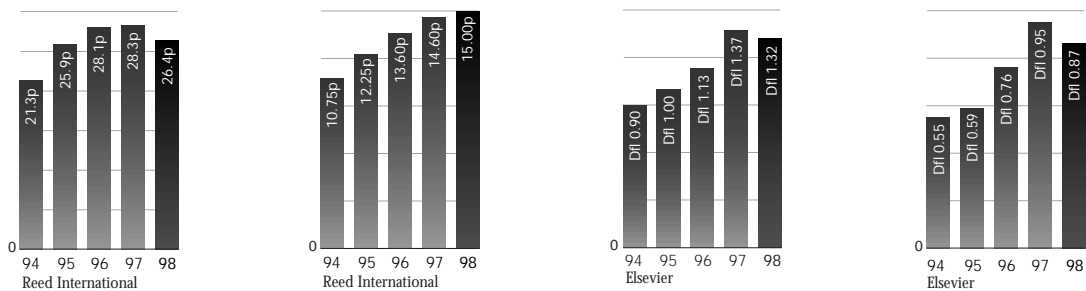
**Turnover**  
up 6% to £3,163 million  
(up 8% at constant currency)

**Adjusted pre-tax profit**  
down 6% to £773 million  
(down 4% at constant currency)

**Adjusted operating profit and margin**  
flat at £813 million  
(up 2% at constant currency) margin down 1.5pts to 25.7%

**Adjusted operating cash flow and conversion**  
cash flow up 2% to £808 million  
(up 4% at constant currency) cash conversion 99%

## PARENT COMPANIES Results for the year ended 31 December



**Adjusted earnings per share**  
down 7% to 26.4p  
(down 5% at constant currency)

**Full year dividends**  
up 3% to 15.0p

**Adjusted earnings per share**  
down 4% to Dfl1.32  
(down 5% at constant currency)

**Full year dividends**  
down 8% to Dfl0.87

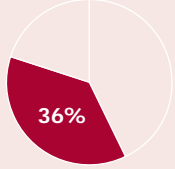
The financial highlights refer to 'adjusted' profit and cash flow figures. These figures are stated before exceptional items and the amortisation of goodwill and intangible assets and related tax effects. Adjusted pre-tax profit is presented for total operations; other highlights relate to continuing operations, which exclude the results of the consumer publishing businesses. The percentage at constant currency refers to the movements at constant exchange rates, using the 1997 full year average rates.

**Business overview**

# overview

**Fact file**

Scientific	Business	Information markets	Products	Principal locations
Turnover <b>£622m</b> 	<b>Elsevier Science</b>	Scientific	Journals Online databases and linked services Reference	Global
	<b>Medical publishing and communications</b>	Medical	Conferences Journals Reference Online services	Global

Professional	Business	Information markets	Products	Principal locations
Turnover <b>£1,154m</b> 	<b>LEXIS-NEXIS</b>	Legal, business and public records	Online databases Reference Law reports Journals	US
	<b>Reed Elsevier Legal Division</b>	Legal and tax	Online databases Reference Law reports Journals	UK France Italy Australia
	<b>Reed Educational &amp; Professional Publishing</b>	Education	Books Learning resources	UK US Australia
	<b>Elsevier Opleidingen</b>	Tuition	Courses	Netherlands

Business	Business	Information markets	Products	Principal locations
Turnover <b>£1,387m</b> 	<b>Cahners Business Information</b> <b>Reed Business Information</b> <b>Elsevier Business Information</b>	Business information	Magazines Reference Online services	US UK Netherlands Australia
	<b>Reed Exhibition Companies</b>	Exhibitions	Event organising	Global

## Chairmen's statement

# statement

**1998 was a year of considerable change and development for Reed Elsevier. We completed the refocusing of our portfolio on scientific, professional and business publishing; further strengthened our ownership of core content through acquisitions; and made good progress in pursuing our electronic publishing strategy. The combination of these factors, lower returns from the Travel businesses and trading conditions which became progressively less favourable through the year, led to a marginal decline in underlying pre-tax profits.**

During the year the decision was taken to move to a unitary management structure. David Webster took over as interim non-executive Chairman of Reed Elsevier plc in August 1998 and Morris Tabaksblat will succeed him as Chairman in June. Mr Tabaksblat will also become Chairman of both the parent companies, Elsevier NV and Reed International P.L.C., in April. The recruitment of a new Chief Executive is now at an advanced stage. These changes reflect the evolution of the business and its management structure since the merger in 1993.

### **BUSINESS PORTFOLIO**

The sale of IPC Magazines, the UK consumer magazine publisher, at the beginning of 1998 and the disposal of the remainder of the consumer books division later in the year completed our exit from consumer publishing. The proceeds were reinvested in the \$1.65 billion acquisition of Matthew Bender, the leading US publisher of legal analysis, and the 50% outstanding interest in The Shepard's Company,

the premier US case citation service, in August 1998. These acquisitions importantly position LEXIS-NEXIS as a full service information provider in the US legal market.

### **ELECTRONIC PUBLISHING**

Our markets are undergoing change and the pace of that change is accelerating. Customers increasingly require the migration of information from print to electronic format and the additional functionality that electronic services offer. During 1998 we continued our investment programme designed to build the skills and operational infrastructure to support both hard copy and electronic delivery of information. While there is a near term cost to operating margins and profits, we believe that now is the time to establish a firm base from which to leverage our leading position in the ownership of scientific, professional and business content in an electronic environment.

We have introduced many innovative products and services during the year. Examples include the commercial launch of ScienceDirect, the fully searchable online database comprising the content from over 1,000 of our scientific journals; LEXIS-NEXIS introduced its Universe current awareness web browser product for the business market; and, in legal publishing, Butterworths launched its Butterworths Direct product, the most comprehensive online legal service for English law. These and the many other electronic initiatives will reinforce our market leading positions.

### **FINANCIAL PERFORMANCE**

Trading conditions became generally less favourable as the year progressed with demand in several of our larger markets slowing in the second half. Against this background, most of our businesses had a good year, although overall progress was masked by a number of specific factors, principally short term earnings dilution resulting from the business portfolio change, the on-going investment in

**“Reed Elsevier’s ownership of the highest quality scientific, professional and business content, together with innovation in delivering product electronically to customers will drive future growth.”**

electronic publishing, and the sharp decline in Travel publishing profits.

Adjusted pre-tax profits were down 6% at £773m, on sales of £3,191m. Operating margins at 25.5% and operating cash flow at £808m, or 99% of operating profits, underlined the quality of the Reed Elsevier businesses.

**REED ELSEVIER PLC BOARD**

Partly reflecting moves to the unitary management structure, there are a significant number of Reed Elsevier plc and parent company board changes. Lord Hamlyn, Paul Vlek, Roelof Nelissen and Anthony Greener retired; Sir Christopher Lewinton, Pierre Vinken, Neville Cusworth and John Mellon will be retiring in April. We thank them all for their substantial contributions over many years. We were pleased to welcome to the board, Morris Tabaksblat who is Chairman elect, Steven Perrick and Rolf Stomberg, and John Brock who is expected to join the board in April following the parent companies’ annual general meetings.

**PARENT COMPANY EARNINGS AND DIVIDENDS**

Adjusted earnings per share for Reed International shareholders were 26.4p, down 7% on the previous year. Adjusted earnings per share for Elsevier shareholders were Dfl1.32, down 4%. At constant rates of exchange, the decreases for both Reed International and Elsevier shareholders were 5%.

The proposed Reed International final dividend is 10.4p per share which, together with the interim dividend of 4.6p, represents a total dividend of 15.0p, an increase of 3% on 1997. The Elsevier 1998 final dividend under the equalisation arrangements is Dfl 0.58 per share, which is 12% lower than the 1997 second interim dividend as a result of currency movements and changes in the UK tax credit regime. This Elsevier final dividend, together with the Dfl 0.29 interim dividend, represents a total dividend of Dfl 0.87, 8% lower than in 1997.

**PROSPECTS**

The changing shape of publishing and information markets presents Reed Elsevier with great opportunities yet brings with it many challenges. We are determined to make the right investments today in order to be in a position to capitalise on these opportunities and create value for our shareholders in the future. The combination of this investment programme and the less favourable trading background seen in the second half of 1998 in several of our markets, suggests 1999 will not be a year of any significant profit growth.

Looking beyond this year, Reed Elsevier’s ownership of the highest quality scientific, professional and business content, together with innovation in delivering product electronically to customers, will drive future growth. Our high cash generation and strong financial position will allow us to continue to leverage our growth through value adding acquisitions within our strategic focus. Reed Elsevier is a business increasingly well positioned to deliver further value to its customers and its shareholders.

Finally, we wish to thank our colleagues at Reed Elsevier. It has been a challenging year but through their commitment and skill, 1998 has seen considerable progress.



**Herman Bruggink**  
Chairman Executive Board  
Elsevier NV



**Nigel Stapleton**  
Chairman  
Reed International P.L.C.

# Business review: **Scientific**

## scientific

### Fact file

Elsevier Science is the leading international publisher of scientific information. It also operates a worldwide network of medical publishing and communications businesses.

#### Elsevier Science

- turnover **£622 million**
- people **3,500**
- principal offices **Amsterdam, Oxford, New York**

**Elsevier Science** supplies scientific information through journals and books, CD-ROM and online to research libraries, scientists and professional markets.

- Publishes more than 1,200 subscription based journals, focused on the life sciences, chemistry and physical sciences.
- Principal imprints are *Elsevier*, *Pergamon*, *Excerpta Medica* and *North Holland*.
- Leading titles include *Brain Research*, *Neuroscience*, *Tetrahedron*, *Journal of Chromatography* and *Physics Letters*.
- More than 150,000 new research articles published each year.
- *ScienceDirect*, the online database, has almost 400,000 articles covering three years of research published in over 1,000 journals.
- Supporting bibliographic data, indexes and abstracts, review and reference works, including the *Trends* series and *Encyclopaedia of Neuroscience*.
- Leading specialist databases such as *EMBASE*, *Compendex*, *Beilstein*, *Geobase* and *BIOBASE*.

**Excerpta Medica Communications** publishes customised information to healthcare professionals, medical societies and pharmaceutical companies worldwide.

**The Lancet** – one of the world's most respected medical journals, sold through subscription in over 75 countries.

**Springhouse Corporation** publishes nursing reference materials in the United States. Leading titles include *Nursing Drug Handbook* and *Nursing* magazine.

**Editions Scientifiques et Médicales Elsevier** publishes 79 medical, biotechnology and clinical chemistry journals, and the renowned *Encyclopédie Médico Chirurgicale*.

Derk Haank



Chief Executive Officer,  
Elsevier Science

**In 1998 Elsevier Science continued its major investment programme to capitalise on its position as the leading provider of authoritative scientific information. In the year, the major scientific database ScienceDirect was sold to its first subscription customers. Elsevier Science's ownership of key content and of sophisticated electronic distribution systems will underpin its future success in an environment where electronic formats will be increasingly demanded by research scientists.**

**Elsevier Science journals are consulted in scientific libraries worldwide. Its strategy is to expand its role from being a provider of key scientific content to being a provider of a wide range of integrated information services to the international scientific community.**

### JOURNAL PUBLISHING

During 1998 several new titles were launched reflecting the continuing trend of increased scientific specialisation. These included: *Materials Science* in semiconductor processing; *Physica E*, dealing with the physics of nano structures; *Ocean Modelling*, covering developments in ocean and atmospheric data management; *Journal of Financial Markets*, focusing on modelling techniques in securities pricing and trading; *Integrative Medicine*, reviewing developments in the integration of conventional and alternative medicine; and *Environmental Science and Policy*.

Elsevier Science has added to this organic development of new journals by selective acquisitions. These included *MAGMA*, the journal of the European Society for Magnetic Resonance in Medicine and Biology, and the *American Journal of Ophthalmology*, the most respected journal in its field. Elsevier Science strengthened its services in the growing area of the 'soft' sciences, comprising social sciences, business and economics, by acquiring JAI Press/Ablex Publishing.

### ELECTRONIC PUBLISHING

*ScienceDirect*, the web-based scientific database, was commercially launched in 1998. This was the culmination of a major investment programme over the last two years and sets a new standard in the electronic distribution of scientific content.

The system uses the sophisticated LEXIS-NEXIS search engine to provide comprehensive access to substantially all the Elsevier Science archive of the



last three years. The system is based on the delivery of remotely stored information through web-based user interfaces. The initial reaction to the launch of *ScienceDirect* has been very positive.

Electronic distribution provides immense benefits in terms of flexibility and efficiency. It allows research scientists and librarians to access the full text of a wide range of articles, to search on specific criteria and to move seamlessly between one article and another through hypertext linking. Electronic distribution also provides far greater opportunities to enhance the journal content through the provision of additional linked services. Elsevier Science's pre-eminent content and lead in investing in electronic distribution systems positions it at the centre of the migration to electronic delivery.

## Business review: **Scientific** continued

**In 1998 ScienceDirect was commercially launched. It is the most comprehensive online scientific, medical and technological database. Elsevier Science's leadership in key content and electronic distribution will be fundamental to its future success.**



The ability to expand the range and quality of the services offered in an electronic environment was demonstrated through the integration of BioMedNet, ChemWeb, EngineeringVillage and the Beilstein Database within Elsevier Science. Beilstein Database, acquired in 1998, provides online access to approximately eight million chemical structures with linked descriptions of the properties, reactions, preparations, citations and other relevant data. This is being linked with online versions of the journals and the management tools in high speed drug research of MDL Information Systems.

Elsevier Science is now able to offer specialist information online, in addition to the core journals, to research scientists in each of its key disciplines of life sciences, chemistry and physical sciences. These services include topical news and discussion groups specific to these disciplines, and can be directly linked to Elsevier Science journal articles or database information, together with more general scientific information.

### **INVESTMENT IN OPERATIONS**

Developments in new products and services have been accompanied by substantial investment in operating systems. This will ensure that Elsevier Science is able to support all its journals and services in both hard copy and electronic formats. The investment has been focused on the expansion of sales and marketing activities to coincide with the commercial launch of ScienceDirect and other electronic services, as well as in the editorial and production areas .

**MEDICAL PUBLISHING AND COMMUNICATIONS**

**Excerpta Medica Communications** expanded with the acquisition in the United States of **HealthIQ**, which administers drug reimbursement schemes for pharmaceutical companies, and the launch in Europe of **EMCALL**, an electronic service linking leading medical experts with drug companies. **The Lancet** led discussion of current medical issues, such as the scope of a potential epidemic of variant CJD and the ethical basis for the cloning of animals. The acquisition of **Nursing Management Congress** provided **Springhouse Corporation** with an excellent expansion opportunity in the nursing management market. **Editions Scientifiques et Médicales Elsevier** launched new encyclopaedias, such as **Akos**, which provides continuing education for general medical practitioners. The acquisitions of **Gauthier-Villars** and **Labo France** were integrated and substantially enhanced Editions Scientifiques et Médicales Elsevier's services in mathematics and material sciences, and medical biology.

**Elsevier Science is integral to the scientific community through the publication of its 1,200 journals. These peer-reviewed publications are an essential conduit for the dissemination of research findings.**



**The Lancet fulfils a vital role in the discussion and presentation of medical issues, whilst retaining a high profile with the public.**

## Business review: Professional

# professional

### Fact file

The businesses within the Professional segment serve important legal, tax, business, reference and educational markets around the world.

#### LEXIS-NEXIS

**LEXIS-NEXIS** is a leading provider of information to legal, corporate and government markets in hard copy, online and CD-ROM formats. It operates principally in the US.

- **LEXIS-NEXIS** online service is one of the largest databases in the world, with over 10 terabytes of information, providing access to more than 24,000 sources.
- **LEXIS Online** manages and markets legal content and services to lawyers, accountants and the courts.
- **NEXIS Online** manages and markets news, business, financial and public records information and services to businesses and the US Government.
- **Matthew Bender** publishes legal analytical commentary in over 500 titles including the renowned *Moore's Federal Practice*, *Collier on Bankruptcy* and *Nimmer on Copyright*.
- **Shepard's** is the premier legal citation service which contains more than 146 million citations derived from seven million cases over 125 years.
- **LEXIS Law Publishing** publishes over 1,100 practice titles and codes for 35 states.
- **Martindale-Hubbell** publishes the most respected US legal biographical directory.

- turnover **£741 million**
- people **7,100**
- principal offices **Dayton OH, New York**

#### Reed Elsevier Legal Division

Businesses in the **Reed Elsevier Legal Division** publish legal, tax and regulatory information outside the US in hard copy, online and CD-ROM.

- **Butterworths** publishes legal and tax information for specialist practitioners in the UK, Australia, New Zealand, South Africa, South East Asia, India, Canada and the Republic of Ireland. Its most respected titles include *Halsbury's Laws of England* and *The Encyclopaedia of Forms and Precedents*.
- **Tolley Publishing** provides tax and regulatory information for the general business and professional market in the UK.
- **Editions du Juris-Classeur** publishes specialist legal reference information for lawyers and notaries in France.
- **Verlag Orac** is an Austrian publisher for legal and tax practitioners and has interests in the major legal publishers in the Czech Republic and Hungary.
- **Giuffrè** (40%), **Stämpfli Verlag** (40%), **Wydawnictwa Prawnicze PWN** (50%), and **Depalma** and **Abeledo Perrot** (66%) publish for practitioners and students in Italy, Switzerland, Poland and Argentina respectively.

- turnover **£207 million**
- people **2,200**
- principal offices **London, Paris, Sydney**

Hans Gieskes



Chief Executive Officer,  
LEXIS-NEXIS

Neville Cusworth



Chief Executive Officer,  
Reed Elsevier Legal Division

**Educational and Tuition**

Businesses in **Reed Educational & Professional Publishing** publish educational and academic books and materials in the UK, US, Australia, New Zealand and South Africa.

- **Heinemann** and **Ginn** are leading UK publishers of educational books and materials for schools.
- **Rigby** is a leading publisher of supplemental literacy materials for the US elementary school market.
- **Rigby-Heinemann** is a leading publisher in primary and secondary markets in Australia.
- **Greenwood-Heinemann** publishes monograph, reference lists and professional aids for teachers.
- **Butterworth-Heinemann** publishes professional, reference and learning materials.

**Elsevier Opleidingen** provides specialist training courses and seminars for professionals in government and industry. It operates in the Netherlands and Belgium.

- turnover **£206 million**
- people **1,800**
- principal offices **Oxford, Westport CT, Chicago, Melbourne, Rotterdam**



**The strategy of the businesses in the Professional segment is to provide customers with comprehensive, reliable and authoritative content in formats which enable these professionals to work efficiently and confidently. Ownership by these businesses of valuable content and powerful electronic distribution systems firmly supports their positions in the changing publishing environment.**

**LEXIS-NEXIS**

Following rapid growth since its acquisition at the end of 1994, this has been a year of investment for the next phase of development for LEXIS-NEXIS. There has been significant success in strengthening the content and editorial base, and in developing and launching new products and services.

John Philbin



Chief Executive Officer,  
Reed Educational &  
Professional Publishing

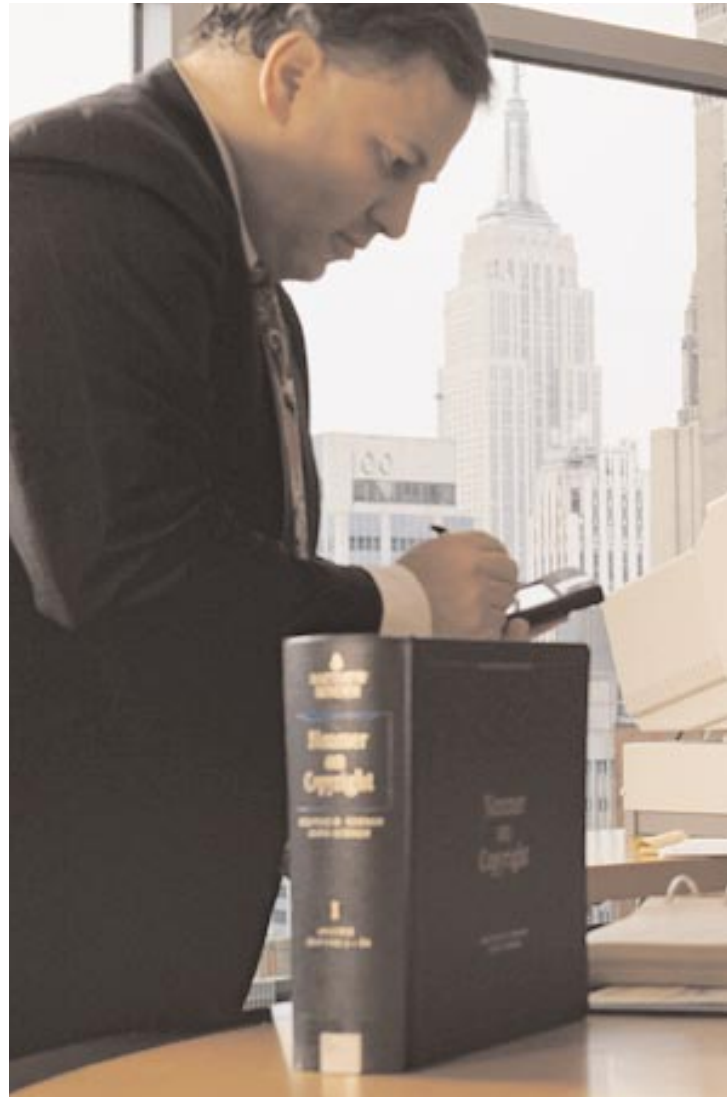
Peter van Hooff



Chief Executive Officer,  
Elsevier Opleidingen

## Business review: **Professional** continued

**LEXIS-NEXIS Political Universe, one of the recently launched family of Universe products, provides legislative, regulatory and news content through a web interface. It also offers the ability to create customised reports on bills, votes, members of Congress or candidates. Headline news updates can be delivered throughout the day through email in-boxes.**



### **Matthew Bender and Shepard's**

Expansion in the US legal information market has been a crucial element of Reed Elsevier's strategy since the acquisition of LEXIS-NEXIS. The \$1.65 billion acquisition of Matthew Bender and of the remaining 50% interest in Shepard's secured the market leading publisher of analytical legal information and full ownership of the pre-eminent citation business. These provide an outstanding platform from which to take advantage of the opportunities available in the growing US legal market.

This market is undergoing an important change and lawyers increasingly look for the integration of primary law, case law, analytical commentary and citation services. The key requirement is that such products should allow seamless searching on specific criteria across all the information sources. LEXIS-NEXIS now owns all the elements of content, editorial skills and electronic delivery to develop and market such products.

The integration of Matthew Bender and Shepard's within LEXIS-NEXIS is progressing well. The



**“It is inexcusable for any lawyer to fail, as a matter of routine, to Shepardize all cited cases (a process that has been made much simpler today than it was in the past...)”**

**Gosnell v. Rentokil, Inc.,  
1997 US Dist. Lexis 14726 n.1  
(N.D.Ill. Sept. 22, 1997).**

**The acquisition of Matthew Bender, the leading US publisher of legal analysis, and the 50% outstanding interest in the Shepard’s US case citation service, positions LEXIS-NEXIS as a full service information provider in the US legal market.**

management of the operations has been combined with those of LEXIS Law Publishing Support functions, such as warehousing, production, sales and finance, are being brought together and dedicated teams are developing integrated products across the LEXIS-NEXIS portfolio.

**LEXIS Online and NEXIS Online**

In 1998 LEXIS-NEXIS implemented several initiatives to drive forward its development of intuitive web based delivery systems. LEXIS Online launched major enhancements to its web browser product, LEXIS-NEXIS Xchange. This product provides, through an intuitive interface, access to the full search functions of the LEXIS-NEXIS database and additional services. These include the Daily Opinion Service, providing cite lists for all Federal and State appellate and high courts, with links to the full text of opinions. New search features to improve productivity have also been released, including Core Terms, highlighting major legal terms within a case or opinion so as to provide a quick guide to its relevance.

NEXIS Online introduced LEXIS-NEXIS Universe, a new web browser product for the business market. This is a highly flexible service, providing current awareness features that can be tailored to specific criteria, together with comprehensive search capabilities. It is based on plain language search criteria entered into standard Windows based formats. LEXIS-NEXIS Universe has been well received.

LEXIS-NEXIS has supplemented these technology developments with the addition of new content and services. Major content licensing deals included further content from CCH Tax Reports, BNA Mergers & Acquisitions Law Reports and Dun & Bradstreet Business Reports.

**Martindale-Hubbell**

The Martindale-Hubbell Law Directory’s market coverage was extended with the launch of the highly successful lawyers.com website. This connects small law offices with prospective clients.

## Business review: **Professional** continued

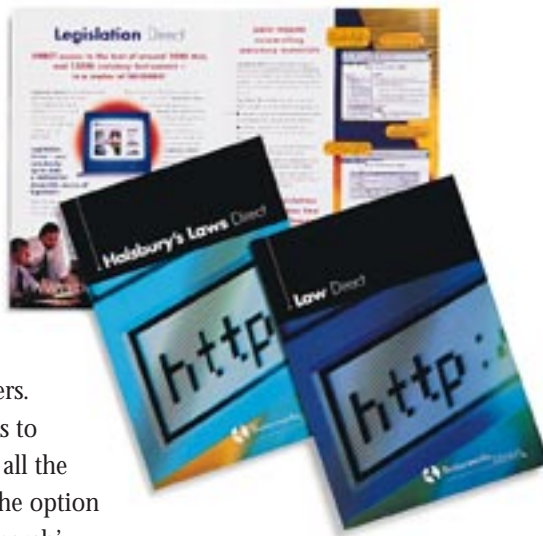
### REED ELSEVIER LEGAL DIVISION

Leadership in the ownership of content provides the Reed Elsevier Legal Division with a firm platform from which to expand the range and flexibility of the services offered whether online or in hard copy and CD-ROM.

### Butterworths

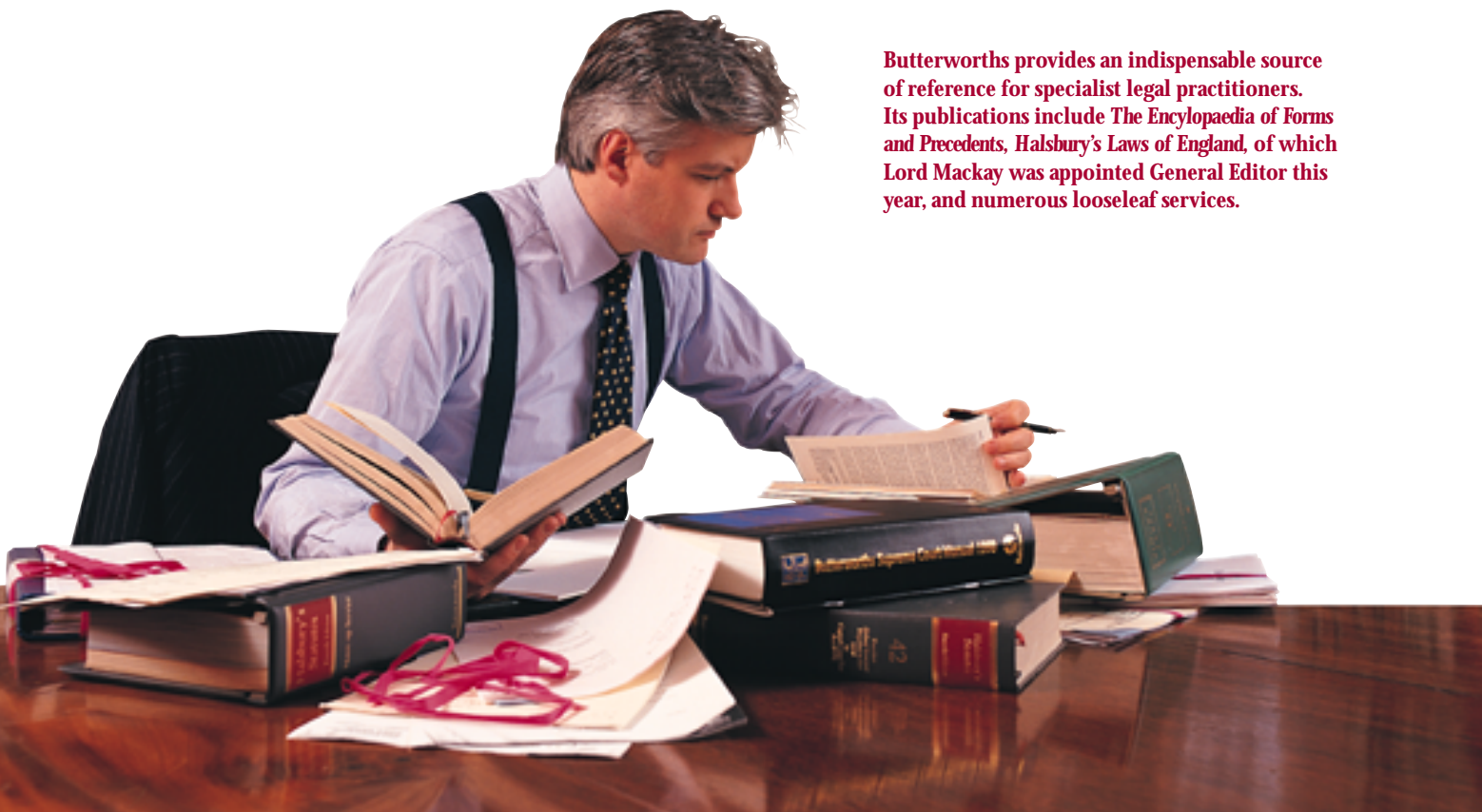
The major publishing achievement in 1998 was the launch of *Butterworths Direct*. This is the most comprehensive online legal information service in the UK. It is an outstanding development of the vision of Butterworths' original founders to provide an integrated and consistent information source for UK lawyers. The online system allows lawyers to search on defined criteria across all the online sources. A key feature is the option to search using 'plain language search'.

*Butterworths Direct* demonstrates the power to expand the range and quality of services offered in an electronic environment. It provides the platform for the eventual migration of the entire Butterworths product range to both hard copy and electronic delivery. It is positioned as the first online point of reference for English law.



**Butterworths Direct** comprises four services: **News Direct**, a free general law service; **Law Direct**, a subscription based current awareness service; **All England Direct**, comprising a 24-hour case reporting service and the entire All England Law Reports; and **Halsbury's Laws Direct**, comprising the complete text of the 56 volume set of the latest edition fully updated.

**Butterworths provides an indispensable source of reference for specialist legal practitioners. Its publications include The Encyclopaedia of Forms and Precedents, Halsbury's Laws of England, of which Lord Mackay was appointed General Editor this year, and numerous looseleaf services.**



Meanwhile, an active hard copy publishing programme continued. This included, amongst others, new editions of *Halsbury's Laws of Malaysia, Singapore and India*, the launch of the first bi-lingual English and Chinese journal in Hong Kong, and new formulations of the *Juris-Classeur* collections in France. All the companies combined this hard copy publishing with a strong CD-ROM programme.

Reed Elsevier Legal Division has supplemented this publishing expansion through acquisitions. These included **Verlag Orac** in Austria and, in January 1999, **Depalma** and a majority interest in **Abeledo Perrot** in Argentina.

#### REED EDUCATIONAL & PROFESSIONAL PUBLISHING

The launch of the UK Government's National Literacy Strategy provided **Ginn** and **Heinemann** with the opportunity to introduce several new products on a short timetable to support this initiative. This was paralleled in the US, where **Rigby** developed products to meet the 'back to basics' approach to the teaching of reading and consolidated its position as a major provider of literacy products for elementary school children. **Greenwood-Heinemann** also launched *Word Matters*, a companion volume for teachers to its highly acclaimed title *Guided Reading* on the teaching of phonics. **Butterworth-Heinemann** continued its success in previous years by winning two major awards for its publications.

#### ELSEVIER OPLEIDINGEN

The tuition business in the Netherlands and Belgium expanded the range of its products and services to government, industry and service companies. These organisations are placing increasing emphasis on structural change and development of their human resources. Major new tuition services introduced included the formation of a separate division, Elsevier Resultaat Consultants, providing advice to organisations on the implementation of change; a series of measurement and control courses for technicians and engineers, using the latest laboratory techniques; and a course aimed at improving team management.



Some of the 'Big Books' created by Reed Educational & Professional Publishing for Literacy Hour, to support specific new approaches to the way reading and writing is taught in UK primary schools.

# Business review: **Business** business

## Fact file

Leading business magazine and information companies operating mainly in the US and Europe, and a worldwide exhibitions business.

### Cahners Business Information

Leading US publisher of business information.

- Publishes over 130 titles, including *Variety*, *Broadcasting & Cable*, *Design News* and *Automotive Industries*.
- Online information services include *Manufacturing Marketplace*, *Variety.com* and *Buildingteam.com*.
- Associated services include newsletters, direct mail, conferences and custom published supplements.

- turnover **£531 million**
- people **4,300**
- principal offices **Boston, New York, Philadelphia, Chicago**

Cahners Travel Group publishes directories, including *Hotel & Travel Index*, *Official Cruise Guide* and *Official Hotel Guide*, and travel magazines, including *Travel Weekly* and *TravelAge*.

### Reed Business Information

UK's largest business magazine and directory publisher.

- Publishes over 60 primary titles, including *Computer Weekly*, *Farmers Weekly*, *Estates Gazette*, *Flight International*, *New Scientist* and *Community Care*.
- Major directories are *Kelly's*, *Kompass* and *The Bankers' Almanac*.
- Online services include *Estates Gazette Interactive*, *@Computer Weekly*, *Air Transport Intelligence* and *ICIS-LOR*.

- turnover **£365 million**
- people **3,500**
- principal office **London**

Additional services include newsletters, conferences, specialist reports and award events. OAG Worldwide is the largest publisher of airline schedule information, including *North American Pocket Flight Guide* and *OAG FlightDisk*.

### Elsevier Business Information

Leading European business and reference publisher.

- Publishes over 160 titles, including trade journals, newspapers, newsletters, directories and databases.
- Has leading market position in the Netherlands.
- Principal titles include *Elsevier*, the current affairs weekly, *Beleggers Belangen* and *FEM* in business and management, *Boerderij* and *Agrarisch Dagblad* in agriculture.

- turnover **£210 million**
- people **2,000**
- principal offices **Amsterdam, Doetinchem**

Publishes business and reference titles in Belgium (PEPCO), France (Groupe Stratégies and Editions Prat), Spain (Elsevier Informacion Profesional and Construdatos) and Germany (K.G. Saur and Reed Elsevier Deutschland).

### Reed Exhibition Companies

International event organiser, with 334 events in 24 countries serving 45 industries in 11 key sectors.

- Shows attract over 100,000 exhibitors and 5.5 million visitors.
- Leading shows include *National Hardware Show*, *National Manufacturing Week* and the *PGA Shows* in North America; *World Travel Market* and *London Book*

- turnover **£274 million**
- people **1,500**
- principal offices **London, Norwalk CT, Paris, Singapore, Tokyo**

*Fair* in the UK; *MIP TV* in France; *International Jewellery Tokyo* in Japan; *Asian Aerospace* in Singapore.



Bruce Barnet



Chief Executive Officer,  
Cahners Business Information

Keith Jones



Chief Executive Officer,  
Reed Business Information

Frans Visscher



Chief Executive Officer,  
Elsevier Business Information

Mike Rusbridge



Chief Executive Officer,  
Reed Exhibition Companies

**In 1998 the operations within the Business segment continued to build on their leading titles in the large and growing business information market. The strategy of the companies within the Business segment is to provide – through focused products and events – the information which business people need on their industries and to provide businesses with targeted audiences for their advertising.**

**CAHNERS BUSINESS INFORMATION**

Cahners Business Information has concentrated on an active programme of re-positioning and extending existing titles. For instance, the launch of *Home Accents Today* and *Kids Today*, extended Cahners Business Information's presence in the Retail Furnishing sector through established titles, such as *Furniture Today* and *Home Textiles Today*. New titles have also been launched in key industry sectors such as *Supply Chain Management Review* for logistics managers, *Professional Remodeler* for the construction industry, and *Grid* covering interior design, architecture and real estate in New York.

This organic development has been supplemented by selective acquisitions. These have included in the retail sector *Gifts & Decorative Accessories*, the magazine for general gift stores; *Playthings*, a leading publication for retailers in the toys and games market; and *A.F. Lewis*, the leading directory and database in the graphic communications sector.

Cahners Business Information also developed its leading titles through electronic delivery. *Manufacturing Marketplace*, launched in 1997, progressed well and attracted over 1,000 advertisers. The website has now more than 150,000 registered users and 400,000 unregistered users. The editorial and technology skills gained from *Manufacturing Marketplace* have been applied to the development of *Variety.com*, for the

## Business review: **Business** continued

entertainment sector, *Buildingteam.com* for the construction sector and *Supplychainlink.com* aimed at procurement specialists and purchasing officers. *Supplychainlink.com* provides access to purchasing information, using content from nine specialist magazines published by Cahners Business Information. It is orientated to the delivery of news and provides access to other sites on the web dealing with this industry sector.

Integration of the Chilton Business Group, acquired in September 1997, within Cahners' existing titles was substantially completed during the year with the market benefits of combining the portfolios already felt.

The new management team at Cahners Travel Group reorganised the business, including the appointment of experienced publishers to manage the periodicals and directories. There has also been a thorough review of the customers and markets addressed by the products and the hotel directories



***Buildingteam.com* has been established around Cahners Business Information's 13 construction titles. This has been developed in conjunction with a specialist construction insurer and a database supplier. It provides a comprehensive information service covering cost, product, standards and regulatory information and industry news.**

have been changed to a controlled circulation basis. Investment has also been made in sales, marketing and customer support as well as production and operations. The recompense programme to advertisers also successfully neared completion.

The directories remain the most effective way for advertisers to reach travel agents and *Travel Weekly* is the leading US industry magazine. Cahners Travel Group is now in a position to capitalise on these strengths. It has already joined forces with Microsoft *Expedia.com*, the leading online travel service, to deliver the internet's most comprehensive hotel information database.

### **REED BUSINESS INFORMATION**

Reed Business Information strengthened its portfolio through new launches, acquisitions and brand development into such areas as conferences, recruitment fairs and awards events.

In parallel Reed Business Information extended the development of electronic services. *Estates Gazette Interactive* built on its initial success and now has more than 3,000 paying subscribers with over 100 new companies subscribing each month. The service was expanded with the addition of credit checking, environmental surveys and demographic and economic data. The site won two important industry awards for the best business website. *Air Transport Intelligence* also achieved a strong market presence with multi-user subscription agreements with many of the world's major airlines and aerospace manufacturers. Reed Business Information won the New Media Publisher of the Year Award from The Periodical Publishers' Association, in recognition of its innovative strategy in electronic publishing.

OAG Worldwide was formed as a stand-alone division following the reorganisation of the Reed Travel Group. It has unrivalled competence in the gathering and distribution of airline scheduling information. The new management team has concentrated the business on the provision and

development of independent databases of airline schedules and related travel information. There has been increased focus on the publishing development of content. The recompense programme to advertisers also successfully neared completion.

OAG Worldwide has launched its travel information service on to corporate intranets and has achieved growing penetration of the corporate market. It has also invested in its hard copy portfolio of easy to use guides for business travellers. OAG MAX, a sophisticated transport analysis tool, was launched on CD-ROM.



In the important information technology sector, two new launches were Computer Weekly Xtra and Coolwebjobs.com, recruitment products for younger information technology professionals. They extended Reed Business Information's market presence around its core title, Computer Weekly. This development was supplemented with the acquisition of the computer channel titles of Dennis Publishing.



Community Care, the leading magazine for professionals in the social care sector, was redesigned and was accompanied by the highly successful Community Care Live, a two day conference which attracted more than 80 speakers.



## Business review: **Business** continued

### ELSEVIER BUSINESS INFORMATION

Elsevier Business Information extended its existing strong market presence with the launch of a number of new publications to address specialist markets. This included the expansion of *FEM*, one of the leading management titles in the Netherlands. *Buiten* (*Outdoors*) was launched in the agricultural market and covers a wide range of countryside issues. The portfolio in the food sector was expanded with the launch of *Elsevier Food International*.

This development of traditional hard copy titles was accompanied by the further initiatives in Elsevier Business Information's electronic publishing strategy. New products were launched based on the existing

core titles. *Beleggers Belangen* (*Investors Magazine*) launched a website providing information and analysis on companies listed on the Amsterdam Stock Exchange. Elsevier Business Information's position in this market was enhanced by the acquisition of the outstanding interest in the joint venture *Multicount Elsevier Kennisbank*, an online information service for financial and tax professionals. *PEPCO* launched a number of websites based on its product tabloids, providing online links between readers and advertisers. The operations in Spain were combined to form *Elsevier Informacion Profesional*, which launched a series of publications around the established titles.



**Elsevier Business Information relaunched *FEM* – one of the leading management titles in the Netherlands – as weekly *FEM DeWeek* and monthly *FEM Next*. Reaction from readers and advertisers has been very positive. Meanwhile, Elsevier's current affairs weekly, increased both circulation and advertising volume.**

**BookExpo America is a major event serving the book publishing industry and allied products and services. The show is held annually in the spring in Los Angeles.**

**REED EXHIBITION COMPANIES**

Reed Exhibition Companies launched 26 new shows in 1998, reflecting an increasing demand for well organised and focused industry shows which provide an efficient marketing tool for customers. This extended successful brands into new geographic markets. For example, Reed Exhibition Companies added Asia International Book Fair to its market leading portfolio of Book Fairs in France, America and Japan. The jewellery portfolio was strengthened by the launch of International Jewellery Kobe, a sister event to International Jewellery Tokyo. These initiatives formed part of Reed Exhibition Companies' strategy to build on the international scope and scale of its activities whilst maintaining the individual nature of events in different geographic markets.

The strength of the brands within Reed Exhibition Companies' portfolio was demonstrated by the successful Asian Aerospace. This achieved attendance figures in line with historic trends despite the significantly more difficult economic conditions in South-East Asia.

Organic development of the portfolio was enhanced through acquisitions. The most significant events acquired were the two golf equipment shows purchased from the Professional Golfers Association of America. This together with the acquisitions of the Cannes Boat Show and the International Golf Travel Market, added to Reed Exhibition Companies' growing sports/leisure and travel portfolios.

Reed Exhibition Companies is also investing in electronic services such as online registration and appointment setting systems, and extending existing services through such means as virtual markets. For example, MIP Interactive is an



online platform for TV and film professionals offering year-round access to new business opportunities between annual MIPTV events. In addition, Reed Exhibition Companies has undertaken a major investment programme in supporting infrastructure such as the development of a powerful new sales and marketing system.



**The PGA Merchandise Show, held in Orlando, and the PGA International Golf Show, held in Las Vegas, both ranked among the top 50 events in the United States in 1998.**

# Review of 1998 financial performance

This review provides a commentary on the performance of the combined businesses of Reed Elsevier for the year ended 31 December 1998. In addition to reviewing the Reed Elsevier operating businesses, it explains other financial aspects of the combined businesses including taxation and treasury management and accounting policies. The review also includes information on the financial performance and dividends of the two parent companies and on the finance activities of the Elsevier Reed Finance companies.

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

The combined financial statements are presented in accordance with the new UK accounting standards introduced during 1998, of which FRS10: Goodwill and Intangible Assets is the most significant. In accordance with FRS10, acquired goodwill and intangible assets are now capitalised and systematically amortised over a maximum period of 20 years. This has been applied retrospectively and prior year figures have been restated accordingly. Adjusted figures, which exclude this non-cash amortisation charge as well as exceptional items and related tax effects, are presented as key performance measures.

## FORWARD-LOOKING STATEMENTS

**The Reed Elsevier Annual Review 1998** contains forward-looking statements within the meaning of Section 27A of the Securities Act 1933 and Section 21E of the Securities Exchange Act 1934, as amended. These statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently anticipated, as reflected in such forward-looking statements. The terms 'expect', 'should be', 'will be', and similar expressions identify forward-looking statements. Factors which may cause future outcomes to differ from those foreseen in forward-looking statements include, but are not limited to, general economic conditions and business conditions in Reed Elsevier's markets, customers' acceptance of its products and services, the actions of competitors and the impact on Reed Elsevier of internal and external Year 2000 issues and risks.

## Reed Elsevier combined businesses

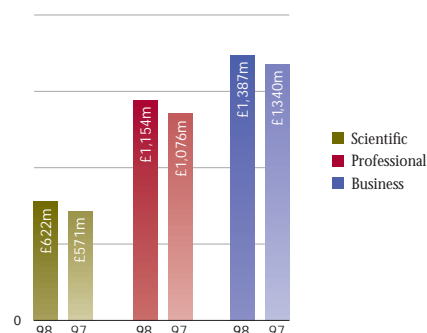
Em (reported currency)	1998	1997	% change	% change at constant currencies
<b>Continuing operations</b>				
Turnover	<b>3,163</b>	2,987	+6	+8
Adjusted operating profit	<b>813</b>	812	-	+2
Adjusted operating cash flow	<b>808</b>	793	+2	+4
Operating margin	<b>25.7%</b>	27.2%	-1.5pts	
Operating cash flow conversion	<b>99%</b>	98%	+1.0pts	
<b>Total operations</b>				
Adjusted profit before tax	<b>773</b>	823	-6	-4
Adjusted profit attributable	<b>571</b>	608	-6	-5
<b>Financing</b>				
Net borrowings	<b>962</b>	630		
Interest cover (times)	<b>20</b>	14		

Most of Reed Elsevier's businesses had a successful year against a background in which trading conditions became less favourable as the year progressed with demand in several markets slowing in the second half. This overall progress was masked by a number of specific factors. Of particular significance were the sharp profit decline at the Travel publishing businesses and the earnings dilution from the disposal of IPC Magazines. The results also reflect significant investment made across the operating businesses in infrastructure, new product development and sales and marketing activities.

## ADJUSTED PROFIT AND LOSS

Fluctuations in exchange rates can have a significant effect on Reed Elsevier's reported results translated into sterling. The profit and loss account is translated at annual average rates of exchange and the balance sheet is translated at year end rates of exchange. Prior year comparisons made in this commentary include

## Turnover by business segment (continuing businesses)



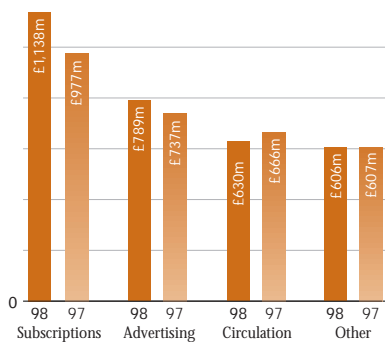
reference to percentage movements at constant rates of exchange, using 1997 full year average rates.

Continuing operations exclude IPC Magazines and the consumer book publishing operations, which were the final elements of the Consumer segment sold in the year.

**Turnover** for the total operations fell by 7% to £3,191 million. Turnover for the continuing businesses increased by 6% to £3,163m. The increase included the benefit of 1997 and 1998 acquisitions, principally Matthew Bender and Shepard's, MDL Information Systems and Chilton Business Group. The net effect of acquisitions and disposals in 1997 and 1998 has been to increase turnover by £116m for the continuing businesses. The effect of currency movements on translation has reduced reported turnover by £62m.

The organic revenue growth in the continuing businesses was 5%, before taking into account the 8% decline in revenues of the Travel publishing businesses. This was lower than the 7% growth achieved in 1997, reflecting the impact of the Asian economic crisis on subscription renewals and exhibitions demand; weaker economic conditions in certain Business markets in the second half; and increasingly competitive markets experienced by the LEXIS-NEXIS online businesses.

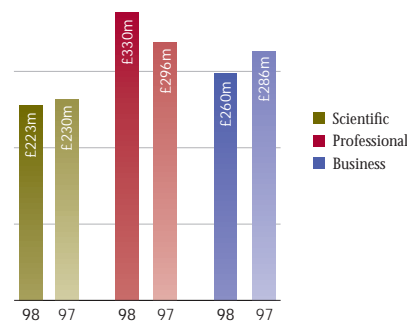
**Turnover by source (continuing businesses)**



The strategic focus on growing subscription sales and the disposal of the last consumer publishing businesses increased to 56% the proportion of sales from subscriptions and circulation. Sales from electronically delivered information were £623m, representing 20% of turnover from continuing businesses. Excluding the LEXIS-NEXIS online businesses and Utell, sales of electronically delivered information grew by 24%, albeit from a small base.

**Adjusted operating profit** for the continuing business was flat compared to 1997 and for total operations declined by 8% to £813 million. The incremental contribution from 1997 and 1998 acquisitions, net of disposals, was £26m whereas currency translation decreased the adjusted operating profit by £14m. The adjusted operating profit from the Travel publishing businesses declined by £34m as a result of an 8% revenue decline and investment in operations to position the business for future growth. Excluding these items, adjusted operating profit from the continuing operations grew by 3%.

**Operating profit by business segment (continuing businesses)**



Operating margins for the total business declined by 0.4 percentage points to 25.5%. For the continuing businesses, operating margins declined by 1.5 percentage points to 25.7%, principally due to the decline in profits at the Travel publishing businesses.

Expenditure on major development projects in the continuing businesses, principally in respect of new electronic products and services and related operating systems, increased by approximately £15m to £80m, of which £20m was capitalised. These amounts do not include the significant ongoing product renewal and expansion of sales and marketing, editorial and production activities across the businesses.

Discontinued operations, being IPC Magazines and the consumer books businesses sold in the year, contributed £28m to total turnover and made no net contribution to adjusted operating profit in the period prior to their disposal.

**Net interest expense** at £40m, was £22m lower than in the prior year. This was principally due to the exceptional cash inflows from disposals at the

## Review of 1998 financial performance continued

beginning of the year and the favourable effect on net borrowings of the strong free cash flow, partly offset by the funding costs of acquisitions later in the year.

Net interest cover – the number of times that adjusted operating profit covers net interest expense – was 20 times, which compared to 14 times in the previous year. Interest cover is a key measure used in determining Reed Elsevier's financing capacity, as conventional balance sheet gearing ratios are significantly affected by the policy of amortising acquired goodwill and intangible assets.

**Adjusted profit before tax**, at £773m, was 4% lower than in the prior year at constant rates of exchange. Currency translation decreased the reported adjusted profit before tax by £14m.

The adjusted pre-tax profits, at reported rates, reduced 1% in the first half of 1998, when compared with the corresponding prior year period, and 11% in the second half. The first half comparison benefited from more favourable economic and market conditions than in the second half and from phasing, particularly in relation to exhibition cycling, and the timing of investments in the cost base. First half comparisons in 1999 will, therefore, be adversely affected with some corresponding benefit in the second half.

The **effective tax rate** on adjusted earnings remained at 26.0%. This compares favourably to the

standard rates in Reed Elsevier's major operating territories, due mainly to the tax amortisation of certain acquired intangible assets and goodwill (predominantly in the USA) and beneficial features of the Reed Elsevier legal structure.

The **adjusted profit attributable** to shareholders of £571m compared to £608m in 1997, a decline of 5%, at constant exchange rates.

### Operating businesses review

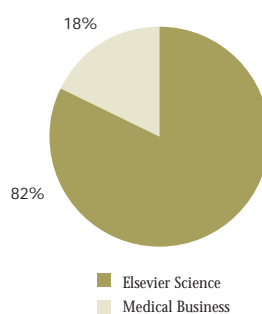
£m (reported currency)	1998	1997	% change	% change at constant currencies
<b>Turnover</b>				
Scientific	622	571	+9	+11
Professional	1,154	1,076	+7	+10
Business	1,387	1,340	+4	+5
Continuing operations	3,163	2,987	+6	+8
Discontinued operations	28	430		
<b>Total</b>	<b>3,191</b>	<b>3,417</b>	<b>-7</b>	<b>-5</b>
<b>Adjusted operating profit</b>				
Scientific	223	230	-3	-1
Professional	330	296	+11	+14
Business	260	286	-9	-8
Continuing operations	813	812	-	+2
Discontinued operations	-	73		
<b>Total</b>	<b>813</b>	<b>885</b>	<b>-8</b>	<b>-7</b>

Unless otherwise indicated, all percentage movements in the following commentary refer to constant currency rates and are stated before exceptional items and amortisation of goodwill and intangibles.

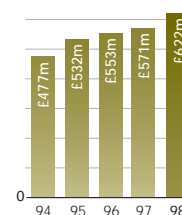
### Scientific segment

£m (reported currency)	1998	1997	% change at constant currencies
<b>Turnover</b>			
Elsevier Science	513	465	+12%
Medical Business	109	106	+5%
<b>Total</b>	<b>622</b>	<b>571</b>	<b>+11%</b>
Operating profit	223	230	-1%
Operating margin	35.9%	40.3%	-4.4pts

1998 revenue by business



Turnover



**SCIENTIFIC SEGMENT**

Turnover in the Scientific segment at £622m increased by 11%, including acquisitions, whilst operating profits at £223m declined by 1% at constant rates of exchange. Operating profits were impacted by continuing investment in Elsevier Science’s electronic publishing initiatives and associated business infrastructure. Operating margin at 35.9% was 4.4 percentage points lower than in the prior year, of which 1.9 points related to the inclusion of lower margin electronic publishing acquisitions.

Elsevier Science’s turnover increased by 12%; excluding acquisitions, the increase was 6%. Journal subscription renewals were strong overall, but slightly lower than the prior year. This was particularly the case in Asia, due to the economic crisis in the region. Operating profits were slightly lower as investment continued in both existing and acquired businesses. This included the expansion of the sales and marketing activities to support the launch of electronic publishing initiatives, notably ScienceDirect, as well as the cost of the related production systems. The recently acquired electronic publishing businesses continued their development activities by extending their online services and libraries for specific scientific communities.

Subscription renewals thus far in 1999 remain strong. The adverse impact of currency movements on library budgets in Asia in particular will, however, again have some effect on sales growth. Interest in

Elsevier Science’s electronic publishing is growing rapidly but incremental turnover in 1999 is expected to be modest in the context of hard copy sales. The impact on results of the revenue investments to underpin this development will, however, continue.

The medical publishing and communications businesses in 1998 reported turnover growth of 5% but no increase in underlying operating profits. Good growth in France and in US sponsored communications was offset by a more difficult market in the nursing titles. Reported profits were down due to relocations and other one-off costs in the Netherlands. The outlook for 1999 is positive.

**PROFESSIONAL SEGMENT**

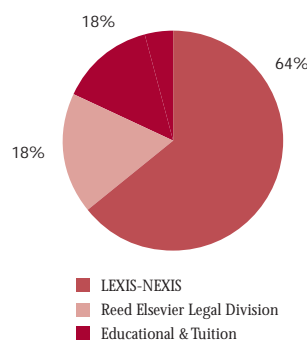
The Professional segment turnover of £1,154m and operating profit of £330m increased by 10% and 14% respectively at constant rates of exchange. This included a part year contribution from Matthew Bender and the remaining 50% of Shepard’s acquired in August 1998. Good underlying growth was seen across all the businesses with the exception of the LEXIS-NEXIS online businesses which operated in increasingly competitive markets. Operating margin increased by 1.1 percentage points to 28.6%.

Turnover and operating profits at LEXIS-NEXIS increased by 13% and 15% respectively over the previous year. Matthew Bender and the 50% of

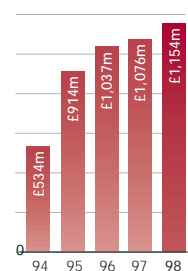
**Professional segment**

£m (reported currency)	1998	1997	% change at constant currencies
<b>Turnover</b>			
LEXIS-NEXIS	741	661	+13%
Reed Elsevier Legal Division	207	206	+6%
Educational and Tuition	206	209	+2%
<b>Total</b>	<b>1,154</b>	1,076	+10%
Operating profit	330	296	+14%
Operating margin	28.6%	27.5%	+1.1pts

1998 revenue by business



Turnover



## Review of 1998 financial performance continued

Shepard's acquired in August 1998 added £60m to turnover and £22m to operating profit. Excluding these and other acquisitions, the increases were 3% and 5% respectively. The LEXIS-NEXIS online businesses saw sales growth of 3%. Underlying profits were flat, as new intuitive web based products were developed and launched and investments made in sales and marketing and in the operational infrastructure. The print and CD-ROM business of LEXIS Law Publishing saw good profit growth. Matthew Bender and Shepard's businesses met pre-acquisition expectations. The Martindale-Hubbell legal directory business performed well, although sales were down due to phasing.

LEXIS-NEXIS benefits from the increasing demand of professional and business users for information delivered online. Competition continues to intensify between the major information providers and from newer entrants. LEXIS-NEXIS is responding vigorously through the launch of new products and expansion of its sales and marketing activities, together with investment in content and enhanced capabilities to search, link and present information. These actions are expected to reduce operating margins in 1999 but are positioning LEXIS-NEXIS well for the future.

The Reed Elsevier Legal Division, comprising Reed Elsevier's legal businesses outside the USA, saw operating profits up 8% on sales up 6% to £207m. Strong profit performances were reported in the UK, France and Australia as well as in a number of the smaller businesses. In the UK, sales growth was modest, reflecting some pressure on subscription renewals. Operating profits benefited from the absence of 1997's one-off costs, partly offset by the development and launch costs of the Butterworths Direct online service.

The outlook for the Reed Elsevier Legal Division in 1999 remains positive; new products will stimulate sales growth whilst the necessary investments are made in the production and marketing of electronically delivered information.

The Reed Educational & Professional Publishing businesses saw turnover decrease by 5% reflecting the disposal of the English Language Teaching business at the end of 1997 and operating profits increase by 25%; excluding acquisitions and disposals, the increases were 8% and 25% respectively. An excellent performance by the UK schools business was driven by the additional Government funding for literacy

materials and the absence of 1997's one-off costs associated with the transfer to third party distribution arrangements. Elsewhere, with the exception of South Africa where the timing of schools funding held back sales, the businesses performed well. Rigby and Greenwood Heinemann in the US significantly increased profits through new publishing programmes and sales initiatives.

Elsevier Opleidingen in the Netherlands and Belgium increased turnover and operating profits, excluding acquisitions, by 9% and 11% respectively with buoyant demand for training courses and in-company projects.

In 1999 the UK schools market is not expected to see significant growth from the exceptional demand levels achieved in 1998, whilst, in the US, investment is continuing in new product origination. The outlook for the Educational and Tuition businesses overall is good with strong publishing and training programmes.

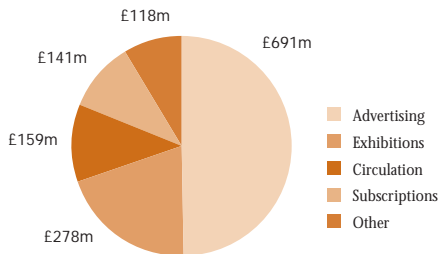
### **BUSINESS SEGMENT**

Turnover in the Business segment at £1,387m increased by 5% whilst operating profits at £260m declined by 8% at constant rates of exchange. This was primarily the result of a £34m reduction in profits at the former Reed Travel Group businesses. The effect was in part mitigated by a full year contribution from Chilton Business Group. Operating margin at 18.7% was down 2.6 percentage points largely due to the reduction in margins in Travel publishing.

The Travel publishing businesses were restructured in early 1998 into Cahners Travel Group (hotel directories and travel periodicals) and OAG Worldwide (airline guides). They are now part of Cahners Business Information and Reed Business Information respectively. New management teams have been put in place at both businesses and investments made in products, circulation, marketing and promotion, sales and production. In Cahners Travel Group, turnover declined by 10%, partly due to moving the hotel directories to a controlled circulation basis, whilst operating profits fell 68% as investment was made in the operational cost base. OAG Worldwide saw turnover decline by 7% and operating profits by 58% for similar reasons.

The operational base of the businesses now provides a firmer position from which to re-establish growth.

**Business segment turnover by source**



Cahners Business Information, excluding Cahners Travel Group, increased turnover and operating profits by 16% and 10% respectively. This included a full year contribution from the Chilton Business Group, which was successfully integrated during 1998. On a comparable basis, turnover grew by 6% driven by strong performances in sectors such as Broadcasting, Communications, Printing & Packaging and Manufacturing. Sales growth slowed in the second half in some other markets, such as Building & Construction, Electronics and the Bowker directories. Excluding acquisition and disposals, operating profits were flat due to the investments made in the editorial, production and sales infrastructures to drive future growth.

The outlook for Cahners is positive in 1999 as it builds on a more focused and reinvigorated portfolio and reaps the benefit of the infrastructure investments made over the last two years.

Reed Business Information, excluding OAG Worldwide, increased its turnover by 6% and operating profits by 6%. There was another year of good growth in advertising revenues in the UK, particularly in recruitment advertising, which accounted for £59m of sales; some slowing was, however, noted in the second half in certain markets. The Aerospace, Social Services, Catering and Property titles had a particularly good year. Electronic services, established around core titles, continued to develop well with good growth in subscriptions and growing advertiser support. The directories business also performed well.

Reed Business Information has delivered good growth over the last few years. The slowing of the UK economy is expected to impact on the advertising demand in 1999, with a consequential effect on profitability which tight cost control cannot entirely offset.

Elsevier Business Information saw turnover and operating profit growth of 22% and 31% respectively, or 9% and 15% excluding acquisitions, principally Editions Prat in France. This was driven by strong advertising revenues in buoyant market conditions in the Netherlands, and a number of successful launches. The Finance, General Management, Legal and Government titles performed particularly well.

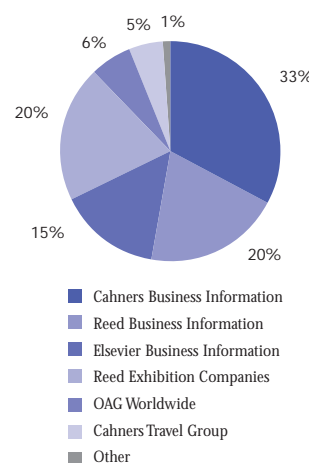
The outlook for Elsevier Business Information in 1999 is good with favourable economic conditions and an active development programme.

**Business segment**

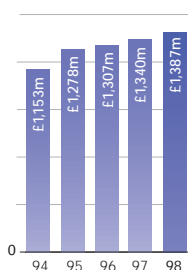
£m (reported currency)	1998	1997	% change at constant currencies
<b>Turnover</b>			
Cahners Business Information*	455	397	+16%
Reed Business Information*	275	264	+6%
Elsevier Business Information	210	177	+22%
Cahners Travel Group	76	85	-10%
OAG Worldwide	90	99	-7%
Exhibitions	274	257	+9%
Other	7	61	
<b>Total</b>	<b>1,387</b>	<b>1,340</b>	<b>+5%</b>
Operating profit	260	286	-8%
Operating margin	18.7%	21.3%	-2.6pts

\* Travel Publishing businesses shown separately

**1998 revenue by business**



**Turnover**



## Review of 1998 financial performance continued

Turnover of Reed Exhibition Companies was ahead by 9%, whilst operating profits rose by 8%, driven by good growth in the annual shows in the US and Europe. The Asian economic crisis resulted in revenue and profit declines in that region as shows were either reduced in size or cancelled. Demand from Asia in European and North American shows was also affected. The additional contribution from acquisitions, including the PGA golf equipment shows in the USA, more than offset the loss of revenues and profits from the US computer shows sold at the end of 1997.

1999 should be another successful year for Reed Exhibitions despite continuing economic difficulties in Asia and slowing growth in other markets. This will be underpinned by a strong launch programme and investment in sales and marketing activities to capture opportunities from the application of new technologies.

### REPORTED PROFIT AND LOSS

**Exceptional items** showed a net pre-tax gain of £603m, including a £692m gain on the sale of IPC Magazines, for total proceeds of £878m, in January 1998. £70m has been provided in respect of taxation.

Other exceptional items comprised charges of £10m in respect of the professional fees incurred on the proposed merger with Wolters Kluwer, £26m of acquisition related integration costs and £53m of costs in respect of the Year 2000 compliance programme incurred in 1998. Net exceptional charges before tax of £448m in 1997 included £230m in relation to the Reed Travel Group recompense and restructuring plan and a £250m non-cash write down of intangible asset values of that business.

The impact of **FRS10** on the reported 1998 results is a non cash **amortisation charge** of £332m, which has been excluded from the adjusted earnings measures. The corresponding charge for 1997 amounted to £289m. The increase in the 1998 charge reflects, principally, the acquisition of Chilton Business Group in 1997 and of Matthew Bender and the remaining 50% of Shepard's in 1998. At 31 December 1998, goodwill and intangible assets were stated in the combined balance sheet at £3.6bn, after cumulative amortisation of £2.2bn.

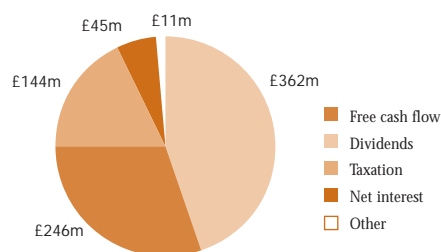
The **reported profit before tax** for the Reed Elsevier combined businesses, including exceptional items and FRS10 amortisation charges, was £1,044m, which compares with a reported profit of £86m in 1997. The improvement reflects the net movement in exceptional items partly offset by lower adjusted profits and higher charges for the amortisation of goodwill and intangible assets. The **reported attributable profit** of £772m compares with a reported attributable loss of £14m in 1997.

### CASH FLOWS, ACQUISITIONS AND DEBT

Reed Elsevier generates significant **cash flows** as its principal businesses do not require major fixed or working capital investments. Capital expenditure principally relates to computer equipment and, increasingly, investment in systems infrastructure to support electronic publishing activities and replacement systems for Year 2000 compliance.

Total capital expenditure in the year, at £161m, was up £38m on the prior year, mostly in relation to additional information technology spend at LEXIS-NEXIS, and facilities and systems investment at Cahners Business Information as it integrated the Chilton Business Group acquired in 1997. Depreciation in the year was £97m. Working capital requirements are negative overall, due to the substantial proportion of revenue received through subscription and similar advanced receipts.

#### Use of adjusted operating cash flow (£808m)



**Adjusted operating cash flow** for the continuing businesses was £808m in 1998, representing a conversion rate of operating profit into cash flow of 99%, which compares with 98% in 1997. Operating cash flow in 1997, including the discontinued operations, was £862m.

**Free cash flow** – after interest, taxation and dividends but before acquisition spend and exceptional receipts and payments – was £246m compared to £282m in 1997. The reduction in 1998 reflects lower profitability together with an increase in dividends paid. Exceptional receipts of £913m, reflect the disposal of IPC Magazines and consumer books businesses less funding of related taxation and other working capital obligations. Exceptional payments of £266m relate to the Reed Travel Group recompense plan and the 1998 exceptional charges.

In 1998 **acquisitions** were made for a total consideration of £1.2bn. An amount of £1,228m was capitalised as acquired goodwill and intangible assets. The 1998 acquisitions, before exceptional integration costs of £9m, contributed £31m to operating profit in the year and added £38m to operating cash flow.

**Net borrowings** at 31 December 1998 were £962m, an increase of £332m on the previous year end, principally reflecting spend on acquisitions, net of receipts on disposals, of £319m and payments of £266m in relation to other exceptional items less free cash flow of £246m. The £1bn acquisition of Matthew Bender and the outstanding 50% interest in Shepard's, completed on 1 August 1998, was funded approximately 60% from cash investments and 40% from borrowings.

Gross borrowings at 31 December 1998 amounted to £1,670m, denominated mostly in US dollars and partly offset by cash balances totalling £708m, invested in short term deposits and marketable securities. Approximately 95% of cash balances were held in sterling, euro block currencies and US dollars. A total of 68% of Reed Elsevier's gross borrowings were at fixed rates, including £471m of floating rate debt fixed through the use of interest rate swaps. At 31 December 1998, the fixed rate debt had a weighted average interest coupon of 6.8% and an average remaining life of 6.3 years. Interest rates on cash and short term investments reset within six months. The net

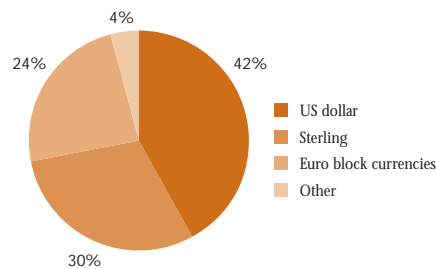
interest expense also reflects the interest yield differentials between short term cash investments and long term fixed rate borrowings.

**TREASURY POLICIES**

The boards of Reed International P.L.C. and Elsevier NV have requested that Reed Elsevier plc and Elsevier Reed Finance BV have due regard to the best interests of Reed International and Elsevier shareholders in the formulation of treasury policies.

Reed Elsevier seeks to limit its exposure to financial risk through interest rate fluctuations and exchange risk on foreign currency denominated transactions, by the use of financial instruments, including forward contracts and swaps. Financial instruments are used only to hedge underlying transactions and Reed Elsevier businesses do not take speculative positions.

**Currency profile 1998 – adjusted pre-tax profit**



**Funding**

Reed Elsevier develops and maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. The significance of Reed Elsevier plc's US operations means that the majority of debt is denominated in US dollars and is raised in the US debt markets. A mixture of short term and long term debt is utilised and Reed Elsevier maintains a maturity profile to facilitate refinancing.

**Interest rate exposure management**

Reed Elsevier's interest rate exposure management policy is aimed at reducing the exposure of the combined businesses to changes in interest rates. The proportion of interest expense that is fixed on gross debt is determined by reference to the level of

## Review of 1998 financial performance continued

gross interest cover. Reed Elsevier uses interest rate swaps and forward rate agreements to manage the exposure. While interest rate caps, floors and collars may also be used, there were no such transactions outstanding at 31 December 1998.

### Foreign currency exposure management

Translation exposures arise on the earnings and net assets of business operations in countries other than those of the parent companies. These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars.

Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts. In addition, recurring transactions and future investment exposures may be hedged, within defined limits, in advance of becoming contractual.

At the year end, the amount of outstanding foreign exchange cover in respect of future transactions was £450m.

### EUROPEAN ECONOMIC AND MONETARY UNION

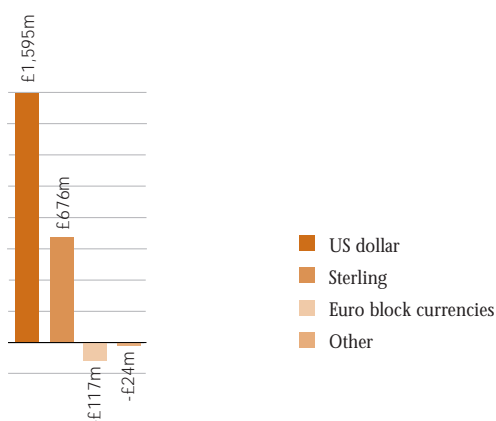
On 1 January 1999, the euro was introduced as the *de facto* currency of the 11 European countries participating in European Economic and Monetary Union (EMU). The Netherlands is a participant; the United Kingdom is not.

In 2002, the Dutch guilder, like the currencies of other participants, will be fully replaced by the euro once notes and coins are substituted. In the interim, the euro and the participating currencies coexist and are inextricably linked by fixed conversion rates.

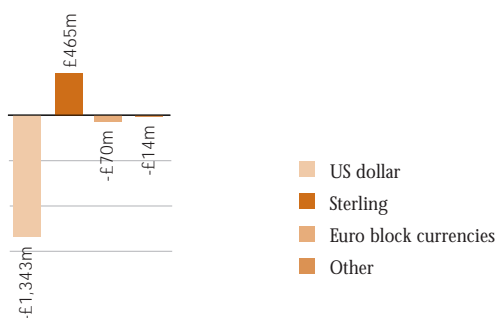
The implications for Reed Elsevier businesses are initially low relative to many other multinational European companies. Principally this is because, with the significant exception of Elsevier Science, which already publishes global prices, Reed Elsevier's businesses have limited cross border trade. The most significant issue, therefore, is the timing of euro based marketing and invoicing and the transfer to euro denominated business and financial systems. In this respect, Reed Elsevier businesses have developed plans in 1998 to accommodate the euro. These take account of the pace of customer readiness, and a systems conversion schedule, which is integrated with the overall systems upgrade and Year 2000 compliance programmes.

The profit and loss expense of moving to a euro currency environment is not expected to be significant.

Currency profile 1998 – net assets/(liabilities)



Currency profile 1998 – net cash/(borrowings)



## Elsevier Reed Finance BV Group

### STRUCTURE

Elsevier Reed Finance BV, the Dutch resident parent company of the Elsevier Reed Finance BV group (ERF), is directly owned by Reed International P.L.C. and Elsevier NV. ERF provides treasury, finance and insurance services to the Reed Elsevier plc businesses principally through its subsidiaries in Switzerland.

In the course of 1998, different activities carried out within Elsevier SA (the principal subsidiary within ERF) were reorganised under several distinct legal entities. As a result, Elsevier SA became a pure holding company, renamed Elsevier Swiss Holdings SA, with three subsidiaries: Elsevier Finance SA (EFSA), Elsevier Properties SA (EPSA) and Elsevier Risks SA (ERSA). In addition, Elsevier SA put its Irish subsidiary into liquidation and closed its Luxembourg branch.

### ACTIVITIES

EFSA has become the principal treasury centre for the Reed Elsevier combined businesses and provides, *inter alia*, financing, management of cash pools and investments, foreign exchange dealing services, and the operation of cross border settlements systems. In anticipation of the introduction of the euro on 1 January 1999, EFSA's services were extended such that it is now responsible for all aspects of treasury advice and support for Reed Elsevier plc's businesses operating in continental Europe and certain other territories.

EPSA is responsible for exploitation of tangible and intangible property rights. During 1998, Reed Publishing Nederland BV (RPN), an ERF subsidiary, contracted out the management of its intangible property rights to EPSA such that all intangible properties rights are now managed in one centre of expertise. To reflect this concentration, the shareholding in RPN was transferred to EPSA. ERSA is responsible for insurance activities relating to risk retention.

### MAJOR DEVELOPMENTS

During 1998, Elsevier SA and its Irish subsidiary concluded agreements with US based Reed Elsevier plc group companies to provide US\$1,217m of funding in respect of the acquisition of Matthew Bender and the remaining 50% of Shepard's. In addition, new loans were negotiated with Reed

Elsevier plc businesses in 1998 for an amount of US\$182m. As a result of this increased lending, the size of Elsevier SA's euro commercial paper programme was increased to US\$1,000m. Since the legal reorganisation EFSA has continued to look for opportunities to issue term debt in the international capital markets.

EFSA has taken a leading role in advising Reed Elsevier businesses on the treasury implications of the introduction of the euro. All ERF companies have adjusted their procedures and systems such that they are now successfully handling the new currency.

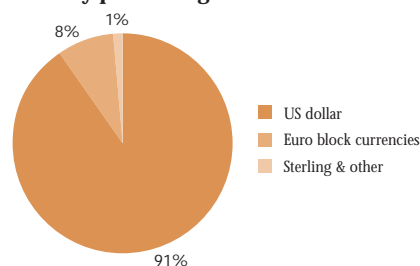
ERF companies have upgraded and tested their systems throughout the whole of 1998 and expect to be Year 2000 compliant in the first half of 1999.

### GROSS LIABILITIES AND ASSETS

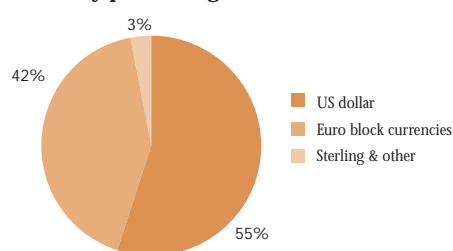
At the end of 1998, 91% (1997 67%) of ERF's gross assets were held in US dollars, including US\$3,593m in loans to Reed Elsevier plc subsidiaries. The euro currency block represented 8% of total assets, while the proportion of sterling assets decreased from 24% to 1%.

Liabilities include US\$601m in US dollars and US\$269m equivalent in euro currency block currencies under the euro-commercial paper programme.

Currency profile of gross assets



Currency profile of gross liabilities



## Review of 1998 financial performance continued

### Parent company financial information

#### REED INTERNATIONAL P.L.C.

	Year ended 31 Dec 1998 £m	Year ended 31 Dec 1997 £m	% change
Adjusted profit attributable			
– at reported rates	<b>302</b>	322	-6
– at constant rates	<b>307</b>	322	-5
	<b>pence</b>	pence	% change
Adjusted earnings per share			
– at reported rates	<b>26.4</b>	28.3	-7
– at constant rates	<b>26.9</b>	28.3	-5
Dividend per share (gross)	<b>17.3</b>	18.2	-5
Dividend per share (net)	<b>15.0</b>	14.6	+3

#### ELSEVIER NV

	Year ended 31 Dec 1998 Dfl m	Year ended 31 Dec 1997 Dfl m	% change
Adjusted profit attributable			
– at reported rates	<b>936</b>	970	-4
– at constant rates	<b>925</b>	970	-5
Average exchange rate Dfl:£	<b>3.28</b>	3.19	
	<b>Dfl</b>	Dfl	% change
Adjusted earnings per share			
– at reported rates	<b>1.32</b>	1.37	-4
– at constant rates	<b>1.31</b>	1.37	-5
Dividend per share (gross)	<b>0.87</b>	0.95	-8

#### PROFIT AND LOSS ACCOUNT

The Reed International and Elsevier summary financial information is presented on pages 76 to 79. The results of Elsevier NV reflect its 50% share of the Reed Elsevier combined businesses. The results of Reed International P.L.C. reflect its 52.9% interest, through a 50% share of the Reed Elsevier combined businesses and a 5.8% interest in Elsevier NV. Both parent companies' equity account for their respective shares in the Reed Elsevier combined results.

**Adjusted earnings per share for Reed International** were 26.4p, a decline of 7% compared to the previous year. Adjusted earnings per share for **Elsevier** were Dfl1.32, a decline of 4%. The difference in the percentage change is entirely attributable to the impact of the strengthening of sterling against the Dutch guilder in 1998. At constant rates of exchange, the adjusted earnings per share of both companies would have shown a decline of 5% over the previous year.

After their share of the exceptional items and the charge in respect of goodwill and intangible assets

amortisation, the reported earnings per share of Reed International before tax credit equalisation and Elsevier were 35.7p and Dfl 1.79, compared to losses per share in 1997 of 0.6p and Dfl 0.03, respectively.

#### DIVIDENDS

Dividends to Reed International and Elsevier shareholders are equalised at the gross level, including the benefit of the UK attributable tax credit received by certain Reed International shareholders. After 5 April 1999, the level of the UK tax credit reduces from 20% to 10% under changes announced by the UK government in 1997, and this lower rate will apply to the 1998 final dividends to be paid in May 1999.

The exchange rate used for each dividend calculation – as defined in the Reed Elsevier merger agreement – is the spot guilder/sterling exchange rate, averaged over a period of five business days commencing with the tenth business day before the announcement of the proposed dividend.

The board of Reed International has proposed a final dividend of 10.4p, giving a total dividend of 15.0p for the year, 3% higher than 1997. The boards of Elsevier, in accordance with the dividend equalisation arrangements, have proposed a final dividend of Dfl 0.58, reflecting a guilder/sterling exchange rate of Dfl 3.24 to £1. This results in a total dividend of Dfl 0.87 for the year, 8% lower than in 1997. The difference in growth rates is attributable to the currency movements between the respective dividend declaration dates and the change in the level of UK tax credit.

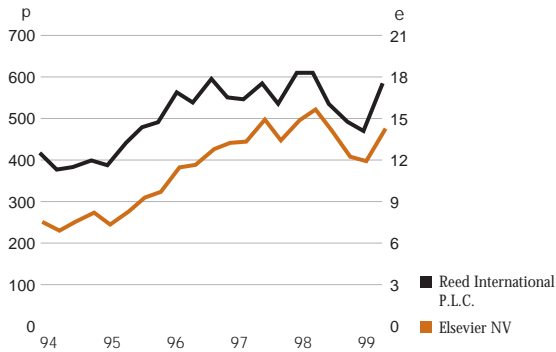
Dividend cover for Reed International, using adjusted earnings, was 1.8 times. For Elsevier, the adjusted dividend cover was 1.6 times. Measured for the combined businesses, dividend cover was 1.6 times compared with 1997 at 1.7 times.

It is the intention of both parent companies to move over time towards the dividend being covered at least two times by adjusted earnings.

#### RELATIONSHIP BETWEEN REED INTERNATIONAL AND ELSEVIER SHARES

Under the equalisation arrangements between Reed International and Elsevier, with respect to dividend and capital rights, one Elsevier ordinary share is substantially the economic equivalent to 1.538 of a Reed International share.

Quarterly share prices (adjusted for share splits)



In practice, Reed International and Elsevier shares do not trade at prices that reflect the equalisation formula. Reed International's share price began 1998 at a 5% discount to that, implied by the equalisation formula, of Elsevier, and was at an 6% discount on the day preceding approval of the 1998 financial statements. There seem to be a number of factors contributing to this gap, including the greater attractiveness of Elsevier to certain US shareholders due to the different tax treatment of dividends, the effect of tax credit equalisation on dividends paid and disparities caused by stock selection criteria. The two most significant causes, however, appear to be the differing performance trends of the Amsterdam and London stock exchanges on which Elsevier and Reed International are traded and the effect of currency, in particular movements to the guilder/sterling exchange rate. From 4 January 1999, the prices of all shares listed on the Amsterdam Stock Exchange, including Elsevier NV, have been quoted in euros rather than Dutch guilders. During 1999, the Dutch guilder will continue to be the primary currency for the presentation of financial information and dividends. For the benefit of investors, Reed Elsevier is publishing supplementary information in euros in the Reed Elsevier Annual Review 1998. Elsevier NV proposes to redenominate its share capital in euros at its Annual General Meeting in April 1999. This does not alter the number of shares in issue or affect the equalisation ratio relationship with Reed International P.L.C. shares.

**YEAR 2000**

The Reed Elsevier Year 2000 compliance programme continues to have the highest priority, and is addressing the internal and external risks to computer operations, business processes and products arising from the millennium date change. The programme is being carried out by dedicated project teams within each operating business and it is co-ordinated across the Reed Elsevier plc group by a project office within the Reed Elsevier Technology Group, which reports regularly to the board.

The first phase of the programme, being the identification and risk analysis of issues across all aspects of Reed Elsevier's businesses, was largely completed in 1997. Activity in 1998 focused on the remediation and testing of non-compliant systems and a significant proportion of this work was successfully completed during the year. The remediation work has led to the identification of further issues requiring expansion of the scope of the programme, a rescheduling of completion timetables and a revision to cost estimates.

The remaining remediation and testing work on business critical systems is well advanced and expected to be substantially completed mid-year. Additional focus is being given during 1999 on development of contingency plans and verification of the compliance status of suppliers and customers. Reed Elsevier is committed to taking all reasonable and practicable steps to ensuring that its businesses do not suffer any serious disruption as a result of the millennium date change.

Compliance costs in 1998 amount to £53m, (1997 £11m). Further costs of approximately £40m are forecast in 1999, resulting in total estimated costs prior to the Year 2000 in the order of £100m. This is some £25m higher than the forecast made a year ago which reflects additional discoveries and greater costs in the testing of remediated systems. These costs are expensed as incurred and identified separately as an exceptional item. New systems and software replacement, which address Year 2000 issues, are capitalised and amortised in accordance with Reed Elsevier's accounting policies.

# Reed Elsevier plc **board of directors**

# directors

## Executive committee



**Herman Bruggink, 52**  
Co-chief executive and member of the Executive Committee. Chairman of the Executive Board of Elsevier since 1995 and a member since 1993. Member of the Supervisory Board of KPN NV.



**Nigel Stapleton, 52**  
Co-chief executive and member of the Executive Committee. Chairman of Reed International since 1997 and a director since 1986. Non-executive director of the General Electric Company plc.



**John Mellon, 58**  
Member of the Executive Committee. Director of Reed International since 1990.

## Executive directors



**Mark Armour, 44**  
Chief Financial Officer. Finance Director of Reed International since 1996.



**Neville Cusworth, 60**  
Member of the Executive Board of Elsevier since 1995. Chief Executive Officer of Reed Elsevier Legal Division.



**Onno Laman Trip, 52**  
Director of Corporate Human Resources since 1997.



**Herman Spruijt, 49**  
Member of the Executive Board of Elsevier since 1995.

The following directors retired during 1998:

**Paul Vlek**  
Member of the Executive Committee. Deputy Chairman of the Executive Board of Elsevier since 1995 and a member since 1991.

**Anthony Greener**  
Non-executive director. Non-executive director of Reed International since 1990. Chairman of Diageo plc.

**Lord Hamlyn CBE**  
Non-executive director. A director of Reed International since 1987.

**Roelof Nelissen\***  
Non-executive director. Member of the Supervisory Board of Elsevier since 1990. Other Supervisory Board appointments include ABN AMRO Bank and Ahold.

\* Continues to be a Member of the Supervisory Board of Elsevier.

## Non-executive directors



**David Webster, 54** ▲●■  
 Non-executive director, chairman. Chairman of the Audit and Nominations Committees. Non-executive director of Reed International since 1992. Chairman of Safeway plc.



**Richard Bodman, 60** ▲●  
 Non-executive director of Reed International since 1996. Managing General Partner of AT&T Ventures. Director of Tyco International Inc., Internet Security Systems Group and Young & Rubicam Inc.



**Sir Christopher Lewinton, 67** ▲●■  
 Chairman of the Remuneration Committee. Non-executive director of Reed International since 1990, and senior independent director since June 1994. Chairman of TI Group plc. Member of the Supervisory Board of Mannesmann AG.



**Steven Perrick, 50** ▲●  
 Member of the Supervisory Board of Elsevier since 1998. Partner in law firm of De Brauw, Blackstone, Westbroek. Professor of Securities Law at Erasmus University.



**Rolf Stomberg, 58** ▲●  
 Non-executive director of Reed International since January 1999. Chairman of John Mowlem & Co plc. Member of the boards of several European companies including Scania in Sweden and TNT Post Group NV in the Netherlands.



**Morris Tabaksblat, 61** ▲●■  
 Non-executive director, chairman designate. Member of the Supervisory Board of Elsevier since 1998. Chairman of Unilever NV. Member of the Supervisory Boards of AEGON NV, TNT Post Group NV and VEBA AG.



**Pierre Vinken, 71** ▲●■  
 Chairman of the Supervisory Board of Elsevier since 1995. Formerly co-chairman of Reed Elsevier plc (1993-1995).



**Loek van Vollenhoven, 68** ▲●■  
 Deputy Chairman of the Supervisory Board of Elsevier since 1995. Formerly an executive director of Reed Elsevier plc. Member of the Supervisory Board of Heineken.

## Structure

### PROPOSED UNITARY MANAGEMENT STRUCTURE

As outlined on page 4, Reed International, Elsevier and Reed Elsevier plc propose to adopt a unitary management structure with a non-executive Chairman and a Chief Executive Officer who are common to all three companies. This is seen as a logical evolution of the structure that has been in place since the merger in 1993, under which the operations have been managed by an Executive Committee of the Reed Elsevier plc board. The boards of all three companies will, so far as practicable, be harmonised with effect from the Annual General Meetings in April 1999, and there will be a majority of non-executive directors on each board. Directors appointed to the Reed International and Elsevier boards will retire by rotation from both boards at the same time every three years.

Reed International and Elsevier will establish a Nominations Committee for all new appointments to each of the boards of Reed International, Elsevier and Reed Elsevier plc. The committee will initially comprise the Chairman, the Chief Executive Officer and one non-executive director from each of Reed International and Elsevier. The Audit Committees and the Remuneration Committees of each company will comprise three non-executive directors.

### CORPORATE STRUCTURE

**Reed Elsevier came into existence on 1 January 1993, when Reed International P.L.C. (Reed International) and Elsevier NV (Elsevier) contributed their businesses to two jointly owned companies, Reed Elsevier plc, a UK registered company which owns all the publishing and information businesses, and Elsevier Reed Finance BV, a Dutch registered company which owns the finance activities. Reed International and Elsevier have retained their separate legal and national identities and are publicly held companies with separate stock exchange listings in Amsterdam, London and New York.**

### EQUALISATION ARRANGEMENTS

Reed International and Elsevier each holds a 50% interest in Reed Elsevier plc. Reed International holds a 46% interest in Elsevier Reed Finance BV, with Elsevier holding a 54% interest. Reed International additionally holds a 5.8% indirect economic interest in Elsevier, as shown in the structure diagram. This equity interest reflects the higher market capitalisation of Reed International, relative to Elsevier, in the period immediately preceding the merger. It has been taken into account in determining the equalisation ratio whereby one Elsevier ordinary share is, in broad terms, intended to confer equivalent economic interests to 1.538 Reed International ordinary shares. The equalisation ratio is subject to change to reflect share splits and similar events that affect the number of outstanding ordinary shares of either Reed International or Elsevier.

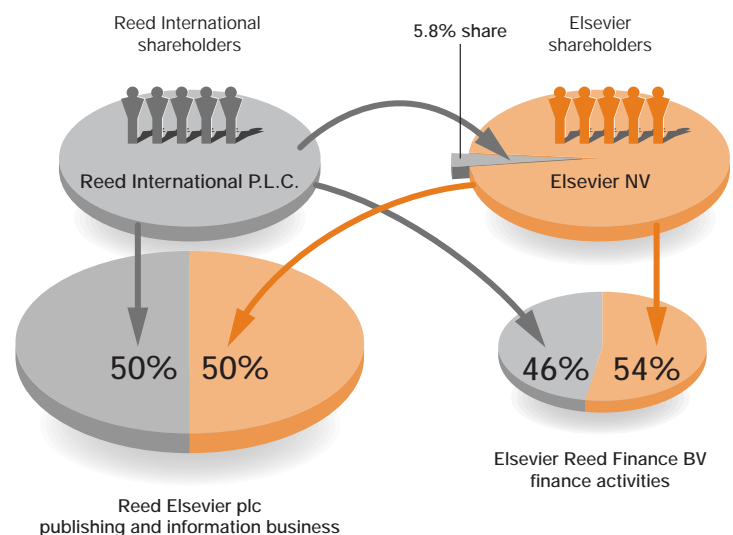
Under the equalisation arrangements, Reed International shareholders have a 52.9% economic interest in the net income of Reed Elsevier and Elsevier shareholders (other than Reed International) have a 47.1% economic

interest in the net income of Reed Elsevier. Holders of ordinary shares in Reed International and Elsevier enjoy substantially equivalent dividend and capital rights with respect to their ordinary shares.

The boards of both Reed International and Elsevier have agreed, except in exceptional circumstances, to recommend equivalent gross dividends (including, with respect to the dividend on Reed International ordinary shares, the associated UK tax credit), based on the equalisation ratio. A Reed International ordinary share pays dividends in sterling and is subject to UK tax law with respect to dividend and capital rights. An Elsevier ordinary share pays dividends in guilders and is subject to Dutch tax law with respect to dividend and capital rights.

### LEGAL STRUCTURE

The diagram below shows the legal structure of the Reed Elsevier combined businesses. The economic interests of Reed International and Elsevier shareholders under the equalisation arrangements are referred to earlier.



# Corporate governance

## CORPORATE GOVERNANCE

### Compliance with codes of best practice

The boards of Reed International and Elsevier have previously adopted the principles of corporate governance formulated by the Cadbury Committee and developed further by the Greenbury Committee. These provisions were replaced by a Combined Code – the Principles of Good Governance and Code of Best Practice – issued by the London Stock Exchange in June 1998.

Under the proposed new governance arrangements arising from the adoption of a unitary management structure, the boards of Reed International and Elsevier will implement standards of corporate governance and disclosure policies applicable to companies in the United Kingdom and the Netherlands. The effect of this commitment is that an obligation applying to one of Reed International or Elsevier will, where not in conflict, be observed by the other, where practicable.

The way in which the relevant principles of the Combined Code are applied and complied with within Reed International, Elsevier and Reed Elsevier plc is described below.

### Reed International

Reed International has complied in all material respects throughout the period under review with the code provisions set out in Section 1 of the Combined Code. As permitted by the London Stock Exchange, the company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

### Elsevier

Elsevier, which has its primary listing on the Amsterdam Stock Exchange, has complied throughout the period under review with the listing rules of the Amsterdam Stock Exchange and best custom and practice appropriate to internationally focused Dutch companies. The Peters Committee on corporate governance in the Netherlands was published during 1997, and Elsevier complied with most of the recommendations throughout the period under review. Proposals will be submitted to the Elsevier Annual General Meeting in April 1999 to amend Elsevier's Articles of Association in line with recommendations contained in the Peters Committee.

## BOARDS AND COMMITTEES

### Reed International

The Reed International board currently consists of three executive directors: Nigel Stapleton (Chairman), Mark Armour (Finance Director) and John Mellon; and four non-executive directors: Sir Christopher Lewinton (Chairman of non-executive directors and senior independent director), Richard Bodman, Rolf Stomberg, and David Webster. Reed International has an Audit and a Remuneration Committee, currently comprising all the non-executive directors. David Webster chairs the Audit Committee and Sir Christopher Lewinton chairs the Remuneration Committee.

All Reed International directors are subject to retirement at least every three years, and are able then to make themselves available for re-election by Reed International shareholders.

### Elsevier

Elsevier currently has a two-tier board structure comprising a Supervisory Board of seven members, all of whom are non-executives, and an Executive Board of four members. The members of the Supervisory Board are Pierre Vinken (Chairman), Loek van Vollenhoven (Deputy Chairman), Jules van Dijck, Otto ter Haar, Roelof Nelissen, Steven Perrick and Morris Tabaksblat. The Executive Board comprises Herman Bruggink (Chairman), Cornelis Alberti, Neville Cusworth and Herman Spruijt. The Elsevier Audit Committee comprises members of the Supervisory Board, and the role of the Remuneration Committee is carried out by the Supervisory Board.

Messrs Alberti and ter Haar will retire from the Elsevier board in April 1999.

Under the full Structure Regime for large companies in the Netherlands, the Supervisory Board has certain inalienable powers, including the power to co-opt and reappoint members. The members are appointed for terms of four years and are subject to reappointment for further terms of four years, or until the Annual General Meeting of the year in which they become 72, if sooner. It has been agreed that new appointments will retire no later than the age of 70.

### Reed Elsevier plc

Reed Elsevier plc is currently managed on a day-to-day basis by the Reed Elsevier plc Executive Committee, which consists of the Co-Chief Executives Herman Bruggink and Nigel Stapleton, and John Mellon. The other executive directors attend meetings of the committee. The committee has wide powers of management, but major strategic and financial decisions are reserved to the board, which meets regularly and currently comprises seven executive directors and eight non-executive directors.

## Corporate governance continued

The Remuneration Committee, which currently comprises all the non-executive directors (see page 35), met six times during the year. The Reed Elsevier plc remuneration report appears on page 43.

The Audit Committee, which also currently comprises all the non-executive directors met five times during the year. The committee is responsible for reviewing matters relating to the financial affairs of the company and the internal and external audit programme. This includes, for example, reviewing accounting policies, compliance with accounting standards and other statutory requirements, and matters related to internal controls. The committee also considers the appointment and fees of external auditors, including the nature and extent of non-audit services provided by the auditors. It works closely with the Reed International Audit Committee and the Elsevier Supervisory Board; the Company's Director of Internal Audit and the external auditors attend its meetings.

A Nominations Committee, comprising only non-executive directors (see page 35), was established to make recommendations to the board concerning the appointment and remuneration of a Chief Executive Officer for Reed Elsevier plc.

### **Elsevier Reed Finance BV**

The Elsevier Reed Finance BV group provides services to the Reed Elsevier plc group businesses. The principal finance subsidiary, Elsevier Finance SA, is based in Switzerland. The Supervisory Board of Elsevier Reed Finance BV comprises Pierre Vinken (Chairman), Mark Armour, Steven Perrick and Herman Spruijt, with the Management Board consisting of Cornelis Alberti and Willem Boellaard.

### **Directors**

Details of the members of the Reed Elsevier plc board appear on pages 34 and 35. All members of the parent company boards also currently serve on the Reed Elsevier plc board with the exception of the following four members of the Elsevier boards:

#### *Cornelis Alberti (62)*

Member of the Executive Board of Elsevier since 1984, responsible for finance and administration. An executive director of Reed Elsevier plc from its formation until December 1996.

#### *Jules van Dijk (62)*

Member of the Supervisory Board of Elsevier since 1984. Professor of Industrial and Organisational Sociology at the University of Tilburg. Board appointments include ABN AMRO Bank, Hoechst Holland and Dutch Philips Industries.

#### *Otto ter Haar (69)*

Member of the Supervisory Board of Elsevier since 1990. Previously a member of the Elsevier Executive Board, with responsibility for Elsevier Science.

#### *Roelof Nelissen (67)*

Member of the Supervisory Board of Elsevier since 1990. A non-executive director of Reed Elsevier plc from its formation until July 1998. Other Supervisory Board appointments include ABN AMRO Bank and Ahold.

## **PEOPLE, COMMUNITY AND ENVIRONMENT**

### **Employee Relations**

The board of Reed Elsevier plc is fully committed to the concept of employee involvement and participation, and encourages each of its businesses to formulate its own tailor-made approach with the co-operation of employees. The group is an equal opportunity employer, and recruits and promotes employees on the basis of suitability for the job. Appropriate training and development opportunities are available to all employees. During 1998 the board formulated and agreed Codes of Conduct applicable to employees within the Reed Elsevier plc group, which have been adopted throughout its businesses.

### **Investor Relations**

Reed International and Elsevier participate in regular dialogue with institutional shareholders, and presentations on the Reed Elsevier combined businesses are made after the announcement of the interim and full year results. Shareholders in Reed International and Elsevier are given an opportunity to raise questions at the respective AGMs, and a trading update is given by the Chairmen at the respective meetings and near the end of each financial year.

### **The Environment**

Reed Elsevier comprises a number of business units operating within different countries. Operational responsibility for complying with the relevant environmental regulations applicable to the businesses is devolved to the Chief Executive Officer of each unit. The operations of Reed Elsevier, as a publisher and information provider, have a limited impact on the environment. Considerable effort is made to reduce that impact, and to ensure that the resources consumed by the group are sustainable, capable of recycling and used effectively. A very wide range of local initiatives includes supply chain management, energy saving at all major premises, active recycling and waste recovery and the use of electronic communications to reduce the consumption of paper and other products.

### Community Relations

The policy of Reed Elsevier is that the business units should be able to support charities and institutions whose activities are dedicated to, or connected with, the specific industries or communities within which each unit operates. This results in a very wide range of philanthropic action. Institutional support typically takes the form of awards or scholarships for schools, universities or libraries. Community and charitable support focuses on meeting local needs, by direct donation, matching of employee contributions or direct employee involvement in fundraising, service or assistance.

### INTERNAL FINANCIAL CONTROL STATEMENTS

#### Parent Companies

The boards of Reed International and of Elsevier exercise independent supervisory roles over the activities of Reed Elsevier plc and Elsevier Reed Finance BV. They approve the strategies and annual budgets of each company, and receive regular reports on their operation, including their treasury and risk management activities. Major transactions proposed by the boards of Reed Elsevier plc or Elsevier Reed Finance BV require the approval of the boards of both Reed International and Elsevier. The Reed International Audit Committee and the Elsevier Supervisory Board meet on a regular basis to review the internal financial control environment of Reed Elsevier plc and Elsevier Reed Finance BV. They also consider reports from the executive directors of these two companies and from the internal auditors and the respective external auditors.

#### Reed Elsevier plc

The board of Reed Elsevier plc has adopted a schedule of matters which are required to be brought to it for decision. The Reed Elsevier plc group's businesses are closely monitored and actual results are reported regularly to the board against the approved annual budget and forecasts, which are prepared regularly. There are also established procedures for the appraisal and authorisation of acquisitions, divestments, capital expenditure and development projects.

An established framework of procedures and internal financial controls is set out in a group Policies and Procedures Manual, with which the management of each business is required to comply, reporting annually to the board and Audit Committee. Group businesses are required to maintain systems of internal control which are appropriate to the nature and scale of their activities and address all significant financial and operational risks that they face.

The internal financial control system is monitored and supported by an internal audit function, operated on a global basis. This work is focused on areas of greatest risk, determined through a formalised approach to risk assessment. The external auditors, in co-ordination with the internal auditors, review and test the system of internal financial control and the information contained in the Reed Elsevier plc Report and Accounts, to the extent necessary to express their opinion on the consolidated financial statements. The Audit Committee reviews the internal financial control environment of Reed Elsevier plc, and considers reports from the executive directors and from the internal and external auditors on a regular basis.

#### Elsevier Reed Finance BV

The Supervisory Board of Elsevier Reed Finance BV has adopted a schedule of matters which are required to be brought to it for decision. Policy guidelines are applied for all Elsevier Reed Finance BV companies, and procedures are in place for monitoring the activities of the finance group, including a comprehensive budgeting and treasury reporting system.

The internal financial control system of Elsevier Reed Finance BV is reviewed each year by the external auditors. The Audit Committee of Reed International and the Elsevier Supervisory Board also review the internal financial control environment of Elsevier Reed Finance BV, and consider reports from the executive directors and external auditors on a regular basis.

### RESPONSIBILITY STATEMENTS

The directors of Reed International, Elsevier, Reed Elsevier plc and Elsevier Reed Finance BV are required to prepare financial statements as at the end of each financial period, which give a true and fair view of the state of affairs, and of the profit or loss, of the respective companies and their subsidiary and associated undertakings. They acknowledge their responsibility for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the respective companies. Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements.

Applicable accounting standards have been followed and the Reed Elsevier combined financial statements, which are the responsibility of the directors of Reed International and Elsevier, are prepared using accounting policies which comply with both UK and Dutch Generally Accepted Accounting Principles.

## Corporate governance continued

The board of Reed Elsevier plc has overall responsibility for internal control of the publishing and information businesses, whilst the boards of Elsevier Reed Finance BV have responsibility for internal control in respect of the finance group activities. Each board is required by the two parents to take reasonable steps to safeguard its assets and to prevent or detect material errors and irregularities within a timely period.

The directors of Reed Elsevier plc, having reviewed the effectiveness of the systems of internal financial control, believe that the systems provide reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors or irregularities are either prevented or would be detected within a timely period. The directors of Elsevier Reed Finance BV, having carried out a similar review in respect of their businesses, believe that their systems of internal financial control provide similar assurances. It is noted that no system of internal financial control can provide absolute assurance against material misstatement or loss.

### **GOING CONCERN**

The directors of Reed International and Elsevier, having made appropriate enquiries, consider that adequate resources exist for the combined businesses to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the combined financial statements.

# Remuneration report

## REMUNERATION COMMITTEE

The board of Reed Elsevier plc established a Remuneration Committee in January 1993. The committee is responsible for determining the remuneration (in all its forms), the service contracts and all other terms and conditions of employment of the executive directors, and also for considering organisational issues in relation to succession to the board and the recruitment of new directors, and the performance and development of senior management. The committee also provides advice to the Executive Committee on major policy issues affecting the remuneration of executives at a senior level below the board. The committee draws on external professional advice as necessary, and also consults the Chairmen of Reed International and of Elsevier's Executive Board in formulating its recommendations.

The Remuneration Committee consists wholly of non-executive directors: Richard Bodman, Sir Christopher Lewinton (Chairman), Pierre Vinken, Loek van Vollenhoven and David Webster, and since August 1998, Steven Perrick and Morris Tabaksblat, and since February 1999, Rolf Stomberg.

## COMPLIANCE WITH THE BEST PRACTICE PROVISIONS

In designing its performance-related remuneration policy, the Remuneration Committee has complied with Schedule A of the Combined Code, issued in June 1998, appended to the Listing Rules of the London Stock Exchange.

In relation to disclosure of directors' remuneration, Reed International, a UK company listed on the London Stock Exchange, has complied with Schedule B of the Combined Code, issued in June 1998, appended to the Listing Rules of the London Stock Exchange.

## REMUNERATION POLICY

In determining its policy on executive directors' remuneration, the committee has regard to the following objectives:

- (i) to ensure that it maintains a competitive package of pay and benefits, commensurate with comparable packages available within other multinational companies operating in global markets and, where appropriate, reflecting local practice operating within the country in which an individual director works;
- (ii) to ensure that it encourages enhanced performance by directors and fairly recognises the contribution of individual directors to the attainment of the results of the Reed Elsevier plc group;
- (iii) to encourage a team approach which will work towards achieving the long-term strategic objectives of the Reed Elsevier plc group;
- (iv) to attract, retain and motivate people of the highest calibre and experience needed to meet the challenges faced by Reed Elsevier plc group businesses both within its traditional businesses and in the transition to electronic publishing media;
- (v) to link reward to individual directors' performance and company performance so as to align the interests of the directors with the shareholders of the parent companies.

The remuneration of executive directors consists of the following elements:

- Base salary, which is set at the median of the market range based on comparable positions in businesses of similar size and complexity. Salaries are reviewed annually by the Remuneration Committee.
- A variable annual cash bonus, based on achievement of specific realistic but stretching performance-related targets – such as profit, cash flow and gains in earnings per share (EPS) of Reed International and Elsevier. Targets are set at the beginning of the year by the Remuneration Committee. The maximum potential bonus for 1998 was 50% of basic salary.
- Share options, where the directors and other senior executives are granted options annually over shares in either Reed International or Elsevier at the market price at the date of grant. The Remuneration Committee approves the grant of any option and, from 1996, the grant of options has been subject to performance criteria set by the committee.
- Longer term incentives, which comprise the grant annually of nil cost options to acquire shares in Reed International, where exercise is conditional upon the attainment of long-term performance objectives, set at the date of grant by the Remuneration Committee.
- Post-retirement benefits, which comprise only pensions, where Reed Elsevier plc group companies have different retirement schemes which apply depending on local competitive market practice, length of service and age of the director. The only element of remuneration which is pensionable is base salary.

Each of the executive directors has a service contract, which is terminable on no more than two years' notice. The committee continues to believe, having regard to current practice within the marketplace, that two year notice periods are appropriate in view of the need to retain key executives in what is an increasingly competitive and international market. The service contracts for directors who were in office prior to January 1996 provide for liquidated damages in the event of early termination of their contract. The service contracts of directors appointed since then do not include such a provision and a directors' duty of mitigation will apply in relation to any payment of compensation on termination.

## Remuneration report continued

### EXTERNAL APPOINTMENTS

Executive directors may serve as non-executive directors on the boards of non-associated companies and may retain remuneration arising from such non-executive directorships. The committee believes that the Reed Elsevier plc group benefits from the broader experience gained by executive directors in such appointments.

### EMOLUMENTS OF THE DIRECTORS

The emoluments of the directors of Reed Elsevier plc (including any entitlement to fees or emoluments from either Reed International, Elsevier or Elsevier Reed Finance BV) were as follows:

#### A AGGREGATE EMOLUMENTS

£ thousand	31 December 1998	31 December 1997
Salaries and fees	3,202	3,482
Benefits	111	95
Annual performance-related bonuses	278	747
Pension contributions	463	655
Pension to former director	209	211
Compensation in respect of former director	1,424	–
<b>Total</b>	<b>5,687</b>	<b>5,190</b>

#### B INDIVIDUAL EMOLUMENTS OF EXECUTIVE DIRECTORS

	Nationality	Salary	Benefits	Performance- related bonus	Total	1998	Sterling equivalent total 1997
<b>Dfl</b>							
HJ Bruggink	Dutch	1,511,514	43,279	75,576	1,630,369	497,064	466,583
O Laman Trip (from 15.9.97)	Dutch	621,000	28,454	31,050	680,504	207,470	76,623
HP Spruijt	Dutch	745,200	12,152	75,638	832,990	253,960	299,511
PCFM Vlek (until 1.7.98)	Dutch	682,500	16,125	148,300	846,925	258,208	518,255
<b>£</b>							
MH Armour	British	350,000	19,547	17,500	387,047	387,047	416,327
GRN Cusworth	British	223,560	22,373	22,580	268,513	268,513	285,074
JB Mellon	British	470,925	15,078	23,547	509,550	509,550	628,168
NJ Stapleton	British	569,250	23,768	113,850	706,868	706,868	549,357

Taking into account gains of £207,882 on the exercise of share options, NJ Stapleton was the highest paid director in 1998.

Messrs Bruggink and Stapleton waived their entitlement to receive a bonus in respect of 1997, amounting to Dfl 505,298 and £182,169, respectively.

As announced on 6 August 1998, Reed International and Elsevier have decided to move to a unitary management structure of a single non-executive Chairman and a sole Chief Executive Officer for Reed Elsevier plc. That decision gave HJ Bruggink and NJ Stapleton the right to treat their employment with Reed Elsevier plc as having been terminated immediately by the company. In order to maintain continuity of senior management during the search for a single Chief Executive Officer, and for a period after such appointment, the board has secured the agreement of Messrs Bruggink and Stapleton to defer their right to leave the company. This involves the following financial arrangements: A one-off bonus, payable in May 1999, of Dfl 500,000 to HJ Bruggink, and £140,000 to NJ Stapleton, provided they have not voluntarily ceased to be employed prior to such date. In NJ Stapleton's case, because he has committed to stay at least until 31 August 1999 and, if necessary, until 31 December 1999, a credit of one year's service for pension purposes and a guarantee that in 1999 his annual bonus entitlement would not be less than 20% of salary has been agreed.

**C PAYMENTS TO FORMER DIRECTOR**

PCFMVlek ceased to be a director on 1 July 1998 and, under the terms of his service agreement, received a payment representing two years' salary and bonus, and an amount equal to two years' employer's pension contributions, the aggregate amount of which was Dfl 4,671,700.

**D PENSIONS**

The Remuneration Committee reviews the pension arrangements for the executive directors to ensure that the benefits provided are consistent with those provided by other multinational companies in its principal countries of operation.

The policy for executive directors based in the United Kingdom is to provide pension benefits at a normal retirement age of 60, equivalent to two-thirds of basic salary in the 12 months prior to retirement, provided they have completed ten years' service with the Reed Elsevier plc group. For directors appointed since 1987, full pension has to be accrued over 20 years. The way in which pension benefits are provided will depend on when the individual director commenced service, and can be either through the Reed Elsevier Pension Scheme (REPS) or through Inland Revenue unapproved, unfunded arrangements, or a combination of both. In 1989, the Inland Revenue introduced a cap on the amount of pension that can be provided from an approved pension scheme. All UK based directors, with the exception of MH Armour, commenced service prior to the introduction of the cap and so will receive all of their pension benefits from the REPS. MH Armour's pension benefits will be provided from a combination of the REPS and the company's unapproved, unfunded pension arrangements.

Directors who are members of the Dutch pension scheme accrue a pension at normal retirement age of 60, according to length of service and their final salary. Based on potential service to normal retirement age, the pension entitlements of the directors are up to 70% of final annual salary.

The pension arrangements for all the directors include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and a spouse's pension on death.

The increase in the transfer value of the directors' pensions, after deduction of contributions, is shown below:

	Nationality	Increase in accrued annual pension during the period	Total accrued annual pension as at 31.12.98	Transfer value increase	Contributions paid by directors during the period	Transfer value increase after deduction of directors' contributions	Sterling equivalent
<b>Dfl</b>							
HJ Bruggink	Dutch	55,703	622,567	470,000	59,000	411,000	125,305
O Laman Trip	Dutch	17,000	84,145	181,000	24,000	157,000	47,865
HP Spruijt	Dutch	26,076	289,086	198,000	29,000	169,000	51,524
PCFM Vlek*	Dutch	42,469	690,295	220,000	25,000	195,000	59,451
<b>£</b>							
MH Armour	British	17,011	45,668	190,347	2,811	187,536	187,536
GRN Cusworth**	British	11,030	150,637	82,047	5,772	76,275	76,275
JB Mellon	British	28,331	308,004	268,875	15,222	253,653	253,653
NJ Stapleton	British	34,833	232,148	397,400	18,418	378,982	378,982

\*Until 1 July 1998.

\*\*Until 14 October 1998.

The transfer value increase in respect of individual directors represents a liability in respect of directors' pension entitlement, and is not an amount paid or payable to the director.

## Remuneration report continued

### E INDIVIDUAL EMOLUMENTS OF NON-EXECUTIVE DIRECTORS

	Nationality	1998	1997
£			
RJ Nelissen (until 1.7.98)	Dutch	30,000	50,000
S Perrick (from 1.7.98)	Dutch	26,666	–
M Tabaksblat (from 1.7.98)	Dutch	26,666	–
PJ Vinken	Dutch	80,000	241,347*
L van Vollenhoven	Dutch	52,500	112,500*
RS Bodman	US	90,361	92,592
AA Greener	British	24,000	24,000
Lord Hamlyn (until 29.4.98)	British	8,334	25,000
Sir Christopher Lewinton	British	80,000	180,000*
DGC Webster	British	84,555	29,000**

\*Included in the emoluments in respect of the prior year are payments made during 1998 to PJ Vinken (£100,000), L van Vollenhoven (£60,000) and Sir Christopher Lewinton (£100,000) in recognition of significant additional duties carried out by the individual non-executive directors prior to 1 January 1998.

\*\*An amount of £35,000 plus VAT was paid to Safeway plc, Mr Webster's employer, to compensate for time that he devoted to Reed Elsevier issues.

Fees payable to non-executive directors are determined by the board. The emoluments of DGC Webster include an additional fee payable to him to reflect the significant additional duties he has undertaken during the year, including those arising from his appointment as non-executive Chairman of Reed Elsevier plc in August 1998.

### SHARE OPTIONS

Executive directors have been granted options over either Reed International or Elsevier shares.

Options over shares in Reed International were granted under the Reed International Executive Share Option Scheme prior to January 1993 and since then under the Reed Elsevier plc Executive Share Option Scheme, in which executive directors and other senior executives participate. The Executive Schemes grant options at the market price at the time of grant, which are normally exercisable between three and ten years from the date of grant.

Grants have also been made over shares in Reed International under a UK SAYE Scheme, in which all eligible UK employees are invited to participate. The SAYE Scheme grants options at a maximum discount of 20% to the market price at the time of grant, which are normally exercisable after the expiry of three or five years from the date of grant.

The terms of the schemes which grant options over Reed International shares have been approved by the shareholders of Reed International.

Under the Elsevier Share Option Scheme, options to subscribe for Elsevier shares have been granted each year to members of the Elsevier Executive Board and to a small number of other senior executives. Options have been granted at the market price at the time of the grant and are exercisable for a period up to five years from the date of grant.

Dutch practice previously precluded conditions being attached to the exercise of options and, in view of the wish to operate a common policy throughout the Reed Elsevier plc group in relation to share-based incentives, the Remuneration Committee adopted a policy in 1996 that in order for option grants to be made, the compound growth in the average of the Reed International and Elsevier EPS (before exceptional items, amortisation of goodwill and intangible assets and UK tax credit equalisation) in the three years prior to the year in which the grant was made, must exceed the compound growth in the UK or Dutch retail price index, as appropriate, over the three year period by a minimum of 6%. The committee has reviewed its previous policy in the light of new tax laws introduced in the Netherlands during 1998. As a consequence of this review, the committee has decided that the exercise of options granted from 1999 onwards under the Reed Elsevier plc Executive Share Option Scheme should be subject to performance criteria. The performance criteria will require that the compound growth in the average of the Reed International and Elsevier EPS in the three years after the grant is made must exceed the compound growth in the average of the UK and Dutch retail price index by a minimum of 6%. In relation to options granted in 1999 under the Elsevier Share Option Scheme, the performance criteria will, in effect, require the market price of a share to increase by at least 26%, against the market price at the time of grant.

The Remuneration Committee maintains its belief that it is appropriate, in order to remain competitive in the international marketplace, to continue to include both share options and a Longer Term Incentive Plan within the remuneration package. The granting of share options to executives in multinational companies is also a continuing and important part of employment practice in the Netherlands.

Details of options held by directors in the ordinary shares of Reed International and Elsevier as at 31 December 1998, and movements during the period are shown opposite:

**OVER SHARES IN REED INTERNATIONAL P.L.C.**

		1 January 1998	Granted during the year	Option price (p)	Exercised during the year	Market price (p) at exercise date	31 December 1998	Exercisable between
MH Armour – Executive Scheme		189,600		400.75			189,600	1999/2005
		30,000		585.25			30,000	1999/2006
		52,000		565.75			52,000	2000/2007
			66,900	523.00			66,900	2001/2008
<b>Total</b>		<b>271,600</b>	<b>66,900</b>				<b>338,500</b>	
GRN Cusworth – Executive Scheme		34,000		585.25			34,000	1999/2006
	– SAYE Scheme	1,076		320.60			1,076	2000
<b>Total</b>		<b>35,076</b>					<b>35,076</b>	
JB Mellon – Executive Scheme		106,800		400.75	106,800	513.50		
		67,400		585.25			67,400	1999/2006
		80,400		565.75			80,400	2000/2007
	– SAYE Scheme	2,102		328.20			2,102	1999
<b>Total</b>		<b>256,702</b>			<b>106,800</b>		<b>149,902</b>	
NJ Stapleton – Executive Scheme		31,000		237.25	31,000	528.00		
		242,600		410.25	100,000	528.00	142,600	1999/2004
		101,600		400.75			101,600	1999/2005
		74,200		585.25			74,200	1999/2006
		88,800		565.75			88,800	2000/2007
			108,800	523.00			108,800	2001/2008
	– SAYE Scheme	2,102		328.20			2,102	1999
	1,076		320.60			1,076	2000	
	1,534		449.80			1,534	2002	
<b>Total</b>		<b>542,912</b>	<b>108,800</b>		<b>131,000*</b>		<b>520,712</b>	

\*Retained an interest in 14,000 shares.

The middle market price of a Reed International ordinary share during the year was in the range 428.25p to 716.00p and at 31 December 1998 was 470.00p.

**OVER SHARES IN ELSEVIER NV**

	1 January 1998	Granted during the year	Exercised during the year	31 December 1998
HJ Bruggink	336,599	120,702	–	457,301
O Laman Trip	–	49,590	–	49,590
HP Spruijt	152,933	59,508	40,000	172,441

The middle market price of an Elsevier ordinary share during the year was in the range Dfl 21.90 to Dfl 39.30 and at 31 December 1998 was Dfl 26.30.

At 31 December 1998 the total number of outstanding options held by directors was 679,332 with an average option price of Dfl 26.44 (compared with 686,444 options at an average option price of Dfl 26.08 on 1 January 1998).

The disclosure in respect of options over Elsevier shares held by the Dutch directors of Reed Elsevier plc reflects the requirements of the Amsterdam Stock Exchange.

Subsequent to 31 December 1998, HJ Bruggink exercised an option over 100,000 Elsevier ordinary shares.

The aggregate notional gross pre-tax gains made by directors on the exercise of Reed and Elsevier share options was £542,933.

## Remuneration report continued

### LONGER TERM INCENTIVES

Executive directors of Reed Elsevier plc who are executive directors of Reed International have been granted nil cost options over ordinary shares of Reed International under a Longer Term Incentive Plan (the Plan). The Plan has operated since 1991 and was designed with advice from independent remuneration consultants. It is based on share rather than cash benefits to emphasise the commonality of interest of the participants and the parent companies' shareholders over the longer term.

Under the Plan, participants are granted annually nil cost options over Reed International ordinary shares, which are exercisable only if Reed International achieves significant growth in adjusted earnings per share (EPS) (ie before exceptional items, amortisation of goodwill and intangible assets and UK tax credit equalisation) over a three-year period. The number of shares over which options are granted and the EPS targets are approved by the Reed Elsevier plc Remuneration Committee. The rate of increase in ordinary share entitlements rises more steeply once the mid-point compound annual growth rate (CAGR) target is achieved in recognition of exceptional performance.

Except for sales to meet tax arising, participants are encouraged under the Plan to retain their ordinary shares for at least three years from exercise of their option.

For the 1996/98 Plan, the maximum number of options exercisable over Reed International ordinary shares was 77,300. The terms of these options provided that no options would be exercisable unless CAGR over the base EPS of 25.9p (restated for the sub-division of Reed International ordinary shares in May 1997) exceeded 7% pa. Based on an EPS of 26.4p for the year ended 31 December 1998, CAGR for the performance period 1996/98 was less than 7% pa and, accordingly, no entitlement arises under the 1996/98 Plan.

Options have also been granted in respect of the three year performance periods 1997/99 and 1998/2000. The performance targets set by the Remuneration Committee for these two performance periods are based on a base EPS of 28.1p and 28.3p, respectively. No options are exercisable unless CAGR exceeds the base EPS by 7% pa, and the maximum number of options become exercisable if CAGR of 20% pa is achieved.

Entitlements if specific EPS/CAGR targets are achieved are:

	1997/99 Plan		1998/2000 Plan	
	Ordinary shares if 13% CAGR achieved (Target EPS 41.1p)	Ordinary shares if 20% CAGR achieved (Target EPS 48.5p)	Ordinary shares if 13% CAGR achieved (Target EPS 41.4p)	Ordinary shares if 20% CAGR achieved (Target EPS 48.9p)
MH Armour	8,528	21,320	10,680	26,700
JB Mellon	13,152	32,880	–	–
NJ Stapleton	14,540	36,350	17,400	43,500

Options under the 1997/99 Plan will only be exercisable if EPS for the year ending 31 December 1999 is no less than 34.4p. For options under the 1998/2000 Plan to become exercisable, EPS for the year ending 31 December 2000 must be no less than 34.7p. It is not yet possible to say whether for the 1997/99 or 1998/2000 periods options will be exercisable. No estimate of the value of this incentive for those periods has therefore been included in the aggregate directors' remuneration for 1998.

Any ordinary shares required to fulfil entitlements under the Plan are provided by the Employee Share Ownership Plan (ESOP) from market purchases. As beneficiaries under the ESOP, the above directors are deemed to be interested in the shares held by the ESOP which, at 31 December 1998, amounted to 121,374 Reed International ordinary shares.

In March 1999, further grants in respect of MH Armour and NJ Stapleton were recommended by the Reed Elsevier plc Remuneration Committee under the Plan for 1999/2001. Based on a mid-market price of a Reed International ordinary share as at 28 February 1999 (600.75p), maximum entitlements if 20% pa CAGR is achieved during the performance period are MH Armour 24,070 and NJ Stapleton 39,950.

**INTERESTS IN SHARES**

The interests of the directors and their families in the issued share capital of Reed International and Elsevier at the beginning and end of the year are shown below:

	Reed International ordinary shares		Elsevier ordinary shares	
	1 January 1998*	31 December 1998	1 January 1998*	31 December 1998
MH Armour	–	–	–	–
RS Bodman	1,400	1,400	900	900
HJ Bruggink	400	400	39,240	39,240
GRN Cusworth	66,451	66,451	–	–
AA Greener	25,214	25,379	–	–
O Laman Trip	–	–	–	–
Sir Christopher Lewinton	4,300	4,300	1,700	1,700
JB Mellon	63,872	63,872	–	–
S Perrick	–	–	–	–
HP Spruijt	–	–	300	300
NJ Stapleton	174,599	188,649	200	200
M Tabaksblat	–	–	–	–
PJ Vinken	22,442	22,442	59,100	–
L van Vollenhoven	–	–	17,500	–
DGC Webster	5,000	5,000	–	–

\*On date of appointment if after 1 January 1998.

Since 31 December 1998, PJ Vinken's interest in Reed International ordinary shares reduced to nil. RWH Stomberg was appointed a director of Reed International and Reed Elsevier plc on 1 January 1999. As at his date of appointment he did not hold an interest in the ordinary shares of Reed International or Elsevier.

On behalf of the board of Reed Elsevier plc



Sir Christopher Lewinton  
Chairman of the Remuneration Committee

## Auditors' report

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

We have audited the combined financial statements of Reed International P.L.C., Elsevier NV, Reed Elsevier plc, Elsevier Reed Finance BV and their respective subsidiaries (together 'the combined businesses') set out on pages 51 to 71 prepared on the basis of combination and under the accounting policies set out on pages 51 and 52.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of Reed International P.L.C. and Elsevier NV are responsible for preparing the Annual Review, including as described on pages 41 and 42, the combined financial statements. Our responsibilities, as independent auditors of the combined financial statements, are set out in auditing standards generally accepted in the Netherlands and the United Kingdom and by our respective professions' ethical guidance.

We report to you our opinion as to whether the combined financial statements give a true and fair view. We read the other information contained in the Annual Review, including the corporate governance statement and consider whether it is consistent with the audited combined financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the combined financial statements.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands and the United Kingdom. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of financial statements, and of whether the accounting policies are appropriate to the 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 combined 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 presentation of information in the combined financial statements.

### OPINION

In our opinion the combined financial statements give a true and fair view of the state of affairs of the combined businesses as at 31 December 1998, and of their profits for the year then ended.

#### **Deloitte & Touche**

Chartered Accountants and  
Registered Auditors  
London  
10 March 1999

#### **Deloitte & Touche**

Registeraccountants  
Amsterdam  
10 March 1999

## Accounting policies

**These financial statements are presented under the historical cost convention and adopt accounting policies that are in compliance with both UK and Dutch Generally Accepted Accounting Principles ('GAAP'). Two new UK financial reporting standards, FRS9: Associates and Joint Ventures and FRS10: Goodwill and Intangible Assets, which are first applicable for the 1998 financial year, have been adopted in the 1998 financial statements. Prior year comparatives have been restated accordingly.**

### BASIS OF COMBINATION

The equalisation agreement between Reed International P.L.C. and Elsevier NV has the effect that their shareholders can be regarded as having the interests of a single economic group. The principal financial statements are, therefore, the combined Reed Elsevier accounts ('the combined financial statements').

The combined financial statements encompass the businesses of Reed Elsevier plc and Elsevier Reed Finance BV and their respective subsidiaries and joint ventures and associates, together with the parent companies, Reed International P.L.C. and Elsevier NV ('the combined businesses').

These financial statements are not for a legal entity and do not, therefore, include all the information required to be disclosed by a company in its accounts under the UK Companies Act 1985 or Dutch Civil Code.

Full statutory information is given in the Reed Elsevier plc financial statements and in the accounts of the parent companies, Reed International P.L.C. and Elsevier NV, each of which are available from their registered addresses. A list of principal businesses is set out on page 36.

### ASSOCIATES AND JOINT VENTURES

Investments which are held for the long term and where the combined businesses exercise significant influence or joint control with other parties, represent under FRS9 interests in associates or joint ventures and are accounted for under the equity and gross equity methods respectively.

All interests previously recorded as associated undertakings fall to be treated as joint ventures under FRS9. Prior year figures have been reclassified accordingly. Reported net assets, pre-tax profits and profit attributable are unaffected.

### FOREIGN EXCHANGE TRANSLATION

The combined financial statements are presented in pounds sterling

Balance sheet items are translated at year end exchange rates. Profit and loss account items are translated at average rates. The results of hedging transactions for profit and loss amounts in foreign currency are accounted for in the profit and loss account for the relevant year.

Exchange translation differences on foreign equity investments and the related foreign currency net

borrowings and differences between balance sheet and profit and loss account rates are taken to reserves.

### GOODWILL AND INTANGIBLE ASSETS

On the acquisition of a subsidiary, associate, joint venture or business, the purchase consideration is allocated between the underlying net tangible and intangible assets on a fair value basis, with any excess purchase consideration representing goodwill.

In accordance with the new financial reporting standard FRS10: Goodwill and Intangible Assets, acquired goodwill and intangible assets are now capitalised and amortised systematically over their estimated useful lives up to a maximum period of 20 years. In prior years goodwill was written off directly to reserves on acquisition, whereas intangible assets were capitalised and not amortised, subject to impairment review. This new policy has been applied retrospectively and prior year figures have been restated accordingly.

Intangible assets comprise publishing rights and titles, databases, exhibition rights and other intangible assets, which are stated at fair value on acquisition and are not subsequently revalued.

### TANGIBLE FIXED ASSETS

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. No depreciation is provided on freehold land.

Freehold buildings and long leases are depreciated over their estimated future useful lives, as is plant and equipment, which is depreciated on a straight line basis at rates from 5% to 33%. Short leases are written off over the duration of the lease.

### FINANCE LEASES

Assets held under leases which confer rights and obligations similar to those attaching to owned assets, are capitalised as tangible fixed assets and the corresponding liability to pay rentals is shown net of interest in the accounts as obligations under finance leases. The capitalised values of the assets are written off on a straight line basis over the shorter of the periods of the leases or the useful lives of the assets concerned. The interest element of the lease payments is allocated so as to produce a constant periodic rate of charge.

### OPERATING LEASES

Operating lease rentals are charged to the profit and loss account on a straight line basis over the periods of the leases.

### STOCKS

Stocks and work in progress are stated at the lower of cost, including appropriate attributable overheads, and estimated net realisable value.

## Accounting policies continued

### INVESTMENTS

Fixed asset and short term investments are stated at the lower of cost and estimated net realisable value.

### TURNOVER

Turnover represents the invoiced value of sales on transactions completed by delivery excluding customer sales taxes and sales between the combined businesses.

### DEVELOPMENT SPEND

Development spend incurred on the launch of new products or services is expensed to the profit and loss account as incurred. The cost of developing software for use internally may be capitalised and written off over its estimated future life.

### TAXATION

Deferred taxation is provided in full for timing differences using the liability method. There is no material difference between this full provision policy and the partial provision method required under UK GAAP. No provision is made for tax which would become payable on the distribution of retained profits by foreign subsidiaries, joint ventures or associates as there is no present intention to distribute such retained earnings giving rise to a charge. The potential deferred tax has not been quantified.

### PENSIONS

The expected costs of pensions in respect of defined benefit pension schemes are charged to the profit and loss account so as to spread the cost over the service lives of employees in the schemes. Actuarial surpluses and deficits are allocated over the average expected remaining service lives of employees. Pension costs are assessed in accordance with the advice of qualified actuaries. For defined contribution schemes, the profit and loss account charge represents contributions made.

# Combined profit and loss statement

FOR THE YEAR ENDED 31 DECEMBER 1998

£ million	Note	1998			1997*		
		Before exceptional items and amortisation	Exceptional items and amortisation	Total	Before exceptional items and amortisation	Exceptional items and amortisation	Total
<b>Turnover</b>							
Including share of turnover in joint ventures		3,271	–	3,271	3,519	–	3,519
Less: share of turnover in joint ventures		(80)	–	(80)	(102)	–	(102)
	2	3,191	–	3,191	3,417	–	3,417
Continuing operations before acquisitions		3,055	–	3,055	2,987	–	2,987
Acquisitions		108	–	108	–	–	–
Continuing operations		3,163	–	3,163	2,987	–	2,987
Discontinued operations		28	–	28	430	–	430
Cost of sales	3	(1,092)	–	(1,092)	(1,282)	–	(1,282)
Gross profit		2,099	–	2,099	2,135	–	2,135
Net operating expenses before exceptional items and amortisation	3	(1,304)	–	(1,304)	(1,277)	–	(1,277)
Exceptional items	7	–	(79)	(79)	–	(502)	(502)
Amortisation of goodwill and intangible assets		–	(323)	(323)	–	(278)	(278)
<b>Operating profit before joint ventures</b>		795	(402)	393	858	(780)	78
Continuing operations before acquisitions		761	(344)	417	794	(767)	27
Acquisitions		34	(57)	(23)	–	–	–
Continuing operations		795	(401)	394	794	(767)	27
Discontinued operations		–	(1)	(1)	64	(13)	51
Share of operating profit in joint ventures		18	(9)	9	27	(11)	16
<b>Operating profit (including joint ventures)</b>	2,6	813	(411)	402	885	(791)	94
<b>Non operating items</b>	7						
Continuing – net profit on sale of businesses		–	–	–	–	57	57
– merger expenses		–	(10)	(10)	–	(3)	(3)
Discontinued – net profit on sale of businesses		–	692	692	–	–	–
<b>Profit on ordinary activities before interest</b>		813	271	1,084	885	(737)	148
Net interest expense	8	(40)	–	(40)	(62)	–	(62)
<b>Profit on ordinary activities before taxation</b>		773	271	1,044	823	(737)	86
Tax on profit on ordinary activities	9	(201)	(70)	(271)	(214)	115	(99)
<b>Profit/(loss) on ordinary activities after taxation</b>		572	201	773	609	(622)	(13)
Minority interests and preference dividends		(1)	–	(1)	(1)	–	(1)
<b>Profit/(loss) attributable to parent companies' shareholders</b>	27	571	201	772	608	(622)	(14)
Ordinary dividends paid and proposed	10			(349)			(365)
<b>Retained profit/(loss) taken to combined reserves</b>				423			(379)

## ADJUSTED FIGURES

£ million	Note	1998	1997
<b>Adjusted profit before tax</b>	11	773	823
<b>Adjusted profit attributable to parent companies' shareholders</b>	11	571	608

Adjusted figures exclude exceptional items and amortisation of goodwill and intangible assets and related tax effects.

The historical cost profits and losses are not materially different from the results disclosed above.

\*1997 figures have been restated on the introduction of new UK accounting standards to include retrospective amortisation of goodwill and intangible assets (FRS10) and additional information in respect of joint ventures (FRS9).

## Combined cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 1998

£ million	Note	1998	1997 (restated)
Net cash inflow from operating activities before exceptional items	12	<b>937</b>	956
Payments relating to exceptional items	12	<b>(258)</b>	(26)
<b>Net cash inflow from operating activities</b>		<b>679</b>	930
<b>Dividends received from joint ventures</b>		<b>11</b>	17
Interest received		<b>61</b>	46
Interest paid		<b>(106)</b>	(105)
<b>Returns on investments and servicing of finance</b>		<b>(45)</b>	(59)
<b>Taxation</b>		<b>(144)</b>	(180)
Purchase of tangible fixed assets		<b>(151)</b>	(121)
Proceeds from sale of fixed assets		<b>11</b>	10
Exceptional payments on disposal of fixed assets	7	-	(21)
<b>Capital expenditure</b>		<b>(140)</b>	(132)
Acquisitions	12, 13	<b>(1,232)</b>	(726)
Payments against acquisition provisions		<b>(11)</b>	(5)
Exceptional net proceeds from disposal of businesses	12	<b>913</b>	104
Merger expenses		<b>(8)</b>	(3)
<b>Acquisitions and disposals</b>		<b>(338)</b>	(630)
<b>Equity dividends paid to the shareholders of the parent companies</b>		<b>(362)</b>	(336)
<b>Cash outflow before changes in short term investments and financing</b>		<b>(339)</b>	(390)
<b>Decrease in short term investments</b>	12	<b>63</b>	299
<b>Financing</b>	12	<b>192</b>	120
<b>(Decrease)/increase in cash</b>	12	<b>(84)</b>	29

In accordance with the UK FRS9, which is first applicable for the 1998 financial year, dividends received from joint ventures which were previously classified as associated undertakings and included within net cash inflow from operating activities, have been shown separately in the combined cash flow statement. Comparative amounts have been restated accordingly.

Short term investments include deposits of under one year if the maturity or notice period exceeds 24 hours, commercial paper investments and interest bearing securities that can be realised without significant loss at short notice.

Under FRS1 (Revised 1996), as amended by FRS9, net cash inflow from operating activities includes operating profit, before amortisation and depreciation and other non cash items, as well as working capital movements. Reed Elsevier businesses focus on adjusted operating cash flow as the key cash flow measure. Adjusted operating cash flow is measured after dividends from joint ventures, tangible fixed asset spend and proceeds from the sale of fixed assets but before exceptional payments and proceeds.

### Memorandum reconciliation to adjusted operating cash flow

£ million	Note	1998	1997 (restated)
Net cash inflow from operating activities		<b>679</b>	930
Dividends received from joint ventures		<b>11</b>	17
Purchase of tangible fixed assets		<b>(151)</b>	(121)
Proceeds from sale of fixed assets		<b>11</b>	10
Payments relating to exceptional items	12	<b>258</b>	26
<b>Adjusted operating cash flow</b>		<b>808</b>	862
<b>Adjusted operating cash flow conversion</b>		<b>99%</b>	97%

Discontinued operations contributed £nil to adjusted operating cash flow in 1998 (1997 £69m).

# Combined balance sheet

AS AT 31 DECEMBER 1998

£ million	Note	1998	1997 (restated)
<b>Fixed assets</b>			
Goodwill and intangible assets	14	<b>3,598</b>	2,672
Tangible assets	14	<b>399</b>	348
Investments	15		
Investments in joint ventures:			
Share of gross assets		<b>107</b>	312
Share of gross liabilities		<b>(32)</b>	(63)
Share of net assets		<b>75</b>	249
Other investments		<b>12</b>	15
		<b>87</b>	264
		<b>4,084</b>	3,284
<b>Current assets</b>			
Stocks		<b>101</b>	121
Debtors: amounts falling due within one year	16	<b>731</b>	797
Debtors: amounts falling due after more than one year	17	<b>136</b>	165
Cash and short term investments	18	<b>708</b>	844
		<b>1,676</b>	1,927
<b>Creditors: amounts falling due within one year</b>	19	<b>(2,791)</b>	(2,395)
<b>Net current liabilities</b>		<b>(1,115)</b>	(468)
<b>Total assets less current liabilities</b>			
		<b>2,969</b>	2,816
<b>Creditors: amounts falling due after more than one year</b>	20	<b>(797)</b>	(838)
<b>Provisions for liabilities and charges</b>	25	<b>(36)</b>	(280)
<b>Minority interests</b>		<b>(6)</b>	(6)
<b>Net assets</b>		<b>2,130</b>	1,692
<b>Capital and reserves</b>			
Combined share capitals		<b>168</b>	167
Combined share premium accounts		<b>353</b>	328
Combined reserves		<b>1,609</b>	1,197
<b>Combined shareholders' funds</b>	27	<b>2,130</b>	1,692

Approved by the boards of Reed International P.L.C. and Elsevier NV, 10 March 1999.

## Combined shareholders' funds reconciliation

FOR THE YEAR ENDED 31 DECEMBER 1998

£ million	Note	1998	1997 (restated)
Combined shareholders' funds at 1 January as originally reported		<b>1,494</b>	2,071
Prior year adjustment (adoption of FRS10)	1	<b>198</b>	(8)
<b>Combined shareholders' funds at 1 January</b>		<b>1,692</b>	2,063
Profit for the year as originally reported		<b>772</b>	207
Prior year adjustment (adoption of FRS10)	1	–	(221)
<b>Profit/(loss) for the year</b>		<b>772</b>	(14)
Goodwill written off on acquisitions net of disposals as originally reported		–	(429)
Prior year adjustment (adoption of FRS10)	1	–	429
Ordinary dividends		<b>(349)</b>	(365)
Issue of shares on exercise of options		<b>18</b>	21
Exchange translation differences		<b>(3)</b>	(13)
<b>Combined shareholders' funds at 31 December</b>		<b>2,130</b>	1,692

## Combined statement of total recognised gains and losses

FOR THE YEAR ENDED 31 DECEMBER 1998

£ million	1998	1997 (restated)
<b>Profit/(loss) for the year</b>	<b>772</b>	(14)
Exchange translation differences	<b>(3)</b>	(13)
<b>Total recognised gains and losses for the financial year</b>	<b>769</b>	(27)

On introduction of FRS10 in 1998, combined shareholders' funds, as at 1 January 1998, were increased by £198m on prior year restatement and cumulative recognised losses of £1,867m have been recognised in periods prior to 1 January 1998.

# Notes to the combined financial statements

FOR THE YEAR ENDED 31 DECEMBER 1998

## 1 PRIOR YEAR ADJUSTMENT ON INTRODUCTION OF NEW ACCOUNTING STANDARDS

The new UK financial reporting standards, FRS9: Associates and Joint Ventures and FRS10: Goodwill and Intangible Assets, which are first applicable in 1998, have been adopted in the preparation of the combined financial statements. In adopting FRS10, which relates to goodwill and intangible assets, the accounting policy has been changed as described below. In all other respects, the combined financial statements have been prepared on the basis of the accounting policies set out in the Reed Elsevier Annual Review 1997.

Under FRS10, Reed Elsevier capitalises all acquired goodwill and intangible assets and amortises them over a maximum period of 20 years, with retrospective application. In prior years, acquired goodwill was written off direct to reserves on acquisition whereas intangible assets were capitalised and not amortised, subject to impairment review. Prior year figures have been restated accordingly; combined net assets as at 1 January 1998 have been increased by £198m (capitalisation of prior goodwill less cumulative amortisation of goodwill and intangibles) and the 1997 operating profit has been reduced by £289m for the non cash amortisation charge, and attributable profit reduced by £221m, taking into account the resultant tax timing differences and the restatement of exceptional items (see note 7).

Under FRS9, all interests previously recorded as associated undertakings now fall under the category of joint venture interests. Reported profit attributable and net assets are unaffected. The standard also introduces presentational changes which have been made to the profit and loss and cash flow statements and balance sheet. Prior year figures have been restated accordingly.

## 2 SEGMENT ANALYSIS

£ million	Turnover		Adjusted operating profit		Operating profit after exceptional items, amortisation and joint ventures		Capital employed	
	1998	1997 (restated)	1998	1997 (restated)	1998	1997 (restated)	1998	1997 (restated)
<b>Business segment</b>								
Scientific	622	571	223	230	126	178	338	378
Professional	1,154	1,076	330	296	177	190	2,539	1,637
Business	1,387	1,340	260	286	100	(331)	773	563
Continuing operations	3,163	2,987	813	812	403	37	3,650	2,578
Discontinued operations	28	430	–	73	(1)	57	(16)	187
<b>Total</b>	<b>3,191</b>	<b>3,417</b>	<b>813</b>	<b>885</b>	<b>402</b>	<b>94</b>	<b>3,634</b>	<b>2,765</b>
<b>Geographical origin</b>								
North America	1,663	1,512	390	394	98	(252)	2,906	1,788
United Kingdom	692	694	204	207	139	113	579	632
The Netherlands	383	369	128	123	114	110	(46)	(29)
Rest of Europe	293	263	76	69	47	53	173	146
Asia/Pacific	132	149	15	19	5	13	38	41
Continuing operations	3,163	2,987	813	812	403	37	3,650	2,578
Discontinued operations	28	430	–	73	(1)	57	(16)	187
<b>Total</b>	<b>3,191</b>	<b>3,417</b>	<b>813</b>	<b>885</b>	<b>402</b>	<b>94</b>	<b>3,634</b>	<b>2,765</b>
<b>Geographical market</b>								
North America	1,726	1,582						
United Kingdom	483	432						
The Netherlands	222	208						
Rest of Europe	407	401						
Asia/Pacific	325	364						
Continuing operations	3,163	2,987						
Discontinued operations	28	430						
<b>Total</b>	<b>3,191</b>	<b>3,417</b>						

Details of business segments are provided in the Business Review and Review of 1998 Financial Performance.

Discontinued operations comprise IPC Magazines and the remaining consumer book publishing operations which were the final elements of the Consumer segment sold in the year.

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 2 SEGMENT ANALYSIS *(continued)*

Turnover is analysed before the £80m (1997 £102m) share of joint ventures' turnover, of which £26m (1997 £37m) relates to the Professional segment, principally to Shepard's prior to its 100% ownership and Giuffrè, and £54m (1997 £7m) relates to the Business segment, principally to REZsolutions, Inc. The 1997 share of joint ventures' turnover and adjusted operating profit included £58m and £9m respectively in relation to discontinued operations.

Adjusted operating profit is shown after share of profit in joint ventures and before exceptional items and the amortisation of goodwill and intangible assets.

£ million	1998	1997 (restated)
<b>Reconciliation of capital employed to net assets</b>		
Capital employed	3,634	2,765
Taxation	(297)	(187)
Dividends and net interest	(239)	(250)
Net borrowings	(962)	(630)
Minority interests	(6)	(6)
<b>Net assets</b>	<b>2,130</b>	<b>1,692</b>

### 3 COST OF SALES AND NET OPERATING EXPENSES

£ million	1998				1997 (restated)			
	Before exceptional items and amortisation	Exceptional items	Amortisation	Total	Before exceptional items and amortisation	Exceptional items	Amortisation	Total
<b>Cost of sales</b>								
Continuing operations before acquisitions	(1,033)	–	–	(1,033)	(1,031)	–	–	(1,031)
Acquisitions	(38)	–	–	(38)	–	–	–	–
Discontinued operations	(21)	–	–	(21)	(251)	–	–	(251)
<b>Total</b>	<b>(1,092)</b>	<b>–</b>	<b>–</b>	<b>(1,092)</b>	<b>(1,282)</b>	<b>–</b>	<b>–</b>	<b>(1,282)</b>
<b>Distribution and selling costs</b>								
Continuing operations before acquisitions	(684)	–	–	(684)	(660)	–	–	(660)
Acquisitions	(25)	–	–	(25)	–	–	–	–
Discontinued operations	(5)	–	–	(5)	(75)	–	–	(75)
	(714)	–	–	(714)	(735)	–	–	(735)
<b>Administrative expenses</b>								
Continuing operations before acquisitions	(577)	(70)	(274)	(921)	(502)	(502)	(265)	(1,269)
Acquisitions	(11)	(9)	(48)	(68)	–	–	–	–
Discontinued operations	(2)	–	(1)	(3)	(40)	–	(13)	(53)
	(590)	(79)	(323)	(992)	(542)	(502)	(278)	(1,322)
<b>Net operating expenses</b>								
Continuing operations before acquisitions	(1,261)	(70)	(274)	(1,605)	(1,162)	(502)	(265)	(1,929)
Acquisitions	(36)	(9)	(48)	(93)	–	–	–	–
Discontinued operations	(7)	–	(1)	(8)	(115)	–	(13)	(128)
<b>Total</b>	<b>(1,304)</b>	<b>(79)</b>	<b>(323)</b>	<b>(1,706)</b>	<b>(1,277)</b>	<b>(502)</b>	<b>(278)</b>	<b>(2,057)</b>

Discontinued operations contributed £nil (1997 £73m) to adjusted operating profit of which £nil (1997 £9m) related to joint ventures.

# Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

## 4 PERSONNEL

Average number of people employed during the year	1998	1997 (restated)
<b>Business segment</b>		
Scientific	3,500	3,200
Professional	11,100	10,100
Business	11,300	11,600
Continuing operations	25,900	24,900
Discontinued operations	200	2,700
<b>Total</b>	<b>26,100</b>	<b>27,600</b>
<b>Geographical location</b>		
North America	13,600	12,200
United Kingdom	5,400	5,300
The Netherlands	2,800	2,900
Rest of Europe	2,200	2,200
Asia/Pacific	1,900	2,300
Continuing operations	25,900	24,900
Discontinued operations	200	2,700
<b>Total</b>	<b>26,100</b>	<b>27,600</b>

Discontinued operations comprise IPC Magazines and the remaining consumer book publishing operations which were the final elements of the Consumer segment sold in the year.

## 5 PENSION SCHEMES

A number of pension schemes are operated around the world. The major schemes are of the defined benefit type with assets held in separate trustee administered funds.

The main UK scheme, which covers the majority of UK employees, was subject to a valuation by Watson Wyatt Partners, consultants, as at 5 April 1997. The scheme is valued formally every three years, the next valuation being as at April 2000.

The principal 1997 valuation assumptions were:

Actuarial method	:	projected unit method
Annual rate of return on investments	:	8%
Annual increase in total pensionable remuneration	:	6%
Annual rate of dividend growth	:	3.5%
Annual increase in present and future pensions in payment	:	4%

The actuarial value placed on the assets was sufficient to cover 123% of the benefits that had accrued to members. The actuarial surplus is being spread as a level amount over the average remaining service lives of current employees, which has been assessed as eight years. The market value of the scheme's assets at the date of valuation was £1,293m, excluding assets held in respect of members' additional voluntary contributions. This valuation takes account of the measures announced by the UK government in its budget of July 1997, which ended the rights of UK pension funds to receive tax credits on UK dividends. On the recommendation of the actuaries, no company contributions have been made to the scheme since 1 April 1989.

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 5 PENSION SCHEMES *(continued)*

The main non UK schemes are in the USA and the Netherlands. Assessments for accounting purposes have been carried out by external qualified actuaries using prospective benefit methods with the objective that current and future charges remain a stable percentage of pensionable payroll. The principal actuarial assumptions adopted in the assessments of the major schemes assume that, over the long term, investment returns will marginally exceed the annual increase in pensionable remuneration and in present and future pensions. The actuarial value of assets of the schemes approximated to the aggregate benefits that had accrued to members, after allowing for expected future increases in pensionable remuneration and pensions in course of payment.

Reed Elsevier companies have no significant health and medical plans providing post-retirement benefits.

The net pension charge was £22m (1997 £25m), including a net £4m (1997 £1m) SSAP24 credit related to the main UK scheme. The net SSAP24 credit on the main scheme comprises a regular cost of £15m (1997 £19m), offset by amortisation of the net actuarial surplus of £19m (1997 £20m). Pension contributions made in the year amounted to £26m (1997 £26m). The transfer of members from the main UK scheme on divestment of IPC Magazines reduced the actuarial surplus and prepayment by £13m. A prepayment of £124m (1997 £133m) is included in debtors falling due after more than one year, representing the excess of the pension credit to profit since 1988 over the amounts funded to the main UK scheme.

### 6 OPERATING PROFIT IS STATED AFTER THE FOLLOWING:

£ million	Note	1998	1997 (restated)
Hire of plant and machinery		20	17
Other operating lease rentals		40	44
Depreciation (including £4m (1997 £5m) in respect of assets held under finance leases)		97	96
Amortisation of goodwill and intangible assets		323	278
Amortisation of goodwill and intangible assets in joint ventures		9	11
<b>Total amortisation</b>		<b>332</b>	<b>289</b>
Auditors' remuneration			
for audit services		1.5	1.6
for non audit services (£0.7m relates to UK companies (1997 £1.1m))		1.5	1.5
Staff costs			
Wages and salaries		748	757
Social security costs		80	75
Pensions	5	22	25
<b>Total</b>		<b>850</b>	<b>857</b>

Information on the remuneration and interests of directors is given in the Remuneration Report on pages 43 to 49.

# Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

## 7 EXCEPTIONAL ITEMS

Exceptional items in 1998 comprise the following:

- (i) costs of £26m (1997 £11m) relating to the integration of acquisitions, principally the Chilton Business Group and Matthew Bender;
- (ii) expenditure of £53m in 1998 (1997 £11m) in connection with the combined businesses' Year 2000 compliance programme;
- (iii) the net profit on sale of IPC Magazines divested in January 1998. The sales of the remaining Consumer Books businesses were completed during the year, resulting in no further gain or loss and;
- (iv) professional fees and other costs incurred in 1998 of £10m (1997 £3m) in respect of the abandoned merger of Reed Elsevier and Wolters Kluwer.

Exceptional net cash inflows in respect of the above items totalled £830m, comprising disposal proceeds after expenses, for IPC Magazines (£826m) and Consumer Books (£87m) less net cash disposed of £42m to fund taxation and working capital obligations, and payments relating to acquisition related integration costs (£22m), Year 2000 costs (£53m) and merger expenses (£8m).

Payments of £183m were made in 1998 in respect of Reed Travel Group customer recompense and reorganisation provided for in 1997.

£ million	1998	1997 (restated)
Acquisition related integration costs	<b>(26)</b>	(11)
Year 2000 compliance costs	<b>(53)</b>	(11)
Reed Travel Group – provision for customer recompense and related expenses and reorganisation	–	(230)
– non cash write down of intangible assets	–	(250)
Charged to operating profit	<b>(79)</b>	(502)
Net profit on sale of businesses	<b>692</b>	57
Merger expenses	<b>(10)</b>	(3)
<b>Total exceptional credit/(charge)</b>	<b>603</b>	(448)
<b>Tax (charge)/credit</b>	<b>(70)</b>	115

Exceptional items in 1997 included the following:

- (i) a provision of £230m, less tax relief of £87m, in respect of the estimated cost of programmes to recompense advertisers in relation to irregularities in circulation claims for certain Reed Travel Group publications, together with related expenses and reorganisation costs. A non cash write down of £250m was also made in intangible asset values;
- (ii) the net profit on sale of certain businesses, principally the Heinemann English Language Teaching business, a portfolio of certain US computer magazines and trade shows and the Belgian exhibitions business. The sales or closure of certain consumer book activities were also completed during the year, which, after taking account of provisions made in earlier years, resulted in no further gain or loss.

The exceptional pre-tax profit on sale of businesses in 1997 has been restated (increase of £29m) to reflect the cumulative goodwill and intangible asset amortisation prior to sale under FRS10.

The net cash inflow in 1997 in respect of the exceptional items was £73m. In addition £21m was paid in 1997, for which appropriate provision had been made in the prior year, in relation to the disposal of surplus leasehold property interests.

## 8 NET INTEREST EXPENSE

£ million	1998	1997
Interest receivable	<b>64</b>	38
Interest payable – loan capital	<b>(51)</b>	(59)
– promissory notes and bank loans	<b>(52)</b>	(40)
– finance leases	<b>(1)</b>	(1)
<b>Total</b>	<b>(40)</b>	(62)
<b>Interest cover (times)</b>	<b>20</b>	14

Interest cover is calculated as the number of times adjusted operating profit is greater than the net interest expense.

# Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

## 9 TAX ON PROFIT ON ORDINARY ACTIVITIES

£ million	1998	1997 (restated)
United Kingdom	69	73
The Netherlands	49	50
Rest of World	77	82
Sub-total (including deferred taxation charge of £77m (1997 £9m))	195	205
Share of tax attributable to joint ventures	6	9
Tax on ordinary activities before exceptional items	201	214
Net tax charge/(credit) on exceptional items (including deferred taxation credit of £nil (1997 £120m))	70	(115)
<b>Total</b>	<b>271</b>	<b>99</b>

The total tax charge for the year has been reduced by £51m (1997 £44m) in respect of allowances on publishing intangibles.

## 10 ORDINARY DIVIDENDS PAID AND PROPOSED

£ million	1998	1997
Reed International P.L.C.	172	167
Elsevier NV	177	198
<b>Total</b>	<b>349</b>	<b>365</b>

Dividends paid to Reed International P.L.C. and Elsevier NV shareholders are equalised at the gross level inclusive of the UK tax credit (currently 20%, reducing to 10% on 6 April 1999 and applicable for the 1998 final dividend) received by certain Reed International P.L.C. shareholders. The cost of funding the Reed International P.L.C. dividends is, therefore, lower than that of Elsevier NV. Details of dividends are set out on pages 76 and 78.

## 11 ADJUSTED FIGURES

In order to provide a more meaningful measure of underlying performance, 'adjusted' figures are presented which exclude all exceptional items and the amortisation of goodwill and intangible assets and related tax effects. The adjustments in arriving at adjusted profits are as follows:

£ million	1998	1997 (restated)
Profit before tax	1,044	86
Adjustments:		
Acquisition related integration costs	26	11
Year 2000 compliance costs	53	11
Reed Travel Group – provision for customer recompense and related expenses and reorganisation	–	230
– non cash write down of intangible assets	–	250
Net profit on sale of businesses	(692)	(57)
Merger expenses	10	3
Amortisation of goodwill and intangible assets	332	289
<b>Adjusted profit before tax</b>	<b>773</b>	<b>823</b>

£ million	1998	1997 (restated)
Profit/(loss) attributable to parent companies' shareholders	772	(14)
Adjustments:		
Acquisition related integration costs	16	7
Year 2000 compliance costs	33	7
Reed Travel Group – provision for customer recompense and related expenses and reorganisation	–	143
– non cash write down of intangible assets	–	210
Net profit on sale of businesses	(592)	(38)
Merger expenses	10	3
Amortisation of goodwill and intangible assets	332	290
<b>Adjusted profit attributable to parent companies' shareholders</b>	<b>571</b>	<b>608</b>

# Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

## 12 CASH FLOW STATEMENT

### Reconciliation of operating profit to net cash inflow from operating activities

£ million	Note	1998	1997 (restated)
Operating profit before joint ventures		393	78
Exceptional charges to operating profit	7	79	502
<b>Operating profit before exceptional items</b>		<b>472</b>	<b>580</b>
Amortisation of goodwill and intangible assets		323	278
Depreciation charges		97	96
Net SSAP24 pension credit	5	(4)	(1)
<b>Total non cash items</b>		<b>416</b>	<b>373</b>
Decrease in stocks		-	5
Decrease/(increase) in debtors		17	(25)
Increase in creditors		32	23
<b>Movement in working capital</b>		<b>49</b>	<b>3</b>
<b>Net cash inflow from operating activities before exceptional items</b>		<b>937</b>	<b>956</b>
Payments relating to exceptional items charged to operating profit:			
Reed Travel Group recompense programme and restructuring		(183)	(7)
Acquisition integration and Year 2000 programme		(75)	(19)
		<b>(258)</b>	<b>(26)</b>
<b>Net cash inflow from operating activities</b>		<b>679</b>	<b>930</b>
Continuing operations		679	850
Discontinued operations		-	80
<b>Net cash inflow from operating activities</b>		<b>679</b>	<b>930</b>

### Acquisitions

£ million	1998	1997
Purchase of subsidiary undertakings (including deferred consideration from prior years)	(1,231)	(713)
Investment in joint ventures	-	(12)
Purchase of fixed asset investments	(1)	(1)
<b>Total</b>	<b>(1,232)</b>	<b>(726)</b>

### Exceptional disposals of businesses

£ million	1998	1997 (restated)
Goodwill and intangible assets	132	49
Net tangible assets (excluding £42m cash)	72	-
	<b>204</b>	<b>49</b>
Provision made in prior year for losses on disposal of businesses	-	(10)
Net profit	692	57
Consideration in respect of disposal of businesses, net of expenses	896	96
Deferred consideration, net of expenses paid, received in respect of prior year disposals	9	10
	<b>905</b>	<b>106</b>
Amounts payable/(receivable)	8	(2)
<b>Net cash inflow</b>	<b>913</b>	<b>104</b>

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 12 CASH FLOW STATEMENT *(continued)*

#### Financing

£ million	1998	1997
Net movement in promissory notes and bank loans	<b>181</b>	255
Repayment of long term borrowings	<b>(3)</b>	(151)
Issuance of long term borrowings	<b>2</b>	4
Redemption of finance leases	<b>(6)</b>	(6)
	<b>174</b>	102
Issue of ordinary shares	<b>18</b>	21
Redemption of minority interest preference shares	-	(3)
<b>Total</b>	<b>192</b>	120

The repayment of long term borrowings relates to £3m of Dutch guilder convertible loan stock which matured during the year. In 1997 a US\$150m Eurobond and US\$80m of medium term notes were repaid on maturity.

#### Reconciliation of net borrowings

£ million	Cash	Short term investments	Borrowings	1998	1997
Net borrowings at 1 January	<b>110</b>	<b>734</b>	<b>(1,474)</b>	<b>(630)</b>	(196)
(Decrease)/increase in cash	<b>(84)</b>	-	-	<b>(84)</b>	29
Decrease in short term investments	-	<b>(63)</b>	-	<b>(63)</b>	(299)
Increase in borrowings	-	-	<b>(174)</b>	<b>(174)</b>	(102)
Change in net borrowings resulting from cash flows	<b>(84)</b>	<b>(63)</b>	<b>(174)</b>	<b>(321)</b>	(372)
Loans in acquired businesses	-	-	-	-	(10)
Inception of finance leases	-	-	<b>(10)</b>	<b>(10)</b>	(2)
Exchange translation differences	-	<b>11</b>	<b>(12)</b>	<b>(1)</b>	(50)
<b>Net borrowings at 31 December</b>	<b>26</b>	<b>682</b>	<b>(1,670)</b>	<b>(962)</b>	(630)

Borrowings comprise loan capital, finance leases, promissory notes and bank loans and are further analysed in note 21.

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 13 ACQUISITIONS

On 1 August 1998, Matthew Bender and the remaining 50% interest in Shepard's not already owned by Reed Elsevier were acquired in a US\$1.65bn transaction (£994m, after taking account of £3m of net cash acquired).

The net assets of the businesses acquired are incorporated at their fair value to the combined businesses. Fair value adjustments include the valuation of intangible assets on major acquisitions and the fair value of tangible fixed assets and current assets and liabilities in accordance with the Reed Elsevier accounting policies. These adjustments are:

#### Matthew Bender and Shepard's

£ million	Book value on acquisition	Fair value adjustments	Fair value
Goodwill	157	632	789
Intangible fixed assets	126	208	334
Tangible fixed assets	36	(13)	23
Current assets	53	(4)	49
Current liabilities	(74)	1	(73)
Deferred tax	1	3	4
<b>Net assets acquired (including 100% of Shepard's)</b>	<b>299</b>	<b>827</b>	<b>1,126</b>
Less: transfer from investment in joint venture (50% of Shepard's)			(132)
			<b>994</b>
<b>Consideration (after taking account of £3m net cash acquired)</b>			<b>994</b>

Before exceptional acquisition related integration costs and the amortisation of goodwill and intangible assets, Matthew Bender and 50% of Shepard's contributed £60m to turnover, £22m to operating profit and £27m to net cash flow from operating activities for the five months under Reed Elsevier ownership. The historical results in US dollars for Matthew Bender and a 50% share in Shepard's whilst not under Reed Elsevier ownership were:

US\$ million	7 months ended 31 July 1998	12 months ended 31 December 1997
Turnover	126	227
Operating profit	34	78

#### Other acquisitions

During the year a number of other acquisitions were made for a total consideration amounting to £225m, after taking account of £10m of net cash acquired. The most significant were the PGA Merchandise Show and PGA International Golf Show, Engineering Information Inc., and Beilstein Informationssysteme GmbH. £2m of the consideration has been deferred to future years.

£ million	Book value on acquisition	Fair value adjustments	Fair value
Goodwill	–	147	147
Intangible fixed assets	–	91	91
Tangible fixed assets	4	(2)	2
Current assets	11	(3)	8
Current liabilities	(22)	–	(22)
Deferred tax	(1)	–	(1)
<b>Net assets acquired</b>	<b>(8)</b>	<b>233</b>	<b>225</b>
<b>Consideration (after taking account of £10m net cash acquired)</b>			<b>225</b>

Before exceptional acquisition related integration costs and the amortisation of goodwill and intangible assets, the businesses acquired in 1998 contributed £40m to turnover, £9m to operating profit, and £14m to net cash flow from operating activities for the part year under Reed Elsevier ownership.

Finalisation of the fair value exercise and disposal of certain assets held for resale in respect of acquisitions in the previous year resulted in an increase in goodwill and intangible assets of £5m.

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 14 FIXED ASSETS – INTANGIBLE ASSETS AND TANGIBLE ASSETS

Cost	Note	Goodwill and intangible assets			Tangible assets		
		Goodwill	Intangible assets	Total	Land and buildings	Plant, equipment and computer systems	Total
£ million							
At 1 January 1998 as originally reported		–	2,751	2,751	148	623	771
Prior year adjustment (adoption of FRS10)	1	1,980	–	1,980	–	–	–
<b>At 1 January 1998 as restated</b>		<b>1,980</b>	<b>2,751</b>	<b>4,731</b>	<b>148</b>	<b>623</b>	<b>771</b>
Acquisitions	13	866	362	1,228	14	11	25
Capital expenditure		–	–	–	8	153	161
Transfer from investments in joint ventures		82	68	150	–	–	–
Disposals of businesses	12	(113)	(220)	(333)	–	(66)	(66)
Disposals		–	–	–	(4)	(48)	(52)
Exchange translation differences		12	12	24	–	6	6
<b>At 31 December 1998</b>		<b>2,827</b>	<b>2,973</b>	<b>5,800</b>	<b>166</b>	<b>679</b>	<b>845</b>

#### Accumulated amortisation and depreciation

£ million							
At 1 January 1998 as originally reported		–	250	250	40	383	423
Prior year adjustment (adoption of FRS10)	1	909	900	1,809	–	–	–
<b>At 1 January 1998 as restated</b>		<b>909</b>	<b>1,150</b>	<b>2,059</b>	<b>40</b>	<b>383</b>	<b>423</b>
Transfer from investments in joint ventures		7	5	12	–	–	–
Disposals of businesses	12	(71)	(130)	(201)	–	(36)	(36)
Disposals		–	–	–	(3)	(38)	(41)
Amortisation of goodwill and intangible assets		157	166	323	–	–	–
Depreciation		–	–	–	5	92	97
Exchange translation differences		6	3	9	–	3	3
<b>At 31 December 1998</b>		<b>1,008</b>	<b>1,194</b>	<b>2,202</b>	<b>42</b>	<b>404</b>	<b>446</b>

#### Net book amount

£ million							
At 1 January 1998 as restated		1,071	1,601	2,672	108	240	348
<b>At 31 December 1998</b>		<b>1,819</b>	<b>1,779</b>	<b>3,598</b>	<b>124</b>	<b>275</b>	<b>399</b>

The net book amount of tangible fixed assets includes £15m (1997 £9m) in respect of assets held under finance leases.

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 15 FIXED ASSETS – INVESTMENTS

£ million	Note	Investments in joint ventures	Investments	Total
At 1 January 1998 as originally reported		<b>208</b>	<b>19</b>	<b>227</b>
Reinstatement of goodwill	1	<b>85</b>	–	<b>85</b>
Accumulated amortisation brought forward	1	<b>(44)</b>	<b>(4)</b>	<b>(48)</b>
<b>At 1 January 1998 as restated</b>		<b>249</b>	<b>15</b>	<b>264</b>
Share of attributable profit		<b>12</b>	–	<b>12</b>
Amortisation of goodwill and intangible assets		<b>(9)</b>	–	<b>(9)</b>
Dividends received from joint ventures		<b>(11)</b>	–	<b>(11)</b>
Additions		–	<b>1</b>	<b>1</b>
Disposals		<b>(37)</b>	<b>(4)</b>	<b>(41)</b>
Transfer to subsidiary undertakings	13	<b>(132)</b>	–	<b>(132)</b>
Exchange translation differences and other movements		<b>3</b>	–	<b>3</b>
<b>At 31 December 1998</b>		<b>75</b>	<b>12</b>	<b>87</b>

The principal joint ventures at 31 December 1998 are Giuffrè (a 40% shareholding in an Italian legal publisher) and REZsolutions, Inc. (a 67% shareholding in a hotel reservations and marketing business). Book Club Associates (a 50% interest in a UK partnership) was sold during the year. On 1 August 1998, the 50% interest in Shepard's, with a net book value of £132m, comprising £138m of goodwill and intangible assets less a £6m share of net liabilities, was consolidated on acquisition of the remaining 50% interest (see note 13).

### 16 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	1998	1997
Trade debtors	<b>504</b>	520
Amounts owed by joint ventures	<b>1</b>	2
Corporation tax recoverable	<b>56</b>	–
Deferred tax	–	57
Advance corporation tax	<b>13</b>	42
Other debtors	<b>48</b>	61
Prepayments and accrued income	<b>109</b>	115
<b>Total</b>	<b>731</b>	797

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 17 DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

£ million	Note	1998	1997
Trade debtors		10	7
Deferred tax		–	20
Pension prepayment	5	124	133
Prepayments, accrued income and other debtors		2	5
<b>Total</b>		<b>136</b>	<b>165</b>

### 18 CASH AND SHORT TERM INVESTMENTS

£ million	1998	1997
Cash at bank and in hand	26	110
Short term investments	682	734
<b>Total</b>	<b>708</b>	<b>844</b>

Short term investments include deposits of under one year, if the maturity or notice period exceeds 24 hours, commercial paper investments and interest bearing securities that can be realised without significant loss at short notice.

### 19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	Note	1998	1997
Loan capital		179	2
Promissory notes and bank loans		968	779
Obligations under finance leases	24	3	4
Sub-total: Borrowings	21	1,150	785
Trade creditors		148	187
Other creditors		150	107
Taxation		141	228
Proposed dividends	10	244	251
Accruals and deferred income		958	837
<b>Total</b>		<b>2,791</b>	<b>2,395</b>

### 20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

£ million	Note	1998	1997
Loan capital		154	177
– within one to two years		82	160
– within two to five years		273	348
– after five years		1	–
Promissory notes and bank loans		1	–
Obligations under finance leases	24	10	4
Sub-total: Borrowings	21	520	689
Other creditors		16	24
Taxation		224	78
Deferred taxation		1	–
Accruals and deferred income		36	47
<b>Total</b>		<b>797</b>	<b>838</b>

# Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

## 21 ANALYSIS OF NET BORROWINGS

The maturity by currency of total borrowings at 31 December comprised:

£ million	less than 1 year	1-2 years	2-5 years	5-10 years	over 10 years	1998	1997
US dollar	<b>899</b>	<b>152</b>	<b>77</b>	<b>90</b>	<b>180</b>	<b>1,398</b>	972
Sterling	–	–	–	–	–	–	298
Euro zone currencies	<b>203</b>	<b>5</b>	<b>7</b>	<b>9</b>	–	<b>224</b>	141
Other currencies	<b>48</b>	–	–	–	–	<b>48</b>	63
<b>Total</b>	<b>1,150</b>	<b>157</b>	<b>84</b>	<b>99</b>	<b>180</b>	<b>1,670</b>	1,474

The currency and yield profile of cash and short term investments and total borrowings as at 31 December 1998 was as follows:

£ million	Cash and short term investments	Total borrowings	Floating rate borrowings	Fixed rate borrowings	Fixed rate borrowings:	
					Weighted average interest rate	Weighted average duration (years)
US dollar	<b>55</b>	<b>1,398</b>	<b>402</b>	<b>996</b>	<b>7.0%</b>	<b>6.9</b>
Sterling	<b>465</b>	–	–	–	–	–
Euro zone currencies	<b>154</b>	<b>224</b>	<b>97</b>	<b>127</b>	<b>5.0%</b>	<b>1.8</b>
Other currencies	<b>34</b>	<b>48</b>	<b>32</b>	<b>16</b>	<b>7.3%</b>	<b>1.1</b>
<b>Total</b>	<b>708</b>	<b>1,670</b>	<b>531</b>	<b>1,139</b>	<b>6.8%</b>	<b>6.3</b>

The cash and short term investments bear interest at rates which reset within six months.

Fixed rate borrowings include floating rate debt fixed through interest rate swaps.

Borrowings less than one year include US commercial paper, Eurocommercial paper and other short term borrowings which are supported by available committed facilities and by centrally managed cash and short term investments. At 31 December 1998, a total of £602m (1997 £602m) of committed facilities were available, all of which mature in over one year. Secured borrowings under finance leases were £13m (1997 £8m).

The businesses seek to limit interest rate risk primarily through the use of interest rate swaps and forward rate agreements. The use of derivatives is limited to hedging activities and treasury policies do not permit the use of such instruments in the absence of underlying interest rate exposures. At the end of the year, the combined businesses have no net market risk on derivative instruments held because such instruments are used for hedging rather than trading activities.

Interest rate swaps in place at 31 December 1998 were largely to fix the interest cost of US dollar borrowings as follows:

£ million	Notional principal of interest rate swaps outstanding				Weighted average interest rate		Weighted average remaining maturity (years)	
	On dollar borrowings	On guilder cash	On other borrowings	Total	Payable on dollars	Receivable on guilders	On dollar borrowings	On guilder cash
As at 31 December								
1998	<b>361</b>	<b>35</b>	<b>110</b>	<b>506</b>	<b>6.1%</b>	<b>9.9%</b>	<b>3.2</b>	<b>0.1</b>
1999	<b>331</b>	–	<b>100</b>	<b>431</b>	<b>6.1%</b>	–	<b>2.4</b>	–
2000	<b>316</b>	–	–	<b>316</b>	<b>6.1%</b>	–	<b>1.5</b>	–
2001	<b>256</b>	–	–	<b>256</b>	<b>6.0%</b>	–	<b>0.7</b>	–
2002	<b>30</b>	–	–	<b>30</b>	<b>6.4%</b>	–	<b>0.5</b>	–

The fixed interest rate receivable on guilders matches an obligation to pay a fixed interest on certain borrowings. As at 31 December 1998 there were no outstanding caps, floors, collars or similar instruments.

Forward rate agreements are used principally to fix the interest income on short term investments. At 31 December 1998, the gross notional amount of forward rate agreements totalled £698m, commencing in periods of up to 12 months from 31 December 1998, and for periods of between 91 days and seven months duration, ending on dates between May 1999 and April 2000.

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 22 FAIR VALUES OF FINANCIAL INSTRUMENTS

£ million	1998		1997	
	Book value	Fair value	Book value	Fair value
Cash	26	26	110	110
Short term investments	682	682	734	734
<b>Total</b>	<b>708</b>	<b>708</b>	844	844
Short term borrowings and current portion of long term borrowings	(1,150)	(1,152)	(785)	(785)
Long term borrowings	(520)	(558)	(689)	(715)
Total borrowings	(1,670)	(1,710)	(1,474)	(1,500)
Interest rate swaps	-	(12)	-	(1)
Forward rate agreements	-	2	-	-
Currency swaps	-	-	1	(2)
Forward foreign exchange contracts	-	2	-	2
Total financial derivatives	-	(8)	1	(1)
<b>Total</b>	<b>(1,670)</b>	<b>(1,718)</b>	(1,473)	(1,501)

Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts. In addition, future transaction exposures may be hedged, within defined limits, in advance of becoming contractual. At the year end, the amount of outstanding foreign exchange cover in respect of future transactions was £450m (1997 £236m). There were no outstanding foreign currency options or similar products. The deferred gain of £2m (1997 £2m) related to hedges of transactions expected to occur in future periods.

### 23 CURRENCY ANALYSIS OF NET ASSETS

£ million	Net assets excluding net borrowings	Net cash/ (borrowings)	Net assets
US dollar	2,938	(1,343)	1,595
Sterling	211	465	676
Euro zone currencies	(47)	(70)	(117)
Other currencies	(10)	(14)	(24)
<b>Total</b>	<b>3,092</b>	<b>(962)</b>	<b>2,130</b>

### 24 OBLIGATIONS UNDER LEASES

The future finance lease payments are:

£ million	Note	1998	1997
Repayable:			
Within one year		3	4
Between one and two years		3	3
Between two and five years		4	2
After five years		9	-
Less: interest charges allocated to future periods		(6)	(1)
<b>Total</b>		<b>13</b>	<b>8</b>
Obligations included in creditors falling due within one year	19	3	4
Obligations included in creditors falling due after more than one year	20	10	4
<b>Total</b>		<b>13</b>	<b>8</b>

## Notes to the combined financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 1998

### 24 OBLIGATIONS UNDER LEASES *(continued)*

Annual commitments under operating leases are:

£ million		1998	1997
Expiry of operating leases	- falling within one year	5	8
	- falling within two to five years	21	18
	- falling after five years	30	37
<b>Total</b>		<b>56</b>	<b>63</b>

### 25 PROVISIONS FOR LIABILITIES AND CHARGES

£ million	Note	Losses on sale of businesses	Acquisitions	Pensions and severance pay	Reed Travel Group	Other	Total
At 1 January 1998 as originally reported		22	14	9	220	5	270
Prior year adjustment (adoption of FRS10)	1	10	-	-	-	-	10
<b>At 1 January 1998 as restated</b>		<b>32</b>	<b>14</b>	<b>9</b>	<b>220</b>	<b>5</b>	<b>280</b>
Provided		-	-	1	-	-	1
Utilised/transferred		(32)	(11)	(10)	(187)	(5)	(245)
<b>At 31 December 1998</b>		<b>-</b>	<b>3</b>	<b>-</b>	<b>33</b>	<b>-</b>	<b>36</b>

### 26 CONTINGENT LIABILITIES

There are contingent liabilities amounting to £32m (1997 £33m) in respect of borrowings of former subsidiaries and £nil (1997 £8m) in respect of borrowings of joint ventures.

There are a number of outstanding legal claims but they are not considered to be material in the context of these financial statements.

### 27 COMBINED SHAREHOLDERS' FUNDS

£ million	Note	Combined share capitals	Combined share premium accounts	Combined revenue reserves	Total
At 1 January 1998 as originally reported		167	328	999	1,494
Prior year adjustment (adoption of FRS10)	1	-	-	198	198
<b>At 1 January 1998</b>		<b>167</b>	<b>328</b>	<b>1,197</b>	<b>1,692</b>
Profit attributable to parent companies' shareholders		-	-	772	772
Ordinary dividends		-	-	(349)	(349)
Issue of shares on exercise of options		-	18	-	18
Exchange translation differences		1	7	(11)	(3)
<b>At 31 December 1998</b>		<b>168</b>	<b>353</b>	<b>1,609</b>	<b>2,130</b>

Share capital excludes the shares of Elsevier NV held by Reed International P.L.C. Share capital includes non-equity shares of £4m (1997 £4m).

Combined revenue reserves include the share of reserves retained within joint ventures amounting to £36m (1997 £60m), including the undistributed reserves of Utell contributed to the joint venture, REZsolutions, Inc.

## Additional information for US investors

### SUMMARY OF THE PRINCIPAL DIFFERENCES BETWEEN UK AND DUTCH GAAP AND US GAAP

The combined financial statements are prepared in accordance with UK and Dutch GAAP, which differ in certain significant respects from US GAAP. The principal differences that affect net income and combined shareholders' funds are explained below and the approximate effect is shown on page 73.

#### SALE OF BUSINESSES

Discontinued operations, as separately categorised in the profit and loss/income statements under UK and Dutch GAAP and US GAAP, may relate only to significant business segments. Under UK and Dutch GAAP, such businesses are separately segmented as discontinued only when sale transactions or closures have been completed. Under US GAAP, such businesses are segmented as discontinued once formal commitment to sale or closure is made.

Under US GAAP, net income from discontinued operations includes all operating results of the discontinued operations and the gain or loss on sale. Under UK and Dutch GAAP, operating results from discontinued activities are disclosed as a separate element within operating profit and the gain or loss on sale is disclosed as an exceptional item.

#### GOODWILL AND OTHER INTANGIBLE ASSETS

In prior years, under UK and Dutch GAAP, goodwill arising on business combinations treated as acquisitions has been written off against retained profit. Other intangibles, principally publishing rights and titles, databases and exhibition rights, were carried at fair value on acquisition, subject to impairment reviews but with no systematic amortisation. Under US GAAP, goodwill and other intangibles acquired after 31 October 1970 are required to be amortised over the period of their estimated useful lives, to a maximum of 40 years.

For the 1998 fiscal year, Reed Elsevier has adopted the new UK financial reporting standard (FRS10: Goodwill and Intangible Assets), and has accordingly changed its accounting policy for goodwill and intangible assets. Under the new policy – which has been applied retrospectively and under UK/Dutch GAAP has resulted in a restatement of the financial position and results of prior periods – goodwill and intangible assets are being amortised through the profit and loss account over their estimated useful lives, up to a maximum of 20 years. In view of this and the consideration given to the determination of appropriate prudent asset lives, the remaining asset lives for US GAAP purposes have been reviewed and determined consistently with those adopted for the new UK/Dutch GAAP treatment. This re-evaluation of asset lives under US GAAP, which is effective from 1 January 1998, has significantly increased the periodic amortisation charge, as the unamortised value of existing assets, which were previously being amortised over periods up to 40 years, are now being amortised over shorter periods. As a result of the restatement of the prior period UK/Dutch GAAP financial position and results, the US GAAP adjustments have been adjusted accordingly.

#### DEFERRED TAXATION

The combined businesses provide in full for timing differences using the liability method. There is no material difference between this full provision policy and the partial provision method required under UK GAAP. Under US GAAP, deferred taxation is provided on all temporary differences under the liability method subject to a valuation allowance on deferred tax assets where applicable. The principal adjustment to apply US GAAP is to provide deferred taxation on temporary differences arising from the amortisation under US GAAP of goodwill and other intangible assets.

#### ACQUISITION ACCOUNTING

Prior to the introduction of UK financial reporting standard 7 (FRS7: Fair Values in Acquisition Accounting), which is effective in respect of 1995 and subsequent years, under UK and Dutch GAAP, certain items such as integration costs incurred in existing operations and the costs of commitments and developments in progress, may have been provided as part of the purchase accounting adjustments on acquisition. Under US GAAP, some of these items are only expensed when the costs are incurred. Under FRS7, provisions for restructuring and integration costs may no longer be provided.

#### REVALUATION OF LAND AND BUILDINGS

Under UK and Dutch GAAP, land and buildings may be restated on the basis of appraised values. Such restatements are not generally permitted under US GAAP.

#### PENSIONS

The combined businesses account for pension costs under the rules set out in SSAP24. Its objectives and principles are broadly in line with US GAAP. However, SSAP24 is less prescriptive in its provisions and allows the use of different methods of measurement.

#### SALE AND LEASE BACK TRANSACTIONS OF REAL ESTATE

Under US GAAP, the profit from certain sale and lease back transactions is deferred and recorded in different accounting periods than under UK and Dutch GAAP.

#### ORDINARY DIVIDENDS

Under UK and Dutch GAAP, dividends are provided for in the year in respect of which they are proposed by the directors. Under US GAAP, such dividends would not be provided for until they are formally declared by the directors.

## Additional information for US investors continued

### APPROXIMATE EFFECTS ON NET INCOME OF DIFFERENCES BETWEEN UK AND DUTCH GAAP AND US GAAP

£ million	1998	1997 (restated)
Net income under UK and Dutch GAAP	772	(14)
US GAAP adjustments:		
Amortisation of goodwill and other intangibles	(477)	1
Deferred taxation	77	32
Pensions	30	23
Other items	(4)	1
<b>Net income under US GAAP</b>	<b>398</b>	<b>43</b>
Analysed:		
Continuing operations	(122)	3
Discontinued operations – income from operations	(1)	40
– gain on sales	521	–
<b>Net income under US GAAP</b>	<b>398</b>	<b>43</b>

The increase in the adjustment for amortisation of goodwill and intangible assets in 1998 reflects the additional write downs arising as a consequence of the re-evaluation of the remaining asset lives of goodwill and intangible assets under US GAAP.

Discontinued operations comprise IPC Magazines and the remaining consumer book publishing operations which were the final elements of the Consumer segment sold in the year.

### APPROXIMATE EFFECTS ON COMBINED SHAREHOLDERS' FUNDS OF DIFFERENCES BETWEEN UK AND DUTCH GAAP AND US GAAP

£ million	As at 31 December	
	1998	1997 (restated)
Combined shareholders' funds under UK and Dutch GAAP	2,130	1,692
US GAAP adjustments:		
Goodwill and other intangibles	637	925
Deferred taxation	(242)	(127)
Pensions	57	26
Other items	7	7
Ordinary dividends not declared in the period	244	251
<b>Combined shareholders' funds under US GAAP</b>	<b>2,833</b>	<b>2,774</b>

Reed Elsevier Inc. is the holding company for the majority of Reed Elsevier US businesses. US based investors in Reed International (CUSIP No. 758212872; trading symbol, RUK) and Elsevier (CUSIP No. 290259100; trading symbol, ENL) requiring any further information should contact Paul Richardson, Vice President Finance:

#### Until 1 April 1999

Reed Elsevier Inc.  
MetLife Building  
17th Floor, 200 Park Avenue  
New York, NY 10166, USA  
Tel: 212 309 8172  
Fax: 212 309 7818

#### From 1 April 1999

Reed Elsevier Inc.  
2 Park Avenue  
7th Floor  
New York, NY 10166, USA  
Tel: 212 448 2300  
Fax: 212 448 2196

## Summary combined financial information in US dollars

FOR THE YEAR ENDED 31 DECEMBER 1998

### BASIS OF PREPARATION

The summary financial information is a simple translation of the Reed Elsevier combined financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK and Dutch GAAP as used in the preparation of the Reed Elsevier combined financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

	US dollars	
Exchange rates for translation of sterling	1998	1997
Profit and loss and cash flow	<b>1.66</b>	1.64
Balance sheet	<b>1.66</b>	1.66

### PROFIT AND LOSS STATEMENT

Millions	1998	1997 (restated)
<b>Sales</b>		
Continuing operations	<b>5,251</b>	4,899
Discontinued operations	<b>46</b>	705
<b>Total sales</b>	<b>5,297</b>	5,604
<b>Adjusted operating profit</b>		
Continuing operations	<b>1,350</b>	1,332
Discontinued operations	<b>-</b>	120
<b>Total adjusted operating profit</b>	<b>1,350</b>	1,452
<b>Profit before tax</b>	<b>1,733</b>	141
<b>Profit/(loss) attributable</b>	<b>1,282</b>	(23)
<b>Adjusted profit before tax</b>	<b>1,283</b>	1,350
<b>Adjusted profit attributable</b>	<b>948</b>	997

### CASH FLOW STATEMENT

Net cash inflow from operating activities	<b>1,127</b>	1,525
Dividends received from joint ventures	<b>18</b>	28
Returns on investments and servicing of finance	<b>(75)</b>	(97)
Taxation	<b>(239)</b>	(295)
Capital expenditure	<b>(232)</b>	(216)
Acquisitions and disposals	<b>(561)</b>	(1,033)
Equity dividends paid to the shareholders of the parent companies	<b>(601)</b>	(552)
Cash outflow before changes in short term investments and financing	<b>(563)</b>	(640)
Decrease in short term investments	<b>105</b>	490
Financing	<b>319</b>	198
<b>(Decrease)/increase in cash</b>	<b>(139)</b>	48
<b>Adjusted operating cash flow</b>	<b>1,341</b>	1,414
<b>Adjusted operating cash flow conversion</b>	<b>99%</b>	97%

### BALANCE SHEET

<b>Capital employed</b>		
Goodwill and intangible assets	<b>5,973</b>	4,436
Other fixed assets	<b>807</b>	1,016
Trading working capital	<b>(704)</b>	(486)
Other working capital	<b>(44)</b>	(376)
<b>Total</b>	<b>6,032</b>	4,590
<b>Funded by:</b>		
Combined shareholders' funds	<b>3,536</b>	2,809
Other net liabilities	<b>899</b>	735
Net borrowings	<b>1,597</b>	1,046
<b>Total</b>	<b>6,032</b>	4,590

# Summary combined financial information in Dutch guilders and euros

FOR THE YEAR ENDED 31 DECEMBER 1998

## BASIS OF PREPARATION

The summary financial information is a simple translation of the Reed Elsevier combined financial statements into Dutch guilders at the stated rates of exchange and into euros based on the fixed conversion rate of 1 euro to 2.20371 Dutch guilders, established on the introduction of the euro on 1 January 1999. The financial information provided below is prepared under UK and Dutch GAAP as used in the preparation of the Reed Elsevier combined financial statements.

	Dutch guilders		Euros	
	1998	1997	1998	1997
Exchange rates for translation of sterling				
Profit and loss and cash flow	<b>3.28</b>	3.19		
Balance sheet	<b>3.13</b>	3.34		

## PROFIT AND LOSS STATEMENT

Millions	1998	1997 (restated)	1998	1997 (restated)
<b>Sales</b>				
Continuing operations	<b>10,375</b>	9,528	<b>4,708</b>	4,324
Discontinued operations	<b>91</b>	1,372	<b>41</b>	622
<b>Total sales</b>	<b>10,466</b>	10,900	<b>4,749</b>	4,946
<b>Adjusted operating profit</b>				
Continuing operations	<b>2,667</b>	2,590	<b>1,210</b>	1,175
Discontinued operations	<b>-</b>	233	<b>-</b>	106
<b>Total adjusted operating profit</b>	<b>2,667</b>	2,823	<b>1,210</b>	1,281
<b>Profit before tax</b>	<b>3,424</b>	274	<b>1,554</b>	124
<b>Profit/(loss) attributable</b>	<b>2,532</b>	(45)	<b>1,149</b>	(20)
<b>Adjusted profit before tax</b>	<b>2,535</b>	2,625	<b>1,150</b>	1,191
<b>Adjusted profit attributable</b>	<b>1,873</b>	1,940	<b>850</b>	880

## CASH FLOW STATEMENT

Net cash inflow from operating activities	<b>2,227</b>	2,967	<b>1,011</b>	1,346
Dividends received from joint ventures	<b>36</b>	54	<b>16</b>	25
Returns on investments and servicing of finance	<b>(148)</b>	(188)	<b>(67)</b>	(85)
Taxation	<b>(472)</b>	(574)	<b>(214)</b>	(260)
Capital expenditure	<b>(459)</b>	(421)	<b>(208)</b>	(191)
Acquisitions and disposals	<b>(1,109)</b>	(2,010)	<b>(503)</b>	(912)
Equity dividends paid to the shareholders of the parent companies	<b>(1,187)</b>	(1,072)	<b>(540)</b>	(488)
Cash outflow before changes in short term investments and financing	<b>(1,112)</b>	(1,244)	<b>(505)</b>	(565)
Decrease in short term investments	<b>207</b>	954	<b>94</b>	433
Financing	<b>629</b>	383	<b>286</b>	174
<b>(Decrease)/increase in cash</b>	<b>(276)</b>	93	<b>(125)</b>	42
<b>Adjusted operating cash flow</b>	<b>2,650</b>	2,750	<b>1,203</b>	1,248
<b>Adjusted operating cash flow conversion</b>	<b>99%</b>	97%	<b>99%</b>	97%

## BALANCE SHEET

<b>Capital employed</b>				
Goodwill and intangible assets	<b>11,262</b>	8,924	<b>5,110</b>	4,050
Other fixed assets	<b>1,521</b>	2,044	<b>690</b>	928
Trading working capital	<b>(1,327)</b>	(978)	<b>(602)</b>	(444)
Other working capital	<b>(82)</b>	(755)	<b>(37)</b>	(343)
<b>Total</b>	<b>11,374</b>	9,235	<b>5,161</b>	4,191
<b>Funded by:</b>				
Combined shareholders' funds	<b>6,667</b>	5,651	<b>3,025</b>	2,564
Other net liabilities	<b>1,696</b>	1,480	<b>770</b>	672
Net borrowings	<b>3,011</b>	2,104	<b>1,366</b>	955
<b>Total</b>	<b>11,374</b>	9,235	<b>5,161</b>	4,191

## Reed International P.L.C. summary financial information

### 1 BASIS OF PREPARATION

The results for the year ended 31 December 1998 reflect Reed International P.L.C.'s 50% share of the Reed Elsevier combined businesses and a 5.8% interest in Elsevier NV, both of which are accounted for on an equity basis. The results for the year ended 31 December 1998 are derived from the financial statements of Reed International P.L.C. which have been audited by Deloitte & Touche, and will be filed with the UK Registrar of Companies following the Annual General Meeting.

The comparative results for 1997 have been restated to reflect the adoption of the new UK financial reporting standard FRS10: Goodwill and Intangible Assets, which is applicable for the first time in 1998, by the Reed Elsevier combined businesses. Adjusted figures exclude exceptional items, the amortisation of goodwill and intangible assets, which results from the implementation of FRS10, and related tax effects.

### 2 PROFIT AND LOSS ACCOUNT

£ million	Note	1998	1997 (restated)
Share of combined turnover		<b>1,688</b>	1,808
Share of adjusted profit before tax:			
Reed Elsevier combined businesses (50%)		<b>387</b>	412
Elsevier NV (5.8%)		<b>22</b>	23
		<b>409</b>	435
Share of amortisation of goodwill and intangible assets		<b>(176)</b>	(153)
Share of exceptional items before tax		<b>319</b>	(237)
Elsevier NV's share of UK tax credit on distributed earnings		<b>(12)</b>	(20)
Profit before taxation		<b>540</b>	25
Taxation		<b>(144)</b>	(52)
Share of attributable profit/(loss) after tax credit equalisation		<b>396</b>	(27)
Dividends paid and proposed		<b>(172)</b>	(167)
<b>Retained profit/(loss)</b>		<b>224</b>	(194)
<b>Statutory earnings per share</b>		<b>34.7p</b>	(2.4)p
<b>Reed International P.L.C. earnings per share (EPS)</b>			
Reed International P.L.C. statutory EPS		<b>34.7p</b>	(2.4)p
Effect of tax credit equalisation	4	<b>1.0p</b>	1.8p
Share of earnings from Reed Elsevier combined businesses (52.9%)		<b>35.7p</b>	(0.6)p
Adjustments to arrive at adjusted EPS:			
Share of exceptional items		<b>(24.7)p</b>	15.5p
Share of amortisation of goodwill and intangible assets		<b>15.4p</b>	13.4p
<b>Adjusted EPS</b>		<b>26.4p</b>	28.3p

The adjusted EPS is based upon the Reed International P.L.C.'s shareholders' 52.9% share of the adjusted profit attributable of the Reed Elsevier combined businesses.

### 3 DIVIDENDS

The directors of Reed International P.L.C. have proposed a final dividend of 10.4p per ordinary share (1997 second interim: 10.2p) which when added to the interim dividend already paid of 4.6p per ordinary share (1997 first interim: 4.4p), amounts to a total 1998 dividend of 15.0p per ordinary share (1997 14.6p), an increase of 3%.

The parent company cash flows largely consist of dividends paid to its shareholders as above and dividends received from Reed Elsevier plc.

## Reed International P.L.C. summary financial information continued

### 4 UK TAX CREDIT ON DISTRIBUTED EARNINGS

The Reed International P.L.C. share of the Reed Elsevier combined results has been calculated on the basis of the 52.9% economic interest of the Reed International shareholders in the Reed Elsevier combined businesses. Dividends paid to Reed International P.L.C. and Elsevier NV shareholders are equalised at the gross level inclusive of the UK tax credit (currently 20%, reducing to 10% on 6 April 1999 and applicable for the 1998 final dividend) received by certain Reed International P.L.C. shareholders. In the statutory accounts of Reed International P.L.C., an adjustment is required to equalise the benefit of the tax credit between the two sets of shareholders in accordance with the equalisation agreement. This equalisation adjustment arises only on dividends paid by Reed International P.L.C. to its shareholders and reduces the attributable earnings of the company by 47.1% of the total amount of the tax credit.

### 5 RECONCILIATION OF SHAREHOLDERS' FUNDS

£ million	1998	1997 (restated)
Shareholders' funds at 1 January as originally reported	790	1,096
Prior year adjustment (adoption of FRS10)	105	(5)
<b>Shareholders' funds at 1 January</b>	<b>895</b>	<b>1,091</b>
Retained profit/(loss)	224	(77)
Prior year adjustment (adoption of FRS10)	-	(117)
<b>Retained profit/(loss)</b>	<b>224</b>	<b>(194)</b>
Share of goodwill written off on acquisitions net of disposals as originally reported	-	(227)
Prior year adjustment (adoption of FRS10)	-	227
Increase in share capital and share premium	14	15
Other items including exchange translation differences	(6)	(17)
<b>Shareholders' funds at 31 December</b>	<b>1,127</b>	<b>895</b>

The consolidated balance sheet of Reed International P.L.C. reflects its 52.9% share of the net assets of the combined businesses.

The shareholders' funds are largely represented by the investments in Reed Elsevier.

## Elsevier NV summary financial information

### 1 BASIS OF PREPARATION

The results for the year ended 31 December 1998 reflect Elsevier NV's 50% share of the Reed Elsevier combined businesses accounted for on an equity basis. The financial information in respect of the year ended 31 December 1998 has been extracted from the statutory accounts of Elsevier NV which have been audited by Deloitte & Touche.

The comparative results for 1997 have been restated to reflect the adoption of the new UK financial reporting standard FRS10: Goodwill and Intangible Assets, which is applicable for the first time in 1998, by the Reed Elsevier combined businesses. Adjusted figures exclude exceptional items, the amortisation of goodwill and intangible assets, which results from the implementation of FRS10, and related tax effects.

### 2 PROFIT AND LOSS ACCOUNT

Dfl million	1998	1997 (restated)
Share of adjusted profit before tax from Reed Elsevier combined businesses (50%)	<b>1,268</b>	1,313
Share of amortisation of goodwill and intangible assets	<b>(545)</b>	(461)
Share of exceptional items before tax	<b>989</b>	(716)
Taxation	<b>(446)</b>	(158)
<b>Profit/(loss) attributable to shareholders</b>	<b>1,266</b>	(22)
Allocation of profit/(loss):		
Dividends paid and proposed	<b>581</b>	633
Transferred to/(from) reserves	<b>685</b>	(655)
<b>Profit/(loss) attributable to shareholders</b>	<b>1,266</b>	(22)
<b>Elsevier NV earnings per share (EPS):</b>		
Share of earnings from Reed Elsevier combined businesses (50%)	<b>Dfl 1.79</b>	Dfl (0.03)
Share of exceptional items	<b>Dfl (1.24)</b>	Dfl 0.74
Share of amortisation of goodwill and intangible assets	<b>Dfl 0.77</b>	Dfl 0.66
<b>Adjusted EPS</b>	<b>Dfl 1.32</b>	Dfl 1.37

The adjusted EPS is based upon Elsevier NV's 50% share of the adjusted profit attributable of the Reed Elsevier combined businesses.

### 3 DIVIDENDS

The directors of Elsevier NV have proposed a final dividend of Dfl 0.58 per ordinary share (1997 second interim: Dfl 0.66), which when added to the interim dividend already paid of Dfl 0.29 per ordinary share (1997 first interim: Dfl 0.29), amounts to a total 1998 dividend of Dfl 0.87 per ordinary share (1997 Dfl 0.95). Dividends paid to Reed International P.L.C. and Elsevier NV shareholders are equalised at the gross level inclusive of the UK tax credit (currently 20%, reducing to 10% on 6 April 1999 and applicable for the 1998 final dividend) received by certain Reed International P.L.C. shareholders. The reduced level of dividend reflects the reduction in tax credit equalisation and movements in sterling-guilder exchange rates between dividend declaration dates.

The parent company cash flows largely consist of dividends paid to its shareholders as above and dividends received from its associated companies.

## Elsevier NV summary financial information continued

### 4 RECONCILIATION OF SHAREHOLDERS' FUNDS

Dfl million	1998	1997 (restated)
Shareholders' funds at 1 January as originally reported	2,495	3,065
Prior year adjustment (adoption of FRS10)	331	(12)
<b>Shareholders' funds at 1 January</b>	<b>2,826</b>	<b>3,053</b>
Profit attributable to shareholders as originally reported	1,266	330
Prior year adjustment (adoption of FRS10)	-	(352)
<b>Profit/(loss) attributable to shareholders</b>	<b>1,266</b>	<b>(22)</b>
Share of goodwill written off on acquisitions net of disposals as originally reported	-	(684)
Prior year adjustment (adoption of FRS10)	-	684
Increase in share capital	11	21
Equalisation	26	66
Currency translation differences	(215)	341
Dividends paid and proposed	(581)	(633)
<b>Shareholders' funds at 31 December</b>	<b>3,333</b>	<b>2,826</b>

The balance sheet of Elsevier NV reflects its 50% share of the net assets of the combined businesses.

The shareholders' funds are largely represented by the investments in Reed Elsevier.

Equalisation represents the net movement to maintain Elsevier NV's shareholders' funds at 50% of the combined net assets. Movements include Elsevier's share of the UK tax credit on distributed earnings and an adjustment to recognise Reed International P.L.C.'s entitlement on its 5.8% interest to distributions equivalent to those payable to other Elsevier NV shareholders.

### 5 EURO

An Amendment to the Articles of Association is to be proposed at the Annual General Meeting in April 1999 to redenominate the par value of the ordinary shares of Elsevier NV from Dfl 0.10 to 0.06 euro and the R shares from Dfl 1.00 to 0.60 euro. The equalisation arrangements with Reed International are unaffected. It is presently intended that Dutch guilders will remain the principal reporting currency in 1999, with key information also presented in euros. Dividends will be declared in euros from the 2000 financial year.

## Shareholder information

### FINANCIAL DIARY FOR 1999

<b>11 March</b>	Announcement of Preliminary Results for the year ended 31 December 1998
<b>19 March</b>	Annual Report and Accounts and Annual Review posted to shareholders
<b>14 April</b>	Elsevier NV Annual General Meeting at the Grand Hotel Krasnapolsky, Dam 9, 1012 JS Amsterdam
<b>15 April</b>	Reed International P.L.C. Annual General Meeting at The Four Seasons Hotel, Hamilton Place, London W1
<b>19 April</b>	Ordinary shares and ADSs in Reed International P.L.C. and Elsevier NV go ex-dividend for final dividend
<b>21 April</b>	Record date – ADSs in Reed International P.L.C. and Elsevier NV
<b>23 April</b>	Record date – Reed International P.L.C. ordinary shares
<b>21 May</b>	Final dividends for 1998 paid on Reed International P.L.C. and Elsevier NV ordinary shares
<b>28 May</b>	Final dividends for 1998 paid on Reed International P.L.C. and Elsevier NV ADSs
<b>5 August</b>	Announcement of Interim Results for the six months to 30 June 1999
<b>16 August</b>	Ordinary shares and ADSs in Reed International P.L.C. and Elsevier NV go ex-dividend for interim dividend
<b>18 August</b>	Record date – ADSs in Reed International P.L.C. and Elsevier NV
<b>20 August</b>	Record date – Reed International P.L.C. ordinary shares
<b>1 October</b>	Interim dividends for 1999 paid on Reed International P.L.C. and Elsevier NV ordinary shares
<b>8 October</b>	Interim dividends for 1999 paid on Reed International P.L.C. and Elsevier NV ADSs
<b>9 December</b>	Trading Update issued in relation to the 1999 financial year

### AUDITORS

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<b>Reed International P.L.C. CUSIP No. 758212872</b>	<b>Elsevier NV CUSIP No. 290259100</b>
(Trading Symbol: RUK)	(Trading Symbol: ENL)

### STOCK EXCHANGE QUOTATIONS

Reed International P.L.C. shares and Elsevier NV shares are quoted on the stock exchanges in Amsterdam, London and New York. In addition, Elsevier shares are quoted on the EBS stock exchange in Switzerland and are also traded in the Freiverkehrsmarkt in Frankfurt.

Trading on the New York Stock Exchange is in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs). Each Elsevier ADS represents two Elsevier shares and each Reed International ADS represents four Reed International shares. Enquiries concerning Reed International or Elsevier ADSs should be addressed to the ADR Depositary, Citibank NA, at the address shown above or by telephoning +1 800 422 2066 (toll free if dialled from within the United States).

The full financial statements for Reed International P.L.C. and Elsevier NV for the year ended 31 December 1998 are available to the public from the registered offices of the respective companies:

<b>Reed International P.L.C.</b>	<b>Elsevier NV</b>
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Additional information on Reed Elsevier and its businesses can be found on the Reed Elsevier home page on the world wide web:  
[www.reed-elsevier.com](http://www.reed-elsevier.com)