

Company Number: 2746616

**REED ELSEVIER PLC
REPORT AND ACCOUNTS 1997**



Board of Directors

H J Bruggink - Co-Chairman
N J Stapleton - Co-Chairman
M H Armour
R S Bodman*
G R N Cusworth
A A Greener*
Lord Hamlyn CBE*
O Laman Trip (appointed 15 September 1997)
Sir Christopher Lewinton*
J B Mellon
R J Nelissen*
A Schuitemaker* (retired 16 April 1997)
H P Spruijt
R van der Vijver (appointed 16 April 1997, until 3 August 1997)
P J Vinken*
P C F M Vlek
L van Vollenhoven*
D G C Webster*

*Indicates non-executive director

Contents

2.....	Directors' Report
8.....	Report of the Reed Elsevier plc Remuneration Committee
15.....	Accounting Policies
17.....	Auditors' Report
18.....	Consolidated Profit and Loss Account
19.....	Consolidated Cash Flow Statement
20.....	Consolidated Balance Sheet
21.....	Notes to the Accounts
42.....	Supplementary Information

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31 December 1997.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND DIVIDENDS

The group profit for the year, after exceptional items, taxation and minority interests, amounted to £58 million (1996 : £465 million).

The directors do not recommend a final ordinary dividend (1996 : £nil). During the year the company paid interim dividends of £25 million (1996 : £44 million) on the "E" ordinary shares, £158 million (1996 : £135 million) on the "R" ordinary shares and preference dividends of £7,500 (1996 : £7,500). Subsidiary undertakings paid a further £188 million (1996 : £nil) to Elsevier NV in respect of its holding of special dividend shares in Reed Elsevier Nederland BV. After these dividends and amounts due to minority interests of £26 million (1996 : £22 million) there was an excess of dividends over profit attributable to shareholders of £313 million (1996 : retained profit of £286 million) which has been taken to reserves.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During 1997, Reed Elsevier plc made good progress in growing the business both organically and by acquisition, as well as in tightening still further its strategic focus. Investment in new electronic product initiatives continued and total acquisition spend in 1997 was £725 million. In addition, Reed Elsevier plc completed in January 1998 the last major step in its withdrawal from consumer publishing markets through the £860 million divestment of IPC Magazines.

The Boards of Reed International and Elsevier announced on 9 March 1998 that the proposed merger with Wolters Kluwer had been abandoned. The merger proposal announced last October was expected to provide attractive strategic and other benefits to the businesses of Reed Elsevier plc and Wolters Kluwer. The Boards of Reed International and Elsevier had to conclude, however, that the revisions to the merger terms which Wolters Kluwer sought - reflecting in the main their concerns about the impact of regulatory approvals - meant that the merger could no longer be seen to be in the best interests of their shareholders. Reed Elsevier plc's strategic direction is clear and unaffected by this development.

The 1997 results were impacted considerably, however, by exceptional charges amounting to £474 million before tax. The most significant of these are the £480 million provisions in respect of Reed Travel Group, of which £250 million represented a non-cash adjustment to balance sheet carrying values to align them to the future earnings potential of the businesses. The remainder is the cash cost of implementing the recompense programme for advertisers affected by circulation irregularities discovered in the Travel businesses, which is discussed in further detail below, together with related expenses and reorganisation costs.

The rewards from Reed Elsevier's strategic focus, and the strength of the portfolio, have again been demonstrated by a good underlying performance achieved in 1997. The focus is on the delivery of "must have" information in both hard copy and, increasingly, electronic formats. The disposal of IPC Magazines will have a dilutive effect on earnings in 1998 pending reinvestment of the proceeds, as will the revenue decline in the Travel Group businesses until the benefits of the restructuring are felt. Continued good growth across the businesses is expected. The prospects for the businesses are very positive as the successful characteristics of the content portfolio are combined with the opportunities in electronic information delivery.

The results of the businesses are reported within four segments: scientific, professional, business and consumer publishing. Unless otherwise stated, all figures quoted in the following commentary refer to percentage movements at constant exchange rates, using 1996 full year average rates, and are stated before exceptional items.

DIRECTORS' REPORT

Scientific

Operating profit for the Scientific segment increased by 11% at constant exchange rates; excluding acquisitions the increase was 8%. The strengthening of sterling had a particularly marked effect on the results of the Scientific segment, given the international nature of the business, and at reported rates operating profit was flat.

Elsevier Science benefited from strong journal renewals and increased revenues and operating profit by 17% and 12% respectively. Investment in electronic products and the supporting operational infrastructure continued throughout the year, and ScienceDirect, the major online scientific information service, successfully completed its early release phase.

Several strategic acquisitions including MDL Information Systems, BioMedNet, ChemWeb, the Beilstein database and Engineering Information have substantially strengthened Elsevier Science's abilities to provide enhanced information services in electronic formats.

Operating profit in medical publishing and communications was up 9%, with a strong contribution from Excerpta Medica and acquisitions made by Editions Scientifiques et Médicales Elsevier, where encyclopaedia sales were also strong. Bugamor, a medical communications business based in the Netherlands acquired during the year, performed well. Market conditions in the US nursing market have improved, which benefited Springhouse.

The demand for scientific information in 1998 is expected to remain relatively stable although library budgets are likely to remain under pressure. Elsevier Science foresees a continuing high demand for its products in traditional formats and a growing interest in its electronic product lines. The global launch of ScienceDirect should enhance further Elsevier Science's position in science publishing. The strategic objective for Elsevier Science in the medium term is to build on its existing initiatives to increase service orientation and complement its role as a provider of key scientific content. A continuing high level of investment will be required in order to support these strategic aims and build the operational infrastructure to develop Elsevier Science's position as a leading scientific publisher.

Professional

Operating profit for the Professional segment increased by 17%, driven by strong performances from the Legal division and LEXIS-NEXIS.

The Reed Elsevier Legal Division had another good year, with operating profit ahead by 20% and strong revenue growth across the business. Results from Butterworths reflected a good performance in the UK in particular as well as a full year contribution from Tolley, which was acquired in August 1996. Editions du Juris-Classeur in France benefited from acquisitions made during the year.

For LEXIS-NEXIS as a whole, operating profit grew by 19% including contributions from Martindale-Hubbell, the 50% partnership interest in Shepard's, acquired in November 1996, and the titles acquired from The Thomson Corporation in the first half. LEXIS-NEXIS online business increased operating profit by 10%, lower than in the previous year because of increasingly competitive conditions in the business information market and new product investments. In the other businesses of LEXIS-NEXIS, comprising principally Martindale-Hubbell and the print and CD-ROM publishing operations of LEXIS Law Publishing, operating profit increased by 24%.

The main businesses of Reed Educational & Professional Publishing in the UK, Heinemann and Ginn, performed well but overall the results were constrained by one-off costs and by weak market conditions in the smaller businesses, particularly in Australia and Heinemann English Language Teaching, which was sold in December 1997. Operating profit declined by 5%. The tuition activities in the Netherlands and Belgium again performed well, with operating profit growing by 45%.

The outlook for the Professional publishing businesses in 1998 is positive. Continuing growth at Reed Elsevier Legal Division is expected in the core UK and European markets and in Australia. Overall, LEXIS-NEXIS is expected to achieve good underlying growth in 1998. Further investments will be made in increasing the functionality of the online databases and desktop interfaces, and to develop more web-based products. In the educational publishing businesses a resumption of good profit growth is expected and in the tuition businesses attention will be focused on consolidating market position and extending the use of electronic media to support training projects.

DIRECTORS' REPORT

Business

Operating profit for the Business segment increased by 7% at constant exchange rates. Good growth at the Exhibitions companies and in the business publishing activities in the UK and Europe was partly offset by the impact of a continuing decline in hard copy revenues in the Travel business. Significantly higher levels of investment at Cahners Business Information in the United States was compensated by the contribution of acquisitions.

Reed Exhibition Companies increased its operating profit by 12%, reflecting continuing success in the US, UK and Japan. While several major non-annual events did not take place in 1997, the effect was mitigated by good growth in annual shows and REC's launch programme. REC also benefited from several acquisitions in the travel and entertainment markets.

At Cahners Business Information, operating profit increased by 14% with a particularly strong performance in the entertainment group and a good contribution from the recently acquired Chilton Business Group. This was partly offset by significantly increased investment in the development of new print and electronic products and some weakness in the food service and processing group and the publishing group. Further investment has also been made in expanding editorial, production and sales infrastructures.

Operating profit at Reed Business Information grew by 17%, as a result of strong advertisement revenues and good performances from all its leading titles. This result was achieved whilst higher levels of investment were made in Reed Business Information's new electronic services, the most important of which were *Air Transport Intelligence* and *Chemical News & Information*.

In Continental Europe, Elsevier Business Information increased operating profit by 43%, reflecting gains in the Netherlands and the contribution from Colofon, acquired in February 1997. Colofon's activities reinforced Elsevier Business Information's position as a leading business and professional publisher in the Netherlands. During the year the former operations of Bonaventura and Misset were also successfully integrated with those of Colofon.

Reed Travel Group reported a 20% decline in operating profit, reflecting a continued decline in its hard copy revenues. The take-up of electronic products continues to be too limited to make up the shortfall. During the year Reed Travel Group announced a recompense plan for advertisers affected by irregularities in circulation claims in certain of its publications. In January 1998 the business was restructured to incorporate its activities within Cahners Business Information and Reed Business Information, which have strong publishing and marketing expertise, established infrastructures and considerable experience in developing both hard copy and electronic products. Utell, the hotel reservation business, merged in December 1997 with Anasazi Inc., a supplier of technology and marketing services to the hospitality industry. The new company, called REZsolutions Inc., is jointly owned by Reed Elsevier and the shareholders of Anasazi Inc.

The Exhibitions business expects to benefit in 1998 from strong growth in its core markets and from several significant non-annual shows. At the business publishing operations in the US, UK and continental Europe, organic growth is expected to be driven by continued high demand for products in traditional formats. Cahners will also realise synergies in its first full year of ownership of Chilton. The Travel businesses are expected to benefit from the restructuring of their operations which will enable new growth opportunities to be pursued. Performance in the near term will, however, be adversely impacted by further declines in hard copy revenues and increased levels of marketing spend.

Consumer

Reed Books reported a slightly improved underlying performance. Book Club Associates, in which Reed Elsevier has a 50% partnership interest, increased its profit contribution significantly. The remaining books businesses are in the course of being sold.

Discontinued operations

IPC Magazines was sold in January 1998 for £860 million. IPC Magazines continued its growth record in 1997, with operating profit increasing by 10%, driven by a combination of strong advertisement revenues and tight control over costs.

Reed Books Adult Trade Division was sold to Random House in March 1997. Tigerprint, a leading supplier of greetings cards and stationery to Marks & Spencer, was sold to its management in August 1997. Both businesses achieved good sales prior to their disposal.

DIRECTORS' REPORT

FINANCIAL REVIEW

Turnover for the year was £3,417 million and operating profit before exceptional items was £878 million. Turnover on continuing operations was £3,062 million. The operating margin of the continuing operations of 26.5% is unchanged from last year.

Profit before tax of £215 million includes exceptional charges amounting to £474 million. The most significant of these are the £480 million provisions in respect of Reed Travel Group, of which £250 million represented a non-cash adjustment to balance sheet carrying values to align them to the future earnings potential of the businesses. The remainder is the cash cost of implementing the recompense programme for advertisers affected by circulation irregularities discovered in the Travel businesses together with related expenses and reorganisation costs.

Other exceptional items, contributing a net £6 million pre tax gain, related to business disposals, acquisition related restructuring costs and the first tranche of expenditure on the large Year 2000 compliance programme.

The effective tax rate before exceptional items of 30.0% (1996 : 29.0%) is below the standard tax rate in the principal operating territories mainly due to tax amortisation on acquired intangible assets.

At 31 December 1997 gross borrowings of £1,297 million (1996 : £1,255 million) were partially offset by cash and short term investments of £455 million (1996 : £467 million). In addition, net borrowings from shareholders and fellow associated undertakings amounted to £1,363 million (1996 : £738 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.

DIRECTORS

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

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 report of the Reed Elsevier plc Remuneration Committee on pages 8 to 14.

BOARD CHANGES

On 16 April 1997 Mr A Schuitemaker retired from the Board and Lord Hamlyn will be retiring from the Board on 29 April 1998. The directors thank them warmly for their considerable contributions since the inception of Reed Elsevier plc. The directors also congratulate Paul Hamlyn on his ennoblement, which was announced in the 1998 New Year's Honours List, in recognition of his many achievements and his substantial contribution to numerous charitable projects. Mr R van der Vijver was appointed to the Board on 16 April 1997 and Mr Laman Trip was appointed to the Board on 15 September 1997. It is with great sadness that the Board records the death of Mr van der Vijver on 3 August 1997.

EMPLOYEE INVOLVEMENT

The company is fully committed to the concept of employee involvement and participation. It strongly encourages each operating company to formulate its own tailor-made approach developed with the co-operation of employees.

Where appropriate, major announcements are communicated to employees through internal briefings. Many operating companies also produce staff magazines or newspapers which include information on performance, product development, marketing plans, organisational changes and other matters of interest to employees. Presentations are made, where appropriate, at local level covering subsidiary company information and performance.

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 1997 and more than 2,100 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.

EMPLOYMENT POLICY

The company is an equal opportunity employer, and recruits and promotes employees on the basis of suitability for the job. Appropriate training and development opportunities are available to all employees.

DIRECTORS' REPORT

UNITED KINGDOM CHARITABLE AND POLITICAL DONATIONS

Donations made during the year for charitable purposes amounted to £47,000 (1996 : £56,000) of which £8,000 (1996: £15,000) 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 has adopted a schedule of matters which are required to be brought to it for decision at its regular meetings. The day to day responsibility for the businesses is delegated by the Board to the Executive Committee. Reed Elsevier plc has an audit committee and a remuneration committee consisting entirely of non-executive directors and the terms of reference of both committees follow those recommended by the Cadbury Code and, in the case of the Remuneration Committee, those recommended by the Greenbury Committee.

An information and reporting system is in place for monitoring the group's businesses, including a comprehensive budgeting system. Actual results are reported regularly to the Board against the approved annual budget and revised forecasts 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 are set out in a group Policies and Procedures Manual, which is issued to all group businesses. The management of each business is required to report annually to the Board and Audit Committee on compliance with these policies and procedures. 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. During 1997, a revised business risk management framework was introduced within the group to enhance this control environment.

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

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

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

On 26 September 1997, the Board of Reed Elsevier plc announced the discovery of irregularities in circulation claims in respect of certain publications of Reed Travel Group covering the period 1991 to 1997.

A wide ranging and comprehensive investigation into the surrounding circumstances has been conducted by the Reed Elsevier plc Audit Committee with assistance from leading independent firms of lawyers, accountants and circulation auditors. This is now complete. The investigation included a review of internal controls and business practices relating to publication circulation activities at other Reed Elsevier plc operating businesses. The Reed Elsevier plc Audit Committee has made recommendations to the Reed Elsevier plc Board, which address the issues raised by the irregularities, both for the Reed Travel Group businesses and, more widely, for the Reed Elsevier plc group. The internal controls and procedures within the Reed Travel Group businesses are being redesigned and strengthened and the recommendations arising from the review implemented. These include the further development of the Reed Elsevier plc group's risk management processes and expansion of internal audit activities.

The directors of Reed Elsevier plc, having reviewed the effectiveness of the systems of internal financial control for which they are responsible, and taking into account the steps referred to above, 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 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 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.

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.

FORWARD-LOOKING STATEMENTS

The Report and Accounts contains forward-looking statements within the meaning of 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 that may cause future outcomes to differ from those foreseen in forward-looking statements include, but are not limited to, general economic conditions and business conditions in Reed Elsevier's markets, customers' acceptance of its products and services and the actions of competitors.

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 re-appointment 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
11 March 1998

Registered Office:
25 Victoria Street
London
SW1H 0EX

REPORT OF THE REED ELSEVIER PLC REMUNERATION COMMITTEE

CONSTITUTION OF THE 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 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 of Elsevier's Executive Board in formulating its recommendations.

The Remuneration Committee comprises all the non-executive directors. They have no day-to-day involvement in running the business.

COMPLIANCE WITH THE BEST PRACTICE PROVISIONS

Reed, a UK company listed on the London Stock Exchange, has complied with Section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange.

In framing its remuneration policy, the Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed 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 make the Reed Elsevier plc group successful;
- (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 stretching performance-related targets – such as profit, cash flow and gains in adjusted earnings per share (EPS) of Reed and Elsevier. Targets are set at the beginning of the year by the Remuneration Committee. The maximum potential bonus for 1997 was 50% of basic salary.
- Share options, where the directors and other senior executives are granted options over shares in either Reed 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 of nil cost options to acquire shares in Reed, 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 that is pensionable is base salary.

Each of the executive directors has a service contract, which is terminable on no more than two years' notice (reduced in some instances from three years without compensation on 1 January 1995). The Committee believes 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 1 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 director's duty of mitigation will apply in relation to any payment of compensation on termination.

REPORT OF THE REED ELSEVIER PLC REMUNERATION COMMITTEE

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 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, Elsevier or Elsevier Reed Finance BV) were as follows:

A) AGGREGATE EMOLUMENTS

£ thousand	31 December 1997	31 December 1996
Salaries and fees	3,482	4,377
Benefits	95	123
Annual performance-related bonuses	—	1,576
Longer term incentives	—	551
Pension contributions	655	916
Pension to former director	211	111
Compensation in respect of former directors	—	1,100
Total	4,443	8,754

As the Remuneration Committee had decided to defer consideration of all aspects of the directors' remuneration pending completion of the proposed merger with Wolters Kluwer, no amounts have been included in respect of 1997 bonuses. Following abandonment of the merger, the Committee has yet to meet to consider the amounts of any bonuses that may be awarded in respect of 1997.

B) INDIVIDUAL EMOLUMENTS OF EXECUTIVE DIRECTORS

	Nationality	Salary	Benefits	Total	£ Equivalent Total	
					1997	1996
Dfl						
H J Bruggink	Dutch	1,460,400	28,000	1,488,400	466,583	748,193
H P Spruijt	Dutch	720,000	18,000	738,000	231,348	342,965
O Laman Trip (from 15.9.97)	Dutch	175,000	8,300	183,300	57,461	—
P C F M Vlek	Dutch	1,365,000	20,000	1,385,000	434,169	621,566
£						
M H Armour (from 1.7.96)	UK	295,000	19,257	314,257	314,257	197,362
G R N Cusworth	UK	216,000	13,562	229,562	229,562	284,337
I A N Irvine (until 30.6.97)	UK	262,500	250	262,750	262,750	752,339
J B Mellon	UK	455,000	15,738	470,738	470,738	566,897
N J Stapleton	UK	526,500	22,857	549,357	549,357	665,659

Taking into account gains of £294,538 on the exercise of share options, J B Mellon was the highest paid director in 1997.

REPORT OF THE REED ELSEVIER PLC REMUNERATION COMMITTEE

C) 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 each of its countries of operation.

The policy for executive directors based in the UK 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 10 years' service with the Reed Elsevier plc group. For directors employed 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 M H Armour, commenced service prior to the introduction of the cap and so will receive all of their pension benefits from the REPS. M H 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 31.12.1997	Transfer value increase	Contributions paid by directors during the period	Transfer value increase after deduction of directors' contributions	£ Equivalent
<i>Dfl</i>							
H J Bruggink	Dutch	59,213	566,864	514,000	58,000	456,000	142,947
H P Spruijt	Dutch	39,723	252,109	345,000	28,000	317,000	99,373
O Laman Trip	Dutch	4,518	4,518	55,000	5,485	49,515	15,522
P C F M Vlek	Dutch	53,458	653,862	445,000	48,000	397,000	124,451
<i>£</i>							
M H Armour	UK	12,703	28,657	128,919	3,342	125,577	125,577
G R N Cusworth	UK	15,528	139,606	155,967	8,511	147,456	147,456
J B Mellon	UK	44,526	279,672	516,997	18,071	498,926	498,926
N J Stapleton	UK	40,972	197,315	460,092	20,931	439,161	439,161

D) INDIVIDUAL EMOLUMENTS OF NON-EXECUTIVE DIRECTORS

£		1997	1996
R J Nelissen	Dutch	50,000	50,000
A Schuitemaker (to 16.4.97)	Dutch	16,666	50,000
R van de Vijver (to 3.8.97)	Dutch	50,000	-
P J Vinken	Dutch	141,347	80,000
L van Vollenhoven	Dutch	52,500	52,500
R S Bodman (from 8.5.96)	USA	92,592	64,935
A A Greener	UK	24,000	24,000
Lord Hamlyn	UK	25,000	25,000
Sir Christopher Lewinton	UK	80,000	80,000
D G C Webster	UK	29,000	29,000

REPORT OF THE REED ELSEVIER PLC REMUNERATION COMMITTEE

SHARE OPTIONS

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

Options over shares in Reed were granted under the Reed 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 3 and 10 years from the date of grant.

Grants have also been made 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 that grant options over Reed shares have been approved by the shareholders of Reed.

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 market price at the time of the grant and are exercisable for a period up to five years from the date of grant.

From 1996 onwards, options over Reed and Elsevier shares have been subject to EPS performance criteria. UK practice usually requires the exercise of options to be subject to performance criteria, but Dutch practice precludes such conditions being attached to the exercise of options. The Remuneration Committee decided, in view of the wish to operate a common policy throughout the Reed Elsevier group in relation to share-based incentives, that in order for option grants to be made, the compound growth in the average of the Reed and Elsevier adjusted EPS (before exceptional items and UK tax credit equalisation) in the three years prior to the year in which the grant is 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 Remuneration Committee believes 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 remuneration practice in the Netherlands. Share options focus the efforts of key senior management on sustaining high level performance over the medium to long term and provide the opportunity to link reward to the future performance of the Reed Elsevier plc group as a whole.

Details of options held by directors in the ordinary shares of Reed (adjusted for the sub-division in May 1997) and Elsevier as at 31 December 1997, and movements during the period are shown below:

REPORT OF THE REED ELSEVIER PLC REMUNERATION COMMITTEE

OVER SHARES IN REED INTERNATIONAL P.L.C.

		1 January 1997	Granted during the year	Option price (p)	Exercised during the year	Market price (p) at exercise date	31 December 1997	Exercisable between
M H Armour – Executive Scheme		189,600		400.75			189,600	1998-2005
		30,000		585.25			30,000	1999-2006
			52,000	565.75			52,000	2000-2007
	Total	219,600	52,000				271,600	
G R N Cusworth – Executive Scheme		49,200		410.25	49,200(1)	620.00	–	–
		34,000		585.25			34,000	1999-2006
	– SAYE Scheme	3,752		199.80	3,752(2)	539.75	–	–
		1,076		320.60			1,076	2000
	Total	88,028			52,952		35,076	
J B Mellon – Executive Scheme		188,800		410.25	188,800	559.50	–	–
		106,800		400.75			106,800	1998-2005
		67,400		585.25			67,400	1999-2006
			80,400	565.75			80,400	2000-2007
	– SAYE Scheme	3,752		199.80	3,752(2)	539.75	–	–
		2,102		328.20			2,102	1999
	Total	368,854	80,400		192,552		256,702	
N J Stapleton – Executive Scheme		31,000		237.25			31,000	1998-2001
		242,600		410.25			242,600	1998-2004
		101,600		400.75			101,600	1998-2005
		74,200		585.25			74,200	1999-2006
			88,800	565.75			88,800	2000-2007
	– SAYE Scheme	3,752		199.80	3,752(2)	546.25	–	–
		2,102		328.20			2,102	1999
		1,076		320.60			1,076	2000
			1,534	449.80			1,534	2002
	Total	456,330	90,334		3,752		542,912	

Notes:

1. Retained an interest in 16,805 shares
2. Retained an interest in all of the shares

The middle market price of a Reed ordinary share during the year was in the range 507.0p to 647.5p, and at 31 December 1997 was 610.0p.

REPORT OF THE REED ELSEVIER PLC REMUNERATION COMMITTEE

OVER SHARES IN ELSEVIER NV

	1 January 1997	Granted during the year	Exercised during the year	31 December 1997
H J Bruggink	233,290	103,309	—	336,599
H P Spruijt	132,000	50,933	30,000	152,933
P J Vinken	50,000	—	50,000	—
P C F M Vlek	111,076	85,836	—	196,912

The middle market price of an Elsevier ordinary share during the year was in the range Dfl 26.5 to Dfl 39.4, and at 31 December 1997 was Dfl 32.8.

At 31 December 1997, the total number of outstanding options held by directors was 686,444 with an average option price of Dfl 26.08 (compared with 588,366 options at an average option price of Dfl 22.80 on 1 January 1997).

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.

The aggregate notional gross pre-tax gains made by directors on the exercise of Reed and Elsevier share options was £774,900.

LONGER TERM INCENTIVES

Executive directors of Reed Elsevier plc who are executive directors of Reed have been granted nil cost options over ordinary shares of Reed 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 ordinary shares, which are exercisable only if Reed achieves significant growth in its adjusted earnings per share (EPS) before exceptional items 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. In recognition of exceptional performance, the rate of increase in ordinary share entitlements rises more steeply once the mid-point compound annual growth rate (CAGR) target is achieved.

For the 1995-97 Plan, options were granted over 167,350 Reed ordinary shares. The terms of these options provided that no options would be exercisable unless CAGR over the base EPS of 21.3p (restated for the sub-division of Reed ordinary shares in May 1997) exceeded 7% p.a. The maximum number of options become exercisable if CAGR of 20% p.a. is achieved.

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

Options have also been granted in respect of the three year performance periods 1996-98 and 1997-99. The performance targets set by the Remuneration Committee for these two performance periods are based on a base EPS of 25.85p and 28.1p, respectively. No options are exercisable unless CAGR exceeds the base EPS by 7% p.a., and the maximum number of options become exercisable if CAGR of 20% p.a. is achieved.

Entitlements if specific adjusted EPS CAGR targets are achieved are:

	1996-98 Plan		1997-99 Plan	
	Ordinary shares if 13 1/2% CAGR achieved	Ordinary shares if 20% CAGR achieved	Ordinary shares if 13 1/2% CAGR achieved	Ordinary shares if 20% CAGR achieved
M H Armour	—	—	8,528	21,320
J B Mellon	12,152	30,380	13,152	32,880
N J Stapleton	13,384	33,460	14,540	36,350

It is not yet possible to say whether for the 1996-98 or 1997-99 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 1997.

Any ordinary shares required to fulfil entitlements under the Plan are provided by the Reed 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. At 31 December 1997 their deemed interest amounted to 179,460 Reed ordinary shares, although they have no beneficial interest in 127,276 of those shares as they were purchased for the Overseas SAYE Share Option Plan in which the directors do not participate.

REPORT OF THE REED ELSEVIER PLC REMUNERATION COMMITTEE

INTERESTS IN SHARES

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

	Reed International P.L.C. ordinary shares		Elsevier NV ordinary shares	
	1 January 1997*	31 December 1997	1 January 1997*	31 December 1997
M H Armour	—	—	—	—
R S Bodman	—	1,400	—	900
H J Bruggink	400	400	29,240	39,240
G R N Cusworth	46,746	67,303	—	—
A A Greener	25,074	25,214	—	—
Lord Hamlyn	44,152,816	44,152,816	—	—
	6,150,000**	6,150,000**	—	—
O Laman Trip	—	—	—	—
Sir Christopher Lewinton	2,600	4,300	1,700	1,700
J B Mellon	44,496	63,872	—	—
R J Nelissen	—	—	—	—
H P Spruijt	—	—	300	300
N J Stapleton	115,666	174,599	200	200
P J Vinken	22,442	22,442	59,100	59,100
P C F M Vlek	—	—	60,000	60,000
L van Vollenhoven	—	—	17,500	17,500
D G C Webster	5,000	5,000	—	—

* On date of appointment if after 1 January 1997

** Indicates other than beneficial interest

On behalf of the Board of Reed Elsevier plc
Sir Christopher Lewinton
Chairman of the Remuneration Committee

ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are presented under the historical cost convention as modified by the revaluation of land and buildings. They include the financial statements of the parent company and of all its subsidiary undertakings.

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

Associated undertakings, where the group holds a long term equity interest and where there is significant influence, are accounted for on an equity basis. 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

Profit and loss account items are translated at average rates. Balance sheet items are translated at rates ruling at the balance sheet date or contracted rates as applicable. 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.

ACQUISITIONS

On the acquisition of a subsidiary, associate or business, 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.

INTANGIBLE FIXED ASSETS

Publishing rights and titles, databases, exhibition rights and other intangible assets 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. Intangible assets are only recognised on more significant acquisitions.

NEW REPORTING STANDARD FRS10

In December 1997, the UK Accounting Standards Board issued Financial Reporting Standard 10 ("FRS10"), "Goodwill and Intangible Assets", which will be applicable for the 1998 financial year. FRS10 requires both goodwill and intangible assets to be capitalised on acquisition, and amortised over their estimated useful lives, which are presumed to be no more than 20 years.

It is intended, on adoption of FRS10 in 1998, to capitalise all acquired goodwill and intangible assets and to amortise them over a maximum period of 20 years, with retrospective application.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated in the balance sheet at cost/valuation 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%-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 inter group sales.

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 or associates or on the sale of intangible assets at stated amounts as there is no present intention to distribute such retained earnings or to sell intangible assets 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 15 to 41 which have been prepared under the accounting policies set out on pages 15 and 16.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 7, the company's directors are responsible for the preparation of the 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.

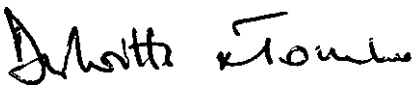
BASIS OF OPINION

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 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 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 affairs of the company and the group as at 31 December 1997 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and
Registered Auditors
London

11 March 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 1997

		1997			
£ million		Before exceptional items	Exceptional items	Total	1996
Turnover	note 1				
Continuing operations before acquisitions		2,918	-	2,918	2,975
Acquisitions		144	-	144	-
Continuing operations		3,062	-	3,062	2,975
Discontinued operations		355	-	355	406
		3,417	-	3,417	3,381
Cost of sales	note 2	(1,290)	-	(1,290)	(1,309)
Gross profit		2,127	-	2,127	2,072
Net operating expenses	note 2,7	(1,276)	(502)	(1,778)	(1,243)
Income from interests in associated undertakings		27	-	27	22
Operating profit	notes 1,5				
Continuing operations before acquisitions		783	(491)	292	787
Acquisitions		29	(11)	18	-
Continuing operations		812	(502)	310	787
Discontinued operations		66	-	66	64
		878	(502)	376	851
Non operating items	note 7				
Continuing - net profit on sale of businesses		-	28	28	-
- net profit on disposal of fixed assets		-	-	-	1
Discontinued - net loss on sale of businesses		-	(20)	(20)	(10)
- utilisation of prior year provision		-	20	20	10
Profit on ordinary activities before interest		878	(474)	404	852
Net interest expense	note 8	(189)	-	(189)	(166)
Profit on ordinary activities before taxation		689	(474)	215	686
Tax on profit on ordinary activities	note 9	(207)	76	(131)	(199)
Profit on ordinary activities after taxation		482	(398)	84	487
Minority interests and preference dividends		(26)	-	(26)	(22)
Profit attributable to the shareholders		456	(398)	58	465
Ordinary dividends paid and proposed	note 10			(371)	(179)
Retained (loss)/profit taken to reserves	note 27			(313)	286

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

£ million	1997	1996
Profit for the financial year	58	465
Exchange translation differences	(60)	(65)
Total recognised gains and losses for the financial year	(2)	400

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 27.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 1997

£ million		1997	1996
Net cash inflow from operating activities	note 11	942	937
Interest received		10	14
Interest paid		(96)	(106)
Interest received from Elsevier NV		2	-
Net interest paid to Reed International P.L.C.		(2)	(4)
Net interest paid to Elsevier Reed Finance BV group		(104)	(73)
Dividends paid to fellow associated undertakings		(17)	(12)
Dividends paid to minority interests		-	(1)
Returns on investments and servicing of finance		(207)	(182)
UK corporation tax paid including ACT		(70)	(68)
Overseas tax paid		(109)	(93)
Taxation		(179)	(161)
Purchase of tangible fixed assets		(121)	(115)
Proceeds from sale of fixed assets		10	17
Exceptional net (payments)/proceeds on disposals of fixed assets	note 7	(21)	62
Capital expenditure		(132)	(36)
Acquisitions	note 12	(726)	(316)
Payments against acquisition provisions		(5)	(24)
Exceptional net proceeds from sales/closure of businesses	note 11	104	379
Other items		1	-
Acquisitions and disposals		(626)	39
Equity dividends paid		(371)	(179)
Cash (outflow)/inflow before changes in short term investments and financing		(573)	418
Redemption of minority interest preference shares		(3)	-
Changes in short term investments	note 11	22	13
Financing	note 11	579	(431)
Increase in cash	note 11	25	-

Short term investments include deposits of under 1 year if the maturity or notice period exceeds 24 hours, commercial paper investments and interest bearing securities that can be realised without significant loss at short notice.

CONSOLIDATED BALANCE SHEET
As at 31 December 1997

£ million		1997	1996
Fixed assets			
Intangible assets	note 13	2,391	2,443
Tangible assets	note 13	348	323
Investments	note 14	227	180
		2,966	2,946
Current assets			
Stocks	note 15	121	139
Debtors : amounts falling due within 1 year	note 16	1,098	1,397
Debtors : amounts falling due after more than 1 year	note 17	209	183
Short term investments		349	383
Cash at bank and in hand		106	84
		1,883	2,186
Creditors : amounts falling due within 1 year	note 19	(2,671)	(2,706)
Net current liabilities		(788)	(520)
Total assets less current liabilities		2,178	2,426
Creditors : amounts falling due after more than 1 year	note 20	(1,804)	(1,453)
Provisions for liabilities and charges	note 23	(267)	(72)
Minority interests		(29)	(21)
Net assets		78	880
Capital and reserves			
Called up share capital	note 25	-	-
Share premium account	note 26	324	324
Revenue reserves	note 27	(246)	556
Shareholders' funds	note 27	78	880

Approved by the Board of Reed Elsevier plc, 11 March 1998

Director

Stephen

Director

MAHman

The balance sheet of Reed Elsevier plc is shown on page 41.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

1. SEGMENT ANALYSIS

£ million	Turnover		Operating profit before exceptional items		Capital employed	
	1997	1996	1997	1996	1997	1996
Business segment						
Scientific	571	553	227	227	309	299
Professional	1,076	1,037	297	267	1,240	1,146
Business	1,340	1,307	281	288	652	918
Consumer	75	78	7	5	113	118
Continuing operations	3,062	2,975	812	787	2,314	2,481
Discontinued operations	355	406	66	64	145	157
Total	3,417	3,381	878	851	2,459	2,638
Geographical origin						
North America	1,512	1,438	384	349	1,411	1,545
UK	763	732	213	203	771	905
The Netherlands	369	369	126	131	(62)	(130)
Rest of Europe	263	279	70	75	141	103
Asia/Pacific	155	157	19	29	53	58
Continuing operations	3,062	2,975	812	787	2,314	2,481
Discontinued operations	355	406	66	64	145	157
Total	3,417	3,381	878	851	2,459	2,638
Geographical market						
North America	1,594	1,535				
UK	468	459				
The Netherlands	210	193				
Rest of Europe	414	430				
Asia/Pacific	376	358				
Continuing operations	3,062	2,975				
Discontinued operations	355	406				
Total	3,417	3,381				

During 1997, Reed Elsevier's business publishing activities were reorganised into three geographically focused business groups, Cahners Business Information, Reed Business Information and Elsevier Business Information, serving North America, the United Kingdom and Continental Europe respectively. As a result certain operations have been transferred between the reporting segments. On the sale of IPC Magazines in January 1998, the *New Scientist* title was retained and has been recategorised above in the Business segment. Comparative figures have been restated accordingly. Discontinued operations relate wholly to the Consumer segment and comprise IPC Magazines, excluding *New Scientist*, and certain operations of Reed Books which have been divested by the date of approval of these financial statements.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

1. SEGMENT ANALYSIS (continued)

£ million	1997	1996
Reconciliation of capital employed to net assets		
Capital employed	2,459	2,638
Taxation	(137)	(201)
Net interest payable	(10)	(10)
Net borrowings (including amounts owed to shareholders and fellow associated undertakings of £1,363m (1996: £738m))	(2,205)	(1,526)
Minority interests	(29)	(21)
Net assets	78	880

2. COST OF SALES AND NET OPERATING EXPENSES

£ million	Continuing operations				1997	Continuing		1996
	Before acquisitions	Acquisitions	Exceptional items	Discontinued operations		operations	Discontinued operations	
Cost of sales	1,046	49	-	195	1,290	1,075	234	1,309
Distribution and selling costs	622	51	-	62	735	651	71	722
Administrative expenses	492	15	502	39	1,048	489	42	531
Other operating income	(5)	-	-	-	(5)	(10)	-	(10)
Net operating expenses	1,109	66	502	101	1,778	1,130	113	1,243

Discontinued operations contributed £66m (1996 : £64m) to operating profit of which £7m (1996 : £5m) related to associated undertakings.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

3. PERSONNEL

<i>Average number of people employed during the year</i>	1997	1996
Business segment		
Scientific	3,200	2,900
Professional	10,100	9,400
Business	11,600	10,400
Consumer	600	700
Continuing operations	25,500	23,400
Discontinued operations	2,100	2,400
Total	27,600	25,800
Geographical location		
North America	12,200	11,400
UK	5,800	5,600
The Netherlands	2,900	2,500
Rest of Europe	2,200	2,000
Asia/Pacific	2,400	1,900
Continuing operations	25,500	23,400
Discontinued operations	2,100	2,400
Total	27,600	25,800

During 1997 Reed Elsevier's business publishing activities were reorganised into three geographically focused business groups, Cahners Business Information, Reed Business Information and Elsevier Business Information, serving North America, the United Kingdom and Continental Europe respectively. As a result certain operations have been transferred between the reporting segments. On the sale of IPC Magazines in January 1998 the *New Scientist* title was retained and has been recategorised above in the Business segment. Comparative figures have been restated accordingly.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

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

The net pension charge was £25m (1996 : £17m), including a net £1m (1996 : £7m) SSAP 24 credit related to the main UK scheme. The net SSAP 24 credit on the main scheme comprises a regular cost of £19m (1996 : £17m), offset by amortisation of the net actuarial surplus of £20m (1996 : £24m). Pension contributions made in the year amounted to £26m (1996 : £24m). A prepayment of £133m (1996 : £132m) 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 1997

5. OPERATING PROFIT IS STATED AFTER THE FOLLOWING:

£ million	1997	1996
Hire of plant and machinery	17	18
Other operating lease rentals	44	51
Depreciation (including £5m (1996 : £6m) in respect of assets held under finance leases)	96	89
Royalties payable to Elsevier Reed Finance BV group	9	10
Royalties payable to associated undertakings	4	-
Auditors' remuneration		
for audit services	1.5	1.4
for non audit services	0.8	0.6

£ million	1997	1996
Staff costs		
Wages and salaries	754	714
Social security costs	75	70
Pensions	note 4	25
Total	854	801

6. 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 8 to 14 and form part of these audited financial statements.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

7. EXCEPTIONAL ITEMS

Exceptional items in 1997 comprise the following:

- (i) a provision of £230m, less tax relief of approximately £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. Taking into account the prospective trading performance of the Reed Travel Group businesses, a non cash write down of £250m has also been made in intangible asset values;
- (ii) costs of £11m relating to the integration of 1997 acquisitions, principally the Chilton Business Group and the titles acquired from The Thomson Corporation;
- (iii) expenditure in 1997 in connection with the group's Year 2000 compliance programme; and
- (iv) 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 Reed 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. Exceptional cash proceeds, after expenses, of £102m were generated from these disposals.

The net cash inflow in respect of the above 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 and £2m was received in respect of prior year business disposals.

£ million	1997	1996
Reed Travel Group		
- provision for customer compensation and related expenses and reorganisation costs	(230)	-
- non cash write down of intangible assets	(250)	-
Acquisition related integration costs	(11)	-
Year 2000 compliance costs	(11)	-
Charged to operating profit	(502)	-
Continuing		
- net profit on sale of businesses	28	-
- net profit on disposal of fixed assets	-	1
Discontinued		
- net loss on sale of businesses	(20)	(10)
- utilisation of prior year provisions	20	10
	(474)	1
Tax credit (net)	76	-

The exceptional item in 1996 comprised net profit, on which no tax was payable, arising from the divestments of surplus property interests and the utilisation of provisions for the sales or closure of Reed Books businesses. These transactions generated exceptional cash proceeds, after expenses, of £62m. In addition, net exceptional proceeds of £325m were received in 1996 in respect of the sales in 1995 of consumer businesses, and a further £54m on the sale of other non-core businesses.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

8. NET INTEREST EXPENSE

£ million	1997	1996
Interest payable and similar charges		
On loan capital, promissory notes and bank borrowings:		
repayable within 5 years, other than by instalments	(64)	(75)
On finance leases	(1)	(1)
On all other loans	(27)	(29)
On amounts owed to Reed International P.L.C.	(7)	(4)
On amounts owed to Elsevier Reed Finance BV group	(122)	(90)
	(221)	(199)
Interest receivable and similar income		
On cash deposits and current asset investments	10	14
On amounts owed by Elsevier NV	2	-
On amounts owed by Reed International P.L.C.	4	-
On amounts owed by Elsevier Reed Finance BV group	16	19
	32	33
Total net interest expense	(189)	(166)

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

£ million	1997	1996
Tax on profit on ordinary activities		
UK	72	74
The Netherlands	50	54
Rest of World	76	65
Sub-total (including deferred taxation charge of £9m (1996 : £3m))	198	193
Share of tax attributable to associated undertakings	9	6
Tax on ordinary activities before exceptional items	207	199
Net tax relief on exceptional items (including deferred taxation credit of £80m (1996 : nil))	(76)	-
Total	131	199

UK corporation tax has been provided at 31.5% (1996 : 33%).

The total tax charge for the year has been reduced by £42m (1996 : £40m) in respect of allowances on publishing intangibles.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

10. ORDINARY DIVIDENDS PAID AND PROPOSED

	£ per share		£ million	
	1997	1996	1997	1996
Subsidiary undertakings			188	-
Parent				
Ordinary				
Interim to "E" ordinary shareholders	2,500	4,400	25	44
Interim to "R" ordinary shareholders	15,840	13,540	158	135
			183	179
Total			371	179

The dividends paid by subsidiary undertakings relate to Elsevier NV's holding of special dividend shares in Reed Elsevier Nederland 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.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

11. CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

£ million	1997	1996
Operating profit	376	851
Exceptional charges to operating profit	502	-
Operating profit before exceptional items	878	851
Net SSAP 24 pension credit	note 4 (1)	(7)
Net profit on sale of fixed assets	-	(2)
Depreciation charges	96	89
Total non cash items	95	80
Income from interests in associated undertakings	(27)	(22)
Dividends received from associated undertakings	17	11
	(10)	(11)
Decrease in stocks	5	8
(Increase)/decrease in debtors	(20)	20
Increase/(decrease) in creditors	20	(11)
Movement in working capital	5	17
Net cash inflow from operating activities before exceptional items	968	937
Payments relating to exceptional items charged to operating profit	(26)	-
Net cash inflow from operating activities	942	937
Continuing operations	865	850
Discontinued operations	77	87
Net cash inflow from operating activities	942	937

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

11. CASH FLOW STATEMENT (continued)

Exceptional sales/closure of businesses

£ million	1997	1996
Net assets divested	73	43
Goodwill reinstated on sale of businesses	15	25
Provision made in prior years for losses on sale of businesses	(20)	(10)
Net profit	28	-
Consideration in respect of sale of businesses, net of expenses	96	58
Consideration received in respect of sale of businesses in prior years, net of expenses	2	329
Net consideration from sales of businesses	98	387
Net proceeds from closure of business	8	-
Total	106	387
Satisfied by:		
Cash	104	379
Investments	-	6
Amount receivable	2	2
Total	106	387

Reconciliation of net borrowings

£ million	Short term			Total
	Cash	investments	Financing	
At 31 December 1996	84	383	(1,993)	(1,526)
Cash flow	25	(22)	(579)	(576)
Inception of finance leases	-	-	(2)	(2)
Loans in acquired businesses	-	-	(10)	(10)
Exchange differences	(3)	(12)	(76)	(91)
At 31 December 1997	106	349	(2,660)	(2,205)

Reconciliation of financing

£ million	Net borrowings			Total
	from shareholders		Bank loans	
	and fellow		and	
	Long term	associated	promissory	
	borrowings	undertakings	notes	Financing
At 31 December 1996	(852)	(738)	(403)	(1,993)
Cash flow	197	(562)	(214)	(579)
Inception of finance leases	(2)	-	-	(2)
Loans in acquired businesses	(10)	-	-	(10)
Exchange differences	(21)	(63)	8	(76)
At 31 December 1997	(688)	(1,363)	(609)	(2,660)

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

11. CASH FLOW STATEMENT (continued)

Repayment of long term borrowings

£ million

£6m 9% Sterling Loan Stock, 1999/2004	6
\$150m 9.625% Eurodollar Bonds 1997	91
\$80m 7.11%-7.31% US Dollar Medium Term Notes 1997	49
Australian Dollar bank loans	45
Redemption of finance leases	6
Total	197

During the year finance lease arrangements were entered into in respect of assets with a total capital value at inception of the leases of £2m (1996 : £5m).

Long term borrowings comprise loan capital, finance leases, promissory notes and bank loans with an original maturity of over 1 year which are further analysed in notes 19, 20 and 21.

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

12. ACQUISITIONS

During the year acquisitions were made for a total consideration amounting to £725m, after taking account of £8m of net cash acquired and £3m transferred from associates. £16m of the consideration has been deferred to future years.

In total, £726m was paid during the year for acquisitions, including £7m paid in respect of acquisitions made in previous years, £12m for associated undertakings (of which £10m represents a cash contribution to the joint venture, REZsolutions Inc., on its formation) and £1m for fixed asset investments (note 14).

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

£ million	Book value on acquisition	Fair value adjustments	Fair value
Intangible fixed assets	-	254	254
Tangible fixed assets	28	-	28
Current assets	75	(5)	70
Current liabilities	(72)	(4)	(76)
Loans	(10)	-	(10)
Deferred tax	2	6	8
Net assets acquired	23	251	274
Goodwill arising	note 27		451
Consideration (after taking account of £8m net cash acquired)			725

The two largest acquisitions were, in April 1997, of MDL Information Systems Inc., a provider of scientific information management systems, and, in September 1997, Chilton Business Group, a business information publisher, for \$320m (£195m) and \$447m (£273m) respectively. The fair value of the net assets acquired in respect of these businesses was £16m and £151m and the goodwill written off directly to reserves was £179m and £125m respectively. Other acquisitions included Colofon, a Dutch business and professional publisher and over 50 US legal titles from The Thomson Corporation.

Before taking account of exceptional acquisition related integration costs, the businesses acquired in 1997 contributed £29m to operating profit before exceptional items, and £14m to net cash flow from operating activities for the period under Reed Elsevier plc ownership.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

13. FIXED ASSETS - INTANGIBLE ASSETS AND TANGIBLE ASSETS

CONSOLIDATED		INTANGIBLE ASSETS	TANGIBLE ASSETS		
			Land and buildings	Plant, equipment and computer systems	Total
£ million					
Cost or valuation					
At 31 December 1996		2,443	135	614	749
Acquisitions	note 12	254	17	11	28
Capital expenditure		-	5	118	123
Sale of businesses		(48)	(9)	(8)	(17)
Other disposals		-	-	(83)	(83)
Transfer to associated undertakings	note 14	(32)	-	(23)	(23)
Exceptional write down of					
Reed Travel Group intangible assets	note 7	(250)	-	-	-
Exchange differences		24	-	(6)	(6)
At 31 December 1997		2,391	148	623	771
Accumulated depreciation					
At 31 December 1996		-	40	386	426
Sale of businesses		-	(4)	(5)	(9)
Other disposals		-	-	(73)	(73)
Transfer to associated undertakings		-	-	(13)	(13)
Charge to profit and loss account		-	4	92	96
Exchange differences		-	-	(4)	(4)
At 31 December 1997		-	40	383	423
Net book amount					
At 31 December 1997		2,391	108	240	348
At 31 December 1996		2,443	95	228	323
Land and buildings at cost or valuation				1997	1996
Freehold property				127	114
Leasehold property, 50 years or more unexpired				18	18
Leasehold property, less than 50 years unexpired				3	3
Total				148	135

At both 31 December 1997 and 31 December 1996, all assets were included at cost.

No depreciation has been provided on land of £10m (1996 : £5m). The net book amount includes £9m (1996 : £11m) in respect of assets held under finance leases.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

14. **FIXED ASSETS - INVESTMENTS**

£ million	ASSOCIATED UNDERTAKINGS		OTHER INVESTMENTS		TOTAL
	Share of				
	net assets	Loans	Unlisted	Listed	
CONSOLIDATED					
At 31 December 1996	164	2	11	3	180
Share of attributable profit	18	-	-	-	18
Dividends received from associates	(17)	-	-	-	(17)
Additions	12	-	1	5	18
Disposals	-	-	(1)	-	(1)
Transfer to subsidiary undertakings note 12	(3)	-	-	-	(3)
Transfer from subsidiary undertakings	31	-	-	-	31
Exchange differences and other movements	1	-	-	-	1
At 31 December 1997	206	2	11	8	227

The directors' valuation of other investments (unlisted) at 31 December 1997 is £11m (1996 : £11m). The market value of listed investments at 31 December 1997 is £13m (1996 : £3m).

The principal associated undertakings are Shepard's (a 50% partnership interest in a US legal publisher), Giuffrè (a 40% shareholding in an Italian legal publisher), REZsolutions Inc. (a 67% shareholding in a hotel reservations business and marketing business), and Book Club Associates (a 50% investment in a UK partnership) which is intended to be sold in due course.

REZsolutions Inc. is a joint venture company that was formed in late 1997, and to which Reed Elsevier contributed the Utell hotel reservation business in return for its 67% non controlling interest. No gain or loss has been recognised in this transaction.

Of the £12m additions to associated undertakings, £10m represents a cash contribution to the joint venture REZsolutions Inc., on its formation. Additions to investments includes £5m as part consideration received in relation to minor business disposals in 1997.

£ million	SUBSIDIARY UNDERTAKINGS	ASSOCIATED UNDERTAKINGS	TOTAL
	Shares	Shares	
	at cost	at cost	
PARENT			
At 31 December 1996	837	29	866
Transferred to subsidiary undertakings	1	(1)	-
Additions	2	1	3
At 31 December 1997	840	29	869

The principal subsidiary and associated undertakings are shown on page 42.

15. **STOCKS**

	CONSOLIDATED	
£ million	1997	1996
Raw materials and consumables	22	26
Work in progress	27	31
Finished goods	72	82
Total	121	139

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

16. DEBTORS: AMOUNTS FALLING DUE WITHIN 1 YEAR

£ million	CONSOLIDATED		PARENT	
	1997	1996	1997	1996
Trade debtors	520	466	-	-
Amounts owed by Elsevier NV	14	73	-	-
Amounts owed by Elsevier Reed Finance BV group	326	697	-	-
Amounts due from sale of businesses	2	2	-	-
Amounts owed by associated undertakings	2	2	-	-
Deferred taxation note 18	57	-	-	-
Advance corporation tax	12	17	33	38
Other debtors	50	46	-	-
Prepayments and accrued income	115	94	1	2
Total	1,098	1,397	34	40

Included in prepayments and accrued income falling due within 1 year is an amount of £1m (1996 : £2m) due from the Employee Share Ownership Plan.

17. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN 1 YEAR

£ million	CONSOLIDATED		PARENT	
	1997	1996	1997	1996
Trade debtors	7	5	-	-
Amounts owed by Reed International P.L.C.	36	36	-	-
Deferred taxation note 18	28	4	1	1
Pension prepayment note 4	133	132	-	-
Prepayments and accrued income	5	6	-	1
Total	209	183	1	2

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

18. DEFERRED TAXATION

CONSOLIDATED

£ million		4
At 31 December 1996	note 9	71
Provided		10
Transferred from current tax		85
At 31 December 1997		

CONSOLIDATED

		1997	1996
£ million			
Included in debtors falling due within 1 year	note 16	57	-
Included in debtors falling due after more than 1 year	note 17	28	4
Total		85	4

CONSOLIDATED

		1997	1996
£ million			
Deferred taxation provided		1	-
Excess of tax allowances over depreciation		(39)	(42)
Pension prepayment		79	-
Timing differences	- Reed Travel Group recompense plan	44	46
	- Other	85	4
Total			
Deferred taxation not provided		5	7
Losses carried forward		5	7
Total			

19. CREDITORS: AMOUNTS FALLING DUE WITHIN 1 YEAR

		CONSOLIDATED		PARENT	
		1997	1996	1997	1996
£ million					
Loan capital	note 21	2	135	-	-
Promissory notes and bank loans		609	403	-	-
Obligations under finance leases	note 22	4	6	-	-
Sub total : Borrowings		615	544	-	-
Trade creditors		187	198	-	-
Amounts owed to Reed International P.L.C.		171	158	-	-
Amounts owed to Elsevier Reed Finance BV group		571	749	-	-
Amounts owed to subsidiary undertakings		-	-	206	214
Other creditors		112	102	-	-
Taxation		180	197	-	11
Accruals and deferred income		835	758	1	1
Total		2,671	2,706	207	226

Borrowings less than 1 year include short term US commercial paper and other short term borrowings which are supported by available committed facilities. At 31 December 1997 a total of £602m (1996 : £334m) of committed facilities was available, all of which matures in over 1 year (1996 : £276m).

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

20. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN 1 YEAR

		CONSOLIDATED	
£ million		1997	1996
Loan capital	note 21		
- within 1 to 2 years		175	-
- within 2 to 5 years		155	317
- after 5 years		348	343
Promissory notes and bank loans			
- within 2 to 5 years		-	19
- after 5 years		-	27
Obligations under finance leases	note 22	4	5
Sub total : Borrowings		682	711
Amounts owed to Reed International P.L.C.		40	40
Amounts owed to Elsevier Reed Finance BV group		957	597
Other creditors		24	26
Taxation		54	25
Accruals and deferred income		47	54
Total		1,804	1,453

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

21. LOAN CAPITAL

£ million	CONSOLIDATED	
	1997	1996
Subsidiary undertakings - unsecured		
£6m 9% Sterling Loan Stock 1999/2004	-	6
\$150m 9.625% Eurodollar Bonds 1997	-	88
\$200m 7.5% Eurodollar Bonds 1999	121	117
\$100m 9.71% US Dollar Privately Placed Notes 2000	60	58
Dfl 125m 9.7% Dutch Florin Privately Placed Bonds 1999	41	42
\$125m 8.5% US Dollar Privately Placed Notes 2003	76	72
\$80m 7.11%-7.31% US Dollar Medium Term Notes 1997	-	47
\$20m 7.66%-7.76% US Dollar Medium Term Notes 1999	12	12
\$150m 6.625% US Dollar Privately Placed Notes 2023	90	88
\$150m 6.625% US Dollar Public Notes 2000	90	88
\$150m 7% US Dollar Public Notes 2005	90	88
\$150m 7.5% US Dollar Public Debentures 2025	90	88
Miscellaneous Sterling	-	1
Miscellaneous Dutch Florin	10	-
Total	680	795

£8m of all borrowings are secured under finance leases (1996 : £11m).

Reed Elsevier plc seeks to limit interest rate risk primarily through the use of interest rate swaps. 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 1997 to fix the interest cost of borrowing and to fix the interest returns on short term investments, were 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								
1997	241	33	23	297	6.7%	9.9%	2.4	1.1
1998	151	33	23	207	6.3%	9.9%	2.6	0.1
1999	120	-	14	134	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 1997 there were no outstanding caps, floors, collars or similar instruments.

The weighted average interest rate for US dollar borrowings as at 31 December 1997, taking into account the interest hedges, was 7.2 %.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

22. OBLIGATIONS UNDER LEASES

		CONSOLIDATED	
The future finance lease payments are :			
£ million		1997	1996
Repayable :			
Within 1 year		4	6
Between 1 and 2 years		3	3
Between 2 and 5 years		2	2
Over 5 years		-	1
		9	12
Less : interest charges allocated to future periods		(1)	(1)
Total		8	11
Obligations included in creditors falling due within 1 year	note 19	4	6
Obligations included in creditors falling due after more than 1 year	note 20	4	5
Total		8	11

During the year finance leases with obligations totalling £2m were entered into.

Annual commitments under operating leases are :

		1997		1996	
		Land and buildings	Other	Land and buildings	Other
£ million					
Expiry of operating leases	- falling due within 1 year	7	1	7	1
	- falling due within 1 to 5 years	15	3	14	3
	- falling due after 5 years	34	3	31	-
Total		56	7	52	4

23. PROVISIONS FOR LIABILITIES AND CHARGES

CONSOLIDATED						
£ million	Losses on sale		Pensions and	Reed Travel	Other	Total
	of businesses	Acquisitions	severance pay	Group		
At 31 December 1996	42	20	7	-	3	72
Provided	-	-	2	230	-	232
Utilised	(20)	(6)	(1)	(7)	-	(34)
Exchange differences	-	-	-	(3)	-	(3)
At 31 December 1997	22	14	8	220	3	267

The provision for Reed Travel Group of £230m is in respect of the estimated cost of programmes to recompense advertisers in relation to irregularities in circulation claims, related expenses and reorganisation costs.

24. FUTURE CAPITAL EXPENDITURE NOT PROVIDED IN THE FINANCIAL STATEMENTS

CONSOLIDATED		
	1997	1996
£ million		
Contracts placed	10	4

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

25. CALLED UP SHARE CAPITAL

	AUTHORISED	CALLED UP, ISSUED AND FULLY PAID
£ and no. shares	At 31 Dec 1996 and 1997	At 31 Dec 1996 and 1997
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 10. 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% 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.

26. SHARE PREMIUM ACCOUNT

£ million	324
At 31 December 1997 and 1996	

27. RECONCILIATION OF SHAREHOLDERS' FUNDS

£ million	Share capital and share premium	Revenue reserves	Consolidated Total	Parent Total
At 31 December 1996	324	556	880	682
Retained (loss)/profit for the year	-	(313)	(313)	15
Goodwill written off on acquisitions note 12	-	(451)	(451)	-
Goodwill reinstated on sale of businesses	-	22	22	-
Exchange translation differences	-	(60)	(60)	-
At 31 December 1997	324	(246)	78	697

Share capital includes non-equity shares of £100,000 (1996 : £100,000).

The group's shares of reserves retained within associated undertakings totalled £60m (1996 : £15m) including the undistributed reserves of Utell contributed to the joint venture, REZsolutions Inc.

The accumulated goodwill written off to reserves in respect of the acquisitions is £2,065m (1996 : £1,632m). Goodwill reinstated on sale of businesses includes £7m in respect of minor disposals.

Parent company reserves comprise the profit and loss account. The profit attributable to shareholders, dealt with in the accounts of the company, is £198m (1996 : £222m).

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

28. CONTINGENT LIABILITIES

£ million	CONSOLIDATED		PARENT	
	1997	1996	1997	1996
There are contingent liabilities in respect of borrowings of:				
Subsidiary undertakings	-	-	265	10
Associated undertakings	8	10	-	10
Former subsidiary undertakings	33	40	29	40
	41	50	294	60

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 £370m (1996 : £94m), 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.

29. RELATED PARTY TRANSACTIONS

There were no material transactions during the year between the Reed Elsevier plc group and its fellow associated undertakings, or its associated undertakings, 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 to the Reed Elsevier plc group.

Foreign exchange contracts entered into during 1997 by Reed Elsevier plc and its subsidiaries with its fellow associated undertakings amounted to £1,138m (1996 : £554m).

30. POST BALANCE SHEET EVENTS

(i) Sale of IPC Magazines

On 5 January 1998, Reed Elsevier announced the sale of IPC Magazines (excluding the New Scientist title, which has been retained) to an institutional buy-out organised by Cinven, for cash consideration of £860m. The sale will result in an exceptional profit in excess of £500m and net proceeds after appropriate tax provisions and selling costs of the order of £750m. In the year ended 31 December 1997, the business disposed of generated sales and operating profit of £342m and £69m respectively.

(ii) Proposed merger of Reed Elsevier and Wolters Kluwer

On 9 March 1997, Reed International and Elsevier announced that the proposed merger with Wolters Kluwer, previously announced on 13 October 1997, had been abandoned. The Boards of Reed International and Elsevier had concluded that the revisions to the merger terms which Wolters Kluwer sought - reflecting in the main their concerns about the impact of regulatory approvals - meant that the merger could no longer be seen to be in the best interests of their shareholders.

NOTES TO THE ACCOUNTS
For the year ended 31 December 1997

31. BALANCE SHEET OF REED ELSEVIER PLC AS AT 31 DECEMBER 1997

£ million		1997	1996
Fixed assets			
Investments	note 14	869	866
Current assets			
Debtors : amounts falling due within 1 year	note 16	34	40
Debtors : amounts falling due after more than 1 year	note 17	1	2
		35	42
Creditors: amounts falling due within 1 year	note 19	(207)	(226)
Net current liabilities		(172)	(184)
Net assets		697	682
Capital and reserves			
Called up share capital	note 25	-	-
Share premium account	note 26	324	324
Revenue reserves		373	358
Shareholders' funds	note 27	697	682

Approved by the Board of Reed Elsevier plc, 11 March 1998.

Director



Director



SUPPLEMENTARY INFORMATION

PRINCIPAL SUBSIDIARY UNDERTAKINGS AT 31 DECEMBER 1997

Holding/Finance Companies

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)

Scientific

Elsevier Science BV	(The Netherlands)
Elsevier Science Ltd	
Elsevier Science Inc	(USA)
Springhouse Corporation Inc	(USA)
Excerpta Medica Inc	(USA)

Professional

Butterworths ~	
Tolley Publishing Co. Ltd	
Congressional Information Services Inc	(USA)
Reed Educational & Professional Publishing Ltd	
Reed Reference Publishing #	(USA)
LEXIS-NEXIS #	(USA)

Business

Reed Travel Group Ltd	
Cahners Business Information #	(USA)
Reed Travel Group #	(USA)
Uitgeversmaatschappij C. Misset BV	(The Netherlands)
Reed Business Information Ltd	
Reed Exhibition Companies Ltd	
Reed Exhibition Companies #	(USA)

Consumer

RPH Ltd (sold in January 1998)
IPC Magazines Ltd (sold in January 1998)
Reed International Books Ltd

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

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

Principal Associated Undertakings at 31 December 1997

		<u>Operating in</u>	<u>Principal place of business</u>
Book Club Associates (partnership)	50%	UK	Farnsby Street, Swindon
Dott. A. Giuffrè Editore Spa	40%	Italy	Via Busto Arsizio, Milan
The Shepard's Company	50%	USA	1275 Broadway, New York
REZsolutions Inc.	67%	USA	7500N. Dreamy Draw Drive, Phoenix, Arizona