

REED INTERNATIONAL P.L.C.
CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Reed International P.L.C.

We have audited the accompanying consolidated balance sheet as of December 31, 1994, and the related consolidated statements of income, total recognized gains and losses, changes in shareholders' equity and cash flows for the year ended December 31, 1994. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the financial position of Reed International P.L.C. and its subsidiaries at December 31, 1994 and the results of their operations and their cash flows for the year ended December 31, 1994 in conformity with accounting principles generally accepted in the United Kingdom (which differ in certain material respects from generally accepted accounting principles in the United States — see note 20).

TOUCHE ROSS & CO
Chartered Accountants & Registered Auditors
London, England
14 March 1995

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Reed International P.L.C.

We have audited the accompanying consolidated balance sheet of Reed International P.L.C. and its subsidiaries as of December 31, 1993 and the related consolidated statements of income, total recognized gains and losses, cash flows and changes in shareholders' equity for each of the nine months ended December 31, 1992 and the year ended December 31, 1993 prepared on the basis and under the accounting policies set out in notes 1 and 2 to the financial statements and expressed in pounds sterling. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates and judgements made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the financial position of Reed International P.L.C. and its subsidiaries at December 31, 1993 and the results of their operations and cash flows for each of the nine months ended December 31, 1992 and the year ended December 31, 1993 in conformity with accounting principles generally accepted in the United Kingdom. We have not audited the consolidated financial statements for any period subsequent to December 31, 1993.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States. Application of the latter would have affected the determination of consolidated net income expressed in pounds sterling for each of the nine months ended December 31, 1992 and the year ended December 31, 1993 and the determination of consolidated shareholders' equity expressed in pounds sterling as of December 31, 1993 to the extent summarized in note 20 to the consolidated financial statements.

PRICE WATERHOUSE
Chartered Accountants & Registered Auditors
London, England
September 22, 1994

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

12 Months ended December 31, 1992		Notes	9 Months ended December 31, 1992	12 Months ended December 31, 1993	12 Months ended December 31, 1994
(In £ millions except) per share amount)			(In £ millions except) per share amounts)		
1,684	Net sales	5	1,197	—	—
(742)	Cost of sales	—	(544)	—	—
<u>942</u>	Gross profit		653	—	—
(666)	Selling, general and administrative expenses		(492)	(1)	(1)
<u>9</u>	Share of income of associated companies	3	<u>7</u>	<u>250</u>	<u>272</u>
	Operating income before exceptional items	5	168	249	271
(25)	Exceptional items	7	(25)	16	40
<u>260</u>	Operating income		<u>143</u>	<u>265</u>	<u>311</u>
35	Interest income		26	9	7
(77)	Interest expense	8	(57)	(4)	(4)
<u>(42)</u>	Net interest income		<u>(31)</u>	<u>5</u>	<u>3</u>
218	Income before taxes and minority interests		112	270	314
(69)	Taxes on income	9	(38)	(73)	(81)
	Income before minority interests and preference dividends		74	197	233
149	Minority interests and preference dividends		—	—	—
<u>149</u>	Net income for the financial period		<u>74</u>	<u>197</u>	<u>233</u>
<u>26.7</u>	Earnings per ordinary share of 25p each (pence)		<u>13.2</u>	<u>35.2</u>	<u>41.5</u>

STATEMENTS OF TOTAL RECOGNIZED GAINS AND LOSSES

Net income for the financial period	74	197	233
Exchange translation differences	<u>56</u>	<u>(5)</u>	<u>(6)</u>
Total recognized gains and losses for the period	<u>130</u>	<u>192</u>	<u>227</u>

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

To assist comparison income statement information has been included above for the corresponding twelve month period ended December 31, 1992.

The accompanying notes on pages F-46 to F-59 are an integral part of these consolidated financial statements.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>Notes</u>	<u>At December 31,</u>	
		<u>1993</u>	<u>1994</u>
		(In £ millions)	
Fixed assets:			
Investments	12	<u>931</u>	<u>740</u>
Current assets:			
Debtors: amounts falling due within one year	13	85	133
Cash and short term investments		<u>3</u>	<u>2</u>
Total current assets		<u>88</u>	<u>135</u>
Creditors: amounts falling due within one year	14	<u>(76)</u>	<u>(88)</u>
Net current assets		<u>12</u>	<u>47</u>
Creditors: amounts falling due after more than one year	15	<u>(36)</u>	<u>(36)</u>
Net assets		<u>907</u>	<u>751</u>
Capital and reserves:			
Redeemable preference shares	16	3	3
Non-redeemable preference shares	16	1	1
Ordinary shares	16	141	141
Share premium account		171	176
Retained earnings		<u>591</u>	<u>430</u>
Total shareholders' funds		<u>907</u>	<u>751</u>
Contingent liabilities — See note 17.			

The accompanying notes on pages F-46 to F-59 are an integral part of these consolidated financial statements.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

12 Months ended December 31, <u>1992</u> (In £ millions)	Notes	9 Months ended December 31, <u>1992</u>	12 Months ended December 31, <u>1993</u> (In £ millions)	12 Months ended December 31, <u>1994</u>
260		143	15	39
(9)		(7)	—	—
(28)		(22)	—	—
(2)		(2)	—	—
35		26	—	—
(4)		(5)	—	—
1		(2)	—	—
50		28	—	—
8		13	—	—
59		39	—	—
25		25	—	—
—		—	(16)	(40)
340		202	(1)	(1)
37		27	8	7
(77)		(62)	(3)	(4)
(88)		(60)	(105)	(109)
5		4	33	109
(123)		(91)	(67)	3
(49)		(36)	—	3
(46)		(33)	—	—
9		3	12	40
(78)		(42)	—	—
(18)	6	(9)	—	—
(13)		(13)	(4)	—
(146)		(94)	8	40
22		(19)	(60)	45
9	18	5	8	5
(18)		(7)	(1)	(1)
90		6	52	(50)
81		4	59	(45)
103	18	(15)	(1)	—

On merger consolidated net borrowings of £624m were transferred to associated undertakings. This transfer, which is not included as a cash flow movement above, is detailed in note 18.

Transactions undertaken to hedge another transaction are reported under the same classification as the transaction that is subject to the hedge.

To assist comparison, cash flow information has been included above for the corresponding twelve month period ended December 31, 1992.

The accompanying notes on pages F-46 to F-59 are an integral part of these consolidated financial statements.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	£1 Preference Shares		25p Ordinary Shares		Share premium account £ million	Revaluation reserve £ million	Retained earnings £ million	Total £ million
	Redeemable £ million	Non-redeemable £ million	Number '000	Share Capital £ million				
Balance at March 31, 1992	3	1	557,595	140	159	3	1,065	1,371
Net income	—	—	—	—	—	—	74	74
Ordinary dividends	—	—	—	—	—	—	(72)	(72)
Transfers	—	—	—	—	—	(1)	1	—
Exchange translation differences	—	—	—	—	—	—	56	56
Goodwill written off on acquisitions	—	—	—	—	—	—	(5)	(5)
Ordinary shares issued under share option schemes	—	—	1,503	—	5	—	—	5
Shares allotted in lieu of dividends	—	—	109	—	—	—	1	1
Balance at December 31, 1992	3	1	559,207	140	164	2	1,120	1,430
Merger adjustment	—	—	—	—	—	(2)	(566)	(568)
Net income	—	—	—	—	—	—	197	197
Ordinary dividends	—	—	—	—	—	—	(105)	(105)
Share of goodwill written off on acquisitions	—	—	—	—	—	—	(50)	(50)
Other items including exchange	—	—	—	—	—	—	(5)	(5)
Ordinary shares issued under share option schemes	—	—	2,122	1	7	—	—	8
Balance at December 31, 1993	3	1	561,329	141	171	—	591	907
Net income	—	—	—	—	—	—	233	233
Ordinary dividends	—	—	—	—	—	—	(121)	(121)
Share of goodwill written off on acquisitions	—	—	—	—	—	—	(270)	(270)
Other items including exchange	—	—	—	—	—	—	(3)	(3)
Ordinary shares issued under share option schemes	—	—	1,257	—	5	—	—	5
Balance at December 31, 1994	3	1	562,586	141	176	—	430	751

The accumulated exchange translation differences included in retained earnings are £(13) million (December 31, 1993 £(10) million; December 31, 1992 £(5) million).

Reed International P.L.C.'s share of the revenue reserves of the combined businesses is £518 million (1993 £682 million) and its share of the revaluation reserves is £1 million (1993 £2 million). The share of accumulated goodwill in the Reed Elsevier combined financial statements is £1,023 million (1993 £737 million).

The accompanying notes on pages F-46 to F-59 are an integral part of these consolidated financial statements.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of financial statements

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United Kingdom ("U.K. GAAP") and are presented under the historical cost convention as modified by the revaluation of land and buildings. These principles differ in certain significant respects from accounting principles generally accepted in the United States ("U.S. GAAP"); see note 20. Amounts in the financial statements are stated in pounds sterling ("£"). The consolidated financial statements include those of Reed International P.L.C. and all of its subsidiary undertakings made up to the end of the financial period.

In preparing these financial statements certain reclassifications and changes in presentation have been made to the consolidated financial statements previously presented in Reed International P.L.C.'s published U.K. annual reports to shareholders in order to conform with new U.K. financial reporting standards.

The consolidated financial statements of Reed International P.L.C. for the years ended December 31, 1994 and 1993 include its interest in the combined businesses accounted for on an equity basis. The financial position of the Reed Elsevier combined businesses as of December 31, 1994 and 1993 and the results of their operations and cash flows for the years then ended are set forth in the combined financial statements. Consolidated financial statements for Reed International P.L.C. for periods prior to the Merger reflect a full consolidation of its publishing and information businesses.

2 Accounting policies

The significant accounting policies adopted are as follows:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and its subsidiary undertakings, together with the group's share of the profits and retained post acquisition reserves of its associated undertakings made up to the end of the financial period. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal.

On January 1, 1993 Reed International P.L.C. and Elsevier NV contributed their businesses to two companies, Reed Elsevier plc and Elsevier Reed Finance BV. Reed Elsevier plc, which owns all the publishing and information businesses, is incorporated in England and Elsevier Reed Finance BV, which owns the financing and treasury companies, is incorporated in the Netherlands. Reed International P.L.C. and Elsevier NV each holds a 50% interest in Reed Elsevier plc and, until 3 November 1994, a 50% interest in Elsevier Reed Finance BV. In addition, Reed International P.L.C. has a 5.8% interest in Elsevier NV reflecting the relative market capitalizations of the two companies on which the financial terms of the merger of their businesses were based.

Under equalization agreements at the time of the merger, ordinary shareholders of Reed International P.L.C. and Elsevier NV enjoy substantially equivalent dividend and capital rights with respect to their ordinary shares in the net income and net assets of the Reed Elsevier combined businesses, comprising the separate legal entities of Reed International P.L.C., Elsevier NV, Reed Elsevier plc and Elsevier Reed Finance BV and their respective subsidiaries and associates. These arrangements are such that, with respect to dividend and capital rights, one Elsevier NV ordinary share is, in broad terms, intended to confer equivalent economic interests to 0.769 of a Reed International P.L.C. ordinary share. At the time of the Merger this ratio was 7.69 and this has been adjusted to reflect a ten for one share split in respect of Elsevier NV ordinary shares, which became effective on October 5, 1994. As a result of these arrangements, Reed International P.L.C. shareholders have a 52.9% economic interest in the attributable profit of the Reed Elsevier combined businesses.

On November 3, 1994, Elsevier NV subscribed for additional shares in Elsevier Reed Finance BV, raising its interest to 54% and lowering Reed International P.L.C.'s interest to 46%. The funds contributed

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2 Accounting policies — (continued)

by Elsevier NV in the capital injection remain part of the net assets of the Reed Elsevier combined businesses and so there is no resulting change in the sharing of earnings and net assets between Reed International P.L.C. and Elsevier NV shareholders.

The consolidated accounts of Reed International P.L.C. include the 52.9% economic interest that shareholders have under the equalization arrangements in the Reed Elsevier combined businesses, accounted for on an equity basis.

The combined businesses, also referred to herein as "Reed Elsevier", are defined as the businesses of Reed Elsevier plc and Elsevier Reed Finance BV, together with the parent companies, Reed International P.L.C. and Elsevier NV, and their respective subsidiaries. The accounting policies adopted in the preparation of the combined financial statements encompassing the combined businesses are set out in notes 1 and 2 to the combined financial statements. These are also substantially the accounting policies adopted by Reed International P.L.C. in the preparation of its consolidated financial statements prior to the Merger.

DETERMINATION OF PROFIT

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 P.L.C. shareholders in the combined businesses after taking account of results arising in Reed International P.L.C. and its subsidiary undertakings. Dividends paid to Reed International P.L.C. and Elsevier NV shareholders are equalized on a gross level inclusive of the U.K. tax credit received by many Reed International P.L.C. shareholders. In these financial statements an adjustment is required to equalize the benefit of the tax credit between the two sets of shareholders in accordance with the equalization agreement. This equalization 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 amount of the applicable tax credit.

BASIS OF VALUATION OF ASSETS AND LIABILITIES

Reed International P.L.C.'s 52.9% economic interest in the net assets of the combined businesses is shown on the balance sheet as interests in associated undertakings net of the assets and liabilities reported as part of Reed International P.L.C. and its subsidiary undertakings.

FOREIGN CURRENCY TRANSLATION

Statement of income items are translated at average exchange rates. In the consolidated balance sheet, assets and liabilities are translated at rates ruling at the balance sheet date or contracted rates where applicable. Reed International P.L.C.'s 52.9% share in the gains or losses relating to the re-translation of the assets and liabilities of the combined businesses are taken direct to retained earnings.

ACQUISITIONS

On the acquisition of a subsidiary or associate, the purchase consideration is allocated between the underlying net tangible and intangible assets on a fair value basis. Any excess cost or goodwill is written off against retained earnings.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are all highly liquid instruments with an original maturity of three months or less.

TAXATION

Deferred taxation is provided in full for timing differences using the liability method. No provision is made for tax which would become payable on the distribution of retained profits by foreign subsidiaries or associated companies or on the sale of intangible assets at stated amounts as there is no present intention to distribute such retained earnings or to sell intangible assets.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2 Accounting policies — (continued)

NET SALES

Net sales represent the invoiced value of sales excluding VAT and sales between the combined businesses.

DEVELOPMENT COST

Development spend is expensed to the income statement as incurred.

PENSIONS

The expected costs of pensions in respect of defined benefit pension schemes are charged to the income statement so as to spread the costs 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 income statement charge represents contributions made.

3 Income from interests in associated companies

	<u>1993</u>	<u>1994</u>
	(In £ millions)	
Share from 50% holding in Reed Elsevier combined results	267	310
5.8% Elsevier NV's results	15	18
	282	328
Effect of tax credit equalization on distributed earnings (note 4)	(12)	(14)
Items consolidated within Reed International P.L.C. including exceptional items	(20)	(42)
	<u>250</u>	<u>272</u>

4 Effect of tax credit equalization 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 P.L.C. shareholders in the combined businesses. Dividends paid to Reed International P.L.C. and Elsevier NV shareholders are equalized on a gross level inclusive of the U.K. tax credit received by many Reed International P.L.C. shareholders. In these financial statements an adjustment is required to equalize this benefit between both sets of shareholders in accordance with the equalization agreement. This equalization 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 amount of the applicable tax credit.

5 Segment information

Segment information is not presented for the years ended December 31, 1994 and 1993 as Reed International P.L.C. accounts for the results of the combined businesses on an equity basis following the Merger on January 1, 1993.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5 Segment information — (continued)

By category of activity	9 Months ended December 31, 1992
	(In £ millions)
Net sales	
Books	277
Reference Publishing	55
Travel and Information Services	173
Exhibitions	98
Business to Business Publishing	297
Consumer Publishing	<u>297</u>
	<u>1,197</u>
Operating income before exceptional items	
Books	47
Reference Publishing	7
Travel and Information Services	35
Exhibitions	7
Business to Business Publishing	21
Consumer Publishing	<u>51</u>
	<u>168</u>
Capital employed	
Books	450
Reference Publishing	378
Travel and Information Services	387
Exhibitions	90
Business to Business Publishing	587
Consumer Publishing	<u>264</u>
	<u>2,156</u>

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5 Segment information — (continued)

By geographic origin	9 Months ended December 31, 1992
	(In £ millions)
Net sales	
U.K.	655
U.S.A.	390
Rest of World	152
	<u>1,197</u>
Operating income before exceptional items	
U.K.	111
U.S.A.	47
Rest of World	10
	<u>168</u>
Capital employed	
U.K.	744
U.S.A.	1,204
Rest of World	208
	<u>2,156</u>
By geographic market	
Net Sales	
U.K.	556
U.S.A.	382
Rest of World	259
	<u>1,197</u>

Capital employed at December 31, 1992 is before net borrowings of £624 million, taxation of £98 million and minority interest of £4 million which are deducted in calculating shareholders' equity.

6 Significant acquisitions

During the nine months ended December 31, 1992 Reed International P.L.C. spent £42 million (including deferred consideration) on the acquisition of publishing and information businesses. No acquisitions, other than through its associated companies, were made by Reed International P.L.C. in the years ended December 31, 1994 and 1993. Where the purchase price has exceeded the fair value of the net tangible and intangible assets acquired, the excess is regarded as goodwill and has been written off against retained earnings. The fair value adjustments principally relate to the valuation of intangible assets and provision for the costs of reorganization and integration of the business acquired.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7 Exceptional items

	9 Months ended December 31, 1992	12 Months ended December 31, 1993	12 Months ended December 31, 1994
		(In £ millions)	
Profit on sale of fixed asset investments	—	16	40
Merger costs	<u>(25)</u>	<u>—</u>	<u>—</u>
	<u>(25)</u>	<u>16</u>	<u>40</u>

8 Interest expense

	9 Months ended December 31, 1992	12 Months ended December 31, 1993	12 Months ended December 31, 1994
		(In £ millions)	
On bank loans, overdrafts and other loans repayable wholly within 5 years	(45)	—	—
On all other loans	<u>(12)</u>	<u>(4)</u>	<u>(4)</u>
	<u>(57)</u>	<u>(4)</u>	<u>(4)</u>

9 Taxes on income

Taxes on income charged/(credited) to earnings were as follows:

	9 Months ended December 31, 1992	12 Months ended December 31, 1993	12 Months ended December 31, 1994
		(In £ millions)	
U.K. Corporation Tax			
Current	23	2	1
Deferred	5	—	—
Rest of World Corporation Tax			
Current	11	—	—
Deferred	(3)	—	—
Share of associated companies' taxation	<u>2</u>	<u>71</u>	<u>80</u>
	<u>38</u>	<u>73</u>	<u>81</u>

Deferred taxation is provided in full for timing differences using the liability method. No provision is made for the tax which would become payable on the distribution of retained profits by foreign subsidiaries or associated companies or on the sale of intangible assets at stated amounts as there is no present intention to distribute such retained earnings or to sell intangible assets. The potential deferred tax has not been quantified as it is not practicable to determine the liabilities.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 Earnings per ordinary share

The earnings per ordinary share for each financial period is calculated as follows:

	<u>Earnings</u> (In £ millions)	<u>Average number of ordinary shares in issue</u> (In millions)	<u>Earnings per ordinary share</u> (In pence)
12 months ended December 31, 1994	233	561.9	41.5
12 months ended December 31, 1993	197	560.6	35.2
9 months ended December 31, 1992	74	558.1	13.2
12 months ended December 31, 1992	149	557.9	26.7

11 Dividends — ordinary

	<u>9 Months ended December 31, 1992</u>	<u>12 Months ended December 31, 1993</u>	<u>12 Months ended December 31, 1994</u>
	(In £ millions)		
First interim	31	33	38
Second interim	41	—	—
Final (proposed)	—	72	83
Total	<u>72</u>	<u>105</u>	<u>121</u>
Per 25p Ordinary Share			
First interim	5.50p	6.00p	6.70p
Second interim	7.25p	—	—
Final (proposed)	—	12.75p	14.80p
Total	<u>12.75p</u>	<u>18.75p</u>	<u>21.50p</u>

12 Fixed asset investments

	<u>Investment in associated undertakings</u>	<u>Loans to associated undertakings</u>	<u>Total</u>
	(In £ millions)		
At December 31, 1993	895	36	931
Share of profit of associated undertakings	272	—	272
Share of tax attributable to associated undertakings	(80)	—	(80)
Dividends received and receivable	(109)	—	(109)
Share of goodwill written off (Net)	(270)	—	(270)
Other items including share of exchange	(4)	—	(4)
At December 31, 1994	<u>704</u>	<u>36</u>	<u>740</u>

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12 Fixed asset investments — (continued)

The investment in associated undertakings represents the 52.9% economic interest that Reed International P.L.C. has in the Reed Elsevier combined businesses, less those assets and liabilities that are separately consolidated in the Reed International P.L.C. group accounts. Reed International P.L.C.'s indirect 5.8% holding in Elsevier NV has been reflected within the equity accounting for the associated undertakings.

13 Debtors

	1993	1994
	(In £ millions)	
Taxation	1	—
Amounts owed by associated undertakings	84	133
	85	133

All amounts are due within one year.

14 Creditors: amounts falling due within one year

	1993	1994
	(In £ millions)	
Loan capital	3	2
Proposed dividend	72	83
Other creditors	1	3
	76	88

15 Creditors: amounts falling due after more than one year

	1993	1994
	(In £ millions)	
Amounts owed to associated undertakings	36	36
	36	36

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16 Share capital

	<u>Authorized</u>	<u>Issued and fully paid</u>	<u>Issued and fully paid</u>
	<u>1994</u>	<u>1993</u>	<u>1994</u>
(In £ millions)			
Reed International P.L.C.			
<i>Preference shares (cumulative) of £1.00 each</i>			
<i>Redeemable at par at the option of the company</i>			
3.15% (previously 4.5%)	2	2	2
3.85% (previously 5.5%)	1	1	1
<i>Non-redeemable</i>			
3.50% (previously 5%)	—	—	—
4.90% (previously 7%)	1	1	1
	4	4	4
Ordinary shares of 25p each	141	141	141
Unclassified shares of 25p each	43	—	—
Total	188	145	145

Details of shares issued under share option schemes are set out in note 19.

17 Contingent Liabilities

There are contingent liabilities in respect of borrowings guaranteed by Reed International P.L.C.:

	<u>1993</u>	<u>1994</u>
	(In £ millions)	
Borrowings of Reed Elsevier plc group and Elsevier Reed Finance BV group		
Guaranteed jointly and severally with Elsevier NV	1,008	1,447
Guaranteed solely by Reed International P.L.C.	34	14
Borrowings of other companies	2	4
	1,044	1,465

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

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18 Statements of Cash Flows

	<u>Share capital and share premium</u>	<u>Long term borrowings</u>	<u>Funding balances with associated undertakings</u> (In £ millions)	<u>Short term investments: original maturity after 3 months and within 1 year</u>
Analysis of changes in financing				
At December 31, 1992 . . .	308	641	—	(4)
Transferred on merger . . .	—	(637)	(99)	1
Net cash flow from financing	<u>8</u>	<u>(1)</u>	<u>52</u>	<u>—</u>
At December 31, 1993 . . .	316	3	(47)	(3)
Net cash flow from financing	<u>5</u>	<u>(1)</u>	<u>(50)</u>	<u>1</u>
At December 31, 1994 . . .	<u>321</u>	<u>2</u>	<u>(97)</u>	<u>(2)</u>

Long term borrowings comprise loan capital, promissory notes and bank loans with an original maturity of over 3 months.

	<u>Cash at bank and in hand</u>	<u>Short-term investments: original maturity within 3 months</u>	<u>Bank loans promissory notes and overdrafts</u>	<u>Total</u>
	(In £ millions)			
Analysis of changes in net cash and cash equivalents				
At December 31, 1992	49	322	(358)	13
Transferred on merger	(49)	(321)	358	(12)
Net cash flow from financing	<u>—</u>	<u>(1)</u>	<u>—</u>	<u>(1)</u>
At December 31, 1993	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash flow from financing	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At December 31, 1994	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

19 Share option schemes

Reed International P.L.C. operates a savings related share option scheme established in 1984 which is open to all U.K. employees who have at least one year's continuous service with a Reed Elsevier company at the date on which the options are granted and work 16 hours or more a week. The options may be exercised after five years at a price equivalent to not less than 80% of the market value of the ordinary shares at the time of grant.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19 Share option schemes — (continued)

Transactions during the three financial periods ended December 31, 1994 were:

	<u>Number of ordinary shares</u>	<u>Exercise share price (pence)</u>
Outstanding at March 31, 1992	4,165,975	
Granted	—	
Exercised	(123,596)	241.67 - 399.6
Lapsed	<u>(375,326)</u>	
Outstanding at December 31, 1992	3,667,053	
Granted	1,421,271	526.0
Exercised	(982,084)	276.0 - 399.6
Lapsed	<u>(265,145)</u>	
Outstanding at December 31, 1993	3,841,095	
Granted	1,050,073	656.4
Exercised	(250,399)	282.8 - 656.4
Lapsed	<u>(317,968)</u>	
Outstanding at December 31, 1994	<u>4,322,801</u>	

Options outstanding at December 31, 1994 were exercisable by 2000.

Reed International P.L.C. operates an overseas savings related share option scheme established in 1991, the first grants for which were made in the period ended December 31, 1992. The scheme is open to all employees, who are not eligible for the U.K. savings related scheme, who have been with Reed Elsevier for at least one year and who work 20 or more hours per week. The options may be exercised after five years at a price equivalent to 80% of the market value of the ordinary shares at the time of grant.

Transactions during the three financial periods ended December 31, 1994 were:

	<u>Number of ordinary shares</u>	<u>Exercise share price (pence)</u>
Outstanding at March 31, 1992		
Granted	220,645	407.2 - 467.6
Exercised	—	
Lapsed	<u>(1,476)</u>	
Outstanding at December 31, 1992	219,169	
Granted	—	
Exercised	—	
Lapsed	<u>(1,674)</u>	
Outstanding at December 31, 1993	217,495	
Granted	—	
Exercised	(207)	454.0
Lapsed	<u>(20,321)</u>	
Outstanding at December 31, 1994	<u>196,967</u>	

Options outstanding at December 31, 1994 were exercisable by 1998.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19 Share option schemes — (continued)

The Reed International P.L.C. executive share option scheme was established in 1984. The board of directors grant options to selected full time employees of Reed Elsevier. The options normally become exercisable after three years and may be exercised up to ten years from the date of grant at a price equivalent to the market value of the ordinary shares at the time of grant.

	Number of ordinary shares	Exercise share price (pence)
Outstanding at March 31, 1992	6,240,139	
Granted	563,200	567.5
Exercised	(1,389,239)	260.0 - 567.5
Lapsed	(81,800)	
Outstanding at December 31, 1992	5,332,300	
Granted	1,415,200	643.5
Exercised	(1,140,000)	373.0 - 474.5
Lapsed	(10,200)	
Outstanding at December 31, 1993	5,597,300	
Granted	1,966,000	820.5
Exercised	(1,006,200)	338.9 - 474.5
Lapsed	(133,400)	
Outstanding at December 31, 1994	<u>6,423,700</u>	

Options outstanding at December 31, 1994 were exercisable by 2004.

20 Summary of differences between U.K. and U.S. GAAP

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United Kingdom ("U.K. GAAP"), which differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). These differences relate principally to the following items and the approximate effect on net income and shareholders' equity is shown in the following tables.

Impact of U.S. GAAP adjustments to combined financial statements

Reed International P.L.C., following the merger of its businesses with those of Elsevier NV, accounts for its 52.9% economic interest in the combined businesses by the equity method in conformity with both U.K. and U.S. GAAP. Using the equity method to present its net income and shareholders' equity under U.S. GAAP Reed International P.L.C. reflects its 52.9% share of the effects of differences between U.K. and Dutch GAAP and U.S. GAAP relating to the combined businesses as a single reconciling item, together with related effects arising from the equalization of dividends at the gross level; see note 4. Details of the differences relating to the combined businesses are explained in note 31 to the combined financial statements.

Goodwill and other intangible assets

Under U.K. GAAP, goodwill arising on business combinations treated as acquisitions may be written off against retained earnings. Other intangibles, principally publishing rights and titles, databases and exhibitions, are carried at fair value on acquisition with no systematic amortization, as they have no finite economic life. They are, however, subject to an annual review for permanent impairment.

Under U.S. GAAP, goodwill and other intangibles acquired prior to November 1, 1970, the effective date of APB Opinion 17, Intangible Assets, of £35 million are not amortized as, in the opinion of the

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

20 Summary of differences between U.K. and U.S. GAAP — (continued)

management of Reed International P.L.C., these assets have no evident limited life. The cost of intangible assets acquired after October 30, 1970 is required to be amortized over the period of their estimated useful lives, to a maximum of 40 years.

Deferred taxation

Under U.K. GAAP, deferred taxation is provided in full for timing differences using the liability method. Under U.S. GAAP, deferred taxation is provided on all temporary differences under the liability method, subject to a valuation allowance where applicable in respect of deferred tax assets, in accordance with SFAS 109, Accounting for Income Taxes. The principal adjustment to apply U.S. GAAP is to provide deferred taxation on timing differences arising from the amortization under U.S. GAAP of goodwill and other intangibles.

Revaluation of land and buildings

Under U.K. GAAP, land and buildings may be restated on the basis of appraised values in financial statements presented in all other respects in accordance with the historical cost convention. Such restatements are not permitted under U.S. GAAP.

Acquisition accounting

Under U.K. GAAP, there are certain items, such as integration costs incurred in existing operations, which may be provided as part of the purchase accounting adjustments on acquisition. Under U.S. GAAP, some of these items are expensed in the statement of income when the costs are incurred.

With effect from 1995, Reed International P.L.C. will apply the new U.K. Financial Reporting Standard FRS 7, Fair Values in Acquisition Accounting, under which provisions for restructuring and integration costs may no longer be provided as part of purchase accounting.

Pensions

Under U.K. GAAP, pension costs are accounted for under the rules set out in SSAP 24. Its objectives and principles are broadly in line with those set out in the U.S. accounting standard for pensions, SFAS 87, Employers Accounting for Pension Costs. However, SSAP 24 is less prescriptive in its provisions and allows the use of different measurement provisions.

Short term obligations expected to be refinanced

Under U.S. GAAP, where it is intended to refinance short term obligations on a long term basis and this is supported by an ability to consummate the refinancing, such short term obligations should be excluded from current liabilities and shown as long term obligations. Under U.K. GAAP, such obligations can only be excluded where, additionally, the debt and the facility are under a single agreement or course of dealing with the same lender or group of lenders. Short term obligations totalling, as at December 31, 1992, £319 million would thus be excluded from current liabilities under U.S. GAAP and shown as long term obligations. Reed International P.L.C. had no such obligations at December 31, 1994 and 1993.

Sale and lease back transactions of real estate

U.S. GAAP prescribes certain requirements for income recognition on real estate transactions relating to the consummation of a sale and the seller's continuing involvement in a property, which are not found in U.K. GAAP. This results in the profit from certain sale and lease back transactions being deferred and recorded in different accounting periods under U.S. GAAP.

Ordinary dividends

Under U.K. GAAP, dividends are provided for in the year in respect of which they are proposed by the directors. Under U.S. GAAP, such dividends would not be provided for until they are formally declared by the directors.

REED INTERNATIONAL P.L.C. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

20 Summary of differences between U.K. and U.S. GAAP — (continued)

Exceptional items

Exceptional items are material items within Reed International P.L.C.'s ordinary activities which under U.K. GAAP are required to be disclosed separately due to their size or infrequency.

Earnings per share

Under U.S. GAAP, primary earnings per share is based on common stock in issue and, where there is a dilutive effect, common stock equivalents. Under U.K. GAAP, earnings per share is based only on common stock in issue. Fully diluted earnings per share is only disclosed where there is a material dilutive effect. Where this arises both categories are presented separately on the statement of income.

	9 Months ended March 31, 1992	12 Months ended December 31, 1993	12 Months ended December 31, 1994
	(In £ millions, except per share amounts)		
Approximate effects on net income of differences between U.K. and U.S. GAAP:			
Net income under U.K. GAAP	<u>74</u>	<u>197</u>	<u>233</u>
U.S. GAAP adjustments:			
Amortization of goodwill and other intangibles	(46)	—	—
Deferred taxation	6	—	—
Revaluation of land and buildings	1	—	—
Acquisition accounting	(3)	—	—
Pensions	(17)	—	—
Sale and lease back transactions	1	—	—
Impact of U.S. GAAP adjustments to combined financial statements	<u>—</u>	<u>(45)</u>	<u>(65)</u>
Net income under U.S. GAAP	<u>16</u>	<u>152</u>	<u>168</u>
Primary earnings per ordinary share under U.S. GAAP (pence)	<u>2.9p</u>	<u>27.0p</u>	<u>29.8p</u>
		<u>1993</u>	<u>1994</u>
		(In £ millions)	

Approximate effects on shareholders' equity of differences between U.K. and U.S. GAAP:		
Shareholders' equity under U.K. GAAP	<u>907</u>	<u>751</u>
U.S. GAAP adjustments:		
Impact of U.S. GAAP adjustments to combined financial statements ..	301	504
Ordinary dividends	<u>72</u>	<u>83</u>
Shareholders' equity under U.S. GAAP	<u>1,280</u>	<u>1,338</u>

ELSEVIER NV
FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the members of the Supervisory and Executive Boards and the Shareholders of Elsevier NV

We have audited the accompanying balance sheet as of December 31, 1994, and the related statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Elsevier NV at December 31, 1994 and the results of its operations and its cash flows for the year ended December 31, 1994 in conformity with accounting principles generally accepted in the Netherlands (which differ in certain material respects from generally accepted accounting principles in the United States — see note 17).

DELOITTE & TOUCHE
Registeraccountants
Amsterdam, The Netherlands
14 March 1995

REPORT OF INDEPENDENT ACCOUNTANTS

To the members of the Supervisory and Executive Boards and the Shareholders of Elsevier NV

We have audited the accompanying balance sheet of Elsevier NV as of December 31, 1993 and the related statements of income, cash flows and changes in shareholders' equity for each of the two years ended December 31, 1993 prepared on the basis and under the accounting policies set out in notes 1 and 2 of the financial statements and expressed in Dutch guilders. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates and judgements made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Elsevier NV at December 31, 1993 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1993 in conformity with accounting principles generally accepted in the Netherlands on the basis set out in notes 1 and 2 of the financial statements. We have not audited the financial statements for any period subsequent to December 31, 1993.

Accounting principles generally accepted in the Netherlands vary in certain significant respects from accounting principles generally accepted in the United States. In our opinion application of the latter would have affected the determination of net income expressed in Dutch guilders for each of the two years in the period ended December 31, 1993 and the determination of shareholders' equity expressed in Dutch guilders as of December 31, 1993 to the extent summarized in note 17 to the financial statements.

COOPERS & LYBRAND
Registeraccountants
Amsterdam, The Netherlands
September 22, 1994

ELSEVIER NV
STATEMENTS OF INCOME

	Notes	<u>Consolidated</u>	<u>Parent</u>	<u>Parent</u>
		<u>Year ended December 31,</u>		
		<u>1992</u>	<u>1993</u>	<u>1994</u>
(In Dfl millions, except per share amounts)				
Net sales	3	2,434	—	—
Movement in inventory of finished products and work in progress		(17)	—	—
Value produced		2,417	—	—
Raw and auxiliary materials		(127)	—	—
Work farmed out and other external expenses		(688)	—	—
Wages and salaries		(518)	(4)	—
Social security charges		(95)	—	—
Depreciation less investment premiums		(53)	—	—
Other		(369)	(4)	(3)
Operating expenses		(1,850)	(8)	(3)
Trading income		567	(8)	(3)
Net exceptional items	5	(10)	—	—
Operating income after net exceptional items		557	(8)	(3)
Share in attributable profit after tax of associated companies and affiliates		9	528	628
Interest income		49	25	17
Interest expense		(7)	(1)	(1)
Financial results		51	552	644
Income before tax		608	544	641
Tax		(174)	8	9
Net income		434	552	650
Earnings per ordinary share of Dfl 0.10 (Dfl)	6	0.67	0.80	0.93

The accompanying notes on pages F-67 to F-77 are an integral part of these financial statements.

ELSEVIER NV
BALANCE SHEETS

	<u>Notes</u>	<u>At December 31,</u>	
		<u>1993</u>	<u>1994</u>
		(In Dfl millions)	
Financial fixed assets	8	<u>2,385</u>	<u>2,048</u>
Accounts receivable and other current assets	9	403	214
Cash and cash equivalents		5	2
Total current assets		<u>408</u>	<u>216</u>
Total current liabilities	10	<u>(267)</u>	<u>(267)</u>
Net working capital		<u>141</u>	<u>(51)</u>
Long term borrowings, less current portion	11	(12)	(15)
Provisions for liabilities and charges	12	<u>(54)</u>	<u>(60)</u>
Net assets		<u>2,460</u>	<u>1,922</u>
Share capital	13	69	70
Paid in surplus		700	713
Legal reserve		1,283	704
Other reserves		<u>408</u>	<u>435</u>
Shareholders' equity		<u>2,460</u>	<u>1,922</u>

The accompanying notes on pages F-67 to F-77 are an integral part of these financial statements.

ELSEVIER NV
STATEMENTS OF CASH FLOWS

	Notes	<u>Consolidated</u>	<u>Parent</u>	<u>Parent</u>
		<u>Year Ended December 31,</u>		
		<u>1992</u>	<u>1993</u>	<u>1994</u>
(In Dfl millions)				
Received from customers	15	2,458	—	—
Paid to suppliers		<u>(1,196)</u>	—	—
Value added on a cash basis	15	1,262	—	—
Interest		42	24	16
Salary costs	15	(613)	(8)	(4)
Other payables		—	1	(9)
Tax paid	15	(147)	30	10
Dividends received		—	218	364
Dividend paid		(146)	(279)	(346)
Capital expenditure	15	<u>(160)</u>	—	—
Cash from operations		238	(14)	31
Investment in affiliates		—	—	(241)
Acquisitions		(101)	—	—
Proceeds from sale of associated companies, other investments and tangible fixed assets		92	—	—
Merger costs		<u>(43)</u>	—	—
Acquisitions/disposals		(52)	—	(241)
Surplus/(outflow)		186	(14)	(210)
Received on newly issued shares		29	31	14
Change in net funding balances with affiliates		—	(14)	190
Changes to bank overdrafts		(17)	—	—
Changes to loans		<u>(8)</u>	2	3
Financing		4	19	207
Changes in cash and cash equivalents		<u>190</u>	<u>5</u>	<u>(3)</u>
Balance of cash and cash equivalents at December 31		<u>778</u>	<u>5</u>	<u>2</u>

The accompanying notes on pages F-67 to F-77 are an integral part of these financial statements.

ELSEVIER NV

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Dfl 1.00 R-Shares		Dfl 0.10 Ordinary Shares		Paid in surplus Dfl millions	Legal reserve Dfl millions	Retained earnings Dfl millions	Total Dfl millions
	Number '000	Share Capital Dfl millions	Number '000	Share Capital Dfl millions				
Balance at December 31, 1991 . . .	—	—	648,630	65	175	14	501	755
Net income	—	—	—	—	—	—	434	434
Ordinary dividends	—	—	—	—	—	—	(170)	(170)
Reversal of unrealised revaluation surplus	—	—	—	—	—	(10)	—	(10)
Exchange translation differences	—	—	—	—	—	—	13	13
Issue of shares	—	—	3,810	—	29	—	—	29
Goodwill written off on acquisitions	—	—	—	—	—	—	(88)	(88)
Balance at December 31, 1992 . .	—	—	652,440	65	204	4	690	963
Merger activities on January 1, 1993	4,050	4	—	—	465	811	—	1,280
Reclassification of legal reserves	—	—	—	—	—	184	(184)	—
Net income	—	—	—	—	—	528	24	552
Ordinary dividends	—	—	—	—	—	—	(340)	(340)
Issue of shares	—	—	3,460	—	31	—	—	31
Share of affiliates' results:								
Dividends	—	—	—	—	—	(218)	218	—
Exchange translation difference	—	—	—	—	—	98	—	98
Equalization	—	—	—	—	—	10	—	10
Goodwill written off on acquisitions	—	—	—	—	—	(134)	—	(134)
Balance at December 31, 1993 . .	4,050	4	655,900	65	700	1,283	408	2,460
Net income	—	—	—	—	—	628	22	650
Ordinary dividends	—	—	—	—	—	—	(359)	(359)
Issue of shares	—	—	1,528	1	13	—	—	14
Share of affiliates' results:								
Revaluation	—	—	—	—	—	(1)	—	(1)
Dividends	—	—	—	—	—	(364)	364	—
Exchange translation difference	—	—	—	—	—	(170)	—	(170)
Equalization	—	—	—	—	—	20	—	20
Goodwill written off on acquisitions	—	—	—	—	—	(692)	—	(692)
Balance at December 31, 1994 . .	<u>4,050</u>	<u>4</u>	<u>657,428</u>	<u>66</u>	<u>713</u>	<u>704</u>	<u>435</u>	<u>1,922</u>

The accumulated exchange translation differences included in retained earnings is Dfl (127) million (1993 Dfl 43 million; 1992 Dfl (55) million).

At December 31, 1994 and 1993 the legal reserve comprised Elsevier NV's share of the post acquisition accumulated retained earnings of affiliates.

The accompanying notes on pages F-67 to F-77 are an integral part of these financial statements.

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS

1 Basis of financial statements

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Netherlands ("Dutch GAAP"), which differ in certain significant respects from accounting principles generally accepted in the United States ("U.S. GAAP"); see note 17. Amounts in the financial statements are stated in Dutch guilders ("Dfl"). Certain disclosures required to comply with Dutch statutory reporting requirements have been omitted.

2 Accounting policies

The significant accounting policies adopted are as follows:

BASIS OF CONSOLIDATION

For the year ended December 31, 1992 all subsidiaries belonging to the Elsevier NV group are fully consolidated. If applicable, third-party minority interests are shown separately. In principle, 50% owned companies are proportionately consolidated and companies less than 50% owned are not consolidated. The results of companies acquired or divested during the year are included from the date of acquisition or until the date of divestment, respectively.

The economic interests of Elsevier NV and Reed International P.L.C. shareholders in the combined businesses are governed by reference to the equalization arrangement that was entered into by the two companies at the time of the merger of their respective businesses. This arrangement was designed to secure for both sets of shareholders substantially equivalent ordinary dividend and capital rights in the earnings and net assets of the combined businesses.

In November 1994 Elsevier NV made a capital injection into Elsevier Reed Finance BV, the company through which many of the financing activities are conducted, to satisfy its further funding needs. Reed International P.L.C. did not participate in this funding and, as a result, Elsevier NV now holds 54% of the shares in Elsevier Reed Finance BV and Reed International P.L.C. 46%. The funds used for this capital injection count as part of the net assets of the combined businesses and so there is no resultant change in the sharing of earnings or net assets of the combined businesses between Elsevier NV and Reed International P.L.C. shareholders.

Following this recapitalization Elsevier NV holds a majority in Elsevier Reed Finance BV and is required to prepare consolidated financial statements. However, management believes that a better insight into the financial position and results of Elsevier is provided by looking at the investment in the combined businesses in aggregate, as presented in the statutory financial statements, and with regard to the financial information contained in the combined financial statements.

The investment in affiliates is valued using equity accounting as adjusted for the effects of the existing equalization arrangement between Reed International P.L.C. and Elsevier NV. The arrangement provides for the distribution of dividends and net assets in such a way that Elsevier NV's share in the profit and net assets of Reed Elsevier equals 50%. All settlements accruing to shareholders from the equalization arrangements are taken direct to retained earnings.

Insofar as affiliates charge or credit goodwill directly to their shareholders' equity, one half of such goodwill will be charged or credited to Elsevier NV's shareholders' equity. Goodwill is the difference between the amount paid for the acquisition of, or investment in, outside enterprises and business operations and the net asset value of the acquisition included in the Reed Elsevier combined balance sheet. Insofar as affiliates show changes in their shareholders' equity from applying current value accounting, Elsevier NV will include 50% of such changes in its revaluation reserve.

BASES OF VALUATION OF ASSETS AND LIABILITIES

Unrealized profits on intra-group transactions are eliminated.

Unless otherwise indicated, other assets and liabilities are stated at face value.

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

2 Accounting policies — (continued)

Balance sheet accounts expressed in foreign currencies are translated at the exchange rates effective at the balance sheet date. Currency translation differences arising from the conversion of investments in affiliates, expressed in foreign currencies, are directly credited or charged to shareholders' equity.

BASIS OF DETERMINATION OF INCOME

Insofar as it is not evident from the above, the bases for the determination of income are as follows:

Under the merger agreement, Elsevier is entitled to 50% of the Reed Elsevier combined profit attributable to parent companies' shareholders. In calculating the guilder equivalent of that share of profit, sterling's average exchange rate for the year is applied. For 1994, this rate was Dfl 2.78 (1993: 2.79).

Following the merger of Elsevier NV's businesses with those of Reed International P.L.C., adjustments have been made to comply with both Dutch and U.K. generally accepted accounting principles. The adjustments comprise reclassification of items reported as extraordinary under Dutch GAAP as exceptional items.

Tax is calculated on ordinary and extraordinary income, taking into account profit not subject to tax. For the two years ended December 31, 1994 and 1993 tax is calculated on profit from Elsevier NV's own operations, taking into account profit not subject to tax and the net tax credit in connection with dividends received from Reed Elsevier plc. The difference between tax charged and tax payable in the short term is included in the provision for tax liabilities. This provision is based upon relevant rates, taking into account tax deductible losses which can be compensated within the foreseeable future.

Net sales represent revenues, after deduction of discounts and value added tax, on transactions completed by delivery during the year.

Investment premiums due to Elsevier NV are credited to income, in accordance with legal repayment schedules for divestment existing at the time of investment.

3 Segment Information

Segment information is not presented for the two years ended December 31, 1994 and 1993 as Elsevier NV accounts for the results of the combined businesses on an equity basis following the Merger on January 1, 1993.

	1992
	(In Dfl millions)
By category of activity	
Net sales	
Scientific Information	968
Professional and Business Information	854
Consumer Information	612
	2,434
By geographic market	
Net sales	
The Netherlands	925
Rest of Europe	453
U.S.A.	764
Rest of Americas	45
Japan	129
Rest of World	118
	2,434

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

4 Significant acquisitions

During the year ended December 31, 1992 Elsevier NV spent Dfl 101 million (including deferred consideration) on the acquisition of publishing and information businesses. No acquisitions other than through the combined businesses were made by Elsevier NV in the two years ended December 31, 1994 and 1993. Where the purchase price has exceeded the fair value of the net tangible and intangible assets acquired, the excess is regarded as goodwill and has been written off against retained earnings. The fair value adjustments principally relate to the valuation of intangible assets and provision for the costs of reorganization and integration of the businesses acquired.

5 Net exceptional items

	<u>1992</u>	<u>1993</u>	<u>1994</u>
	(In Dfl millions)		
Profit on sale of fixed asset investments	53	—	—
Loss on sale of property	(3)	—	—
Merger costs	(50)	—	—
Restructuring costs	(17)	—	—
Exceptional loss before tax	(17)	—	—
Tax on exceptional items	7	—	—
Net exceptional items	(10)	—	—

Included in results of the affiliates for the year ended December 31, 1994 is Dfl 56 million in respect of results on sale of investment in BSKyB and Dfl (35) million on the disposal or surrender of a number of property interests in the U.S.A. and the U.K. that have become surplus to requirements. For the year ended December 31, 1993 the results of affiliates included Dfl 23 million in respect of results of sale of investment in BSKyB.

6 Earnings per ordinary share

The earnings per ordinary share for each year is calculated as if the ten for one share split of ordinary shares of Dfl 1.00 par value into 10 ordinary shares of Dfl 0.10 par value, which became effective on October 5, 1994, had been in effect throughout the three years ended December 31, 1994.

	<u>Earnings</u>	<u>Average number of</u> <u>shares in issue</u>	<u>Earnings per</u> <u>ordinary share</u>
	(In Dfl millions)	(In millions)	(In Dfl)
Year ended December 31, 1994	650	657	0.93
Year ended December 31, 1993	552	654	0.80
Year ended December 31, 1992	434	651	0.67

Of Elsevier NV's 50% share of the net income of the Reed Elsevier combined businesses, 47.1% accrues to the holders of the ordinary shares and 2.9% to Reed International P.L.C., the holder of the R-shares. Consequently, for periods since the Merger, the earnings per ordinary share calculations are based on 47.1% of the net income of the Reed Elsevier combined businesses.

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

7 Proposal for allocation of income

	1992	1993	1994
	(In Dfl millions)		
Interim dividend ordinary shares	170	109	116
Final dividend ordinary shares	—	231	244
Dividend R-shares (1994 Dfl 40,000 proposed; 1993 Dfl 61,000)	—	—	—
Retained profit	264	212	290
	434	552	650

For 1993 onwards, because the dividend paid by Elsevier NV is equalized with the Reed International P.L.C. dividend plus the U.K. tax credit, Elsevier NV distributes a higher proportion of the combined profit attributable than Reed International P.L.C.. Reed International P.L.C.'s share in this difference is settled with Elsevier NV and has been credited direct to reserves under equalization, because this settlement maintains the contractually agreed balance between the shareholders of Elsevier NV and Reed International P.L.C.

Elsevier NV can pay a nominal dividend to Reed International P.L.C. on its R-shares that is lower than the dividend on the ordinary shares. Reed International P.L.C. will be compensated by direct dividend payments by Reed Elsevier plc. Equally, Elsevier NV has the possibility to receive dividends direct from Dutch affiliates. The settlements flowing from these arrangements are also taken direct to reserves under equalization.

Changes resulting from equalization are as follows:

	1993	1994
	(In Dfl millions)	
U.K. tax credit	37	39
R-shares dividend	(21)	(22)
Proceeds of ordinary shares	(5)	—
Exchange differences	(1)	3
	10	20

Settlement is effected via the investment in Reed Elsevier plc.

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

8 Fixed asset investments

	<u>Investment in affiliates</u> (In Dfl millions)
At December 31, 1992	67
Effect of deconsolidation	754
Parent company pre-Merger	821
Transferred on Merger	(821)
Arising on Merger	2,101
Share of profits of affiliates	528
Dividends received	(218)
Net share of goodwill written off by affiliates on acquisitions	(134)
Exchange translation difference	98
Equalization	10
At December 31, 1993	<u>2,385</u>
Increase investment in Elsevier Reed Finance BV	241
Share of profits of affiliates	628
Dividends received	(364)
Net share goodwill written off by affiliates on acquisitions	(692)
Exchange translation difference	(170)
Equalization	20
At December 31, 1994	<u>2,048</u>

The investments in affiliates at December 31, 1994 are:

Reed Elsevier plc, London (50%)
Elsevier Reed Finance BV, Amsterdam (54%)

In addition, Elsevier NV holds a nominal amount of Dfl 0.3 million in shares with special dividend rights in Reed Elsevier Overseas BV and Reed Elsevier Nederland BV. These shares are included in the amount shown under investment in affiliates above. They enable Elsevier NV to receive dividends from companies within the same jurisdiction.

9 Accounts receivable and other current assets

	<u>1993</u>	<u>1994</u>
	(In Dfl millions)	
Accounts receivable from affiliates	401	210
Other receivables	2	4
	<u>403</u>	<u>214</u>

The accounts receivable from affiliates bear interest.

10 Total current liabilities

	<u>1993</u>	<u>1994</u>
	(In Dfl millions)	
Accrued liabilities	14	9
Trade liabilities	14	9

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

10 Total current liabilities — (continued)

Proposed cash dividend	231	244
Income tax less investment premiums	<u>22</u>	<u>14</u>
	<u>267</u>	<u>267</u>

11 Borrowings

	<u>Currency</u>	<u>1993</u>	<u>1994</u>
		(In Dfl millions)	
Other loans			
Convertible debenture loans	Guilders	<u>12</u>	<u>15</u>
		<u>12</u>	<u>15</u>

Convertible debenture loans consist of five convertible personnel debenture loans with a weighted average interest rate of 7.4%. Depending on the conversion terms, the surrender of Dfl 1,000 at par qualifies for the acquisition of 60 to 500 Elsevier NV ordinary shares of Dfl 0.10 par value.

12 Provisions for liabilities and charges

	<u>1993</u>	<u>1994</u>
	(In Dfl millions)	
Tax liabilities	50	58
Pensions and severance pay	<u>4</u>	<u>2</u>
	<u>54</u>	<u>60</u>

Inasmuch as provided for by the nature of the pension arrangements, past service pension liabilities are taken into account and included in the provision for pensions and severance pay. In calculating past service liabilities and all other liabilities included in pensions and severance pay, an interest rate of 6% has been applied.

In general, the provisions have a long term character.

13 Share capital

	<u>Authorized</u>	<u>Issued and fully paid</u>	<u>Issued and fully paid</u>
	<u>1994</u>	<u>1993</u>	<u>1994</u>
	(In Dfl millions)		
Ordinary shares of Dfl 0.10 each	210	65	66
R-shares of Dfl 1.00 each	<u>30</u>	<u>4</u>	<u>4</u>
Total	<u>240</u>	<u>69</u>	<u>70</u>

On August 30, 1994, the General Meeting of Shareholders accepted a proposal to split ordinary shares of Dfl 1.00 par value into 10 ordinary shares of Dfl 0.10 par value. The share split became effective on October 5, 1994. Following the share split, the equalization ratio is one Elsevier NV ordinary share equal to 0.769 of a Reed International P.L.C. ordinary share.

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

The authorized share capital as at December 31, 1994 consists of 2,100 million ordinary shares and 30 million registered R-shares. Total issued ordinary share capital at December 31, 1994 amounts to 657,428,120 shares of Dfl 0.10 par value. In total 4,049,951 R-shares have been issued. They are held by a subsidiary of Reed International P.L.C. The R-shares are convertible at the election of the holder into 10 ordinary shares each. They have otherwise the same rights as the ordinary shares, except that Elsevier NV may pay a lower dividend on the R-shares.

At December 31, 1994 paid-in surplus included an amount of Dfl 324 million which is free of tax. The legal reserve included an amount of Dfl 3 million in respect of revaluation reserves in affiliates.

Details of shares issued under option schemes are set out in note 16.

14 Contingent Liabilities

	<u>1993</u>	<u>1994</u>
	(In Dfl millions)	
There are contingent liabilities in respect of:		
Borrowings of affiliates	2,894	3,922

The guarantees given in respect of borrowings of affiliates are given jointly and severally with Reed International P.L.C.

15 Statements of cash flows

	<u>Consolidated 1992</u>
	(In Dfl millions)
Received from customers	
Accounts receivable — trade/beginning balance	261
Subscriptions received in advance/ending balance	681
Net sales	2,434
Accounts receivable — trade/ending balance	(284)
Subscriptions received in advance/beginning balance	(634)
	2,458

	<u>Consolidated 1992</u>
	(In Dfl millions)
Salary costs	
Wages and salaries	518
Social security charges, including pension premiums	95
	613

ELSEVIER NV
NOTES TO FINANCIAL STATEMENTS — (Continued)

15 Statements of cash flows — (continued)

	Consolidated 1992
	(In Dfl millions)
Tax paid	
Payable in the short term/beginning balance	71
Tax on operating income	174
Tax on extraordinary income	(6)
Revaluation	(6)
Change in deferred tax excluding acquisitions	(61)
Payable in the short term/ending balance	<u>(25)</u>
	<u>147</u>
	Consolidated 1992
	(In Dfl millions)
Capital expenditure	
Accounts payable/beginning balance	119
Commitments	184
Accounts payable/ending balance	<u>(143)</u>
	<u>160</u>
	Consolidated 1992
	(In Dfl millions)
Reconciliation of value added on a cash basis and as per statements of income	
Trading income	567
Wages and salaries	518
Social security charges	95
Depreciation less investment premiums	<u>53</u>
Value added as per statements of income	1,233
Change in inventories	18
Increase in amounts receivable, excluding activities acquired	(35)
Change in trade liabilities, excluding activities acquired	42
Change in provisions, excluding provisions deferred tax	<u>4</u>
Value added on a cash basis	<u>1,262</u>

16 Share options

Options for Elsevier NV ordinary shares of Dfl 0.10 par value have been granted to present and former members of the Executive Board of Elsevier NV, to certain former senior executives of the Elsevier NV group and to senior executives of Reed Elsevier plc. The options are exercisable immediately after granting during a period of 5 years, after which the options will lapse. The strike price of the options is the market price of the ordinary shares at the time the option is granted. The par value of Elsevier NV ordinary shares has been adjusted as if the ten for one share split, which became effective on October 5, 1994, had been in effect throughout the three years ended December 31, 1994.

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

16 Share options — (continued)

Transactions during the three years ended December 31, 1994 were:

	Number of ordinary shares of Dfl 0.10 par value	Strike price Dfl
Outstanding at December 31, 1991	3,995,000	
Granted	2,595,000	9.89
Exercised	<u>(3,257,500)</u>	9.96 - 12.08
Outstanding at December 31, 1992	3,332,500	
Granted	5,695,000	12.00 - 14.65
Exercised	<u>(2,760,000)</u>	12.08 - 18.49
Outstanding at December 31, 1993	6,267,500	
Granted	3,420,000	17.00
Exercised	<u>(1,050,000)</u>	16.72-19.02
Outstanding at December 31, 1994	<u>8,637,500</u>	

17 Summary of differences between Dutch and U.S. GAAP

The financial statements are prepared in accordance with generally accepted accounting principles in the Netherlands ("Dutch GAAP"), which differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). These differences relate principally to the following items and the approximate effect on net income and shareholders' equity is shown in the following tables.

Impact of U.S. GAAP adjustments to combined financial statements

Elsevier NV, following the merger of its businesses with those of Reed International P.L.C., accounts for its 50% interest in the combined businesses by the equity method in conformity with both Dutch GAAP and U.S. GAAP. Using the equity method to present its net income and shareholders' equity under U.S. GAAP Elsevier NV reflects its 50% share of the effects of differences between U.K. and Dutch GAAP and U.S. GAAP relating to the combined businesses as a single reconciling item, together with related effects arising from the equalization of dividends at the gross level; see note 7. Details of the differences relating to the combined businesses are explained in note 31 to the combined financial statements.

Goodwill and other intangible assets

Under Dutch GAAP, goodwill arising on business combinations treated as acquisitions may be written off against retained earnings. Other intangibles, principally publishing and exhibition rights and titles, are carried at fair value on acquisition with no systematic amortization, as they have no finite economic life. They are, however, subject to an annual review for permanent impairment.

Under U.S. GAAP, the cost of intangible assets is required to be amortized over the period of their estimated useful lives, to a maximum of 40 years.

Deferred taxation

Under Dutch GAAP, deferred taxation is provided in full. Under U.S. GAAP, deferred taxation is provided on all temporary differences under the liability method, subject to a valuation allowance where applicable in respect of deferred tax assets, in accordance with SEAS 109, Accounting for Income Taxes. The principal adjustment is to provide deferred taxation on timing differences arising from the amortization of goodwill and other intangibles under U.S. GAAP.

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

17 Summary of differences between Dutch and U.S. GAAP — (continued)

Revaluation of land and buildings

Under Dutch GAAP, land and buildings may be restated on the basis of appraised values in financial statements presented in all other respects in accordance with the historical cost convention. Such restatements are not permitted under U.S. GAAP.

Acquisition accounting

Under Dutch GAAP, there are certain items, such as integration costs incurred in existing operations, which may be provided as part of the purchase accounting adjustments on acquisition. Under U.S. GAAP, some of these items are expensed in the statement of income when the costs are incurred.

Pensions and other post retirement benefits

Elsevier NV accounts for pension costs in accordance with Dutch GAAP. There is no material difference from the application of U.S. GAAP.

Ordinary dividends

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

Exceptional items

Exceptional items are material items within Elsevier NV's ordinary activities which under Dutch GAAP are required to be disclosed separately due to their size or infrequency.

Earnings per share

Under U.S. GAAP, primary earnings per share is based on common stock in issue and, where there is a dilutive effect, common stock equivalents. Under Dutch GAAP earnings per share is based only on common stock in issue. Fully diluted earnings per share is only disclosed where there is a material dilutive effect.

Approximate effects on net income of differences between Dutch and U.S. GAAP:

	<u>Consolidated</u>	<u>Parent</u>	
	<u>1992</u>	<u>1993</u>	<u>1994</u>
	(In Dfl millions, except per share amount)		
Net income under Dutch GAAP	434	552	650
U.S. GAAP adjustments			
Amortization of goodwill and other intangibles	(63)	—	—
Deferred taxation	3	—	—
Acquisition accounting	(5)	—	—
Impact of U.S. GAAP adjustments to combined financial statements . .	—	(132)	(139)
Net income under U.S. GAAP	<u>369</u>	<u>420</u>	<u>511</u>
Primary earnings per ordinary share of Dfl 0.10 under U.S. GAAP (Dfl)	<u>0.57</u>	<u>0.60</u>	<u>0.73</u>

ELSEVIER NV

NOTES TO FINANCIAL STATEMENTS — (Continued)

17 Summary of differences between Dutch and U.S. GAAP — (continued)

Approximate effects on shareholders' equity of differences between Dutch and U.S. GAAP:

	Parent	
	1993	1994
	(In Dfl millions)	
Shareholders' equity under Dutch GAAP	2,460	1,922
U.S. GAAP adjustments:		
Impact of U.S. GAAP adjustments to combined financial statements	782	1,261
Ordinary dividends	231	244
Shareholders' equity under U.S. GAAP	<u>3,473</u>	<u>3,427</u>

**LEXIS-NEXIS
FINANCIAL STATEMENTS**

REPORT OF INDEPENDENT ACCOUNTANTS

To the Executive Board of Lexis-Nexis

We have audited the accompanying statements of income and cash flows for the eleven month period from January 1, 1994 to November 30, 1994 of Lexis-Nexis, formerly Mead Data Central, a division of The Mead Corporation. These financial statements are the responsibility of Lexis-Nexis' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the results of operations and cash flows of Lexis-Nexis for the eleven month period from January 1, 1994 to November 30, 1994, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
Dayton, Ohio
March 20, 1995

LEXIS — NEXIS
STATEMENT OF INCOME

	<u>Notes</u>	<u>Eleven months ended November 30, 1994</u> (In \$ millions)
Net sales		565
Cost of sales		<u>(287)</u>
Gross profit		278
Selling, general and administrative expenses		<u>(212)</u>
Operating income		<u>66</u>
Interest income		1
Interest expense	1	<u>(2)</u>
Net interest expense		<u>(1)</u>
Income before income taxes		<u><u>65</u></u>

There are no discontinued activities or significant acquisitions.

The accompanying notes on pages F-82 to F-83 are an integral part of these financial statements.

LEXIS-NEXIS
STATEMENT OF CASH FLOWS

	Eleven months ended November 30, 1994
	(In \$ millions)
Income before income taxes	65
Depreciation	41
Amortization of other assets	10
Non-cash items	51
Decrease in inventories	1
(Increase) in trade receivables	(12)
(Increase) in other current assets	(4)
(Decrease) in accounts payable	(4)
Increase in accrued liabilities	12
Movement in working capital	(7)
Net cash inflow from operating activities	<u>109</u>
Investing activities	
Payments to acquire tangible fixed assets	(29)
Net cash outflow from investing activities	<u>(29)</u>
Financing	
Net repayments of borrowing	(8)
Decrease in cash overdrafts	(1)
Transfers to The Mead Corporation	(71)
Net cash outflow from financing	<u>(80)</u>
Change in cash and cash equivalents	<u>—</u>
Cash and cash equivalents at beginning and end of period	<u>—</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

Acquisition of property, plant & equipment by capital lease	<u>14</u>
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SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

Interest paid	<u>2</u>
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The accompanying notes on pages F-82 to F-83 are an integral part of these financial statements.

Lexis-Nexis

NOTES TO FINANCIAL STATEMENTS

1. Basis of preparation of financial statements

During the eleven months ended November 30, 1994 the business of Lexis-Nexis was principally conducted through Mead Data Central, an unincorporated division of The Mead Corporation, a U.S. corporation. On December 2, 1994, The Mead Corporation sold Lexis-Nexis to Reed Elsevier plc for \$1.5 billion in cash. These financial statements reflect the historical accounts of Lexis-Nexis and do not reflect any pro-forma adjustments relating to the acquisition.

The accompanying financial statements have been prepared from the separate records maintained by Lexis-Nexis and may not necessarily be indicative of the results of operations had Lexis-Nexis not operated as a division of The Mead Corporation. Significant functions and expenses were managed on a group basis by The Mead Corporation. These include treasury, employee benefits including pension and post employment benefits, real estate services and certain other shared systems and services. The related expenses have been accounted for on a basis of allocation determined by The Mead Corporation. The income statement contains no charges for interest, other than in relation to capital leases, or taxation as all financing items, other than capital leases, and taxation were dealt with on a group basis by The Mead Corporation and no allocation was made of such items.

The accompanying financial statements include the accounts of Lexis-Nexis (formerly Mead Data Central, a division of The Mead Corporation) and related wholly-owned subsidiaries. All significant intercompany transactions with these subsidiaries are eliminated.

The financial information has been prepared in conformity with accounting principles generally accepted in the United States, and is expressed in U.S. dollars.

2. Accounting policies

The significant accounting policies adopted are as follows:

FOREIGN CURRENCY TRANSLATION

Income statement amounts denominated in foreign currency are translated at the rate pertaining at the date of the transaction.

CAPITALIZED SOFTWARE COSTS

Lexis-Nexis capitalizes certain costs related to the development of computer software under the requirements of Statement of Financial Accounting Standards No. 86. These costs are being amortized using the straight-line method over the five years following the general release of the software.

DEPRECIATION AND AMORTIZATION

Goodwill and other intangibles are amortized using the straight line method over their estimated useful lives of five to forty years.

For financial reporting purposes, depreciation, including the amortization of capital leases and land improvements, is calculated using the straight-line method over the estimated useful lives of the properties.

3. Pro-forma income taxes (Unaudited)

The results of Lexis-Nexis' operations for the eleven months ended November 30, 1994 are included in the consolidated income tax returns of The Mead Corporation. No provision for current or deferred income tax expense was allocated to the Lexis-Nexis as separate financial statement disclosure was not anticipated at the division level.

3. **Pro-forma income taxes (Unaudited) — (continued)**

The pro-forma allocation of income taxes is as follows:

	<u>11 months ended November 30, 1994</u>
	<u>\$ million</u>
Earnings before pro-forma taxes	65
Pro-forma income tax provision	<u>(27)</u>
Pro-forma net income	<u>38</u>

The method utilized to allocate current tax expense was the application of Statement of Financial Accounting Standard No. 109 specifically to Lexis-Nexis as if it were a separate taxpayer meeting the criteria of the Standard. The allocation may not necessarily be indicative of any tax charges had Lexis-Nexis not operated as a division of The Mead Corporation.

The following table summarizes the major differences between the pro-forma income tax provision allocation and taxes computed at the federal statutory rates:

	<u>11 months ended November 30, 1994</u>
	<u>\$ million</u>
Taxes computed at statutory rate of 35%	23
State and local income taxes, net of federal benefit	1
Impact of non-deductible amortization of intangible assets	<u>3</u>
Pro-forma income tax expense	<u>27</u>
Pro-forma effective tax rate	<u>42.0%</u>

4. **Leases**

Lexis-Nexis leases certain properties and equipment under non-cancellable lease commitments. Rent expense under operating leases was \$15 million for the eleven months ended November 30, 1994.

5. **Pensions**

Substantially all of Lexis-Nexis' employees are covered by The Mead Corporation pension plans. The allocated pension expense was \$3.3 million for the eleven months ended November 30, 1994.

REED ELSEVIER
UNAUDITED CONDENSED COMBINED
PRO-FORMA STATEMENT OF INCOME

UNAUDITED CONDENSED COMBINED PRO-FORMA STATEMENT OF INCOME

Introduction

On December 2, 1994 Reed Elsevier plc completed the purchase of certain of the assets of Mead Data Central from The Mead Corporation. These assets, principally comprising the Lexis-Nexis business, were purchased for £971 million (\$1.5 billion). The purchase was substantially made through Reed Elsevier Inc., a wholly owned subsidiary of Reed Elsevier plc. The unaudited condensed combined pro-forma income statement for the year ended December 31, 1994 ("the pro-forma income statement") has been computed as if the transaction had been consummated at the beginning of that year.

The pro-forma income statement shows an aggregation of the Reed Elsevier audited combined income statement prepared under U.K. GAAP for the year ended December 31, 1994 with the audited income statement of Lexis-Nexis prepared under U.S. GAAP for the eleven months ended November 30, 1994, both adjusted as described below. These income statements have been extracted from the income statements included elsewhere in this Registration Statement for the combined businesses and for Lexis-Nexis which have been audited, respectively, by Touche Ross & Co, London and Deloitte & Touche, Amsterdam and by Deloitte & Touche, Dayton.

Adjustments to the income statements, as presented below in the pro-forma income statement, principally relate to:

- presentation of the Lexis-Nexis audited income statement for the eleven months ended November 30, 1994 in pounds sterling.
- the application of Dutch and U.K. GAAP and Reed Elsevier accounting policies to the Lexis-Nexis audited income statement for the eleven months ended November 30, 1994, in respect of the amortization of intangible assets, depreciation of tangible assets and the capitalization of software;
- the elimination of certain Mead Corporation corporate charges which do not represent ongoing incremental costs to be incurred by Lexis-Nexis as part of the Reed Elsevier combined businesses;
- the reclassification as exceptional items, under U.K. and Dutch GAAP, of non-recurring charges and credits relating to costs arising from the divestment of Lexis-Nexis by Mead Corporation; and
- pro-forma amounts in respect of interest and taxation.

The pro-forma income statement does not purport to be indicative of what would have occurred had the acquisition been made as of January 1, 1994 or of what may occur in the future.

REED ELSEVIER COMBINED BUSINESSES
UNAUDITED CONDENSED COMBINED PRO-FORMA STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1994
INCORPORATING PRO-FORMA EFFECTS OF LEXIS-NEXIS ACQUISITION

Note	Pro-forma Adjustments						Pro-forma Combined Results £ million
	Reed Elsevier Combined Actual £ million	Lexis Nexis Actual £ million	Application of U.K. and Dutch GAAP and Reed Elsevier accounting policies £ million	Non- recurring costs £ million	Exceptional Items £ million	Pro-forma tax & interest £ million	
	(a)	(b)	(c)	(d)	(e)	(f)	
Net Sales	3,035	370	—	—	—	—	3,405
Cost of Sales	(1,183)	(187)	6	1	—	—	(1,363)
Gross Profit	1,852	183	6	1	—	—	2,042
S, G & A Expenses	(1,208)	(140)	(3)	2	2	—	(1,347)
Income from Assocs	19	—	—	—	—	—	19
Op Profit pre Exceptionals	663	43	3	3	2	—	714
Exceptional Items	14	—	—	—	(2)	—	12
Op Income	677	43	3	3	—	—	726
Net Interest Expense	(57)	(1)	—	—	—	(62)	(120)
Income before taxes	620	42	3	3	—	(62)	606
Taxes on Income	(151)	—	—	—	—	13	(138)
Minority Interests	(1)	—	—	—	—	—	(1)
Net Income	468	42	3	3	—	(49)	467

Notes to Unaudited Condensed Combined Pro-Forma Income Statement

- a) Amounts extracted from the Reed Elsevier audited combined income statement prepared under U.K. and Dutch GAAP for the year ended December 31, 1994. These include the results of Lexis-Nexis for the one month to December 31, 1994 under Reed Elsevier plc ownership.
- b) Amounts extracted from the Lexis-Nexis audited income statement prepared under U.S. GAAP for the eleven months ended November 30, 1994, and converted into pounds sterling at \$1.53 per £1.00, the rate used in the preparation of the Reed Elsevier Combined Financial Statements for the translation of income statement items (the average prevailing rate during the year).
- c) Proforma adjustments to reflect application of U.K. and Dutch GAAP and Reed Elsevier accounting policies to the Lexis-Nexis audited income statement for the eleven months ended November 30, 1994 in respect of the amortization of intangible assets, the depreciation of tangible fixed assets and the capitalization of software.
- d) Proforma adjustments to eliminate certain non-recurring Mead Corporation management charges.
- e) Proforma adjustments to reclass, under U.K. and Dutch GAAP, exceptional items relating to costs arising from the divestment of Lexis-Nexis by Mead Corporation.
- f) Proforma adjustment applying notional interest on borrowings and notional tax effects as if the acquisition had been consummated at January 1, 1994.

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TABLE OF CONTENTS

	<u>Page</u>
Prospectus Supplement	
Description of the Notes	S-3
Taxation	S-19
Supplemental Plan of Distribution	S-25
Prospectus	
Enforceability of Civil Liabilities	3
Governing Law and Judgments	4
Available Information	4
Prospectus Summary	5
Ratio of Earnings to Fixed Charges	8
Use of Proceeds	8
Exchange Rates	8
Exchange Controls and Other Limitations	
Affecting Security Holders	9
Capitalization	10
Selected Financial Data	11
Management's Discussion and Analysis	
of Financial Condition and Results of	
Operations	17
Business Description	32
Control of the Registrants	59
Management	61
Options to Purchase Securities	69
Description of the Debt Securities and	
Guarantees	77
Plan of Distribution	93
Legal Opinions	94
Experts	94
Index to Financial Statements	F-1



REED ELSEVIER

\$750,000,000

Reed Elsevier Capital Inc.
(as issuer of notes)

Reed International P.L.C.
(as guarantor of notes)

Elsevier NV
(as guarantor of notes)

Medium-Term Notes

Due Nine Months or More
from the Date of Issue

PROSPECTUS SUPPLEMENT
Dated May 9, 1995

LEHMAN BROTHERS

CITICORP SECURITIES, INC.

GOLDMAN, SACHS & CO.