Company Number: 2746616

REED ELSEVIER PLC
REPORT AND ACCOUNTS 1998

Board of Directors

D G C Webster*	- Chairman
H J Bruggink	- Co-Chief Executive Officer
N J Stapleton	- Co-Chief Executive Officer
M H Armour	
R S Bodman*	
G R N Cusworth	
O Laman Trip	
Sir Christopher Lewinton*	
J B Mellon	
S Perrick*	
H P Spruijt	
Dr R W H Stomberg*	
M Tabaksblat*	
P J Vinken*	
L van Vollenhoven*	

*Indicates non-executive director

Contents

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31 December 1998.

PRINCIPAL ACTIVITIES

The company is a holding company and through its subsidiary undertakings is primarily engaged in publishing and providing information, principally in North America and Europe.

The company is jointly owned by Reed International P.L.C. ("Reed") and Elsevier NV ("Elsevier").

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

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

Business Portfolio

The sale of IPC Magazines, the UK consumer magazine publisher, at the beginning of 1998 and the disposal of the remainder of the consumer books division later in the year completed our exit from consumer publishing. The proceeds were reinvested in the $1.65 billion acquisition of Matthew Bender, the leading US publisher of legal analysis, and the 50% outstanding interest in The Shepard's Company, the premier US case citation service, in August 1998. These acquisitions importantly position LEXIS-NEXIS as a full service information provider in the US legal market.

Electronic Publishing

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

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

Prospects

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

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

FINANCIAL REVIEW

Introduction of FRS 10: Goodwill and Intangible Assets

The financial statements for the year ended 31 December 1998 are presented in accordance with the new UK accounting standards introduced during 1998, of which FRS 10: Goodwill and Intangible Assets is the most significant. In accordance with FRS 10, acquired goodwill and intangible assets are now capitalised and systematically amortised over a maximum period of 20 years. This has been applied retrospectively and the prior year figures have been restated accordingly.

Results and dividends

Turnover for the year was £3,191 million (1997 : £3,417 million) and operating profit (including joint ventures) before exceptional items and amortisation of goodwill and intangibles was £807 million (1997 : £878 million). Turnover from continuing operations was £3,163 million (1997 : £2,987 million). The operating margin of the continuing operations of 25.5% is 1.5 percentage points lower than last year.

Profit before tax of £930 million (1997 : restated loss £38 million) includes net exceptional gains amounting to £612 million (1997 : restated net charges £445 million) and charges for the amortisation of goodwill and intangible assets of £323 million (1997 : restated £289 million). The most significant item in the net exceptional gains is the £692 million profit on disposal of IPC Magazines, divested in January 1998. Other exceptional charges of £80 million principally comprise acquisition related restructuring costs and expenditure on the Year 2000 compliance programme.

The group profit for the year, after exceptional items, taxation and minority interests, amounted to £644 million (1997 : restated loss £156 million). The effective tax rate on profits before exceptional items and FRS 10 amortisation of 30.0 % (1997 : 30.0%) is below the standard tax rate in the principal operating territories mainly due to tax amortisation on acquired intangible assets and goodwill.

The directors do not recommend a final ordinary dividend (1997 : £nil). During the year the company paid, £170 million (1997 : £158 million) on the "R" ordinary shares and preference dividends of £7,500 (1997 : £7,500). Subsidiary undertakings paid a further £218 million (1997 : £188 million) to Elsevier NV in respect of its holding of special dividend shares in Reed Elsevier Nederland BV. The company did not pay any dividends on the "E" ordinary shares (1997 : £25 million). After these dividends and amounts due to minority interests of £24 million (1997 : £26 million) there was a retained profit of £256 million (1997 : an excess of dividends over profit after restatement for change in accounting policy (note 1) of £527 million) which has been transferred to reserves.

At 31 December 1998 gross borrowings of £1,138 million (1997 : £1,297 million) were partially offset by cash and short term investments of £660 million (1997 : £455 million). In addition, net borrowings from shareholders and Elsevier Reed Finance BV group amounted to £2,149 million (1997 : £1,363 million).

Reed Elsevier plc's gross borrowings have a maturity and interest profile, partly achieved through the use of interest rate swaps, that secures a high degree of protection of profit from interest rate movements.

OPERATING BUSINESS REVIEW

The results of businesses are reported in three segments: Scientific, Professional and Business publishing, which comprise the continuing operations of the group. Discontinued operations comprise the IPC Magazines and the consumer books operations, which were the final elements of the Consumer segment sold in the year. Unless otherwise stated, all prior year comparisons quoted in the following commentary refer to percentage movements at constant exchange rates, using the 1997 full year average rates and are stated before exceptional items and the amortisation of goodwill and intangible assets.

Scientific

Turnover in the Scientific segment at £622 million increased by 11%, including acquisitions, whilst operating profits at £221 million declined by 1% at constant rates of exchange. Operating profits were impacted by continuing investment in Elsevier Science's electronic publishing initiatives and associated business infrastructure. Operating margin at 35.5% was 4.3 percentage points lower than in the prior year, of which 1.9 points related to the inclusion of lower margin electronic publishing acquisitions.

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

Subscription renewals thus far in 1999 remain strong. The adverse impact of currency movements on library budgets in Asia in particular will, however, again have some effect on sales growth. Interest in Elsevier Science's electronic publishing is growing rapidly but incremental turnover in 1999 is expected to be modest in the context of hard copy sales. The impact on results of the revenue investments to underpin this development will, however, continue.

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

Professional

The Professional segment turnover of £1,154 million and operating profit of £330 million increased by 10% and 12% respectively at constant rates of exchange. This included a part year contribution from Matthew Bender and the remaining 50% of Shepard's acquired in August 1998. Good underlying growth was seen across all the businesses with the exception of the LEXIS-NEXIS online businesses which operated in increasingly competitive markets. Operating margin increased by 1.1 percentage points to 28.6%.

Turnover and operating profits at LEXIS-NEXIS increased by 13% and 15% respectively over the previous year. Matthew Bender and 50% of Shepard's acquired in August 1998 added £60m to turnover and £22m to operating profit. Excluding these and other acquisitions the increases were 3% and 5% respectively. The LEXIS-NEXIS online businesses saw sales growth of 3%. Underlying profits were flat, as new intuitive web based products were developed and launched and investments made in sales and marketing and in the operational infrastructure. The print and CD-ROM business of Lexis Law Publishing saw good sales and profit growth. Matthew Bender and Shepard's businesses met pre acquisition expectations. The Martindale-Hubbell legal directory business performed well, although sales were down due to phasing.

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

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

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

The Reed Educational and Professional Publishing businesses saw turnover decrease by 5% reflecting the disposal of the English Language Teaching business at the end of 1997 and operating profits increase by 25%; excluding acquisitions and disposals, the increases were 8% and 25% respectively. An excellent performance by the UK schools business was driven by the additional Government funding for literacy materials and the absence of 1997's one off costs associated with the transfer to third party distribution arrangements. Elsewhere, with the exception of South Africa where the timing of schools funding held back sales, the businesses performed well. Rigby and Greenwood Heinemann in the US significantly increased profits through new publishing programmes and sales initiatives.

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

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

DIRECTORS' REPORT

Business

Turnover in the Business segment at £1,387 million increased by 5% whilst operating profits at £256 million declined by 8% at constant rates of exchange. This was primarily the result of a £33 million reduction in profits at the former Reed Travel Group businesses. The effect was in part mitigated by a full year contribution from Chilton Business Group. Operating margin at 18.5% was down 2.5 percentage points largely due to the reduction in margins in Travel publishing.

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

UNITARY MANAGEMENT STRUCTURE

During the year the decision was taken to adopt a unitary management structure with a non-executive Chairman and Chief Executive officer who are common to Reed Elsevier plc, Reed International P.L.C. and Elsevier NV.

This is seen as a logical evolution of the structure that has been in place since the merger in 1993, under which the operations have been managed by an Executive Committee of the Reed Elsevier plc board, to which Reed and Elsevier were each able to nominate two members.

To give effect to the intended unitary management structure, certain changes are required to the existing contractual arrangements between Reed and Elsevier. A resolution will be proposed at the Reed and Elsevier Annual General Meetings in April 1999 approving the Amended and Restated Governing Agreement, which will govern the terms of the relationship between Reed and Elsevier under the unitary management structure.

Under the new structure, Reed and Elsevier will establish a Nominations Committee for all new appointments to each of the boards of Reed, Elsevier and Reed Elsevier plc. The boards of all three companies will, so far as practicable, be harmonised with effect from the Annual General Meetings in April 1999, and there will be a majority of non-executive directors on each board.

As a general rule, a director who ceases to be a director of Reed will be required to resign or be removed from the board of Elsevier and Reed Elsevier plc. Similar provisions will apply to directors of Elsevier who are also directors of Reed and Reed Elsevier plc. In the event of a change of control of Elsevier and not Reed, Reed will have the sole right to appoint and remove directors from the board of Reed Elsevier plc. Similarly, in the event of a change of control of Reed and not Elsevier, the rights of appointment to the board of Reed Elsevier plc will vest with Elsevier.

DIRECTORS

The directors at the date of this Report are shown on page 1.

Lord Hamlyn retired as a director on 29 April 1998, R J Nelissen and P C F M Vlek retired on I July 1998 and A A Greener retired on 31 December 1998. G R N Cusworth, Sir Christopher Lewinton, J B Mellon and P J Vinken will be retiring during 1999. The directors thank them for their considerable contribution since the formation of Reed Elsevier plc.

S Perrick and M Tabaksblat were appointed as non-executive directors on 1 July 1998 and Dr R W H Stomberg was appointed as a non-executive director on 1 January 1999.

David Webster took over as interim non-executive Chairman of Reed Elsevier plc in August 1998 and Morris Tabaksblat will succeed him as Chairman in June 1999. Mr Tabaksblat will also become Chairman of both the parent companies, Elsevier NV and Reed International P.L.C., in April 1999. The recruitment of a new Chief Executive is now at an advanced stage.

No director had, during the year, any interest in the share capital of the company. The interests of the directors and their families in the issued share capital of Reed International P.L.C. and Elsevier NV at the beginning and end of the year are shown in the Reed Elsevier plc Remuneration Report on pages 11 to 17.

EMPLOYEE INVOLVEMENT

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

The company's UK SAYE Share Option Scheme, which was introduced in 1993, made a further grant of options over Reed International P.L.C. shares to eligible employees in the UK in 1998 and 1382 employees participated in that grant.

Elsevier NV has arrangements in place, which are open to all employees based in the Netherlands after one year's service, under which interest-bearing loans to Elsevier NV may be subscribed in cash for periods of five to ten years, during which time they may be converted on a prescribed basis into Elsevier NV ordinary shares.

THE ENVIRONMENT

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

COMMUNITY RELATIONS

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

UNITED KINGDOM CHARITABLE AND POLITICAL DONATIONS

Reed Elsevier plc companies in the United Kingdom made donations during the year for charitable purposes amounting to £50,000 (1997 : £47,000) of which £7,000 (1997: £8,000) was for educational purposes. There were no donations for political purposes.

CORPORATE GOVERNANCE

Internal Financial Control Statement

The board of Reed Elsevier plc has put in place an organisation structure with clearly defined lines of responsibility and delegation of authority. The board meets regularly and has adopted a schedule of matters which are required to be brought to it for decision.

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

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

The internal financial control system of Reed Elsevier plc is monitored and supported by an internal audit function, operated on a global basis. This work is focused on areas of greatest risk, determined through a formalised approach to risk assessment.

The external auditors, in co-ordination with the internal auditors, review and test the system of internal financial control and the information contained in the Reed Elsevier plc Report and Accounts, to the extent necessary to express their opinion on the financial statements.

The Audit Committee reviews the internal financial control environment of Reed Elsevier plc, and considers reports from the executive directors and from the internal and external auditors on a regular basis.

The directors of Reed Elsevier plc, having reviewed the effectiveness of the systems of internal financial control for which they are responsible, believe that the systems provide reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors or irregularities are either prevented or would be detected within a timely period. No system of internal financial control can, however, provide absolute assurance against material misstatement or loss.

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by English company law to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss for that period. The directors are also required to maintain proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and its subsidiaries and associated undertakings.

Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. Applicable accounting standards have been followed.

The directors are responsible to the company for taking reasonable steps to safeguard its assets and to prevent and detect fraud and other irregularities.

GOING CONCERN

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

YEAR 2000

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

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

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

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

EUROPEAN ECONOMIC AND MONETARY UNION

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

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

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

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

FORWARD-LOOKING STATEMENTS

The Report and Accounts contain forward-looking statements within the meaning of Section 27A of the US Securities Act 1933 and Section 21E of the US 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 plc's markets, customers' acceptance of its products and services, the actions of competitors and the impact on Reed Elsevier of internal and external Year 2000 issues and risks.

PAYMENTS TO SUPPLIERS

The company agrees terms and conditions for its business transactions with suppliers, and payment is made on these terms. The estimated average time taken to pay suppliers was between 30 and 45 days.

AUDITORS

Resolutions proposing the reappointment of Deloitte & Touche as auditors of the company and authorising the directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

By order of the Board
W M St John Radcliffe
Secretary
10 March 1999

Registered Office:
25 Victoria Street
London
SW1H 0EX

THE REED ELSEVIER PLC REMUNERATION REPORT

REMUNERATION COMMITTEE

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

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

COMPLIANCE WITH THE BEST PRACTICE PROVISIONS

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

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

REMUNERATION POLICY

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

(i) to ensure that it maintains a competitive package of pay and benefits, commensurate with comparable packages available within other multinational companies operating in global markets and, where appropriate, reflecting local practice operating within the country in which an individual director works;

(ii) to ensure that it encourages enhanced performance by directors and fairly recognises the contribution of individual directors to the attainment of the results of the Reed Elsevier plc group;

(iii) to encourage a team approach which will work towards achieving the long-term strategic objectives of the Reed Elsevier plc group;

(iv) to attract, retain and motivate people of the highest calibre and experience needed to meet the challenges faced by Reed Elsevier plc group businesses both within its traditional businesses and in the transition to electronic publishing media;

(v) to link reward to individual directors' performance and company performance so as to align the interests of the directors with the shareholders of the parent companies.

The remuneration of executive directors consists of the following elements:

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

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

EXTERNAL APPOINTMENTS

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

EMOLUMENTS OF THE DIRECTORS

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

A AGGREGATE EMOLUMENTS

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

B INDIVIDUAL EMOLUMENTS OF EXECUTIVE DIRECTORS

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

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

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

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

C PAYMENTS TO FORMER DIRECTOR

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

D PENSIONS

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

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

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

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

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

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

*Until 1 July 1998.
**Until 14 October 1998.

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

E INDIVIDUAL EMOLUMENTS OF NON-EXECUTIVE DIRECTORS

	Nationality	1998	1997
£			
RJ Nelissen (until 1.7.98)	Dutch	30,000	50,000
S Perrick (from 1.7.98)	Dutch	26,666	–
M Tabaksblat (from 1.7.98)	Dutch	26,666	–
PJ Vinken	Dutch	80,000	241,347*
L van Vollenhoven	Dutch	52,500	112,500*
RS Bodman	US	90,361	92,592
AA Greener (until 31.12.98)	British	24,000	24,000
Lord Hamlyn (until 29.4.98)	British	8,334	25,000
Sir Christopher Lewinton	British	80,000	180,000*
DGC Webster	British	84,555	29,000**

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

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

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

SHARE OPTIONS

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

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

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

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

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

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

OVER SHARES IN REED INTERNATIONAL P.L.C.

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

*Retained an interest in 14,000 shares.

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

OVER SHARES IN ELSEVIER NV

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

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

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

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

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

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

LONGER TERM INCENTIVES

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

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

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

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

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

Entitlements if specific EPS/CAGR targets are achieved are:

	1997/99 Plan		1998/2000 Plan	
	Ordinary shares if 131/2% CAGR achieved (Target EPS 41.1p)	Ordinary shares if 20% CAGR achieved (Target EPS 48.5p)	Ordinary shares if 131/2% CAGR achieved (Target EPS 41.4p)	Ordinary shares if 20% CAGR achieved (Target EPS 48.9p)
MH Armour	8,528	21,320	10,680	26,700
JB Mellon	13,152	32,880	–	–
NJ Stapleton	14,540	36,350	17,400	43,500

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

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

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

INTERESTS IN SHARES

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

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

*On date of appointment if after 1 January 1998.

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

On behalf of the board of Reed Elsevier plc

Sir Christopher Lewinton
Chairman of the Remuneration Committee

ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

These financial statements are presented under the historical cost convention and are in accordance with applicable accounting standards. Two new UK financial reporting standards, FRS 9: Associates and Joint Ventures and FRS 10: Goodwill and Intangible Assets, which are first applicable for the 1998 financial year, have been adopted in the 1998 financial statements. Prior year comparatives have been restated accordingly.

Reed Elsevier plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985.

FIXED ASSET INVESTMENTS

Investments which are held for the long term and where the group exercises significant influence or joint control with other parties, represent under FRS 9, interests in joint ventures are accounted for under the gross equity method. All interests previously recorded as associated undertakings fall to be treated as joint ventures under FRS 9. Prior year figures have been reclassified accordingly. Reported net assets, pre-tax profits and profit attributable are unaffected.

Other investments, including investments in subsidiary undertakings in the parent company accounts, are stated at cost, less provision, if appropriate, for any permanent diminution in value.

FOREIGN EXCHANGE TRANSLATION

Balance sheet items are translated at year end exchange rates. Profit and loss account items are translated at average rates. The results of hedging transactions for profit and loss amounts in foreign currency are accounted for in the profit and loss account for the relevant year. Exchange translation differences on foreign equity investments and the related foreign currency net borrowings and differences between balance sheet and profit and loss account rates are taken to reserves.

GOODWILL AND INTANGIBLE ASSETS

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

In accordance with the new financial reporting standard FRS 10: Goodwill and Intangible Assets, acquired goodwill and intangible assets are now capitalised and amortised systematically over their estimated useful lives, up to a maximum period of 20 years. In prior years goodwill was written off directly to reserves on acquisition, whereas intangible assets were capitalised and not amortised, subject to impairment review. This new policy has been applied retrospectively and prior year figures have been restated accordingly.

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

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. No depreciation is provided on freehold land. Freehold buildings and long leases are depreciated over their estimated future useful lives, as is plant and equipment which is depreciated on a straight line basis at rates from 5% to 33%. Short leases are written off over the duration of the lease.

FINANCE LEASES

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

OPERATING LEASES

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

STOCKS

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

SHORT TERM INVESTMENTS

Short term investments are stated at the lower of cost and estimated net realisable value.

TURNOVER

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

ACCOUNTING POLICIES

DEVELOPMENT SPEND

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

TAXATION

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

PENSIONS

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

AUDITORS' REPORT
To the members of Reed Elsevier plc

We have audited the financial statements on pages 18 to 47 which have been prepared under the accounting policies set out on pages 18 and 19.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
The directors are responsible for preparing the Report and Accounts, including, as described on page 9, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the other information contained in the Report and Accounts, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

OPINION
In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
London
10 March 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 1998

£ million		1998 Before exceptional items and amortisation	1998 Exceptional items and amortisation	1998 Total	1997* Before exceptional items and amortisation	1997* Exceptional items and amortisation	1997* Total
Turnover							
Including share of turnover in joint ventures		3,271	-	3,271	3,519	-	3,519
Less: share of turnover in joint ventures		(80)	-	(80)	(102)	-	(102)
	note 2	3,191	-	3,191	3,417	-	3,417
Continuing operations before acquisitions		3,055	-	3,055	2,987	-	2,987
Acquisitions		108	-	108	-	-	-
Continuing operations		3,163	-	3,163	2,987	-	2,987
Discontinued operations		28	-	28	430	-	430
		3,191	-	3,191	3,417	-	3,417
Cost of sales	note 3	(1,100)	-	(1,100)	(1,290)	-	(1,290)
Gross profit		2,091	-	2,091	2,127	-	2,127
Net operating expenses before exceptional items and amortisation	note 3	(1,302)	-	(1,302)	(1,276)	-	(1,276)
Exceptional items	notes 3,8	-	(79)	(79)	-	(502)	(502)
Amortisation of goodwill and intangible assets	note 3	-	(314)	(314)	-	(271)	(271)
Operating profit before joint ventures		789	(393)	396	851	(773)	78
Continuing operations before acquisitions		755	(337)	418	787	(760)	27
Acquisitions		34	(55)	(21)	-	-	-
Continuing operations		789	(392)	397	787	(760)	27
Discontinued operations		-	(1)	(1)	64	(13)	51
		789	(393)	396	851	(773)	78
Share of operating profit in joint ventures		18	(9)	9	27	(11)	16
Operating profit including joint ventures 2,6		807	(402)	405	878	(784)	94
Non operating items	note 8						
Continuing - net profit on sale of businesses		-	-	-	-	57	57
- merger expenses		-	(1)	(1)	-	-	-
Discontinued - net profit on sale of businesses		-	692	692	-	-	-
Profit on ordinary activities before interest		807	289	1,096	878	(727)	151
Net interest expense	note 9	(166)	-	(166)	(189)	-	(189)
Profit/(loss) on ordinary activities before tax		641	289	930	689	(727)	(38)
Tax on profit/(loss) on ordinary activities	note 10	(192)	(70)	(262)	(207)	115	(92)
Profit/(loss) on ordinary activities after taxation		449	219	668	482	(612)	(130)
Minority interests and preference dividends		(24)	-	(24)	(26)	-	(26)
Profit/(loss) attributable to the shareholders		425	219	644	456	(612)	(156)
Ordinary dividends paid and proposed	note 11			(388)			(371)
Retained profit/(loss) taken to reserves	note 28			256			(527)

The historical cost profits and losses are not materially different from the results disclosed above. A reconciliation of shareholders' funds is set out in note 28.

*1997 figures have been restated on the introduction of new UK accounting standards to include amortisation of goodwill and intangible assets (FRS 10) and information in respect of joint ventures (FRS 9).

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 1998

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES £ million	**1998**	1997 (restated)
Profit/(loss) for the financial year	**644**	(156)
Exchange translation differences	**12**	(60)
Total recognised gains and losses for the financial year	**656**	(216)

On introduction of FRS 10 in 1998, shareholders' funds, as at 1 January 1998, were increased by £264m on prior year restatement and cumulative recognised losses of £1,801m have been recognised in periods prior to 1 January 1998.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 1998

£ million		1998	1997 (restated)
Net cash inflow from operating activities before exceptional items		**932**	951
Payments relating to exceptional items		**(258)**	(26)
Net cash inflow from operating activities	note 12	**674**	925
Dividends received from joint ventures		**11**	17
Interest received		**37**	10
Interest paid		**(87)**	(96)
Interest received from Elsevier NV		**-**	2
Net interest paid to Reed International P.L.C.		**(5)**	(2)
Net interest paid to Elsevier Reed Finance BV group		**(110)**	(104)
Dividends paid to Elsevier Reed Finance BV group		**(20)**	(17)
Returns on investments and servicing of finance		**(185)**	(207)
UK corporation tax paid including ACT		**(56)**	(70)
Overseas tax paid		**(78)**	(109)
Taxation		**(134)**	(179)
Purchase of tangible fixed assets		**(151)**	(121)
Proceeds from sale of fixed assets		**11**	10
Exceptional payment on disposal of fixed assets		**-**	(21)
Capital expenditure		**(140)**	(132)
Acquisitions	note 13	**(1,230)**	(726)
Payments against acquisition provisions		**(11)**	(5)
Exceptional net proceeds from disposal of businesses	note 12	**913**	104
Merger expenses		**(1)**	-
Other items		**-**	1
Acquisitions and disposals		**(329)**	(626)
Equity dividends paid		**(388)**	(371)
Cash outflow before changes in short term investments and financing		**(491)**	(573)
(Increase)/decrease in short term investments	note 12	**(277)**	22
Capital contribution	note 28	**69**	-
Redemption of minority interest preference shares		**-**	(3)
Financing	note 12	**619**	579
(Decrease)/increase in cash	note 12	**(80)**	25

In accordance with the UK FRS 9, which is first applicable for the 1998 financial year, dividends received from joint ventures which were previously classified as associated undertakings and included within net cash inflow from operating activities, have been shown separately in the cash flow statement. Comparative amounts have been restated accordingly.

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

CONSOLIDATED BALANCE SHEET
As at 31 December 1998

£ million		1998	1997 (restated)
Fixed assets			
Goodwill and intangible assets	note 14	**3,562**	2,628
Tangible assets	note 14	**399**	348
Investments	note 15		
Investments in joint ventures:			
Share of gross assets		**107**	312
Share of gross liabilities		**(32)**	(63)
Share of net assets		**75**	249
Other investments		**12**	15
		87	264
		4,048	3,240
Current assets			
Stocks	note 16	**101**	121
Debtors: amounts falling due within one year	note 17	**924**	1,098
Debtors: amounts falling due after more than one year	*note 18*	**176**	209
Short term investments		**634**	349
Cash at bank and in hand		**26**	106
		1,861	1,883
Creditors: amounts falling due within one year	note 20	**(2,338)**	(2,671)
Net current liabilities		**(477)**	(788)
Total assets less current liabilities		**3,571**	2,452
Creditors: amounts falling due after more than one year	note 21	**(2,823)**	(1,804)
Provisions for liabilities and charges	note 24	**(36)**	(277)
Minority interests		**(33)**	(29)
Net assets		**679**	342
Capital and reserves			
Called up share capital	note 26	**-**	-
Share premium account	note 27	**324**	324
Revenue reserves	note 28	**355**	18
Shareholders' funds	note 28	**679**	342

Approved by the Board of Reed Elsevier plc, 10 March 1999

Director

Director

The balance sheet of Reed Elsevier plc is shown on page 46.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

1. PRIOR YEAR ADJUSTMENT ON INTRODUCTION OF NEW ACCOUNTING STANDARDS

The new UK financial reporting standards, FRS 9: Associates and Joint Ventures and FRS 10: Goodwill and Intangible Assets which are first applicable in 1998 have been adopted in the preparation of the consolidated financial statements. In adopting FRS 10, which relates to goodwill and intangible assets, the accounting policy has been changed as described below. In all other respects the financial statements have been prepared on the basis of the accounting policies set out in Reed Elsevier plc Report and Accounts 1997.

Under FRS 10, the Reed Elsevier plc group capitalises all acquired goodwill and intangible assets and amortises them over a maximum period of 20 years, with retrospective application. In prior years, acquired goodwill was written off direct to reserves on acquisition whereas intangible assets were capitalised and not amortised, subject to impairment review. Prior year figures have been restated accordingly; net assets as at 1 January 1998 have been increased by £264m (capitalisation of prior goodwill less cumulative amortisation of goodwill and intangibles) and the 1997 operating profit has been reduced by £282m for the non cash amortisation charge, and attributable profit reduced by £214m, taking into account the resultant tax timing differences and the restatement of exceptional items (note 8).

Under FRS 9, all interests previously recorded as associated undertakings now fall under the category of joint venture interests. Reported profit attributable and net assets are unaffected. The standard also introduces presentational changes which have been made to the consolidated profit and loss account, cash flow statement and balance sheet. Prior year figures have been restated accordingly.

The adjustments to net assets at 1 January 1998 as a result of the implementation of FRS 10 were:

£ million		Cost	Amortisation	Net book value
Goodwill and intangible assets	note 14	1,980	(1,743)	237
Investments	note 15	85	(48)	37
Provisions for liabilities and charges	note 24	-	(10)	(10)
		2,065	(1,801)	264

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

2. SEGMENT ANALYSIS

£ million	Turnover 1998	Turnover 1997 (restated)	Adjusted operating profit 1998	Adjusted operating profit 1997 (restated)	Operating profit after exceptional items, amortisation and joint ventures 1998	Operating profit after exceptional items, amortisation and joint ventures 1997 (restated)	Capital employed 1998	Capital employed 1997 (restated)
Business segment								
Scientific	**622**	571	**221**	227	**126**	176	**321**	359
Professional	**1,154**	1,076	**330**	297	**179**	190	**2,535**	1,633
Business	**1,387**	1,340	**256**	281	**101**	(329)	**760**	545
Continuing operations	**3,163**	2,987	**807**	805	**406**	37	**3,616**	2,537
Discontinued operations	**28**	430	**-**	73	**(1)**	57	**(16)**	187
Total	**3,191**	3,417	**807**	878	**405**	94	**3,600**	2,724
Geographical origin								
North America	**1,663**	1,512	**383**	384	**100**	(255)	**2,869**	1,745
United Kingdom	**692**	694	**203**	207	**138**	114	**581**	632
The Netherlands	**383**	369	**128**	126	**114**	112	**(45)**	(26)
Rest of Europe	**293**	263	**78**	70	**49**	54	**173**	145
Asia/Pacific	**132**	149	**15**	18	**5**	12	**38**	41
Continuing operations	**3,163**	2,987	**807**	805	**406**	37	**3,616**	2,537
Discontinued operations	**28**	430	**-**	73	**(1)**	57	**(16)**	187
Total	**3,191**	3,417	**807**	878	**405**	94	**3,600**	2,724
Geographical market								
North America	**1,726**	1,582						
United Kingdom	**483**	432						
The Netherlands	**222**	208						
Rest of Europe	**407**	401						
Asia/Pacific	**325**	364						
Continuing operations	**3,163**	2,987						
Discontinued operations	**28**	430						
Total	**3,191**	3,417						

Details of business segments are provided in the Directors' Report.

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

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

2. SEGMENT ANALYSIS (Continued)

£ million	1998	1997 (restated)
Reconciliation of capital employed to net assets		
Capital employed	**3,600**	2,724
Taxation	**(249)**	(137)
Net interest payable	**(12)**	(11)
Net borrowings (including amounts owed to shareholders and Elsevier Reed Finance BV group of £2,149m (1997: £1,363m))	**(2,627)**	(2,205)
Minority interests	**(33)**	(29)
Net assets	**679**	342

3. COST OF SALES AND NET OPERATING EXPENSES

£ million	1998 Before exceptional items and amortisation	1998 Exceptional items	1998 Amortisation	1998 Total	1997 Before exceptional items and amortisation	1997 Exceptional items	1997 Amortisation	1997 Total
Cost of sales								
Continuing operations								
before acquisitions	**1,041**	-	-	**1,041**	1,039	-	-	1,039
Acquisitions	**38**	-	-	**38**	-	-	-	-
Discontinued operations	**21**	-	-	**21**	251	-	-	251
Total	**1,100**	-	-	**1,100**	1,290	-	-	1,290
Distribution and selling costs								
Continuing operations								
before acquisitions	**684**	-	-	**684**	660	-	-	660
Acquisitions	**25**	-	-	**25**	-	-	-	-
Discontinued operations	**5**	-	-	**5**	75	-	-	75
	714	-	-	**714**	735	-	-	735
Administrative expenses								
Continuing operations								
before acquisitions	**575**	**70**	**267**	**912**	501	502	258	1,261
Acquisitions	**11**	**9**	**46**	**66**	-	-	-	-
Discontinued operations	**2**	-	**1**	**3**	40	-	13	53
	588	**79**	**314**	**981**	541	502	271	1,314
Net operating expenses								
Continuing operations								
before acquisitions	**1,259**	**70**	**267**	**1,596**	1,161	502	258	1,921
Acquisitions	**36**	**9**	**46**	**91**	-	-	-	-
Discontinued operations	**7**	-	**1**	**8**	115	-	13	128
Total	**1,302**	**79**	**314**	**1,695**	1,276	502	271	2,049

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

4. PERSONNEL

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

5. PENSION SCHEMES

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

The main UK scheme, which covers the majority of UK employees, was subject to a valuation by Watson Wyatt Partners, consultants, as at 5 April 1997. The scheme is valued formally every 3 years, the next valuation being as at April 2000.

The principal 1997 valuation assumptions were:

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

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

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

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

The net pension charge was £21m (1997 : £25m), including a net £4m (1997 : £1m) SSAP24 credit related to the main UK scheme. The net SSAP24 credit on the main scheme comprises a regular cost of £15m (1997 : £19m), offset by amortisation of the net actuarial surplus of £19m (1997 : £20m). Pension contributions made in the year amounted to £25m (1997 : £26m). The transfer of members from the main UK scheme on divestment of IPC Magazines reduced the actuarial surplus and prepayment by £13m. A prepayment of £124m (1997 : £133m) is included in debtors falling due after more than one year, representing the excess of the pension credit to profit since 1988 over the amounts funded to the main UK scheme.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

6. OPERATING PROFIT IS STATED AFTER THE FOLLOWING:

£ million	**1998**	1997 (restated)
Hire of plant and machinery	**20**	17
Other operating lease rentals	**40**	44
Depreciation (including £ 4m (1997 : £5m) in respect of assets held under finance leases)	**97**	96
Amortisation of goodwill and intangible assets	**314**	271
Amortisation of goodwill and intangible assets in joint ventures	**9**	11
Total amortisation	**323**	282
Royalties payable to Elsevier Reed Finance BV group	**8**	9
Royalties payable to joint ventures	**-**	4
Auditors' remuneration		
for audit services	**1.4**	1.5
for non audit services (£0.5m relates to UK companies (1997 : £1.1m))	**1.5**	0.8

£ million		**1998**	1997
Staff costs			
Wages and salaries		**747**	754
Social security costs		**80**	75
Pensions	*note 5*	**21**	25
Total		**848**	854

7. EMOLUMENTS OF DIRECTORS

Information concerning directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Report of the Reed Elsevier plc Remuneration Committee on pages 11 to 17 and form part of these audited financial statements.

8. EXCEPTIONAL ITEMS

Exceptional items in 1998 comprise the following:

(i) costs of £26m (1997 : £11m) relating to the integration of acquisitions, principally the Chilton Business Group and Matthew Bender;

(ii) expenditure of £53m in 1998 (1997 : £11m) in connection with the group's Year 2000 compliance programme;

(iii) the net profit on sale of IPC Magazines divested in January 1998. The sales of the remaining Consumer Books businesses were completed during the year, resulting in no further gain or loss and;

(iv) professional fees and other costs incurred in 1998 of £1m (1997 : £nil) in respect of the abandoned merger of Reed Elsevier and Wolters Kluwer.

Exceptional net cash inflows in respect of the above items totalled £837m, comprising disposal proceeds after expenses, for IPC Magazines (£826m) and Consumer Books (£87m) excluding the net cash disposed of £42m to fund taxation and working capital obligations, and payments relating to acquisition related integration costs (£22m), Year 2000 costs (£53m) and merger expenses (£1m).

Payments of £183m were made in 1998 in respect of the Reed Travel Group provision for customer compensation and related expenses and reorganisation

£ million		1998	1997 (restated)
Acquisition related integration costs		**(26)**	(11)
Year 2000 compliance costs		**(53)**	(11)
Reed Travel Group	- provision for customer recompense and related expenses and reorganisation	**-**	(230)
	- non cash write down of intangible assets	**-**	(250)
Charged to operating profit		**(79)**	(502)
Net profit on sale of businesses		**692**	57
Merger expenses		**(1)**	-
Total exceptional credit/(charge)		**612**	(445)
Net tax (charge)/credit		**(70)**	115

Exceptional items in 1997 also included the following:

(i) a provision of £230m, less tax relief of £87m, in respect of the estimated cost of programmes to recompense advertisers in relation to irregularities in circulation claims for certain Reed Travel Group publications, together with related expenses and reorganisation costs. A non cash write down of £250m was also made in intangible asset values;

(ii) the net profit on sale of certain businesses, principally the Heinemann English Language Teaching business, a portfolio of certain US computer magazines and trade shows and the Belgian exhibitions business. The sales or closure of certain consumer books activities were also completed during the year, which, after taking account of provisions made in earlier years, resulted in no further gain or loss.

The exceptional pre-tax profit on sale of businesses in 1997 has been restated (increase of £29m) to reflect the cumulative goodwill and intangible asset amortisation prior to sale under FRS 10.

The net cash flow in 1997 in respect of the above exceptional items was £76m. In addition £21m was paid in 1997, for which appropriate provision had been made in the prior year, in relation to the disposal of surplus leasehold property interests.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

9. NET INTEREST EXPENSE

£ million	1998	1997
Interest payable and similar charges		
On loan capital, promissory notes and bank borrowings:		
repayable within 5 years, other than by instalments	**(64)**	(64)
On finance leases	**(1)**	(1)
On all other loans	**(20)**	(27)
On amounts owed to Reed International P.L.C.	**(9)**	(7)
On amounts owed to Elsevier Reed Finance BV group	**(121)**	(122)
	(215)	(221)
Interest receivable and similar income		
On cash deposits and short term investments	**38**	10
On amounts owed by Elsevier NV	**-**	2
On amounts owed by Reed International P.L.C.	**4**	4
On amounts owed by Elsevier Reed Finance BV group	**7**	16
	49	32
Total net interest expense	**(166)**	(189)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

£ million	1998	1997 (restated)
Tax on profit on ordinary activities		
United Kingdom	**69**	72
The Netherlands	**49**	50
Rest of World	**68**	76
Sub-total (including deferred taxation charge of £77m (1997 : £9m))	**186**	198
Share of tax attributable to joint ventures	**6**	9
Tax on ordinary activities before exceptional items	**192**	207
Net tax charge/(credit) on exceptional items (including deferred taxation credit of £nil (1997 : £120m))	**70**	(115)
Total	**262**	92

UK corporation tax has been provided at 31.0% (1997 : 31.5%).

The total tax charge for the year has been reduced by £51m (1997 : £42m) in respect of allowances on publishing intangibles.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

11. ORDINARY DIVIDENDS PAID AND PROPOSED

	£ per share		£ million	
	1998	1997	**1998**	1997
Subsidiary undertakings			**218**	188
Parent				
Ordinary				
Interim to "E" ordinary shareholders	**-**	2,500	**-**	25
Interim to "R" ordinary shareholders	**17,000**	15,840	**170**	158
			170	183
Total			**388**	371

The dividends paid by subsidiary undertakings relate to Elsevier NV's holding of special dividend shares in Reed Elsevier Nederland BV and Reed Elsevier Overseas BV. These shares do not carry any capital rights beyond the right to repayment of their nominal value.

The dividends to be paid by the company are regulated by the equalisation arrangements between Reed International P.L.C. and Elsevier NV, the company's shareholders. The arrangements have the effect of requiring dividends to be paid by the company according to the respective requirements of the shareholders to enable them to pay dividends on their ordinary shares on an equalised basis. Accordingly, the proportion in which dividends are paid on either class of share will vary from one dividend payment to another.

12. CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities		**1998**	1997
£ million			(restated)
Operating profit before joint ventures		**396**	78
Exceptional charges to operating profit	note 8	**79**	502
Operating profit before exceptional items		**475**	580
Amortisation of goodwill and intangible assets		**314**	271
Depreciation charges		**97**	96
Net SSAP24 pension credit	note 5	**(4)**	(1)
Total non cash items		**407**	366
Decrease in stocks		**-**	5
Decrease/(increase) in debtors		**21**	(20)
Increase in creditors		**29**	20
Movement in working capital		**50**	5
Net cash inflow from operating activities before exceptional items		**932**	951
Payments relating to exceptional items charged to operating profit:			
Reed Travel Group recompense programme and restructuring		**(183)**	(7)
Acquisition integration and Year 2000 programme		**(75)**	(19)
		(258)	(26)
Net cash inflow from operating activities		**674**	925
Continuing operations		**674**	845
Discontinued operations		**-**	80
Net cash inflow from operating activities		**674**	925

12. CASH FLOW STATEMENT (continued)

Acquisitions

£ million	1998	1997
Purchase of subsidiary undertakings(including deferred consideration from prior years)	(1,229)	(713)
Investment in joint ventures	-	(12)
Purchase of fixed asset investments	(1)	(1)
Total	**(1,230)**	(726)

Exceptional disposals of businesses

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

Reconciliation of net borrowings

£ million	Cash	Short term investments	Financing	Total	1997
Net borrowings at 1 January	106	349	(2,660)	(2,205)	(1,526)
(Decrease)/increase in cash	(80)	-	-	(80)	25
Increase/(decrease) in short term investments	-	277	-	277	(22)
Increase in borrowings	-	-	(619)	(619)	(579)
Change in net borrowings resulting from cash flows	(80)	277	(619)	(422)	(576)
Inception of finance leases	-	-	(10)	(10)	(2)
Loans in acquired businesses	-	-	-	-	(10)
Exchange translation differences	-	8	2	10	(91)
Net borrowings at 31 December	**26**	**634**	**(3,287)**	**(2,627)**	(2,205)

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

12. CASH FLOW STATEMENT (continued)

Reconciliation of financing

£ million		Long term borrowings	Net borrowings from shareholders and Elsevier Reed Finance BV group	Bank loans and promissory notes	Total Financing	1997
At 31 December 1997		**(688)**	**(1,363)**	**(609)**	**(2,660)**	(1,993)
Decrease in long term borrowings		7	-	-	7	197
Increase in net borrowings from shareholders and Elsevier Reed Finance BV group		-	(787)	-	(787)	(562)
Decrease/(increase) in bank loans and promissory notes		-	-	161	161	(214)
Change in financing resulting from cash flows		7	(787)	161	(619)	(579)
Inception of finance leases	*note* 23	(10)	-	-	(10)	(2)
Loans in acquired businesses		-	-	-	-	(10)
Exchange differences		(2)	1	3	2	(76)
At 31 December 1998		**(693)**	**(2,149)**	**(445)**	**(3,287)**	(2,660)

During the year finance lease arrangements were entered into in respect of assets with a total capital value at inception of £10m (1997 : £2m). Finance leases of £5m were repaid (1997 : £6m) and £1m of Dutch Florin loans were repaid.

Long term borrowings comprise loan capital, finance leases, promissory notes and bank loans with an original maturity of over one year which are further analysed in notes 20, 21 and 22.

Cash outflows and inflows relating to commercial paper and other similar borrowings are shown net.

13. ACQUISITIONS

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

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

Matthew Bender and Shepard's

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

Before exceptional acquisition related integration costs and the amortisation of goodwill and intangible assets, Matthew Bender and 50% of Shepard's contributed £60m to turnover, £22m to operating profit and £27m to net cash flow from operating activities for the five months under Reed Elsevier plc ownership.

13. ACQUISITIONS (continued)

The historical results in US dollars for Matthew Bender and the 50% share in Shepard's whilst not under the group's ownership were:

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

Other acquisitions

During the year a number of other acquisitions were made for a total consideration amounting to £223m, after taking account of £10m of net cash acquired. The most significant were the PGA Merchandise Show and PGA International Golf Show, Engineering Information Inc., and Beilstein Informationssysteme GmbH. £2m of the consideration has been deferred to future years.

£ million	Book value on acquisition	Fair value adjustments	Fair value
Goodwill	-	145	145
Intangible fixed assets	-	91	91
Tangible fixed assets	4	(2)	2
Current assets	11	(3)	8
Current liabilities	(22)	-	(22)
Deferred tax	(1)	-	(1)
Net assets acquired	(8)	231	223
Consideration (after taking account of £10m net cash acquired)			223

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

14. FIXED ASSETS - INTANGIBLE ASSETS AND TANGIBLE ASSETS

CONSOLIDATED		Goodwill and intangible assets			Tangible assets		
Cost			Intangible		Land and	Plant, equipment and computer	
£ million		Goodwill	assets	Total	buildings	systems	Total
At 1 January 1998 as originally reported		-	2,641	2,641	148	623	771
Prior year adjustment (adoption of FRS 10)	*note 1*	1,980	-	1,980	-	-	-
At 1 January 1998 as restated		1,980	2,641	4,621	148	623	771
Acquisitions	*note 13*	864	362	1,226	14	11	25
Capital expenditure		-	-	-	8	153	161
Transfer from investments in joint ventures		82	68	150	-	-	-
Disposals of businesses		(113)	(220)	(333)	-	(66)	(66)
Disposals		-	-	-	(4)	(48)	(52)
Exchange translation differences		12	12	24	-	6	6
At 31 December 1998		**2,825**	**2,863**	**5,688**	**166**	**679**	**845**

Accumulated amortisation and depreciation *£ million*							
At 1 January 1998 as originally reported		-	250	250	40	383	423
Prior year adjustment (adoption of FRS 10)	*note 1*	909	834	1,743	-	-	-
At 1 January 1998 as restated		909	1,084	1,993	40	383	423
Transfer from investments in joint ventures		7	5	12	-	-	-
Disposals of businesses		(71)	(130)	(201)	-	(36)	(36)
Disposals		-	-	-	(3)	(38)	(41)
Amortisation of goodwill and intangible assets		155	159	314	-	-	-
Depreciation		-	-	-	5	92	97
Exchange translation differences		6	2	8	-	3	3
At 31 December 1998		**1,006**	**1,120**	**2,126**	**42**	**404**	**446**

Net book amount *£ million*						
At 1 January 1998 as restated	1,071	1,557	2,628	108	240	348
At 31 December 1998	**1,819**	**1,743**	**3,562**	**124**	**275**	**399**

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

Land and buildings at cost *£ million*	**1998**	1997
Freehold property	**133**	127
Leasehold property, 50 years or more unexpired	**18**	18
Leasehold property, less than 50 years unexpired	**15**	3
Total	**166**	148

No depreciation has been provided on land of £13m (1997 : £10m).

15. FIXED ASSETS - INVESTMENTS

£ million		Investments in joint ventures	Other investments			TOTAL
CONSOLIDATED		*Share of net assets*	Loans	Unlisted	Listed	
At 1 January 1998 as originally reported		206	2	11	8	227
Reinstatement of goodwill	note 1	85	-	-	-	85
Accumulated amortisation brought forward	note 1	(44)	-	(4)	-	(48)
At 1 January 1998 as restated		247	2	7	8	264
Share of attributable profit		12	-	-	-	12
Amortisation of goodwill and intangible assets		(9)	-	-	-	(9)
Dividends received from joint ventures		(11)	-	-	-	(11)
Additions		-	-	1	-	1
Disposals		(36)	(1)	(1)	(3)	(41)
Transfer to subsidiary undertakings		(132)	-	-	-	(132)
Exchange translation differences and other movements		3	-	-	-	3
At 31 December 1998		**74**	**1**	**7**	**5**	**87**

The directors' valuation of other investments (unlisted) at 31 December 1998 is £7m (1997 : £11m). The market value of listed investments at 31 December 1998 is £8.6m (1997 : £13m).

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

£ million	Subsidiary undertakings			Associates	TOTAL
PARENT	Shares at cost	Provisions	Net book value	Shares at cost	
At 1 January 1998	840	-	840	29	869
Provided	-	(4)	(4)	-	(4)
At 31 December 1998	**840**	**(4)**	**836**	**29**	**865**

The principal subsidiary and joint ventures are shown on page 47.

16. STOCKS

	CONSOLIDATED	
£ million	**1998**	1997
Raw materials and consumables	**17**	22
Work in progress	**25**	27
Finished goods	**59**	72
Total	**101**	121

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

17. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		CONSOLIDATED		PARENT	
£ million		**1998**	1997	**1998**	1997
Trade debtors		**504**	520	-	-
Amounts owed by Elsevier NV		**4**	14	-	-
Amounts owed by Elsevier Reed Finance BV group		**203**	326	-	-
Amounts due from sale of businesses		-	2	-	-
Amounts owed by joint ventures		**1**	2	-	-
Corporation tax recoverable		**56**	-	-	-
Deferred tax	*note 19*	-	57	-	-
Advance corporation tax		**13**	12	**35**	33
Other debtors		**33**	50	-	-
Prepayments and accrued income		**110**	115	**1**	1
Total		**924**	1,098	**36**	34

Included in prepayments and accrued income falling due within one year is an amount of £1m (1997 : £1m) due from the Employee Share Ownership Plan.

18. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		CONSOLIDATED		PARENT	
£ million		**1998**	1997	**1998**	1997
Trade debtors		**10**	7	-	-
Amounts owed by Reed International P.L.C.		**36**	36	-	-
Deferred taxation	*note 19*	**4**	28	-	1
Pension prepayment	*note 5*	**124**	133	-	-
Prepayments and accrued income		**2**	5	-	-
Total		**176**	209	-	1

19. DEFERRED TAXATION

£ million		CONSOLIDATED
At 31 December 1997		85
Provided	note 10	(77)
Other movements		(4)
At 31 December 1998		**4**

		CONSOLIDATED	
£ million		**1998**	1997
Included in debtors falling due within one year	note 17	-	57
Included in debtors falling due after more than one year	note 18	**4**	28
Total		**4**	85

		CONSOLIDATED	
£ million		**1998**	1997
Deferred taxation provided			
Excess of tax allowances over depreciation		**2**	1
Pension prepayment		**(37)**	(39)
Timing differences	- Reed Travel Group recompense plan	**5**	79
	- Other	**34**	44
Total		**4**	85
Deferred taxation not provided			
Excess of tax allowances over amortisation		**13**	13
Other timing differences		**46**	32
Losses carried forward		**5**	5
Total		**64**	**50**

20. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		CONSOLIDATED		PARENT	
£ million		**1998**	1997	**1998**	1997
Loan capital	note 22	**177**	2	**-**	-
Promissory notes and bank loans		**444**	609	**-**	-
Obligations under finance leases	note 23	**3**	4	**-**	-
Sub total: Borrowings		**624**	615	**-**	-
Trade creditors		**148**	187	**-**	-
Amounts owed to Reed International P.L.C.		**186**	171	**-**	-
Amounts owed to Elsevier NV		**1**	-	**1**	-
Amounts owed to Elsevier Reed Finance BV group		**147**	571	**-**	-
Amounts owed to subsidiary undertakings		**-**	-	**163**	206
Other creditors		**158**	112	**-**	-
Taxation		**122**	180	**-**	-
Accruals and deferred income		**952**	835	**1**	1
Total		**2,338**	2,671	**165**	207

Borrowings less than one year include short term US commercial paper, Eurocommercial paper and other short term borrowings which are supported by available committed facilities and by centrally managed cash and short term investments.

At 31 December 1998 a total of £602m (1997 : £602m) of committed facilities were available, all of which matures in over one year.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

21. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		CONSOLIDATED	
£ million		**1998**	1997
Loan capital	note 22		
- within one to two years		**152**	175
- within two to five years		**78**	155
- after five years		**273**	348
Promissory notes and bank loans			
- within one to two years		**1**	-
Obligations under finance leases	note 23	**10**	4
Sub total: Borrowings		**514**	682
Amounts owed to Reed International P.L.C.		**40**	40
Amounts owed to Elsevier Reed Finance BV group		**2,018**	957
Other creditors		**15**	24
Taxation		**200**	54
Accruals and deferred income		**36**	47
Total		**2,823**	1,804

22. LOAN CAPITAL

£ million	CONSOLIDATED 1998	1997
Subsidiary undertakings - unsecured		
$200m 7.5% Eurodollar Bonds 1999	**121**	121
$100m 9.71% US Dollar Privately Placed Notes 2000	**60**	60
Dfl 125m 9.7% Dutch Florin Privately Placed Bonds 1999	**42**	41
$125m 8.5% US Dollar Privately Placed Notes 2003	**76**	76
$20m 7.66%-7.76% US Dollar Medium Term Notes 1999	**12**	12
$150m 6.625% US Dollar Privately Placed Notes 2023	**90**	90
$150m 6.625% US Dollar Public Notes 2000	**90**	90
$150m 7% US Dollar Public Notes 2005	**90**	90
$150m 7.5% US Dollar Public Debentures 2025	**90**	90
Miscellaneous Dutch Florin	**9**	10
Total	**680**	680

£13m of all borrowings are secured under finance leases (1997 : £8m).

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

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

£ million	Notional principal of interest rate swaps outstanding				Weighted average interest rate		Weighted average remaining maturity (years)	
	On dollar borrowings	On guilder cash	On other borrowings	Total	Payable on dollars	Receivable on guilders	On dollar borrowings	On guilder cash
As at 31 December								
1998	**151**	35	16	202	6.3%	9.9%	2.6	0.1
1999	**120**	-	13	133	6.3%	-	2.1	-
2000	**105**	-	-	105	6.3%	-	1.3	-
2001	**45**	-	-	45	6.4%	-	1.2	-
2002	**30**	-	-	30	6.4%	-	0.5	-

As at 31 December 1998 there were no outstanding caps, floors, collars or similar instruments.

The weighted average interest rate for US dollar borrowings as at 31 December 1998, taking into account the interest hedges, was 6.7 %.

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

23. OBLIGATIONS UNDER LEASES

The future finance lease payments are:		CONSOLIDATED	
£ million		**1998**	1997
Repayable:			
Within one year		**3**	4
Between one and two years		**3**	3
Between two and five years		**4**	2
Over five years		**9**	-
		19	9
Less: interest charges allocated to future periods		**(6)**	(1)
Total		**13**	8
Obligations included in creditors falling due within one year	note 20	**3**	4
Obligations included in creditors falling due after more than one year	note 21	**10**	4
Total		**13**	8

During the year finance leases with obligations totalling £10m were entered into.

Annual commitments under operating leases are:		*1998*		*1997*	
£ million		Land and buildings	Other	Land and buildings	Other
Expiry of operating leases	- falling due within one year	**4**	**1**	7	1
	- falling due within one to five years	**18**	**3**	15	3
	- falling due after five years	**30**	**-**	34	3
Total		**52**	**4**	56	7

24. PROVISIONS FOR LIABILITIES AND CHARGES

	CONSOLIDATED					
£ million	*Losses on sale* of businesses	Acquisitions	*Pensions and* severance pay	*Reed Travel* Group	Other	Total
At 1 January 1998 as originally reported	22	14	8	220	3	267
Prior year adjustment (adoption of FRS 10) note 1	10	-	-	-	-	10
At 1 January 1998 as restated	32	14	8	220	3	277
Provided	-	-	1	-	-	1
Utilised/transferred	(32)	(11)	(9)	(187)	(3)	(242)
At 31 December 1998	**-**	**3**	**-**	**33**	**-**	**36**

The provision for Reed Travel Group is in respect of the estimated cost of programmes to recompense advertisers in relation to irregularities in circulation claims, related expenses and reorganisation costs.

25. FUTURE CAPITAL EXPENDITURE NOT PROVIDED IN THE FINANCIAL STATEMENTS

	CONSOLIDATED	
£ million	**1998**	1997
Contracts placed	**5**	10

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

26. *CALLED UP SHARE CAPITAL*

£ and no. shares	AUTHORISED At 31 Dec 1997 and 1998	CALLED UP, ISSUED AND FULLY PAID At 31 Dec 1997 and 1998
Preference shares (cumulative) of £1 each		
- Irredeemable 7.50%	100,000	100,000
Ordinary shares of £1 each		
- "R" ordinary shares	10,000	10,000
- "E" ordinary shares	10,000	10,000
Total	120,000	120,000

The company's Articles of Association set out the rights to the "E" and "R" ordinary shareholders for capital and income purposes. These rights in so far as they relate to distributions are set out in more detail in note 11. The capital rights are intended to enable the "E" and "R" shareholders to be in a position to make capital distributions on their share capital in the same ratio as applies for income purposes.

The 7.50% non-voting cumulative preference shares entitle the holder to receive a fixed cumulative dividend at the rate of 7.50% on the paid up capital and the right to a return of a sum equal to the nominal capital paid up on a winding up.

27. SHARE PREMIUM ACCOUNT

£ million	
At 31 December 1998 and 1997	**324**

28. *RECONCILIATION OF SHAREHOLDERS' FUNDS*

£ million		Share capital and share premium	Revenue reserves	Consolidated Total	Parent Total
At 1 January 1998 as originally reported		324	(246)	78	697
Prior year adjustment (adoption of FRS 10)	note 1	-	264	264	-
At 1 January 1998 as restated		324	18	342	697
Retained profit for the year		-	256	256	39
Capital contribution from Elsevier NV to					
Reed Elsevier plc subsidiary		-	69	69	-
Exchange translation differences		-	12	12	-
At 31 December 1998		**324**	**355**	**679**	**736**

Share capital includes non-equity shares of £100,000 (1997 : £100,000).

The group's shares of reserves retained within joint ventures totalled £36m (1997 : £60m) including the undistributed reserves of Utell contributed to the joint venture, REZsolutions, Inc.

Parent company reserves comprise the profit and loss account. The profit attributable to shareholders, dealt with in the accounts of the company, is £209m (1997 : £198m).

29. CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT	
£ million	**1998**	1997	**1998**	1997
There are contingent liabilities in respect of borrowings of:				
Subsidiary undertakings	**-**	-	**16**	265
Joint ventures	**-**	8	**-**	-
Former subsidiary undertakings	**29**	33	**29**	29
	29	41	**45**	294

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

The company has accepted, in accordance with clause 403 Book 2 of the Dutch Civil Code, responsibility for the liabilities, including trade creditors and external borrowings totalling £122m (1997 : £370m), of subsidiary undertakings registered in the Netherlands.

The company, as ultimate parent company of Elsevier Science Ireland Limited, has irrevocably guaranteed the liabilities, referred to in Section 5(c) of the Irish Companies (Amendment) Act 1986, of that company in respect of the year commencing 1 January 1998.

30. RELATED PARTY TRANSACTIONS

There were no material transactions during the year between the Reed Elsevier plc group and its fellow associated undertakings, or its joint venture interests, other than those disclosed in these accounts.

The group's fellow associated undertakings are Elsevier Reed Finance BV and its subsidiaries. Elsevier Reed Finance BV is incorporated in The Netherlands and jointly owned by Reed International P.L.C. and Elsevier NV. The Elsevier Reed Finance BV group has a minority interest in Elsevier Science SA, an indirect subsidiary of Reed Elsevier plc, and provides a range of treasury services and funding to the Reed Elsevier plc group.

Foreign exchange contracts entered into during 1998 by Reed Elsevier plc and its subsidiaries with its fellow associated undertakings amounted to £1,378m (1997 : £1,138m).

NOTES TO THE ACCOUNTS
For the year ended 31 December 1998

31. BALANCE SHEET OF REED ELSEVIER plc AS AT 31 December 1998

£ million		1998	1997
Fixed assets			
Investments	note 15	**865**	869
Current assets			
Debtors: amounts falling due within one year	note 17	**36**	34
Debtors: amounts falling due after more than one year	note 18	**-**	1
		36	35
Creditors: amounts falling due within one year	note 20	**(165)**	(207)
Net current liabilities		**(129)**	(172)
Net assets		**736**	697
Capital and reserves			
Called up share capital	note 26	**-**	-
Share premium account	note 27	**324**	324
Revenue reserves		**412**	373
Shareholders' funds	note 28	**736**	697

Approved by the Board of Reed Elsevier plc, 10 March 1999.

Director

Director

PRINCIPAL SUBSIDIARY UNDERTAKINGS AT 31 DECEMBER 1998

<u>*Holding Companies*</u>	
Reed Elsevier (UK) Ltd *	
Reed Elsevier Holdings BV*	(The Netherlands)
Reed Elsevier Nederland BV	(The Netherlands)
Reed Elsevier Overseas BV	(The Netherlands)
Reed Elsevier US Holdings Inc	(USA)
Reed Elsevier Inc	(USA)
Reed Elsevier Capital Inc	(USA)
<u>*Scientific*</u>	
Elsevier Science BV	(The Netherlands)
Elsevier Science Ltd	
Elsevier Science Inc	(USA)
Springhouse Corporation Inc	(USA)
Excerpta Medica Inc	(USA)
<u>*Professional*</u>	
Butterworths ~	
Tolley Publishing ~	
Editions du Juris-Classeur SA	(France)
Reed Educational & Professional Publishing Ltd	
LEXIS-NEXIS #	(USA)
Matthew Bender and Company Inc	(USA)
Elsevier Opleidingen BV	(The Netherlands)
<u>*Business*</u>	
Reed Travel Group Ltd	
Cahners Business Information #	(USA)
Cahners Travel Group #	(USA)
Elsevier Bedrijfsinformatie BV	(The Netherlands)
OAG Worldwide #	(USA)
Reed Business Information Ltd	
The Reed Exhibition Companies Ltd	
Reed Exhibition Companies #	(USA)

All are wholly owned subsidiary undertakings registered and operating in England unless otherwise stated.

*	Direct subsidiary undertaking of Reed Elsevier plc
#	Division of Reed Elsevier Inc (USA)
~	Division of Reed Elsevier (UK) Ltd

PRINCIPAL JOINT VENTURES AT 31 DECEMBER 1998

		Operating in	*Principal place of business*
Dott. A. Giuffrè Editore Spa	40%	Italy	Via Busto Arsizio, Milan
REZsolutions, Inc.	67%	USA	7500N. Dreamy Draw Drive, Phoenix, Arizona