

Interim Statement

For the six months ended 30 June 1998



REED ELSEVIER

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Financial Highlights

Results for the six months ended 30 June 1998

REED ELSEVIER COMBINED BUSINESSES

| Year ended 31 December 1997 | | £ million | | Six months ended | | | % change at constant currencies |
|-----------------------------------|------------------------------|--------------------------------|-----------------|------------------|----------|-----|---------------------------------------|
| 30 June 1998 | 30 June 1997 | % change | 30 June 1998 | 30 June 1997 | % change | | |
| 3,038 | Continuing operations | Sales | 1,582 | 1,483 | 7% | 10% | |
| 814 | | Adjusted operating profit | 416 | 414 | – | 3% | |
| 793 | | Adjusted operating cash flow | 306 | 275 | 11% | 12% | |
| 26.8% | | Operating margin | 26.3% | 27.9% | | | |
| 97% | | Operating cash flow conversion | 74% | 66% | | | |
| 823 | Total operations | Adjusted profit before tax | 413 | 419 | –1% | 1% | |
| 608 | | Adjusted profit attributable | 307 | 312 | –2% | 1% | |
| 630 | Financing | Net borrowings | 123 | 606 | | | |
| 14x | | Interest cover | 84x | 17x | | | |

The Reed Elsevier combined financial statements encompass the businesses of Reed Elsevier plc and Elsevier Reed Finance BV, together with their two parent companies, Reed International P.L.C. and Elsevier NV (“the combined businesses”). Continuing operations exclude IPC Magazines and consumer book publishing operations sold in the first half.

The financial highlights presented refer to “Adjusted” profit and cashflow figures. These figures are stated before exceptional items and the amortisation of goodwill and intangible assets and the related tax effects.

The percentage change at constant currencies refers to the movements at constant exchange rates, using 1997 full year average rates.

PARENT COMPANIES

| Reed International P.L.C. | | | | Elsevier NV | | |
|---------------------------|-----------------|----------|------------------------------|------------------|-----------------|----------|
| Six months ended | | | | Six months ended | | |
| 30 June 1998 | 30 June 1997 | % change | | 30 June 1998 | 30 June 1997 | % change |
| £ million | £ million | | Dfl million | Dfl million | | |
| | | | | | | |
| | | | Adjusted profit attributable | | | |
| 162 | 165 | –2% | – at reported rates | 516 | 484 | 7% |
| 165 | 163 | 1% | – at constant currencies | 498 | 493 | 1% |
| | | | Average exchange rate Dfl:£ | 3.36 | 3.10 | 8% |
| | | | | | | |
| pence | pence | % change | | Dfl | Dfl | % change |
| | | | Adjusted earnings per share | | | |
| 14.2 | 14.5 | –2% | – at reported rates | 0.73 | 0.69 | 6% |
| 14.5 | 14.3 | 1% | – at constant currencies | 0.71 | 0.70 | 1% |
| 5.75 | 5.5 | 5% | Dividend per share (gross) | 0.29 | 0.29 | – |
| 4.60 | 4.4 | 5% | Dividend per share (net) | | | |

The results of Elsevier NV reflects its 50% share of the Reed Elsevier combined businesses. The results of Reed International P.L.C. reflect its 52.9% economic interest, through a 50% share of the Reed Elsevier combined businesses and a 5.8% interest in Elsevier NV.

Chairmen's Statement

The half year has seen considerable activity in the further development of Reed Elsevier's business. Our portfolio has been further enhanced, significant investments have been made in our businesses, and important changes are announced today in moving to a unitary management structure.

FINANCIAL RESULTS

Reed Elsevier's adjusted profit before tax for the six months to 30 June 1998 was £413 million, representing an increase of 1% at constant rates of exchange. At the reported rates, the adjusted profit before tax was £6 million lower than the comparative period, reflecting the effect of the continued strengthening of sterling on currency translation. Expressed in guilders, the reporting currency of Elsevier, adjusted profit before tax was up 7%.

Sales and operating profits of the continuing businesses increased by 10% and 3% respectively at constant exchange rates, with operating cash flow £31 million higher at £306 million. Operating margin for these businesses was 1.6 percentage points lower at 26.3% because of the investments in operating infrastructure, lower margins in the Travel business and lower margin electronic publishing acquisitions.

These results reflect good underlying performances across the majority of our businesses and the impact of acquisitions, substantially offset by three factors in addition to the currency translation effect of stronger sterling.

The first, of significant longer term benefit, is the continued investments we are making in new products and, importantly, in our operational infrastructure to support the expansion of our electronic publishing activities and

future growth. These investments, which are most evident in Elsevier Science, are a prerequisite for maintaining and enhancing the value of our content and brands as customers' needs change and their expectations increase, driven by the technological advances that are opening up opportunities for more focused and added value information delivery.

Secondly, the first half includes the dilutive effect on adjusted earnings of the disposal of IPC Magazines, on which an exceptional pre tax gain of £692 million is also reported in these results. Thirdly, there is a continued reduction in the profitability of the Travel publishing businesses as the necessary actions are taken to address revenue decline and reposition the businesses for future profitable growth, albeit from a lower base.

This year also sees the introduction of the new UK financial reporting standard, FRS10, on goodwill and intangible assets. In accordance with its provisions, we now amortise goodwill and intangible assets over a period of up to 20 years, with retrospective application. The reported results therefore include a non cash amortisation charge of £139 million, which has been excluded from the adjusted earnings measures used in this Interim Statement.

PORTFOLIO DEVELOPMENT

The disposal of IPC Magazines in January marked the last major element of our programme to exit consumer publishing markets that started in 1995. In a series of separate transactions over the last six months, we have now disposed of nearly all the consumer books businesses and disposal of the final elements are either now agreed or in an advanced stage of negotiation. The total proceeds from this disposal programme, together with the

sale of other non-core businesses, has raised nearly £2 billion over the last two and a half years. This major strategic shift, although resulting in short term earnings dilution, has enabled us to sharpen our focus on the higher value added segments of Scientific, Professional and Business publishing and reduced our exposure to more cyclical consumer advertising revenues.

In April 1998, we announced the important acquisition from Times Mirror of Matthew Bender, the premier publisher of US legal analysis, and the 50% of Shepard's, the leading US legal citation service, that we do not already own, in a \$1.65 billion transaction. This completed on 1 August. The price paid for these businesses is high, but reflects the keen competition to acquire assets of such unique quality and their excellent fit with LEXIS-NEXIS as the last important pieces of the jigsaw for Reed Elsevier in the US legal information market to generate long term shareholder value.

Through a series of acquisitions that started last year with MDL Information Systems and Current Science Group and continued this year with Beilstein, our scientific business has significantly reinforced its position in the key chemistry and biomedical fields. In the business segment, a number of acquisitions have been made in the first half that enhance the portfolio, including the Dennis IT publications in the UK and the PGA golf equipment exhibitions in the USA.

Following all these important moves, Reed Elsevier has a portfolio of quality and balance, which, with the investments we are making, is well placed to meet the challenges and exploit the opportunities of a changing market environment.

Our financial position is strong, with the disposals programme and our

substantial free cash flow more than covering acquisition spend over the last three years, including the Matthew Bender and Shepard's transactions. Enhancing our portfolio and adding to earnings and shareholder value through acquisitions remains a priority.

MANAGEMENT STRUCTURE

The two Parent companies have decided to move to a unitary management structure of a single Chairman and a sole Chief Executive Officer for Reed Elsevier, with the Chairman being a non executive appointment. This is seen as a logical evolution of the structure in place since the merger in 1993, whereby the operations are managed by a four person Executive Committee of the Reed Elsevier plc Board, to which two members are nominated by Reed International P.L.C. and two by Elsevier NV.

Mr Morris Tabaksblat – who is currently Chairman and Chief Executive Officer of Unilever NV – will become the non executive Chairman of the Reed International P.L.C. and the Reed Elsevier plc Boards with effect from the Annual General Meetings in April 1999. Mr Tabaksblat will also succeed Pierre Vinken as Chairman of Elsevier's Supervisory Board in April 1999 when Mr Vinken reaches the statutory age limit. Mr Tabaksblat joined the Elsevier NV Supervisory Board at the Annual General Meeting on 29 April 1998 and the Reed Elsevier plc Board on 1 July.

To enable the benefits of the unitary management structure to be realised as quickly as possible, David Webster – Chairman of Safeway plc and a non executive Director of Reed Elsevier plc since the merger – has been appointed Interim Non Executive Chairman of Reed Elsevier plc until April 1999. We, the two

Co-Chairmen, will, therefore, stand down from our present positions as Joint Chairmen of Reed Elsevier plc and become Co-Chief Executive Officers. Neither of us wishes to be considered as sole Chief Executive Officer and the Board has initiated an external search.

The Boards of Elsevier NV and Reed International P.L.C. will continue to evaluate the options for simplifying the legal structures of Reed Elsevier. Moving as well to a unified legal structure is not considered practicable in the short to medium term, although this assessment could change as a consequence of European monetary convergence.

PARENT COMPANIES'

EARNINGS AND DIVIDENDS

At constant exchange rates, adjusted earnings per share were up 1% for both Reed International and Elsevier shareholders. At actual exchange rates, Reed International's reported adjusted eps was 2% lower at 14.2p, while the adjusted eps reported by Elsevier was 6% higher at Dfl 0.73. The difference in growth rates again reflecting the strengthening of sterling against the guilder since the 1997 half year.

Recognising the good underlying results of the business and the short term nature of factors adversely affecting current overall performance, the Boards of the two parent companies have decided to increase their interim dividends. The Reed International dividend will rise 5% to 4.6p. The

equalised Elsevier dividend will be unchanged at Dfl 0.29, reflecting a weaker sterling than at last year's first interim dividend declaration date.

PROSPECTS

Overall, we expect the performance of the businesses for the remainder of 1998 to be broadly similar to that reported in the first half. Weakening economic conditions and the continuing investment in the cost base will have a marginally greater effect in the second half although this is likely to be largely offset by a less marked impact of sterling's strength on currency translation in the second half comparison.

We continue to build for the future, a future in which there will be strong demand for new products and services using electronic information delivery and related applications, creating both opportunities and challenges for us. New products and services that have the scope to leverage our vast publishing activities take time to develop and time to add to our operating profit, whilst the requisite additions to our infrastructure to support these activities are constraining short term growth.

The benefits, however, of successfully migrating the business into an interwoven print and electronic environment will be substantial. We believe that the move to a unitary management structure will provide an even greater focus on realising them. We continue to be positive about Reed Elsevier's prospects for the long term.

Herman Bruggink
Chairman
Executive Board, Elsevier NV

Nigel Stapleton
Chairman
Reed International P.L.C.

Review of Operations

| Year ended 31 December 1997 | Turnover – £ million | Six months ended | | | % change | % change at constant currencies |
|--|-------------------------------|------------------|-----------------|-----|----------|---------------------------------------|
| | | 30 June 1998 | 30 June 1997 | | | |
| 571 | Scientific | 305 | 273 | 12% | 16% | |
| 1,076 | Professional | 532 | 519 | 3% | 5% | |
| 1,340 | Business | 732 | 674 | 9% | 12% | |
| 51 | Consumer – to be discontinued | 13 | 17 | | | |
| 3,038 | Continuing operations | 1,582 | 1,483 | 7% | 10% | |
| 379 | Consumer – discontinued | 6 | 195 | | | |
| 3,417 | Total | 1,588 | 1,678 | –5% | –3% | |
| Adjusted operating profit – £ million | | | | | | |
| 230 | Scientific | 114 | 115 | –1% | 3% | |
| 296 | Professional | 146 | 143 | 2% | 4% | |
| 286 | Business | 159 | 159 | – | 3% | |
| 2 | Consumer – to be discontinued | (3) | (3) | | | |
| 814 | Continuing operations | 416 | 414 | – | 3% | |
| 71 | Consumer – discontinued | 2 | 32 | | | |
| 885 | Total | 418 | 446 | –6% | –4% | |

Discontinued operations comprise IPC Magazines and certain consumer book publishing businesses. Adjusted operating profit excludes exceptional items and the amortisation of goodwill and intangible assets. Unless otherwise stated, all figures quoted in the following commentary refer to percentage movements at constant currency rates, using 1997 full year average rates, and are stated before exceptional items and amortisation of goodwill and intangibles.

SCIENTIFIC

The Scientific segment saw turnover and operating profit increase by 16% and 3% respectively at constant rates of exchange. Sales growth benefited from a number of acquisitions whereas operating profit growth was constrained by the continuing investment in electronic publishing initiatives and in the infrastructure to operate the business with an increasing mix of electronic publishing activity. The 4.7 percentage point reduction in operating margin reflects this building of the cost base, combined with the inclusion of lower margin electronic publishing acquisitions.

Elsevier Science increased operating profits by 5%. Journal subscription renewals remained strong overall, although the economic crisis in Asia and related currency devaluations led to significantly lower renewals from that region. Considerable progress has been made in the development of Elsevier Science's electronic publishing activities. ScienceDirect, the major online scientific

information service, was launched early in the year, with over 900 Elsevier Science journals covering all major scientific disciplines now available via the Internet. Three years of journal articles are expected to be included by the end of the year.

Further development is being made at the newly acquired BioMedNet, ChemWeb, Beilstein and Engineering Information to expand their online services and specialist libraries for specific scientific communities and in building the linkages between these platforms and ScienceDirect. Similar development at MDL will enable Elsevier Science's information to be integrated with its software applications. These acquisitions made no overall incremental contribution to profits over the corresponding period due to these investments.

Much emphasis is being placed within Elsevier Science on its electronic activities to position the company to meet the evolving needs of the scientific community as electronic information delivery becomes commonplace with the additional

functionalities that it offers. Incremental electronic revenues are, however, expected to build slowly in the context of Elsevier Science's overall turnover, whilst the increases in the related operational cost base is more immediate and will continue through the year.

The medical publishing businesses reported flat profits in the first half, before relocation and other one off costs, reflecting the timing of promotional activities. Strong sales growth in the sponsored medical projects business in the US and from acquisitions, were in part offset by a more difficult market in the nursing titles.

PROFESSIONAL

The Professional segment turnover and operating profit increased by 5% and 4% respectively at constant exchange rates, held back by the phasing of certain legal publishing more to the second half of this year, and high development spend.

Reed Elsevier Legal Division's operating profits were flat, before acquisitions and

prior year non trading gains, largely due to the timing of legislative change in the UK which will be weighted to the second half after the new government's first full parliamentary year. In France, where phasing also favours the second half this year, operating profit benefited from small acquisitions. Strong performances were reported in South Africa, Australia and South East Asia although the economic crisis in Asia is slowing down growth in the legal businesses in that region. Butterworths UK launched its online Butterworths Direct service making an increasing amount of its information available over the internet.

Operating profits were 5% higher at LEXIS-NEXIS. The core online businesses increased profits by 5% in competitive markets. Investment continues to be made in the development and marketing of new information services accessible via the internet and more intuitive desk top interfaces to attract new subscribers. A strong performance at Lexis Law Publishing and a full contribution from Thomson in April 1997, was partially offset by phasing in the directory businesses. Martindale Hubbell saw good underlying growth.

The Educational publishing and tuition business increased their operating profit by 25%, before acquisitions and disposals. A strong performance in the UK schools business was driven by additional government funding for literacy materials, and, in the US, Greenwood-Heinemann saw good growth from successful new publishing. The Tuition activities in the Netherlands and Belgium performed well with buoyant demand for training courses and in-company projects.

BUSINESS

The Business segment turnover and operating profit increased by 12% and 3%

respectively at constant exchange rates. The most significant factor affecting the segment was the sharp reduction in profits at the former Reed Travel Group businesses with further decline in revenues whilst the cost base is increased to position the businesses for longer term growth. The effect was in part mitigated by the inclusion of the Chilton titles acquired by Cahners last year and minor disposal gains.

The Reed Travel Group businesses were successfully restructured during the first half and are now conducted as part of Cahners Business Information (hotel directories and travel periodicals, as Cahners Travel Group) and Reed Business Information (airline guides, as OAG Worldwide). The businesses saw, excluding disposals, a reduction of 9% in revenues and 57% in operating profits, as investments were made in product promotion and operating infrastructure to position the businesses to better meet customer needs and address the revenue decline. The recompense programme for advertisers affected by prior year circulation irregularities is progressing well towards completion with over 70% of offers accepted.

Cahners Business Information, excluding Cahners Travel Group, saw operating profits increase by 33%. The contribution from the Chilton titles acquired in September 1997 account for most of the increased profit. The Cahners titles, including those acquired with Chilton on a comparable basis, saw revenue growth of 8% with a particularly strong performance in the manufacturing titles. Profits were, however, flat on a comparable basis due to the continued investment being made in the editorial, production and sales infrastructures to drive future publishing, including the continuing development of online

information services to exploit Cahners' information and brand strengths.

Reed Business Information, excluding OAG Worldwide, increased operating profits by 11%. Strong performances were seen across nearly the whole UK journals portfolio. Recruitment advertising in particular continued to be buoyant, although this will be impacted most by a slowdown in the UK economy. Profit growth was partly constrained by the later phasing of certain business directories.

Elsevier Business Information (EBI) increased operating profit by 14%, before acquisitions, reflecting the improvement in economic environment in continental Europe over the comparative period. Good revenue growth was seen across most journal market sectors in the Netherlands, and stronger performances were recorded in France and Germany. A further 16% profit growth came from acquisitions, the most significant of which was Editions Prat, the French business publisher.

Reed Exhibition Companies (REC) increased its underlying operating profit by 17%, driven by good growth in annual shows in the US and Europe and favourable cycling of non annual shows, which partially reverses in the second half. The economic crisis in Asia Pacific resulted in revenue and profit declines in that region, with the exception of the biennial Asian Aerospace show which was successfully held in February. The additional contribution from acquisitions offset the loss of the profits from the US computer shows sold at the end of 1997. In June, REC acquired the two prestigious PGA shows in the US.

Financial Review

PROFIT AND LOSS

PRESENTATION

The profit and loss account for the six months to 30 June 1998 is presented in accordance with two new UK financial reporting standards of which FRS10: Goodwill and Intangible Assets is most significant. In accordance with FRS10, acquired goodwill and intangible assets are now capitalised and systematically amortised over a maximum period of 20 years, with retrospective application. Adjusted earnings figures, which exclude this non cash amortisation as well as exceptional items and related tax effects, are presented as key earnings measures.

TURNOVER

Turnover of the continuing businesses increased by 7% to £1,582 million for the six months to 30 June 1998. The effect of currency movements on translation reduced the reported turnover by £46 million, or 3%. Acquisitions, net of disposals, completed in 1997 and 1998 contributed an additional £68 million of turnover for the continuing businesses. Organic revenue growth was 7%, before taking into account the 9% decline in revenue of the Travel publishing businesses.

OPERATING PROFIT

Adjusted operating profit, before exceptional items and goodwill and intangible asset amortisation, for the continuing businesses increased by £2 million to £416 million. The contribution from acquisitions, net of disposals, that were completed in 1997 and 1998, added £11 million. Currency translation decreased the reported adjusted operating profit by £13 million against the 1997 first half. Excluding these items, adjusted operating profit grew by 1% and by 7% before taking into account the decline in profitability of the

Travel publishing businesses. Movements in the non cash amortisation of goodwill and intangible assets is a result of acquisition and disposal activity.

EXCEPTIONAL ITEMS

An exceptional pre-tax gain of £692 million has been recognised on the sale of IPC Magazines for total proceeds of £878 million in January 1998. Net losses on further disposals of the consumer book publishing activities were provided for in prior years. £100 million has been provided in respect of taxation. Other exceptional items comprise charges of £10 million being the balance of professional fees incurred in respect of the proposed merger with Wolters Kluwer, and charged to operating profit, £10 million of acquisition related integration costs and £17 million of costs in respect of the Year 2000 compliance programme which is well progressed. Although there is much work still to be done, Reed Elsevier's products and major business systems are expected to be compliant on schedule.

CASH FLOW

Operating cash flow, before exceptional items, was £306 million in the first six months of 1998 (1997: £275 million) for the continuing businesses. Due to the phasing of operating cash flows and the timing of dividend payments, free cash flow normally arises in the second half of the year. In the six months to 30 June 1998, free cash flow after interest, tax and dividends, but before acquisitions and exceptional items, was an outflow of £9 million (1997: £9 million outflow).

Exceptional net inflows totalled £707 million (1997: £6 million net outflow) principally comprising the proceeds from the IPC Magazines and consumer books disposals, after net cash disposed of £39 million to fund taxation

and working capital, less payments made under the Reed Travel Group recompense plan and other 1998 exceptional charges.

ACQUISITIONS

During the period, acquisitions were made for a total consideration of £180 million, in respect of which £183 million was capitalised as goodwill and intangible assets. In addition, £11 million was paid in respect of acquisitions made in previous years.

FINANCING

The net interest expense, at £5 million, was £22 million lower than in the prior period, principally due to the exceptional cash inflows at the beginning of the year and the favourable effect on net borrowings of 1997's free cash flow, partly offset by the additional financing costs of recent acquisitions.

Net borrowings amounted to £123 million at 30 June 1998 and comprised gross borrowings of £1,580 million, predominantly in US dollars, largely offset by cash balances and short term investments totalling £1,457 million, held principally in US dollars, sterling and Dutch guilders. Of the gross borrowings, £1,157 million are at fixed rates, including £508 million of floating rate debt fixed using interest rate swaps.

The £1 billion acquisition of Matthew Bender and 50% of Shepard's, completed on 1 August 1998, was funded approximately 60% from cash investments and 40% from borrowings.

TAXATION

The effective tax rate, on adjusted earnings, i.e. excluding exceptional items and the amortisation of goodwill and intangible assets and related tax effects, was 25.7% which compares with 25.5% in the prior period.

Combined Profit and Loss Statement

For the six months ended 30 June 1998

| Year ended 31 December 1997 (Restated) | £ million | Six months ended 30 June 1998 | | | Six months ended 30 June 1997 (Restated) |
|--|---|--|--|-------|---|
| | | Before exceptional items and amortisation | Exceptional items and amortisation | Total | |
| Turnover | | | | | |
| 3,038 | Continuing operations before acquisitions | 1,568 | – | 1,568 | 1,483 |
| – | Acquisitions | 14 | – | 14 | – |
| 3,038 | Continuing operations | 1,582 | – | 1,582 | 1,483 |
| 379 | Discontinued operations | 6 | – | 6 | 195 |
| 3,417 | | 1,588 | – | 1,588 | 1,678 |
| (1,282) | Cost of sales | (512) | – | (512) | (598) |
| 2,135 | Gross profit | 1,076 | – | 1,076 | 1,080 |
| Net operating expenses before exceptional | | | | | |
| (1,277) | items and amortisation | (670) | – | (670) | (646) |
| (502) | Exceptional items | – | (27) | (27) | – |
| (278) | Amortisation of goodwill and intangible assets | – | (134) | (134) | (134) |
| (2,057) | Net operating expenses | (670) | (161) | (831) | (780) |
| Operating profit before associated undertakings | | | | | |
| 18 | Continuing operations before acquisitions | 402 | (159) | 243 | 274 |
| – | Acquisitions | 2 | (2) | – | – |
| 18 | Continuing operations | 404 | (161) | 243 | 274 |
| 60 | Discontinued operations | 2 | – | 2 | 26 |
| 78 | | 406 | (161) | 245 | 300 |
| 16 | Share of operating profit in associated undertakings | 12 | (5) | 7 | 7 |
| 94 | Operating profit (including associated undertakings) | 418 | (166) | 252 | 307 |
| Non operating items | | | | | |
| 57 | Continuing – net profit on sale of businesses | – | – | – | – |
| (3) | – merger expenses | – | (10) | (10) | – |
| – | Discontinued – net profit on sale of businesses | – | 692 | 692 | – |
| 148 | Profit on ordinary activities before interest | 418 | 516 | 934 | 307 |
| (62) | Net interest expense | (5) | – | (5) | (27) |
| 86 | Profit on ordinary activities before taxation | 413 | 516 | 929 | 280 |
| (99) | Tax on profit on ordinary activities | (106) | (93) | (199) | (105) |
| (13) | Profit on ordinary activities after taxation | 307 | 423 | 730 | 175 |
| (1) | Minority interests and preference dividends | – | – | – | – |
| (14) | Profit attributable to parent companies' shareholders | 307 | 423 | 730 | 175 |
| (365) | Ordinary dividends paid and proposed | | | (110) | (113) |
| (379) | Retained profit/(loss) taken to combined reserves | | | 620 | 62 |

ADJUSTED FIGURES

| Year ended 31 December 1997 | £ million | Six months ended | | | % change constant currencies |
|-----------------------------------|---|------------------|-----------------|----------|------------------------------------|
| | | 30 June 1998 | 30 June 1997 | % change | |
| 814 | Adjusted operating profit – continuing businesses | 416 | 414 | – | 3% |
| 823 | Adjusted profit before tax | 413 | 419 | –1% | 1% |
| 608 | Adjusted profit attributable | 307 | 312 | –2% | 1% |

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

Comparative amounts have been restated to reflect the adoption of FRS9 and FRS10.

Combined Cash Flow Statement

For the six months ended 30 June 1998

| Year ended 31 December 1997 (Restated) | £ million | Six months ended | |
|---|---|------------------|-------------------------------|
| | | 30 June 1998 | 30 June 1997 (Restated) |
| 930 | Net cash inflow from operating activities (refer note 5) | 209 | 348 |
| 17 | Dividends received from associated undertakings | 9 | 7 |
| 46 | Interest received | 32 | 32 |
| (105) | Interest paid | (44) | (47) |
| (59) | Return on investments and servicing of finance | (12) | (15) |
| (180) | Taxation | (56) | (70) |
| (121) | Purchase of tangible fixed assets | (56) | (48) |
| 10 | Proceeds from sale of fixed assets | 2 | 2 |
| (21) | Net payments on exceptional disposal of investments and fixed assets | – | (14) |
| (132) | Capital expenditure | (54) | (60) |
| (726) | Acquisitions | (191) | (359) |
| (5) | Payments against acquisition provisions | (3) | (4) |
| 104 | Net proceeds from exceptional sale of businesses | 864 | 8 |
| (3) | Merger expenses | (10) | – |
| (630) | Acquisitions and disposals | 660 | (355) |
| (336) | Equity dividends paid to the shareholders of the parent companies | (249) | (229) |
| (390) | Cash inflow/(outflow) before changes in short term investments and financing | 507 | (374) |
| 299 | (Increase)/decrease in short term investments | (698) | 457 |
| 120 | Financing | 116 | (95) |
| 29 | (Decrease)/increase in cash | (75) | (12) |

In accordance with the UK FRS9, which is first applicable for the 1998 financial year, dividends received from associated undertakings which were previously 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 1 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), 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 associates, 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

| Year ended 31 December 1997 (Restated) | £ million | Six months ended | |
|---|---|------------------|-------------------------------|
| | | 30 June 1998 | 30 June 1997 (Restated) |
| 930 | Net cash inflow from operating activities | 209 | 348 |
| 17 | Dividends received from associated undertakings | 9 | 7 |
| (121) | Purchase of tangible fixed assets | (56) | (48) |
| 10 | Proceeds from sale of fixed assets | 2 | 2 |
| 26 | Payments in relation to exceptional items charged to operating profit | 147 | – |
| 862 | Adjusted operating cash flow | 311 | 309 |
| 97% | Adjusted operating cash flow conversion | 74% | 69% |

The discontinued operations contributed £5 million and £34 million to adjusted operating cash flow in the periods to 30 June 1998 and 30 June 1997 respectively.

Combined Summarised Balance Sheet

As at 30 June 1998

| As at 31 December 1997 (Restated) | £ million | As at 30 June 1998 | As at 30 June 1997 (Restated) |
|--|--|--------------------------|--|
| 2,672 | Goodwill and intangible assets | 2,595 | 2,760 |
| 348 | Tangible assets | 330 | 329 |
| 264 | Investments | 262 | 240 |
| 3,284 | Fixed assets | 3,187 | 3,329 |
| 121 | Stocks | 115 | 141 |
| 962 | Debtors | 850 | 800 |
| 844 | Cash and short term investments | 1,457 | 675 |
| 1,927 | Current assets | 2,422 | 1,616 |
| (2,395) | Creditors: amounts falling due within 1 year | (2,328) | (1,869) |
| (468) | Net current assets/(liabilities) | 94 | (253) |
| 2,816 | Total assets less current liabilities | 3,281 | 3,076 |
| (838) | Creditors: amounts falling due after more than 1 year | (783) | (865) |
| (280) | Provisions for liabilities and charges | (179) | (57) |
| (6) | Minority interests | (5) | (8) |
| 1,692 | Net assets | 2,314 | 2,146 |
| 1,692 | Combined shareholders' funds | 2,314 | 2,146 |

Combined Shareholders' Funds Reconciliation

For the six months ended 30 June 1998

| Year ended 31 December 1997 (Restated) | £ million | Six months ended 30 June 1998 | Six months ended 30 June 1997 (Restated) |
|---|--|-------------------------------------|---|
| 2,071 | Combined shareholders' funds at the beginning of the period as originally reported | 1,494 | 2,071 |
| (8) | Prior year adjustment (adoption of FRS10) | 198 | (8) |
| 2,063 | Combined shareholders' funds at the beginning of the period as restated | 1,692 | 2,063 |
| 207 | Profit for the period as reported | 730 | 312 |
| (221) | Prior year adjustment (adoption of FRS10) | – | (137) |
| (14) | Profit for the period as restated | 730 | 175 |
| (13) | Exchange translation differences | (6) | 7 |
| (27) | Total recognised gains and losses | 724 | 182 |
| (429) | Goodwill written off on acquisitions net of disposals | – | (255) |
| 429 | Prior year adjustment (adoption of FRS10) | – | 255 |
| (365) | Ordinary dividends | (110) | (113) |
| 21 | Issue of shares on exercise of options | 8 | 14 |
| 1,692 | Combined shareholders' funds at the end of the period | 2,314 | 2,146 |

The interim and financial statements were approved by the Boards of Reed International P.L.C. and Elsevier NV on 5 August 1998.

Notes to the Combined Financial Statements

1. BASIS OF PREPARATION

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

The new UK financial reporting standards, FRS9 and FRS10, which are first applicable in 1998 have been adopted in the interim 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.

As announced in the Reed Elsevier Annual Review 1997, Reed Elsevier is to capitalise all goodwill and intangible assets and to amortise 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 £198 million (capitalisation of prior goodwill less cumulative amortisation of goodwill and intangibles) and the first half and full year 1997 operating profit have been reduced by £139 million and £289 million respectively for the non cash amortisation charges and attributable profit by £137 million and £290 million, taking into account the resultant tax timing differences.

Under FRS9: Associates and Joint Ventures, the share of operating profits in associates has been reordered on the face of the profit and loss account and some further disclosures will be made in the annual accounts. Reported profit attributable and net assets are unaffected.

The interim combined financial statements are unaudited but have been reviewed by the auditors and their report to the Boards of Reed International P.L.C. and Elsevier NV is set out on page 14. The figures for the year ended 31 December 1997, as restated for FRS9 and FRS10, are abridged from the audited combined financial statements set out in the Reed Elsevier Annual Review 1997.

2. EXCHANGE TRANSLATION RATES

In preparing the financial statements the following exchange rates have been applied:

| Year ended 31 December 1997 | | | Profit and loss | | Balance sheet | |
|-----------------------------|---------------|------------------------------|-----------------|--------------|---------------|--------------|
| Profit and loss | Balance sheet | | 30 June 1998 | 30 June 1997 | 30 June 1998 | 30 June 1997 |
| 3.19 | 3.34 | Dutch guilders to sterling | 3.36 | 3.10 | 3.39 | 3.26 |
| 1.64 | 1.66 | US dollars to sterling | 1.65 | 1.63 | 1.66 | 1.66 |
| 1.95 | 2.01 | Dutch guilders to US dollars | 2.04 | 1.90 | 2.04 | 1.96 |

3. EXCEPTIONAL ITEMS

Exceptional items comprise:

| Year ended 31 December 1997 | | | Six months ended | |
|-----------------------------|---|--|------------------|--------------|
| £million | | | 30 June 1998 | 30 June 1997 |
| (11) | Acquisition related integration costs | | (10) | – |
| (11) | Year 2000 compliance costs | | (17) | – |
| | Reed Travel Group – provision for customer compensation | | | |
| (230) | and related expenses and reorganisation costs | | – | – |
| (250) | – non cash write down of intangible assets | | – | – |
| (502) | Charged to operating profit | | (27) | – |
| 57 | Net profit on sale of businesses | | 692 | – |
| (3) | Merger expenses | | (10) | – |
| (448) | Total exceptional credit/(charge) | | 655 | – |
| 116 | Tax (charge)/credit | | (93) | – |

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

Notes to the Combined Financial Statements

4. ADJUSTED EARNINGS FIGURES

The adjusted earnings figures which exclude exceptional items and the amortisation of goodwill and intangible assets and related tax effects are derived as follows:

| Year ended 31 December 1997 | £million | Six months ended | |
|-----------------------------------|--|------------------|-----------------|
| | | 30 June 1998 | 30 June 1997 |
| 86 | Profit before taxation | 929 | 280 |
| | Adjustments: | | |
| 448 | Exceptional items | (655) | – |
| 289 | Amortisation of goodwill and intangible assets | 139 | 139 |
| 823 | Adjusted profit before taxation | 413 | 419 |
| (14) | Profit attributable | 730 | 175 |
| | Adjustments: | | |
| 332 | Exceptional items | (562) | – |
| 290 | Amortisation of goodwill and intangible assets | 139 | 137 |
| 608 | Adjusted profit attributable | 307 | 312 |

5. COMBINED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

| Year ended 31 December 1997 (Restated) | £million | Six months ended | |
|---|---|------------------|-------------------------------|
| | | 30 June 1998 | 30 June 1997 (Restated) |
| 94 | Operating profit (including associated undertakings) | 252 | 307 |
| 502 | Exceptional charges to operating profit | 27 | – |
| 596 | Operating profit before exceptional items | 279 | 307 |
| 96 | Depreciation | 45 | 47 |
| 278 | Amortisation of goodwill and intangible assets | 134 | 134 |
| (1) | Other non cash items | (2) | – |
| 373 | Total non cash items | 177 | 181 |
| (16) | Share of operating profit in associated undertakings | (7) | (7) |
| 3 | Movement in working capital | (93) | (133) |
| 956 | Net cash inflow from operating activities before exceptional items | 356 | 348 |
| (26) | Payments relating to exceptional items charged to operating profit | (147) | – |
| 930 | Net cash inflow from operating activities | 209 | 348 |

Reconciliation of movements in net debt

| Year ended 31 December 1997 | £million | Six months ended | |
|-----------------------------------|--|------------------|-----------------|
| | | 30 June 1998 | 30 June 1997 |
| (270) | Increase/(decrease) in cash and short term investments | 623 | (469) |
| (114) | (Increase)/decrease in borrowings | (107) | 99 |
| (50) | Exchange differences | (9) | (40) |
| (434) | Movement in net debt | 507 | (410) |
| (196) | Net debt at start of period | (630) | (196) |
| (630) | Net debt at end of period | (123) | (606) |

6. DIRECTORS' REMUNERATION

As noted in the Reed Elsevier Annual Review 1997, determination by the Remuneration Committee of 1997 directors' bonuses had been deferred pending the Wolters Kluwer merger which was abandoned on 9 March 1998. The Committee has since met and approved the following bonus amounts for directors in respect of 1997: J B Mellon £157,430; P C F M Vlek Dfl268,236 (£79,832); M H Armour £102,070; G R N Cusworth £55,512; H P Spruijt Dfl217,440 (£64,714); O Laman Trip Dfl61,127 (£18,192); P J Vinken £100,000; Sir Christopher Lewinton £100,000; L van Vollenhoven £60,000.

Elsevier NV Summary Financial Information

1. BASIS OF PREPARATION

The results of the six months ended 30 June 1998 reflect Elsevier NV's 50% share of the Reed Elsevier combined businesses accounted for on an equity basis. The comparative results 1997 have been restated to reflect the adoption of the new UK financial reporting standard, FRS10, which is applicable for the first time in 1998, by the Reed Elsevier combined businesses. The interim figures for the six months ended 30 June 1998 and the comparative amounts to 30 June 1997 are unaudited but have been reviewed by the auditors and their report to the Boards of Elsevier NV is set out on page 14. The financial information for the year ended 31 December 1997, as restated for the adoption of FRS10, has been abridged from the statutory accounts of Elsevier NV for that year and the auditors, Deloitte & Touche, have confirmed that "our opinion on such statutory accounts was unqualified".

2. PROFIT AND LOSS ACCOUNT (1997 restated for FRS10)

| Year ended 31 December 1997 | Dfl million | Six months ended | | % change |
|-----------------------------------|---|------------------|-----------------|----------|
| | | 30 June 1998 | 30 June 1997 | |
| 1,313 | Share of profit before tax from Reed Elsevier combined businesses (50%) | 694 | 650 | 7% |
| (461) | Share of amortisation of goodwill and intangible assets | (233) | (216) | |
| (716) | Share of exceptional items before tax | 1,100 | – | |
| (158) | Taxation | (334) | (162) | |
| (22) | Share of attributable profit | 1,227 | 272 | |
| | Allocation of profit: | | | |
| 633 | Dividends paid and proposed | 194 | 193 | |
| (655) | Transferred to/(from) reserves | 1,033 | 79 | |
| (22) | | 1,227 | 272 | |
| | Elsevier NV earnings per share (EPS) | | | |
| Dfl (0.03) | Share of earnings from Reed Elsevier combined businesses (50%) | Dfl 1.73 | Dfl 0.38 | |
| | Adjustments to arrive at adjusted EPS: | | | |
| Dfl 0.74 | Share of exceptional items | Dfl (1.31) | – | |
| Dfl 0.66 | Share of amortisation of goodwill and intangibles | Dfl 0.31 | Dfl 0.31 | |
| Dfl 1.37 | Adjusted EPS | Dfl 0.73 | Dfl 0.69 | 6% |

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

3. DIVIDENDS

The directors of Elsevier NV have declared an interim dividend of Dfl 0.29 (1997 first interim: Dfl 0.29). 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) received by certain Reed International P.L.C. shareholders. In 1997 the full year (first and second interim) dividend was Dfl 0.95.

4. RECONCILIATION OF SHAREHOLDERS' FUNDS

| Year ended 31 December 1997 | £ million | Six months ended | |
|-----------------------------------|--|------------------|-----------------|
| | | 30 June 1998 | 30 June 1997 |
| 3,065 | Shareholders' funds as at the beginning of the period | 2,495 | 3,065 |
| (12) | Prior year adjustment (adoption of FRS10) | 331 | (12) |
| 3,053 | Shareholders' funds as at the beginning of the period as restated | 2,826 | 3,053 |
| 330 | Attributable profit | 1,227 | 484 |
| (352) | Prior year adjustment (adoption of FRS10) | – | (212) |
| (22) | Attributable profit as restated | 1,227 | 272 |
| (684) | Share of goodwill written off on acquisitions net of disposals | – | (396) |
| 684 | Prior year adjustment (adoption of FRS10) | – | 396 |
| 21 | Increase in share capital | 7 | 13 |
| 407 | Currency translation differences and equalisation | 56 | 353 |
| (633) | Dividends proposed | (194) | (193) |
| 2,826 | Shareholders' funds as at the end of the period | 3,922 | 3,498 |

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 associated companies.

Reed International P.L.C. Summary Financial Information

1. BASIS OF PREPARATION

The results for the six months ended 30 June 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 comparative results for 1997 have been restated to reflect the adoption of the new UK financial reporting standard, FRS10, which is applicable for the first time in 1998 by the Reed Elsevier combined businesses.

The interim figures for the first six months ended 30 June 1998 and the comparative amounts to 30 June 1997 are unaudited but have been reviewed by the auditors and their report to the Board of Reed International P.L.C. is set out on page 14. The financial information for the year ended 31 December 1997, as restated for the adoption of FRS9 and FRS10, has been abridged from the financial statements for that year, which have been filed with the UK Registrar of Companies and received an unqualified audit report.

Reed International P.L.C.'s share of total turnover is included below in accordance with the new UK financial reporting standard, FRS9: Associates and Joint Ventures. The consolidated profit and loss statement and balance sheet for Reed International P.L.C. for the year ending 31 December 1998 will also include additional information with respect to the Reed Elsevier combined businesses as required by FRS9. Earnings per share measures and net assets are unaffected.

2. PROFIT AND LOSS ACCOUNT (1997 restated for FRS10)

| Year ended 31 December 1997 | £ million | Six months ended | | % change |
|---|--|------------------|-----------------|----------|
| | | 30 June 1998 | 30 June 1997 | |
| 1,808 | Share total of turnover | 840 | 888 | -5% |
| | Share of adjusted profit before tax | | | |
| 412 | Reed Elsevier combined businesses (50%) | 206 | 210 | |
| 23 | Elsevier NV (5.8%) | 12 | 12 | |
| 435 | | 218 | 222 | -2% |
| (153) | Share of amortisation of goodwill and intangible assets | (74) | (74) | |
| (237) | Share of exceptional items before tax | 347 | - | |
| (20) | Elsevier NV's share of UK tax credit on distributed earnings | (6) | (6) | |
| 25 | Profit before taxation | 485 | 142 | |
| (52) | Taxation | (105) | (55) | |
| (27) | Share of attributable profit after tax credit equalisation | 380 | 87 | |
| (167) | Dividends paid and proposed | (53) | (50) | |
| (194) | Retained profit | 327 | 37 | |
| (2.4)p | Statutory earnings per share | 33.3p | 7.7p | |
| Reed International P.L.C. earnings per share (EPS) | | | | |
| (2.4)p | Reed International P.L.C. statutory EPS | 33.3p | 7.7p | |
| 1.8p | Effect of tax credit equalisation (see note 4) | 0.5p | 0.5p | |
| (0.6)p | Share of earnings from Reed Elsevier combined businesses (52.9%) | 33.8p | 8.2p | |
| Adjustments to arrive at adjusted EPS: | | | | |
| 15.5p | Share of exceptional items | (26.1)p | - | |
| 13.4p | Share of amortisation of goodwill and intangibles | 6.5p | 6.3p | |
| 28.3p | Adjusted EPS | 14.2p | 14.5p | -2% |

The adjusted EPS is based upon the Reed International P.L.C. shareholders' 52.9% of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes exceptional items and the amortisation of goodwill and intangible assets and related tax effects.

3. DIVIDENDS

The directors of Reed International P.L.C. have declared an interim dividend of 4.6 pence (1997 first interim: 4.4 pence), an increase of 5%. In 1997 the full year (first and second interim) dividend was 14.6 pence.

Reed International P.L.C. Summary Financial Information

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) 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

| Year ended 31 December 1997 | | Six months ended 30 June 1998 | | 30 June 1997 | |
|-----------------------------------|--|-------------------------------------|--|-----------------|--|
| | £ million | | | | |
| 1,096 | Shareholders' funds as at the beginning of the period | 790 | | 1,096 | |
| (5) | Prior year adjustment (adoption of FRS10) | 105 | | (5) | |
| 1,091 | Shareholders' funds as at the beginning of the period as restated | 895 | | 1,091 | |
| (77) | Retained profit | 327 | | 109 | |
| (117) | Prior year adjustment (adoption of FRS10) | – | | (72) | |
| (194) | Retained profit as restated | 327 | | 37 | |
| (227) | Share of goodwill written off on acquisitions net of disposals | – | | (135) | |
| 227 | Prior year adjustment (adoption of FRS10) | – | | 135 | |
| 15 | Increase in share capital and share premium | 5 | | 10 | |
| (17) | Other items including exchange | (3) | | (3) | |
| 895 | Shareholders' funds as at the end of the period | 1,224 | | 1,135 | |

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 associated companies.

Auditors' Review Report

Review Report to the Board of Directors of Reed International P.L.C. and to the Members of the Supervisory and Executive Boards of Elsevier NV by Deloitte & Touche on the interim financial information

We have reviewed the combined interim financial information of Reed International P.L.C., Elsevier NV, Reed Elsevier plc and Elsevier Reed Finance BV and their respective subsidiaries (together "the combined businesses"), and the interim financial information of Reed International P.L.C. and Elsevier NV for the six months ended 30 June 1998 set out on pages 7 to 14 which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin 1993/1 "Review of Interim Financial Information" and 1998/6 "Review of Interim Financial Information – Supplementary Guidance for Auditors", issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities, and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review, in our opinion the interim financial information has been prepared taking into effect the adoption of FRS9 and FRS10 using accounting policies which are otherwise consistent with those adopted in the Reed Elsevier Annual Review 1997, and we are not aware of any material modifications that should be made to the interim financial information as presented.

Deloitte & Touche
Chartered Accountants
London
5 August 1998

Deloitte & Touche
Registeraccountants
Amsterdam
5 August 1998

Summary of Principal Differences between UK and Dutch GAAP and US GAAP

The combined financial statements are prepared in accordance with UK and Dutch GAAP, which differs in certain significant respects from US GAAP. The principal differences have related to the US GAAP requirements in respect of the capitalisation and amortisation of goodwill and other intangibles, and the definition of continuing and discontinued operations. A more complete explanation of accounting policies used by the combined businesses and the differences between UK and Dutch GAAP and US GAAP is set out in the Reed Elsevier Annual Review 1997.

For the 1998 fiscal year, Reed Elsevier has adopted the new UK financial reporting standard (FRS 10: 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.

The approximate effects on net income and combined shareholders' funds of differences between UK and Dutch GAAP and US GAAP are set out below:

| Year ended 31 December 1997 (Restated) | | Six months ended | |
|---|--|------------------------------|-------------------------------|
| | | 30 June 1998 £ million | 30 June 1997 (Restated) |
| Net income | | | |
| (14) | Net income under UK and Dutch GAAP | 730 | 175 |
| US GAAP adjustments: | | | |
| 1 | Amortisation of goodwill and other intangibles | (437) | 79 |
| 32 | Deferred taxation | 50 | (17) |
| 24 | Other items | 5 | 11 |
| 43 | Net income under US GAAP | 348 | 248 |
| 3 | Analysed: Continuing operations | (163) | 253 |
| 40 | Discontinued operations – Income from operations | (6) | (5) |
| – | – Gains on sales net of provisions | 517 | – |
| 43 | Net income under US GAAP | 348 | 248 |

Discontinued operations comprise IPC Magazines, sold in January 1998, and the consumer book publishing interests, which have either been sold or are in the course of disposal.

| As at 31 December 1997 (Restated) | £ million | As at 30 June 1998 | As at 30 June 1997 (Restated) |
|--|--|--------------------------|--|
| | | | |
| 1,692 | Combined shareholders' funds under UK and Dutch GAAP | 2,314 | 2,146 |
| US GAAP adjustments: | | | |
| 925 | Goodwill and other intangibles | 481 | 1,000 |
| (127) | Deferred taxation | (82) | (183) |
| 33 | Other items | 48 | 32 |
| 251 | Ordinary dividends not declared in the period | 110 | 113 |
| 2,774 | Combined shareholders' funds under US GAAP | 2,871 | 3,108 |

Summary Combined Financial Information in Dutch Guilders

Highlights of the Reed Elsevier combined results in Dutch guilders are given below. This is a simple translation into Dutch guilders at the average rates of exchange.

| Year ended 31 December 1997 | Dfl million | | Six months ended | | % change |
|-----------------------------------|-------------|--------------------------------|------------------|-----------------|----------|
| | | | 30 June 1998 | 30 June 1997 | |
| 9,691 | | Continuing operations | | | |
| | | – Sales | 5,316 | 4,597 | 16% |
| 2,597 | | – Adjusted operating profit | 1,398 | 1,283 | 9% |
| 2,530 | | – Adjusted operating cash flow | 1,028 | 853 | 21% |
| 2,625 | | Total operations | | | |
| | | – Adjusted profit before tax | 1,387 | 1,299 | 7% |
| 1,940 | | – Adjusted profit attributable | 1,032 | 967 | 7% |
| Average exchange rates: | | | | | |
| 3.19 | | Dutch guilder to sterling | 3.36 | 3.10 | 8% |

Summary Combined Financial Information in US Dollars

Highlights of the Reed Elsevier combined results in US dollars are given below. This is a simple translation into US dollars at the average rates of exchange and does not represent a restatement under US Generally Accepted Accounting Principles (GAAP).

| Year ended 31 December 1997 | US\$ million | | Six months ended | | % change |
|-----------------------------------|--------------|--|------------------|-----------------|----------|
| | | | 30 June 1998 | 30 June 1997 | |
| 4,982 | | Continuing operations | | | |
| | | – Sales | 2,610 | 2,417 | 8% |
| 1,335 | | – Adjusted operating profit | 686 | 675 | 2% |
| 1,301 | | – Adjusted operating cash flow | 505 | 448 | 13% |
| 1,350 | | Total operations | | | |
| | | – Adjusted profit before tax | 681 | 683 | – |
| 997 | | – Adjusted profit attributable | 507 | 509 | – |
| | | \$ Adjusted earnings per American Depositary Share (ADS) | \$ | \$ | |
| 1.86 | | Reed International P.L.C. | 0.94 | 0.95 | –1% |
| 1.41 | | Elsevier N.V. | 0.72 | 0.73 | –1% |
| Average exchange rates: | | | | | |
| 1.64 | | US dollar to sterling | 1.65 | 1.63 | 1% |

Continuing operations excludes IPC Magazines, sold in January 1998 and the consumer book publishing operations sold in the first half.

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

FORWARD-LOOKING STATEMENTS

These Interim Statements contain forward-looking statements within the meaning of 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 and the actions of competitors.

FINANCIAL DIARY FOR 1998

| | |
|------------|---|
| 6 August | Announcement of Interim Results for the six months to 30 June 1998 |
| 17 August | Ordinary shares and ADSs in Reed International P.L.C. and Elsevier NV go ex-dividend for interim dividend |
| 21 August | Record date – Reed International P.L.C. ordinary shares and ADSs in Reed International P.L.C. and Elsevier NV |
| 5 October | Interim dividends for 1998 paid on Reed International P.L.C. and Elsevier NV ordinary shares |
| 13 October | Interim dividends for 1998 paid on Reed International P.L.C. and Elsevier NV ADSs |
| 3 December | Trading Update issued in relation to the 1998 financial year |

FINANCIAL DIARY FOR 1999

| | |
|----------|---|
| 11 March | Announcement of Preliminary Results for the year ended 31 December 1998 |
| 14 April | Reed International P.L.C. and Elsevier NV Annual General Meetings |

AUDITORS

| | |
|--|---|
| Deloitte & Touche Hill House, 1 Little New Street London EC4A 3TR, UK | Deloitte & Touche Orlyplein 50, 1043 DP Amsterdam, The Netherlands |
|--|---|

STOCKBROKERS

| | |
|---|---|
| Cazenove & Co 12 Tokenhouse Yard London EC2R 7AN, UK | MeesPierson Rokin 55, 1012 KK Amsterdam, The Netherlands |
|---|---|

ADR DEPOSITARY

| | |
|--|--|
| Citibank NA | |
| 111 Wall Street, New York, NY 10043, USA | |
| Reed International P.L.C. CUSIP No. 758212872 (Trading Symbol: RUK) | Elsevier NV CUSIP No. 290259100 (Trading Symbol: ENL) |

STOCK EXCHANGE QUOTATIONS

Reed International P.L.C.'s shares and Elsevier NV's shares are quoted on the stock exchanges in Amsterdam, London and New York. In addition, Elsevier's 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's or Elsevier's ADSs should be addressed to the ADR Depository, Citibank NA, at the address shown above or by telephoning 1 800 422 2066 (toll free if dialled from within the United States).

This statement is being mailed to shareholders of Reed International P.L.C. on 7 August 1998 and will be available to the shareholders of Elsevier NV upon request. Copies are available to the public from the registered offices of the respective companies.

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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

