Deloitte & Touche

Deloitte Touche Tohmatsu International

Company Registration No. 53626

IPC MAGAZINES LIMITED

Report and Financial Statements

31 December 1997

Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR

Deloitte & Touche

Deloitte Touche Tohmatsu International

REPORT AND FINANCIAL STATEMENTS 1997

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company continued to be magazine publishing. This was largely focused within the UK.

The portfolio of publications covered 68 regular frequency titles in 26 market sectors. New titles were launched or acquired in the Home Interest, Equestrian and Sports markets.

Advertisement and copy sales revenue were up year on year with operating profit and margins improved. Further developments of Brand Extension and New Media projects were undertaken.

During the period the company sold the business and assets, including publishing rights, of 'New Scientist' and its internet site 'Planet Science'. This resulted in an exceptional profit on sale of £114,788,000.

DIVIDENDS

Dividends totalling £189,000,000 were paid during the year (1996 - £76,000,000) and the directors do not recommend the payment of a final dividend (1996 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors that served throughout the year were as follows:

M Matthew (Chairman)	
W R Aley	
T D G Arculus	(appointed 23 September 1998)
S J Auton	(appointed 6 February 1998)
S Bailey (nee Grice)	
R R Carayol	
L Lancaster-Gaye	
A McDuff	(appointed 6 February 1998)
C M Reeves-Smith	
D Stam	
A D Tanner	
A Anderson	(appointed 1 July 1997, resigned 26 November 1997)
C Boyd	(resigned 23 September 1998)
M Clayton	(resigned 30 April 1997)
N J Davidson	(resigned 2 January 1998)
J B Mellon	(resigned 5 January 1998)

No director had, at any time in the year, any interest in the share capital of the company or other group companies.

No director had, at any time during the year, any material interest in a contract with the company.

DIRECTORS' AND OFFICERS LIABILITY

During the year liability insurance was maintained for the company's directors and officers.

OWNERSHIP OF THE BUSINESS

On 19 January 1998 Reed Elsevier plc the ultimate parent company at the year end sold its wholly owned subsidiary RPH Limited, a parent undertaking of IPC Magazines Limited, as set out in note 22.

DIRECTORS' REPORT

FUTURE DEVELOPMENTS

Investment in information technology remains a key focus and further progress continues to be made on a wide range of systems throughout the company.

A project to address Year 2000 compliancy for the company's business critical systems has been put in place and a Board level review group established.

EMPLOYEE PARTICIPATION

Employees are encouraged to become aware of the financial and economic factors which affect the company and its ability to compete in the marketplace. The individual contributions of staff are recognised as being essential to the future success of the business.

Staff are informed of the performance and prospects of the company, together with financial information, by means of regular bulletins, notice boards and by management meetings. Detailed reviews and items of interest are provided to staff and pensioners by the company magazine, IPC News, and a director is responsible for internal communications. The company has an established staff council which continued to operate during the year.

DISABLED PERSONS

It is the policy of the company to consider the skills and aptitudes of disabled persons fully and fairly at all times in recruitment, career development, training and promotion. In pursuing this policy and having special concern for employees who become disabled, all practical measures are taken to ensure that disabled persons are placed in jobs suited to their individual circumstances.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PAYMENTS TO SUPPLIERS

The company agrees terms and conditions for its business transactions with suppliers and payment is made on these terms. There were 66 days outstanding in creditors at year end.

DIRECTORS' REPORT

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

M Matthew
Director
21 October 1998

REGISTERED OFFICE

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Deloitte & Touche

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AUDITORS' REPORT TO THE MEMBERS OF IPC MAGAZINES LIMITED

We have audited the financial statements on pages 5 to 16 which have been prepared under the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

21 October 1998

Deloitte & Touche

Deloitte Touche Tohmatsu International

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1997

	Note	1997 £'000	1996 £'000
TURNOVER - continuing operations	1, 2	337,652	325,129
Cost of sales		(171,497)	(172,940)
Gross profit		166,155	152,189
Distribution costs		(59,303)	(55,751)
Administrative expenses		(39,920)	(38,044)
Other operating income		317	3,785
Income from associated undertakings		3,125	1,875
OPERATING PROFIT - continuing operations		70,374	64,054
Exceptional item - profit on sale of New Scientist		114,788	-
Interest receivable		1	6
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	185,163	64,060
Tax on profit on ordinary activities	7	(17,472)	(20,652)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	18	167,691	43,408
Interim dividends paid	18	(189,000)	(76,000)
Retained (deficit) for the year		(21,309)	(32,592)

There are no recognised gains or losses for the current financial year and preceding financial year other than as stated in the profit and loss account. The historical cost profits and losses are not materially different from the results disclosed above.

A reconciliation of movements in shareholders' funds is set out in note 18 to the accounts.

The notes on pages 7 to 16 form an integral part of these financial statements.

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BALANCE SHEET
31 December 1997

	Note	1997 £'000	1996 £'000
FIXED ASSETS			
Intangible assets	9	37,036	37,036
Tangible assets	10	28,735	25,663
Investments	11	75,955	75,955
		141,726	138,654
CURRENT ASSETS			
Stocks	12	5,674	7,036
Debtors: amounts falling due within one year	13	52,501	58,685
Debtors: amounts falling due after more than one year	13	6,716	41,703
Cash at bank and in hand		38,088	7,951
		102,979	115,375
CREDITORS: amounts falling due within one year	14	(83,931)	(70,628)
NET CURRENT ASSETS		19,048	44,747
TOTAL ASSETS LESS CURRENT LIABILITIES		160,774	183,401
CREDITORS: amounts falling due after more than one year	14	(10,283)	(8,562)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(1,029)	(1,868)
NET ASSETS		149,462	172,971
CAPITAL AND RESERVES			
Called up share capital	17	2,580	2,580
Share premium account		112,887	112,887
Other reserves		2,318	2,318
Profit and loss account	18	31,677	55,186
EQUITY SHAREHOLDERS' FUNDS		149,462	172,971

These financial statements were approved by the Board of Directors on 21 October 1998.

Signed on behalf of the Board of Directors

M MATTHEW

Director

Deloitte & Touche

Deloitte Touche Tohmatsu International

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements are presented for the company as an individual undertaking. The company is not required to prepare group financial statements under Section 228 of the Companies Act 1985 because its parent undertaking is established under the law of a member State of the European Union.

Under the provisions of Financial Reporting Standard 1 - "Cash Flow Statements", the company has not prepared a cash flow statement because its ultimate parent company, Reed Elsevier plc, which is incorporated in Great Britain, has prepared consolidated accounts which include the accounts of the company for the year and which contain a cash flow statement.

These financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Turnover

Turnover represents the invoiced value of sales on transactions completed by delivery excluding VAT.

Intangible assets

Publishing rights are stated at fair value on acquisition and are not subsequently revalued. Having no finite economic life, no systematic amortisation is applied but provision is made for any permanent impairment in value. Internally developed intangibles are not carried on the balance sheet.

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Depreciation is provided on a basis that will write off the book value of fixed assets on a straight line basis over their expected lives. The depreciation rates range from 6⅔% to 33⅓% for plant and equipment, and 6⅔% to 10% for fixtures and fittings.

Fixed asset investments

Investments are stated at cost less provision, if appropriate, for any permanent diminution in value.

Stocks

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

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 Generally Accepted Accounting Practice. No provision is made for tax which would become payable on the sale of intangible assets at stated amounts as there is no present intention to sell such assets.

Research and development

Development spend 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 useful life.

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NOTES TO THE ACCOUNTS
Year ended 31 December 1997

1. ACCOUNTING POLICIES (continued)

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Leases

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

Pensions

The Reed Elsevier Pension Scheme, which is a defined benefit scheme, is administered on a Reed Elsevier plc group basis and total contributions are assessed by a qualified actuary based on the cost of providing pensions across all participating Reed Elsevier plc group companies. Costs are not determined separately for each participating company, hence contributions are charged to the profit and loss account in the period on the basis of amounts payable.

2. TURNOVER

	1997 £'000	1996 £'000
The analysis of the company's turnover by geographical market is as follows:		
United Kingdom	318,373	305,495
North America	3,427	3,252
Rest of the world	15,852	16,382
Total	337,652	325,129

All turnover derives from the company's principal activity, magazine publishing, in the United Kingdom.

It is not appropriate to analyse operating profit attributable to geographical market as the company operates principally from one geographic location.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is after charging:		
Depreciation of owned tangible assets	8,235	7,381
Auditors' remuneration		
Audit fees	32	31
Non audit fees	36	32
Operating lease rentals	6,539	6,501

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1997 £'000	1996 £'000
Staff costs (including directors)		
Wages and salaries	53,637	49,464
Social security costs	4,720	4,246
Pensions	29	40
	58,386	53,750

Average number of persons employed	1997 No.	1996 No.
Editorial	829	800
Sales and distribution	175	210
Administration and finance	886	873
	1,890	1,883

5. DIRECTORS' EMOLUMENTS

	1997 £'000	1996 £'000
Payments to directors of the company:		
Salary	1,177	1,043
Benefits	92	75
Annual performance related bonus	399	278
Total emoluments	1,668	1,396

The number of directors accruing benefits at the year end in respect of defined benefit pension schemes is 11 (1996 - 12).

Analysis of the emoluments (excluding pension contributions) of the highest paid director:

	1997 £'000	1996 £'000
Emoluments	277	235
Accrued pension at year end	94	

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

6. PENSIONS

During 1997 the company participated in the Reed Elsevier Pension Scheme. This scheme is of the defined benefit type providing benefits to certain employees within the Reed Elsevier plc group and the assets are held separately from the group's assets.

The total pension cost for the company was £29,240 (1996 - £39,919). From 1 April 1989, on the recommendation of the group's actuaries, no company contributions have been made to the scheme. A valuation of the Reed Elsevier Pension Scheme was carried out as at 5 April 1997. Details of this valuation are contained in the 1997 Report and Accounts of Reed Elsevier plc.

Since 19 February 1998 the company has participated in the IPC Magazines Limited Pension Scheme.

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 £'000	1996 £'000
United Kingdom corporation tax at 31.5% (1996 - 33%) based on the profit for the year	18,590	21,481
Deferred taxation	58	(9)
Adjustment of current taxation in respect of prior years	(1,242)	(1,078)
Adjustment of deferred taxation in respect of timing differences from prior years	66	258
	17,472	20,652

The tax charge for the year is low due to the receipt of non taxable income and the receipt of tax losses for which no consideration has been given.

8. DEFERRED TAXATION

	1997 £'000	1996 £'000
The deferred tax liability/(asset) provided in the financial statements represents taxation in respect of:		
ACT recoverable	(171)	(85)
Excess of tax allowances over depreciation	614	806
Other timing differences	(349)	(665)
Total (Note 15)	94	56

9. INTANGIBLE FIXED ASSETS

Publishing rights	1997 £'000	1996 £'000
At 1 January and 31 December	37,036	37,036

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

10. TANGIBLE FIXED ASSETS

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 1997	39,621	24,972	64,593
Additions	9,902	1,889	11,791
Net transfers to and from fellow subsidiaries	(377)	(17)	(394)
Disposals *	(5,415)	(5,359)	(10,774)
At 31 December 1997	43,731	21,485	65,216
Accumulated depreciation			
At 1 January 1997	26,172	12,758	38,930
Charge for the year	6,141	2,094	8,235
Net transfers to and from fellow subsidiaries	(245)	(15)	(260)
Disposals *	(4,904)	(5,520)	(10,424)
At 31 December 1997	27,164	9,317	36,481
Net book amount			
At 31 December 1997	16,567	12,168	28,735
At 31 December 1996	13,449	12,214	25,663

* Disposals include elimination of assets with a nil net book value.

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

11. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 1997 and 31 December 1997	117,373
Provisions	
At 1 January 1997 and 31 December 1997	(41,418)
Net book value	
At 31 December 1997 and 31 December 1996	75,955

Interests in the share capital of subsidiary undertakings relate to IPC Magazines (Overseas) Limited and dormant companies all of which are wholly owned. The dormant companies hold certain of the publishing rights to magazines published by the company. The principal function of IPC Magazines (Overseas) Limited, which is incorporated in Great Britain, is to hold shares in the French joint venture company Avantages SA. IPC Magazines (Overseas) Limited is located at Kings Reach Tower, Stamford Street, London SE1 9LS.

IPC Magazines Limited has a participating interest in European Magazines Limited by virtue of its 50% ownership of the company's £100 issued share capital. This interest is included within fixed asset investments at its original cost of £50. European Magazines Limited's principal activity is Magazine Publishing.

European Magazines Limited made a profit before tax of £7,246,000 for the year ended 31 December 1997, and had total shareholders' funds of £3,033,000.

European Magazines Limited is incorporated in Great Britain.

IPC Magazines Limited also had a 74% interest in a corporate partnership, Reed Telemedia and its share of the profit of this partnership is included within other operating income (1997 - £34,000 profit; 1996 - £75,000 loss) in these financial statements. Reed Telemedia's principal activity prior to the sale of the business and certain of the assets and liabilities on 19 June 1995, was the provision of premium rate telephone lines. After the sale it has ceased to trade. The partnership is located at Kings Reach Tower, Stamford Street, London SE1 9LS.

In the opinion of the directors, the aggregate value of the company's investments is not worth less than the aggregate amount shown above.

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

11. FIXED ASSET INVESTMENTS (continued)

IPC Magazines Limited sells goods and management and other services to European Magazines Limited and charges royalties to Avantages SA.

	1997 £'000	1996 £'000
Sales to European Magazines Limited	6,759	6,510
Sales to Avantages SA	274	526
Amounts owed by European Magazines Limited at 31 December 1997	897	315
Amounts owed to European Magazines Limited at 31 December 1997	(773)	(661)
Amounts owed by Avantages SA at 31 December 1997	-	171

12. STOCKS

	1997 £'000	1996 £'000
Raw materials and consumables	5,641	6,731
Work in progress	33	305
	5,674	7,036

13. DEBTORS

	1997 £'000	1996 £'000
Amounts falling due within one year:		
Trade debtors	32,152	27,795
Amounts owed by intermediate parent company	-	17,746
Amounts owed by fellow subsidiary undertakings	793	1,105
Amounts owed by undertakings in which the company has a participating interest	123	171
Other debtors	5,881	6,385
Prepayments and accrued income	13,552	5,483
	52,501	58,685

	1997 £'000	1996 £'000
Amounts falling due after more than one year:		
Amounts owed by intermediate and immediate parent companies	6,716	41,703

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

14. CREDITORS

	1997 £'000	1996 £'000
Amounts falling due within one year:		
Trade creditors	33,809	29,844
Amounts owed by parent company	5,633	-
Amounts owed to fellow subsidiary undertakings	1,274	1,312
Amounts owed to undertakings in which the company has a participating interest	-	346
Other creditors	3,657	1,775
Taxation and social security	28,867	24,770
Accruals and deferred income	10,691	12,581
	83,931	70,628

	1997 £'000	1996 £'000
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings	10,283	8,562

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Pensions £'000	Deferred taxation £'000	Other £'000	Total £'000
At 1 January 1997	40	56	1,772	1,868
(Utilised)/provided	(8)	38	(869)	(839)
At 31 December 1997	32	94	903	1,029

16. CAPITAL COMMITMENTS

	1997 £'000	1996 £'000
Contracts placed	-	-

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

17. CALLED UP SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised:		
3,230,000 ordinary shares of £1 each	3,230	3,230
Allotted, called up and fully paid:		
2,580,000 ordinary shares of £1 each	2,580	2,580

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Share capital £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total 1997 £'000	Total 1996 £'000
At start of year	2,580	112,887	2,318	55,186	172,971	207,648
Profit for the year	-	-	-	167,691	167,691	43,408
Dividends	-	-	-	(189,000)	(189,000)	(76,000)
Goodwill written off	-	-	-	(2,200)	(2,200)	(2,085)
At end of year	2,580	112,887	2,318	31,677	149,462	172,971

During the year magazine titles were acquired for a total consideration of £2,200,000. This amount was treated entirely as goodwill and written off directly to reserves.

19. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity at the year end was Reed Elsevier plc (see note 22), a company incorporated in Great Britain and registered in England and Wales.

Copies of the consolidated financial statements of Reed Elsevier plc may be obtained from The Company Secretary, 25 Victoria Street, London SW1H 0EX. Reed Elsevier plc is jointly owned by Reed International P.L.C. (a company registered in England and Wales) and Elsevier NV (a company incorporated in the Netherlands).

20. RELATED PARTY TRANSACTIONS

There were no material transactions during the year between IPC Magazines Limited and its associated undertakings, nor with the fellow associated undertakings of its then ultimate parent company, other than those disclosed in these accounts.

The fellow associated undertakings of the ultimate parent company were 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 provided a range of treasury services to the company including sales of foreign currency during 1997 amounting to £3,767,000.

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NOTES TO THE ACCOUNTS
Year ended 31 December 1997

21. OPERATING LEASE COMMITMENTS

	Land and buildings 1997 £'000	Land and buildings 1996 £'000
Leases which expire:		
Within one year	-	30
Within two to five years	456	321
After five years	5,103	5,208
	5,559	5,559

22. POST BALANCE SHEET EVENTS

On 19 January 1998, Reed Elsevier plc sold its wholly owned subsidiary RPH Limited to a combination of management and venture capitalists, subsequently RPH Limited changed its name to International Publishing Corporation Limited. International Publishing Corporation Limited is a parent undertaking of IPC Magazines Limited.