

**REED ELSEVIER PLC
REPORT AND ACCOUNTS 1994**



Board of Directors

P J Vinken - Co-Chairman
I A N Irvine - Co-Chairman
C B Alberti
H N Appel *
H Bruggink
A A Greener *
P B W Hamlyn CBE *
J J F Kels
R L Krakoff
Sir Christopher Lewinton *
J B Mellon
R J Nelissen *
A Schuitemaker *
N J Stapleton
I L M Thomas
R van de Vijver *
P C Vlek
L van Vollenhoven
D G Webster *

* Indicates Non-executive Director

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DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31 December 1994.

PRINCIPAL ACTIVITIES

The company is a holding company and through its subsidiary undertakings is primarily engaged in publishing and information.

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

RESULTS AND DIVIDENDS

The group profit for the year, after taxation, amounted to £331.0 million (15 month period 1993 : £295.8 million).

The directors do not recommend a final ordinary dividend (1993 : £nil). During the year the company paid interim dividends of £73.0 million (15 month period 1993 : £45.0 million) on the "E" ordinary shares and £109.0 million (15 month period 1993 : £33.7 million) on the "R" ordinary shares, which after preference dividends of £7,500 (15 month period 1993 : £8,125) and dividends of £58.8 million paid by subsidiary undertakings in respect of Elsevier NV's holding of special dividend shares in Reed Elsevier Nederland BV and Reed Elsevier Overseas BV, leaves a retained profit transferred to reserves of £90.2 million.

BUSINESS REVIEW

The results of the businesses are reported within four segments: scientific and medical, professional, business and consumer publishing.

The comparatives presented in the financial statements and accompanying notes represent the fifteen month period reported in the 1993 Report and Accounts. To enable meaningful comparison the business review relates the current year's trading to the preceding twelve month period.

Scientific and Medical

Operating profit from scientific publishing increased in 1994 with subscription renewal rates ahead of last year. Journal sales in North America and Asia/Pacific were particularly strong and encouraging progress was made in new markets such as Latin America. In the United Kingdom, the journals of Butterworth-Heinemann were consolidated into Elsevier Science in its new Oxford publishing centre.

In medical publishing, the benefits of the restructuring

actions taken in 1993 and 1994 were reflected in an increase in the operating profit. Considerable progress was made during 1994 in adapting the organisation's structure and products to meet market conditions, which remained difficult throughout the world.

Professional

The results in legal publishing were well ahead of 1993 and included full year contributions from Editions du Juris-Classeur (formerly Editions Techniques) and Giuffrè, both of which were ahead of pre-investment expectations. Good demand for Butterworths' products in the United Kingdom and South East Asia was offset by some weakness in Australia and North America.

Lexis-Nexis was acquired at the beginning of December 1994 and in one month contributed revenue of £37.5 million and operating profit of £8.5 million.

Reference Publishing showed good operating profit growth in 1994 with Martindale-Hubbell performing particularly strongly. Several new hard-copy and electronic products were successfully launched and a substantial bibliographical editorial database was completed.

Reed Educational Publishing had an excellent year with operating profit increasing strongly reflecting, in particular, strong performances from its UK market leaders, Ginn and Heinemann. Elsevier Tuition Courses did well to maintain its revenue and improve profitability in the difficult market conditions in the Netherlands and Belgium.

Business

The operating profit of the travel businesses included a full year contribution from Official Airline Guides (OAG). Circulation and transfer connections revenues were under pressure, due to continuing difficulties in the airline industry, but there was an encouraging performance from new electronic products. The ABC and OAG airline data centres were consolidated into one in 1994, significantly improving data processing efficiency and simplifying data transmission procedures for customers, and the complementary ABC and OAG product portfolios were rationalised and repositioned.

The exhibition businesses had a record year, reflecting the contribution of several 1994 acquisitions and the benefit of the restructuring action undertaken in 1993.

In the US business magazines market, advertising volume showed little improvement in 1994 and Cahners' profit increase was due primarily to the business refocus started in 1993. Among the key continuing initiatives is more

DIRECTORS' REPORT

effective advertising yield management.

In the United Kingdom, profit in business magazines was well ahead of 1993, with particularly strong growth in high-margin recruitment advertising. In the Netherlands, Misset increased its operating profit in a flat market.

Consumer

In the United Kingdom, IPC Magazines had an excellent year with both circulation and advertising revenue showing strong growth. Reed Regional Newspapers had a record year, with the strengthening UK economy benefiting recruitment advertising in particular.

In the Netherlands, advertising volumes have now stabilised whilst circulation trends remain positive. Both Dagbladunie and Bonaventura recorded good operating profit increases.

Reed Consumer Books showed a small decline in operating profit. 1994 was a difficult year with the lack of consumer confidence leading to subdued sales and retailers reducing their book stocks.

FINANCIAL REVIEW

Turnover for the year was £3,034.7 million and operating profit before exceptional items was £654.5 million. The operating margin of 21.6% is 3 points higher than the 18.6% operating margin achieved in the period from 11 September 1992 to 31 December 1993. Profit before tax of £490.9 million includes an exceptional charge of £27.1 million from the losses on the disposal or surrender of a number of property interests in the USA and UK that have become surplus to requirements. The effective tax rate of 29.1% (15 month period 1993 : 32.3%) is below the standard tax rate in the principal operating territories mainly due to tax amortisation on acquired intangible assets.

On 2 December 1994, Reed Elsevier Inc acquired Lexis-Nexis at a cost of £970.8 million (cash outflow of £949.0 million). In accordance with Reed Elsevier plc's accounting policy, a value of £400.0 million has been attributed to the publishing rights and proprietary databases, leaving £464.6 million of goodwill to be charged to shareholders' funds. Provisions have been made for the costs of reorganisation and integration of the business (£67.0 million : £42.3 million after tax). In the one month of ownership, Lexis-Nexis contributed £37.5 million to turnover and £8.5 million to operating profit. Other acquisition payments in the year amounted to £92.7 million and these acquisitions contributed £11.8 million to operating profit for the part period under group ownership.

The acquisition of Lexis-Nexis was financed by additional borrowings, about one third of which was provided by

Elsevier Reed Finance BV, a fellow associated undertaking.

At 31 December, 1994 gross borrowings of £1,483.8 million were partially offset by cash and short term investments of £113.8 million. In addition net borrowings from shareholders and fellow associated undertakings amounted to £1,008.6 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.

FUTURE DEVELOPMENTS

1995 will see the continuing rewards of the active product development and launch programmes. Leveraging strong market positions, the business will benefit from the growing demand for information and, through the conversion of copyrighted data to media neutral databases, it is increasingly able to deliver information to our customers in whatever format they choose.

The development of the business portfolio - whether through acquisition, disposal, launch or closure - is a constant focus for management, to produce high quality revenue growth and continually improving margins. Paper and print costs will increase in 1995 and are expected to be offset by sales and cost initiatives in hand. With costs already under firm control, further efficiencies are expected to come in many areas from technology advances. Lexis-Nexis is performing well and exceeding pre-acquisition expectations.

The economic environments in the three main operating territories are expected to improve in 1995 and the directors are confident about future prospects.

FIXED ASSETS

Details of the movements in fixed assets are set out in notes 10 and 11 to the accounts.

DIRECTORS

The directors at the date of this Report are shown on the front sheet. In addition, Mr P J Davis was a director and Co-Chairman until his resignation on 27 June 1994. He was succeeded as Co-Chairman by Mr I A N Irvine.

No director had, during the year, any interest in the share capital of the company. Details of the interests of Reed Elsevier plc directors in the parent companies, Reed International P.L.C. and Elsevier NV are set out in the Reed Elsevier Annual Review 1994.

DIRECTORS' REPORT

FUTURE BOARD CHANGES

Mr P J Vinken will retire from his executive responsibilities in April 1995. He will be succeeded by Mr H Bruggink who will join Mr I A N Irvine as Co-Chairman of the Board and of its Executive Committee. Following his retirement Mr Vinken will continue as a director of the company in a non-executive capacity in place of Mr H N Appel who is retiring in April 1995.

Mr L van Vollenhoven, who was also due to retire from his executive responsibilities in April 1995, is now to retire in November 1995. Following his retirement he will continue as a director of the company in a non-executive capacity.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the year the company purchased and maintained liability insurance for its directors and officers.

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 second grant of options over Reed International P.L.C. shares to eligible employees in the UK in May 1994 and nearly 2,000 employees participated in that grant.

Elsevier 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 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 ordinary shares.

EMPLOYMENT POLICY

The company is an equal opportunity employer. It does not discriminate on the grounds of race, sex, religion,

physical handicap or marital status in its recruitment or employment policies.

All judgements about people for the purposes of recruitment, development and promotion are made solely on the basis of their ability and potential in relation to the needs of the job.

UNITED KINGDOM CHARITABLE AND POLITICAL DONATIONS

Donations made during the year for charitable purposes amounted to £355,000 (15 month period 1993 : £464,300) of which £25,000 (15 month period 1993 : £102,100) was for educational purposes. There were no donations for political purposes.

CORPORATE GOVERNANCE

Elsevier NV, a company incorporated in the Netherlands with its primary listing on the Amsterdam Stock Exchange, complies with best practice and custom appropriate to Dutch companies. Reed International P.L.C., a company incorporated in England with its primary listing on the London Stock Exchange, complies with the provisions of the Cadbury Committee's Code of Best Practice.

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 Committee.

INTERNAL FINANCIAL CONTROL STATEMENT

The Board of Reed Elsevier plc has put in place an organisation structure with clearly defined lines of responsibility and delegation of authority. The Board meets regularly and has adopted a schedule of matters which are required to be brought to it for decision. The day to day responsibility for the businesses is delegated by the Board to the Executive 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 spend.

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

DIRECTORS' REPORT

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 coordination 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, comprising only non-executive directors, reviews the effectiveness of the internal financial control environment and receives reports from the executive directors and from the internal and external auditors on a regular basis.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK 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 its subsidiary and associated undertakings as at the end of that period and of the profit or loss for that period. The directors are also required to maintain adequate accounting records.

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

AUDITORS

At the forthcoming Annual General Meeting resolutions will be put to the members to re-appoint Touche Ross & Co. as the company's auditors and to authorise the directors to fix their remuneration.

By order of the Board

Registered Office :



R G Baker
Secretary

6 Chesterfield Gardens
London W1A 1EJ

31 March 1995

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The accounts are presented under the historical cost convention as modified by the revaluation of land and buildings.

BASIS OF CONSOLIDATION

The consolidated profit and loss account, balance sheet and cash flow statement have been prepared following merger accounting principles. They include the accounts 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.

The comparative figures represent the company's consolidated results for the period from 11 September 1992, the date of incorporation, to 31 December 1993.

FIXED ASSET INVESTMENTS

Associated undertakings, where the equity shareholding of the group is 50% or less 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. Assets and liabilities 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. Exchange translation differences on foreign equity investments and the related foreign currency borrowings and differences between balance sheet and profit and loss account rates are taken to reserves.

ACQUISITIONS

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

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated in the balance sheet at cost/valuation less accumulated depreciation. No depreciation is provided on 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 VAT and inter group sales.

DEVELOPMENT SPEND

Development spend on the launch of new products or services is expensed to the profit and loss account as incurred. The cost of developing software for use internally may be capitalised and written off over its estimated 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. The potential deferred tax has not been quantified.

ACCOUNTING POLICIES

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 set out on pages 5 to 30 which have been prepared under the accounting policies set out above.

Respective responsibilities of directors and auditors

As described on page 4 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.

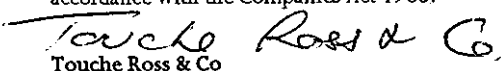
Basis of opinion

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 company's and the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1994 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.


Touche Ross & Co.

Chartered Accountants and
Registered Auditors
London

31 March 1995

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year to 31 December 1994

<i>£ million</i>	Year to 31 December 1994	Period from 11 September 1992 to 31 December 1993
Turnover note 1		
Continuing operations	2,940.2	3,351.1
Acquisitions	94.5	
	3,034.7	3,351.1
Cost of sales note 2	(1,195.3)	(1,381.1)
Gross profit	1,839.4	1,970.0
Net operating expenses note 2	(1,204.1)	(1,366.3)
Income from interests in associated undertakings	19.2	18.0
Operating profit note 3		
Continuing operations	634.2	
Acquisitions	20.3	
Operating profit before exceptional items	654.5	621.7
Exceptional items note 6		
Loss on disposal of fixed assets	(27.1)	-
Merger costs	-	(25.4)
Profit on ordinary activities before interest	627.4	596.3
Net interest expense note 7	(136.5)	(142.9)
Profit on ordinary activities before taxation	490.9	453.4
Tax on profit on ordinary activities note 8	(142.8)	(146.4)
Profit on ordinary activities after taxation	348.1	307.0
Minority interests	(17.1)	(11.2)
Profit for the period	331.0	295.8
Ordinary dividends note 9	(240.8)	(534.9)
Retained profit / (loss) note 26	90.2	(239.1)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

<i>£ million</i>		
Profit for the period	331.0	295.8
Realisation of revaluation surplus	-	0.7
Exchange translation differences note 26	(12.3)	18.6
Total recognised gains and losses for the period	318.7	315.1

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 26.

CONSOLIDATED BALANCE SHEET

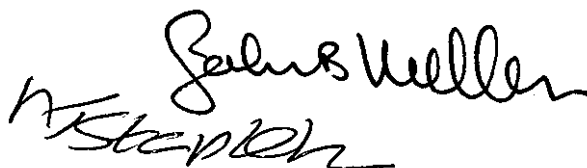
As at 31 December 1994

£ million	CONSOLIDATED	
	1994	1993
Fixed assets		
Intangible assets note 10	2,673.1	2,258.1
Tangible assets note 10	486.9	349.8
Investments note 11	138.4	114.0
	3,298.4	2,721.9
Current assets		
Stocks note 12	146.9	136.0
Debtors : amounts falling due within 1 year note 13	984.0	829.7
Debtors : amounts falling due after more than 1 year note 14	189.0	153.3
Short term investments note 15	40.9	144.7
Cash at bank and in hand	72.9	66.9
	1,433.7	1,330.6
Creditors : amounts falling due within 1 year note 16	3,015.6	2,118.8
Net current liabilities	(1,581.9)	(788.2)
Total assets less current liabilities	1,716.5	1,933.7
Creditors : amounts falling due after more than 1 year note 17	1,169.9	1,006.8
Provisions for liabilities and charges note 20	131.0	92.4
Minority interests	31.0	16.4
Net assets	384.6	818.1
Capital and reserves		
Called up share capital note 24	0.1	0.1
Share premium account note 25	324.0	324.0
Revaluation reserve note 26	2.3	3.1
Retained profit note 26	58.2	490.9
Reserves	60.5	494.0
Shareholders' funds note 26	384.6	818.1

Approved by the Board of Reed Elsevier plc, 31 March 1995

J B Mellon

N J Stapleton



The balance sheet of Reed Elsevier plc is shown on page 30

CONSOLIDATED CASH FLOW STATEMENT

For the year to 31 December 1994

<i>£ million</i>	Year to 31 December 1994	Period from 11 September 1992 to 31 December 1993
Net cash inflow from operating activities note 27	746.0	830.9
Returns on investments and servicing of finance		
Interest received	9.0	39.7
Interest paid	(73.0)	(103.8)
Interest paid to shareholders and fellow associated undertaking	(64.6)	(70.5)
Dividends paid to shareholders and minority interests	(240.9)	(544.8)
Dividends received from associated undertakings	11.0	12.7
Net cash outflow from returns on investments and servicing of finance	(358.5)	(666.7)
UK corporation tax paid including ACT	(24.4)	(71.7)
Overseas tax paid	(81.7)	(52.8)
Investing activities		
Acquisitions note 23	(1,041.7)	(486.5)
Payments to acquire tangible fixed assets	(96.6)	(149.7)
Disposal of investments and fixed assets		
Exceptional items	(13.7)	-
Other	7.3	21.9
Other items (mainly payments against acquisition provisions)	(33.9)	(28.1)
Net cash outflow from investing activities	(1,178.6)	(642.4)
Net cash outflow before financing	(897.2)	(602.7)
Financing		
Issue of preference shares	-	0.1
Net proceeds of borrowings from shareholders and fellow associated undertaking note 27	360.8	455.6
Net proceeds of long term borrowings note 27	87.7	34.0
Decrease in short term investments note 27	24.9	27.8
Net cash inflow from financing	473.4	517.5
Decrease in net cash and cash equivalents note 27	(423.8)	(85.2)

Cash equivalents include short term investments with an original maturity of within 3 months less short term borrowings with an original maturity of less than 3 months.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

1 SEGMENT ANALYSIS

<i>£ million</i>	TURNOVER		OPERATING PROFIT		CAPITAL EMPLOYED	
	Year ended 31 Dec 1994	Period ended 31 Dec 1993	Year ended 31 Dec 1994	Period ended 31 Dec 1993	As at 31 Dec 1994	As at 31 Dec 1993
Business segment						
Scientific and Medical	513.8	592.2	173.0	171.2	316.6	335.1
Professional	512.8	518.8	131.3	112.9	1,049.2	604.4
Business	1,098.7	1,168.7	219.0	201.1	954.9	966.3
Consumer	909.4	1,071.4	131.2	136.5	631.1	595.9
	3,034.7	3,351.1	654.5	621.7	2,951.8	2,501.7
Geographical origin						
North America	1,028.2	1,136.5	228.6	211.5	1,667.3	1,236.6
UK	1,072.8	1,263.9	228.3	234.9	1,132.7	1,107.9
The Netherlands	530.7	614.6	120.1	121.4	(33.6)	(25.3)
Rest of Europe	227.7	156.5	50.4	28.4	111.4	93.5
Asia/Pacific	175.3	179.6	27.1	25.5	74.0	89.0
	3,034.7	3,351.1	654.5	621.7	2,951.8	2,501.7
Geographical market						
North America	1,140.0	1,245.6				
UK	817.4	974.7				
The Netherlands	382.1	422.4				
Rest of Europe	368.3	361.1				
Asia/Pacific	326.9	347.3				
	3,034.7	3,351.1				

Lexis-Nexis, acquired on 2 December 1994, is included in the Professional and North America segments.

Central costs and the net SSAP 24 pension credit (see note 29) are allocated to the segments.

Capital employed comprises net assets excluding net borrowings of £2,378.6m (1993 : £1,510.0m) (including amounts owed to shareholders and fellow associated undertaking of £1,008.6m (1993 : £650.7m)), taxation of £117.3m (1993 : £135.4m), dividends and net interest payable of £40.3m (1993 : £21.8m) and minority interests of £31.0m (1993 : £16.4m).

2 COST OF SALES AND NET OPERATING EXPENSES

<i>£ million</i>	Continuing		Year ended	Period ended
	operations	Acquisitions	31 December 1994	31 December 1993
Cost of sales	1,148.9	46.4	1,195.3	1,381.1
Distribution and selling costs	659.4	18.9	678.3	767.7
Administrative expenses	531.6	12.3	543.9	614.9
Other operating income	(18.1)	-	(18.1)	(16.3)
Net operating expenses	1,172.9	31.2	1,204.1	1,366.3

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

3 OPERATING PROFIT IS STATED AFTER THE FOLLOWING:

	Year ended	Period ended
<i>£ million</i>	31 December 1994	31 December 1993
Staff costs		
wages and salaries	671.4	733.9
social security costs	67.4	68.1
pensions note 29	15.2	11.8
Total	754.0	813.8
Hire of plant and equipment	14.0	20.4
Other operating lease rentals	54.1	64.1
Depreciation (including £1.0m (1993 £nil) in respect of assets held under finance leases)	70.9	72.1
Auditors' remuneration		
for audit services (parent company £150,000 (1993 : £179,500))	1.6	2.0
for non audit services (£0.6m (1993 : £1.9m) relates to UK companies)	1.1	3.6

4 PERSONNEL

	Year ended	Period ended
<i>Average number of people employed during the period</i>	31 December 1994	31 December 1993
North America	8,400	7,800
UK	10,200	10,200
The Netherlands	4,600	4,400
Rest of Europe	1,800	1,400
Asia/Pacific	1,800	1,500
Total	26,800	25,300

Acquisitions accounted for an increase of 800 in average numbers of personnel, including the effect of Lexis-Nexis for one month.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

5 EMOLUMENTS OF DIRECTORS

Set out below are details of the aggregate emoluments of the directors of Reed Elsevier plc. They include amounts in respect of their duties as directors of the company, of the respective parent companies, Reed International P.L.C. ("Reed") and Elsevier NV ("Elsevier"), and of the fellow associated undertaking.

(i) Policy

(a) Executive directors

The emoluments and other terms and conditions of the executive directors of Reed Elsevier plc are determined by the Reed Elsevier plc Remuneration Committee, which comprises only its non-executive directors. The Committee considers and agrees basic salaries and benefits as well as performance-related incentives. It also recommends the granting of share options to executive directors and other senior executives over the shares in the two parent companies, Reed and Elsevier. The Committee draws extensively on the advice of external professional advisers in collecting relevant data and determining its remuneration policy and practice. The Committee also considers organisational issues and the performance and development of senior management.

The aggregate emoluments of the executive directors comprise :

- Base salaries, which are set at the median of the range based on each director's experience and on comparisons made with other companies by reference to size, complexity, competitive standing and other factors;
- Employment related benefits, such as the provision of medical expenses insurance, a company car and, where an executive is asked to relocate to another country, an overseas allowance;
- A variable annual cash bonus, based on achievement of specific performance-related targets - such as profit, cash flow and gains in earnings per ordinary share of Reed or Elsevier. Targets are set and their achievement monitored by the Remuneration Committee;
- Longer Term incentives, which comprise the grant of options to acquire shares in Reed where exercise is conditional upon the attainment of long term performance objectives;
- Post-retirement benefits, where Reed Elsevier plc companies have different retirement schemes which apply depending on local competitive market practice, length of service and age of the director. The expected cost of providing retirement benefits to the executive directors in respect of defined benefit pension schemes varies from scheme to scheme and is assessed in accordance with the advice of independent qualified actuaries. The value of benefits, cash bonuses and share options do not form part of pensionable salary.

All of the executive directors have service contracts, which are terminable on notice periods varying from 6 months to 3 years. Nigel Stapleton and John Mellon have this year agreed without compensation to service contracts terminable on two years' notice.

(b) Non-executive directors

The non-executive directors of Reed Elsevier plc are four members nominated by Elsevier and four members nominated by Reed, who also form Reed Elsevier plc's Remuneration and Audit Committees. In addition, the members nominated by Elsevier, who are all past or present members of its Supervisory Board, form Elsevier's separate Audit Committee, and the members nominated by Reed, who are all non-executive directors of Reed, form its Audit Committee and its Non-Executive Directors Committee, which was created in 1994 to reflect a similar interest and involvement in the merged businesses to that of the Supervisory Board of Elsevier.

The emoluments of the non-executive directors are determined jointly by the Co-Chairmen, who are also respectively the Chairman of Reed and the Chairman of the Executive Board of Elsevier. These emoluments comprise mainly fees, and reflect their responsibilities and the time they commit to them, in relation to the company, Reed and Elsevier.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

5 EMOLUMENTS OF DIRECTORS (continued)

(ii) *Directors' emoluments*

(a) *Aggregate emoluments*

The aggregate emoluments of the directors, on the basis described above, were as follows :

	Year ended 31 December 1994	Period ended 31 December 1993
£'000		
Salaries and benefits	4,499	3,517
Annual performance-related bonuses	3,232	3,347
Pension contributions	1,048	833
Longer Term Incentive Plan	183	-
Compensation in respect of former director	1,247	-
Fees to non-executive directors	259	260
Total	10,468	7,957

Employment related benefits for 1993 and 1994 amounted to £0.1 million.

The aggregate emoluments borne by Reed Elsevier plc and its subsidiary undertakings amounted to £8,921,189 (1993: £5,729,656).

(b) *Executive directors*

The aggregate cash remuneration of the individual executive directors was as follows :

	Nationality	Salary	Performance Related Bonus	Total Cash Remuneration	£ Equivalent Total Cash Remuneration	
		1994	1994	1994	1994	1993
		Dfl	Dfl	Dfl		
C Alberti	Dutch	1,250,000	500,000	1,750,000	629,496	592,812
H Bruggink	Dutch	1,250,000	500,000	1,750,000	629,496	418,663
J Kels	Dutch	425,606	1,487,500	1,913,106	688,167	558,637
L van Vollenhoven	Dutch	1,033,824	1,650,000	2,683,824	965,404	853,822
P J Vinken	Dutch	1,084,074	1,800,000	2,884,074	1,037,437	933,517
P Vlek	Dutch	1,250,000	500,000	1,750,000	629,496	448,321

		Salary		Performance Related Bonus		Total Cash Remuneration	£ Equivalent Total Cash Remuneration	
		1994	1993	1994	1993	1994	1994	1993
		£	£	£	£	£		
I A N Irvine	UK	450,000	350,001	180,000	140,000	630,000	630,000	490,001
J B Mellon	UK	260,000	200,000	104,000	80,000	364,000	364,000	280,000
N J Stapleton	UK	337,502	275,001	135,000	110,000	472,502	472,502	385,001
		\$	\$	\$	\$	\$		
R L Krakoff	USA	500,000	425,000	500,000	410,672	1,000,000	653,594	557,114
I L M Thomas	UK	527,850	392,800	392,700	568,020	920,550	601,666	640,547

Notes

(1) Details of emoluments from the UK Longer Term Incentive Plan are shown below.

(2) The sterling equivalent of guilder and dollar based remuneration is calculated by reference to the average rate of exchange for the year in question.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

5 EMOLUMENTS OF DIRECTORS (continued)

(c) *Emoluments of the Chairmen and highest paid director*

Pierre Vinken was Chairman of both Reed Elsevier plc and Elsevier throughout the year. His aggregate emoluments during 1994 were £1,037,437 (1993: £933,517) and he was the highest paid director in both years. No pension contributions were made in respect of 1993 or 1994.

Peter Davis was Chairman of both Reed Elsevier plc and Reed throughout 1993 and in 1994 until his resignation at the end of June. His aggregate emoluments in 1994 were £355,542 (1993 : £636,592). Pension contributions in respect of 1994 amounted to £12,500 (1993 : £22,500).

Ian Irvine was appointed Chairman of Reed Elsevier plc and Reed on 27 June 1994. His aggregate emoluments for the period of his chairmanship in 1994 were £336,356 and pension contributions were £12,000.

(d) *Non-executive directors*

The individual aggregate emoluments of the non-executive directors were as follows :

		1994	1993
	Nationality	£	£
H N Appel	Dutch	25,297	30,161
A A Greener	UK	21,500	21,500
P B W Hamlyn	UK	25,000	25,000
Sir Christopher Lewinton	UK	76,751	73,502
R J Nelissen	Dutch	26,173	26,124
A Schuitemaker	Dutch	34,313	34,193
R van de Vijver	Dutch	26,173	26,129
D G C Webster	UK	23,500	23,500

Throughout the period Mr Schuitemaker was Chairman of the Elsevier Supervisory Board and the Elsevier Audit Committee; Sir Christopher Lewinton was Chairman of the Reed Elsevier plc Remuneration Committee; and Mr Webster was Chairman of the Reed Elsevier plc Audit Committee and the Reed Audit Committee. Sir Christopher was appointed Chairman of the Reed Non-Executive Directors Committee with effect from 27 June 1994 and in addition his fees reflect consultancy work carried out in advising on and facilitating the reorganisation of the Board of Reed Elsevier plc and its responsibilities as a result of the merger of the businesses of Reed and Elsevier.

(iii) *Compensation paid to former director*

Peter Davis resigned on 27 June 1994 as Chairman of Reed, as Co-Chairman of Reed Elsevier plc, as a Supervisory Board member of Elsevier and from all his other executive duties.

He had a service agreement terminable on three years' notice. The aggregate of the compensation paid to Mr Davis (after mitigation of around one third of his contractual entitlement) is included in the directors' remuneration for 1994 and comprises cash payments (£652,000); certain other benefits (£70,000); and enhancement of pension entitlement (capitalised value £1.3 million; cash contribution £525,000). He is entitled to receive 6,032 Reed shares under the Longer Term Incentive Plan for 1992-94 (see below) and is eligible to participate in the 1993-95 Plan over a maximum of 27,000 Reed shares to the extent that the appropriate EPS targets are achieved.

(iv) *Longer Term Incentive Plan*

Executive directors of Reed Elsevier plc who were directors of Reed prior to 1 January 1993 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 interests of the participants and 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 earnings per share (EPS) 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. None of the options granted under the 1991-93 Plan was exercisable because the minimum threshold was not reached.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

5 EMOLUMENTS OF DIRECTORS (continued)

For the 1992-94 Plan, options were granted over a maximum of 80,000 Reed ordinary shares. The terms of these options provided that no options would be exercisable unless CAGR over the base EPS of 29.6p exceeded 10% p.a. The maximum number of options would have been exercisable if CAGR had reached 20% p.a. Based on Reed's EPS (headline before tax credit equalisation) of 42.6p for 1994, the CAGR for the three years 1992-94 was 12.9%. As a result, the directors are entitled to receive in aggregate 18,560 Reed ordinary shares. The value placed on these options for the purposes of determining the aggregate emoluments of the directors disclosed above is the mid-market price of a Reed ordinary share as at 1 March 1995 (744.5p).

The shares exercisable by directors in relation to the 1992-94 Plan are as follows :

I A N Irvine	5,104
N J Stapleton	3,712
R L Krakoff	3,248
J B Mellon	3,248
I L M Thomas	3,248

Except for sales to meet tax arising, participants will be required 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 1993-95 and 1994-96. The targets approved for the periods are as follows :

	1993-95	1994-96
	Plan	Plan
Base EPS	29.6p	35.8p
Minimum CAGR	10% p.a.	7% p.a.
Mid-point CAGR	15% p.a.	13.5% p.a.
Maximum CAGR	20% p.a.	20% p.a.

The targets for the 1994-96 Plan were revised to reflect EPS performance during 1993 and changes in the economic assumptions on which the original 1991-93 Plan was based. The base EPS on which the target CAGR growth is calculated was raised to 35.8p, being the Reed EPS for the year to December 1993. The minimum and mid-point CAGR growth targets were also revised to reflect lower inflation growth rates since the original 1991-93 targets were set, while retaining the same maximum requirement.

Entitlements if specific EPS CAGR targets are achieved are :

	1993-95 Plan		1994-96 Plan	
	Ordinary shares if 15% CAGR achieved	Ordinary shares if 20% CAGR achieved	Ordinary shares if 13.5% CAGR achieved	Ordinary shares if 20% CAGR achieved
I A N Irvine	8,400	21,000	8,400	21,000
N J Stapleton	6,600	16,500	6,800	17,000
R L Krakoff	4,800	12,000	4,800	12,000
J B Mellon	4,800	12,000	4,800	12,000
I L M Thomas	4,800	12,000	4,800	12,000

It is not yet possible to say whether for the 1993-95 or 1994-96 periods options will be exercisable. No estimate of the value of this incentive for those periods has therefore been included in the analysis of directors' remuneration for 1994.

In March 1995 further grants were recommended by the Reed Elsevier plc Remuneration Committee over a maximum of 95,150 Reed ordinary shares under the Plan for 1995-97. Maximum entitlements if 20% CAGR is achieved during the Plan period are I A N Irvine 27,300, N J Stapleton 21,350, J B Mellon 18,000, R L Krakoff 14,250 and I L M Thomas 14,250.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

6 EXCEPTIONAL ITEMS

Exceptional items in the year are the losses on the disposal or surrender of a number of property interests in the USA and UK that have become surplus to requirements (£27.1m with tax relief of £1.9m).

The exceptional item in 1993 was costs, mainly professional fees, incurred by subsidiary undertakings in connection with the merger of the businesses owned by Reed International P.L.C. and Elsevier NV.

7 INTEREST

<i>£ million</i>	Year ended 31 December 1994	Period ended 31 December 1993
<i>Interest payable and similar charges</i>		
On loan capital, promissory notes and bank borrowings:		
repayable within 5 years by instalments	(0.3)	(0.9)
repayable within 5 years, other than by instalments	(60.5)	(64.8)
	(60.8)	(65.7)
On finance leases	(1.1)	-
On all other loans	(20.0)	(31.0)
On amounts owed to shareholders and fellow associated undertaking	(67.1)	(75.4)
	(149.0)	(172.1)
<i>Interest receivable and similar income</i>		
On cash deposits and short term investments	12.5	29.2
Total net interest expense	(136.5)	(142.9)

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

8 TAXATION

<i>£ million</i>	Year ended 31 December 1994	Period ended 31 December 1993
<i>Tax on profit on ordinary activities</i>		
UK	53.3	63.0
The Netherlands	44.8	41.7
Rest of World	38.3	38.4
Total (including deferred taxation charge of £16.9m (1993 : £5.0m))	136.4	143.1
Share of tax attributable to associated undertakings	6.4	3.3
Total	142.8	146.4

UK corporation tax has been provided at 33%.

The tax charge for the period has been reduced by £32.6m (1993 : £18.2m) in respect of allowances on publishing intangibles.

9 DIVIDENDS PAID AND PROPOSED

	Year ended 31 December 1994	Period ended 31 December 1993	Year ended 31 December 1994	Period ended 31 December 1993
<i>£ per share</i>			<i>£ million</i>	
<i>Subsidiary Undertakings</i>				
Paid prior to 1 January 1993	-		422.3	
Paid after 1 January 1993	58.8		33.9	
			58.8	456.2
<i>Parent</i>				
Ordinary				
Interim to "E" ordinary shareholders	7,300.00	4,500.00	73.0	45.0
Interim to "R" ordinary shareholders	10,900.00	3,369.63	109.0	33.7
			182.0	78.7
Total			240.8	534.9

The dividends paid by subsidiary undertakings after 1 January 1993 relate to Elsevier NV's holding of special dividend shares in Reed Elsevier Nederland BV and Reed Elsevier Overseas BV. These shares do not carry any capital rights beyond the right to repayment of their nominal value.

The dividends to be paid by the company are regulated by the equalisation arrangements between the company's shareholders, Reed International P.L.C. and Elsevier NV. 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 to 31 December 1994

10 FIXED ASSETS - INTANGIBLE ASSETS AND TANGIBLE ASSETS

		INTANGIBLE ASSETS		TANGIBLE ASSETS	
		CONSOLIDATED		CONSOLIDATED	
<i>£ million</i>		Total	Land and buildings	Plant and equipment	Total
<i>Cost or valuation</i>					
At 31 December 1993		2,258.1	176.1	511.3	687.4
Acquisitions note 23		474.4	58.3	175.5	233.8
Capital expenditure		-	7.6	97.1	104.7
Disposals		(0.8)	(4.0)	(43.1)	(47.1)
Exchange differences		(58.6)	3.2	6.8	10.0
At 31 December 1994		2,673.1	241.2	747.6	988.8
Comprising:					
Valuation	1985	-	6.8	-	6.8
	1991	-	1.9	-	1.9
Cost		2,673.1	232.5	747.6	980.1
At 31 December 1994		2,673.1	241.2	747.6	988.8
<i>Accumulated depreciation</i>					
At 31 December 1993		-	29.3	308.3	337.6
Acquisitions note 23		-	14.7	111.0	125.7
Disposals		-	(1.5)	(36.2)	(37.7)
Charge to profit and loss account		-	7.5	63.4	70.9
Exchange differences		-	0.8	4.6	5.4
At 31 December 1994		-	50.8	451.1	501.9
<i>Net book amount</i>					
At 31 December 1994		2,673.1	190.4	296.5	486.9
At 31 December 1993		2,258.1	146.8	203.0	349.8
<i>Land and buildings at cost or valuation</i>					
			31 Dec 1994	31 Dec 1993	
Freehold property			211.7	161.4	
Leasehold property, 50 years or more unexpired			9.2	10.5	
Leasehold property, less than 50 years unexpired			20.3	4.2	
Total			241.2	176.1	

On an original cost basis land and buildings would have been included at cost £234.1m (1993 : £167.3m), with accumulated depreciation £46.0m (1993 : £23.6m).

No depreciation has been provided on land (at cost or valuation) of £16.5m (1993 : £10.9m). The gross amount of depreciable assets at 31 December 1994 is £972.3m (1993 : £676.5m). The net book amount includes £52.8m (1993: £nil) in respect of assets held under finance leases.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

11 FIXED ASSETS - INVESTMENTS

<i>£ million</i>	ASSOCIATED UNDERTAKINGS		OTHER INVESTMENTS			TOTAL
	Share of					
Consolidated	net assets	Loans	Unlisted	Loans	Provisions	
At 31 December 1993	112.5	1.3	0.2	0.3	(0.3)	114.0
Additions	28.5	1.8	2.0	-	-	32.3
Acquisitions	-	-	2.5	-	-	2.5
Transfer to subsidiary undertakings note 23	(10.7)	-	-	-	-	(10.7)
Repayment of loans	-	(1.0)	-	-	-	(1.0)
Share of retained profit	1.8	-	-	-	-	1.8
Exchange differences	(0.5)	-	-	-	-	(0.5)
At 31 December 1994	131.6	2.1	4.7	0.3	(0.3)	138.4

The directors' valuation of other investments (unlisted) at 31 December 1994 is £4.7m (1993 : £0.2m).

<i>£ million</i>	SUBSIDIARY UNDERTAKINGS	ASSOCIATED UNDERTAKINGS	TOTAL
	Shares at cost	Shares at cost	
Parent			
At 31 December 1993	835.1	-	835.1
Additions	-	27.3	27.3
At 31 December 1994	835.1	27.3	862.4

The principal subsidiary and associated undertakings are shown on page 29

12 STOCKS

<i>£ million</i>	CONSOLIDATED	
	1994	1993
Raw materials and consumables	32.1	27.4
Work in progress	36.5	36.2
Finished goods	78.3	72.4
Total	146.9	136.0

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

13 DEBTORS - AMOUNTS FALLING DUE WITHIN 1 YEAR

<i>£ million</i>	CONSOLIDATED		PARENT	
	1994	1993	1994	1993
Trade debtors	492.5	422.8	-	-
Amounts owed by shareholders and fellow associated undertaking	304.2	263.3	-	-
Amounts owed by subsidiary undertakings	-	-	20.4	15.0
Amounts owed by associated undertakings	1.3	1.0	-	-
Other debtors	41.3	44.4	0.2	2.0
Advance corporation tax	38.1	-	-	-
Prepayments and accrued income	106.6	98.2	2.3	-
Total	984.0	829.7	22.9	17.0

Included in prepayments and accrued income falling due within 1 year is an amount of £1.9m (1993 : £1.1m after more than 1 year) due from the Employee Share Ownership Plan.

14 DEBTORS - AMOUNTS FALLING DUE AFTER MORE THAN 1 YEAR

<i>£ million</i>	CONSOLIDATED		PARENT	
	1994	1993	1994	1993
Trade debtors	6.6	3.1	-	-
Amounts owed by shareholders and fellow associated undertaking	36.4	36.4	-	-
Pension prepayment note 29	118.5	110.2	-	-
Deferred taxation note 21	24.0	-	-	-
Other prepayments and accrued income	3.5	3.6	-	1.1
Total	189.0	153.3	-	1.1

15 SHORT TERM INVESTMENTS

		CONSOLIDATED	
<i>£ million</i>		1994	1993
Short term investments	-original maturity within 3 months	34.6	114.4
	-original maturity after 3 months and within 1 year	6.3	30.3
Total		40.9	144.7

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

16 CREDITORS - AMOUNTS FALLING DUE WITHIN 1 YEAR

<i>£ million</i>	CONSOLIDATED		PARENT	
	1994	1993	1994	1993
Loan capital note 18	0.4	98.0	-	-
Promissory notes, bank loans and overdrafts	730.5	394.3	-	0.3
Obligations under finance leases note 19	7.8	-	-	-
Sub total : Borrowings	738.7	492.3	-	0.3
Trade creditors	187.8	152.2	-	-
Amounts owed to shareholders and fellow associated undertaking	1,027.3	643.3	74.7	61.1
Amounts owed to subsidiary undertakings	-	-	208.6	269.4
Other creditors	133.2	129.4	-	-
Taxation	135.9	43.3	2.5	-
Accruals and deferred income	792.7	658.3	0.9	-
Total	3,015.6	2,118.8	286.7	330.8

Borrowings less than one year include short term US commercial paper borrowings and other short term borrowings which are supported by available committed facilities. At 31 December 1994 a total of £1,217m (1993 : £619m) of committed facilities were available (£381m (1993 : £295m) with maturity over 1 year).

17 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN 1 YEAR

<i>£ million</i>	CONSOLIDATED		PARENT	
	1994	1993	1994	1993
Loan capital note 18				
- within 1 to 2 years	80.1	-	-	-
- within 2 to 5 years	335.5	239.9	-	-
- after 5 years	247.3	320.6	-	-
Promissory notes and bank loans				
- within 1 to 2 years	11.8	-	-	-
- within 2 to 5 years	25.4	18.1	-	-
Obligations under finance leases note 19	45.0	-	-	-
Sub total : Borrowings	745.1	578.6	-	-
Amounts owed to shareholders and fellow associated undertaking	321.9	307.1	-	-
Other creditors	47.2	25.0	13.8	-
Taxation	43.5	92.1	-	-
Accruals and deferred income	12.2	4.0	-	-
Total	1,169.9	1,006.8	13.8	-

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

18 LOAN CAPITAL

<i>£ million</i>	CONSOLIDATED	
	1994	1993
<i>Subsidiary undertakings - unsecured</i>		
9% Sterling Loan Stock 1999/2004	5.4	5.4
9% Eurodollar Bonds 1994	-	84.5
9.625% Eurodollar Bonds 1997	96.2	101.4
7.5% Eurodollar Bonds 1999	128.2	-
9.71% US Dollar Privately Placed Notes 2000	64.1	67.6
9.7% Dutch Florin Privately Placed Bonds 1999	47.0	46.9
8.5% US Dollar Privately Placed Notes 2003	80.1	84.5
9% Eurodollar Bonds 1996	80.1	84.5
7.11%-7.31% Medium Term US Dollar Notes 1997	51.3	54.0
7.66%-7.76% Medium Term US Dollar Notes 1999	12.8	13.5
6.625% US Dollar Privately placed Notes 2023	96.2	101.4
Miscellaneous Sterling	1.9	14.8
Total	663.3	658.5

£52.8m of all borrowings are secured under finance leases (1993 £nil).

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. Because derivative instruments are used for hedging, rather than trading activities, the group has no net market risk on derivative instruments held at the end of the year.

Interest rate swaps in place at 31 December 1994, largely to fix the interest cost of US dollar borrowing, are as follows :

		Interest Rate Swaps				Weighted Average Interest rate		Weighted Average Remaining Maturity	
		Outstanding			Payable on Receivable on		(years)		
<i>£ million</i>		Dollar	Guilder	Other	Total	Dollars	Guilders	Dollars	Guilders
As at									
31 December	1994	603	18	16	637	7.1%	9.9%	2.2	4.1
	1995	744	18	16	778	7.0%	9.9%	1.5	3.1
	1996	440	18	16	474	7.1%	9.9%	2.7	2.1
	1997	344	18	11	373	7.0%	9.9%	2.3	1.1
	1998	247	18	11	276	6.7%	9.9%	2.1	0.1
	1999	128	-	-	128	6.3%	-	2.0	-

The weighted average interest rate for US dollar borrowings as at 31 December 1994, taking into account the interest hedges, was 7.5%.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

19 OBLIGATIONS UNDER LEASES

The future finance lease payments at 31 December 1994 are :

<i>£ million</i>	CONSOLIDATED	
	1994	1993
Repayable :		
Within 1 year	11.1	-
Between 1 and 2 years	8.9	-
Between 2 and 5 years	18.6	-
Over 5 years	36.0	-
	74.6	-
Less : interest charges allocated to future periods	(21.8)	-
Total	52.8	-
Obligations included in creditors falling due within 1 year note 16	7.8	-
Obligations included in creditors falling due after more than 1 year note 17	45.0	-

During the year finance leases with obligations totalling £39.4m were entered into, of which £31.3m refinanced existing borrowings. A further £13.4m of finance lease obligations arose from acquisitions.

Annual commitments under operating leases as at 31 December 1994 :

		Land and buildings	Other
Expiry of operating leases	- falling within 1 year	5.4	2.2
	- falling within 1 to 5 years	21.3	4.0
	- falling after 5 years	39.4	-
Total		66.1	6.2

20 PROVISIONS FOR LIABILITIES AND CHARGES

<i>£ million</i>	CONSOLIDATED			
	Acquisitions	Pensions and severance pay	Other	Total
At 31 December 1993	58.2	12.1	22.1	92.4
Acquisitions note 23	74.2	-	-	74.2
Provided	-	1.0	1.1	2.1
Utilised	(28.7)	(2.7)	(5.3)	(36.7)
Exchange differences	(1.6)	-	0.6	(1.0)
At 31 December 1994	102.1	10.4	18.5	131.0

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

21 DEFERRED TAXATION

	CONSOLIDATED
<i>£ million</i>	
At 31 December 1993	-
Acquisitions note 23	36.6
Provided note 8	(16.9)
Transfers	5.7
Exchange differences	(1.4)
At 31 December 1994 note 14	24.0

	CONSOLIDATED
<i>£ million</i>	
<i>Deferred taxation provided</i>	
Excess of tax allowances over depreciation	(4.8)
Pension prepayment	(33.5)
Other timing differences	62.3
Total	24.0
<i>Deferred taxation not provided</i>	
Losses carried forward	19.5
Other timing differences	(0.2)
Total	19.3

22 FUTURE CAPITAL EXPENDITURE NOT PROVIDED IN THE FINANCIAL STATEMENTS

	CONSOLIDATED
<i>£ million</i>	1994 1993
Contracts placed	38.7 34.0
Contracts authorised but not yet placed	- 3.0
Total	38.7 37.0

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

23 ACQUISITIONS

During the year acquisitions were made for a total consideration amounting to £1,071.1m (1993 : £540.7m), after £33.9m of net cash (1993 : £28.1m of net borrowings) acquired and including £10.7m transferred from the investment in associated undertakings. The most significant acquisition was Lexis-Nexis, acquired for £970.8m on 2 December 1994.

In total £1,041.7m (1993 : £486.5m) was paid during the period for acquisitions, including £2.5m (1993 : £9.8m) paid in respect of acquisitions made in previous years, and £11.5m (1993 : £13.0m) in respect of associated undertakings. £32.7 of the consideration was deferred to future years.

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

Lexis-Nexis £ million	Book value on acquisition	Fair value adjustments	Fair value
Fixed assets			
Intangible assets	77.9	322.1	400.0
Tangible assets	127.7	(21.8)	105.9
Investments	6.5	(4.0)	2.5
	212.1	296.3	508.4
Current assets	89.3	1.1	90.4
Current liabilities	(47.6)	-	(47.6)
Finance leases	(13.4)	-	(13.4)
Provisions (£nil utilised in the year)	-	(67.0)	(67.0)
Deferred tax	-	35.4	35.4
	28.3	(30.5)	(2.2)
Net assets acquired	240.4	265.8	506.2
Consideration			970.8
Goodwill arising			464.6

Lexis-Nexis contributed £37.5m to turnover, £8.5m to operating profit and £23.9m to net cash flow from operating activities for the one month under group ownership. The full year unaudited results in US dollars for this business in 1994 and 1993 restated to reflect approximately the application of group accounting policies were :

\$ million	1994	1993
Turnover	622.8	551.5
Operating profit before exceptional items	92.8	65.5
Exceptional items	(4.8)	(2.1)
Operating profit after exceptional items before interest and taxes	88.0	63.4

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

23 ACQUISITIONS (continued)

<i>£ million</i>	Book value on acquisition	Fair value adjustments	Fair value
Other acquisitions			
Fixed assets			
Intangible assets (recognised on larger acquisitions)	-	74.4	74.4
Tangible assets	2.4	(0.2)	2.2
	2.4	74.2	76.6
Current assets	15.9	(3.7)	12.2
Current liabilities	(26.4)	1.4	(25.0)
Provisions (£1.3m utilised in the year)	-	(7.2)	(7.2)
Deferred tax	(0.5)	1.7	1.2
Minority interests	-	(6.1)	(6.1)
	(11.0)	(13.9)	(24.9)
Net assets acquired	(8.6)	60.3	51.7
Consideration (including £33.9m net cash acquired)			100.3
Goodwill arising (including total excess cost on smaller acquisitions)			48.6

These businesses acquired in the current year contributed £8.0m to operating profit and £8.0m to net cash flow from operating activities for the part period under group ownership.

Associated undertakings acquired in the current year contributed £3.8m to operating profit for the part period under group ownership.

24 SHARE CAPITAL

	AUTHORISED	CALLED UP ISSUED AND FULLY PAID
<i>£ and no. shares</i>	31 Dec 1993	31 Dec 1993
<i>Preference shares (cumulative) of £1 each</i>	and 1994	and 1994
Irredeemable		
7.50%	100,000	100,000
<i>Ordinary shares of £1 each</i>		
"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 attaching 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 9. 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.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

25 SHARE PREMIUM

£ million

At 31 December 1993 and 1994	324.0
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26 RECONCILIATION OF SHAREHOLDERS' FUNDS

<i>£ million</i>	CONSOLIDATED			PARENT	
	Share capital and share premium	Revaluation reserve	Retained profit	Total	Total
At 31 December 1993	324.1	3.1	490.9	818.1	522.4
Retained profit for the year	-	(0.8)	91.0	90.2	62.4
Goodwill written off on acquisitions note 23	-	-	(513.2)	(513.2)	-
Goodwill reinstated on disposals	-	-	1.8	1.8	-
Exchange translation differences	-	-	(12.3)	(12.3)	-
At 31 December 1994	324.1	2.3	58.2	384.6	584.8

The group's share of post acquisition accumulated reserves of associated undertakings totalled £11.1m (1993 : £16.6m) at 31 December 1994.

The accumulated goodwill written off to reserves in the year and in prior periods in respect of the acquisition of continuing businesses is £1,925.4m (1993 : £1,414.0m).

Parent company reserves comprise the profit and loss account. The profit attributable to shareholders, dealt with in the accounts of the company, is £244.4m (1993 : £277m).

27 CASH FLOW STATEMENT

<i>£ million</i>	Year ended 31 December 1994	Period ended 31 December 1993
<i>Reconciliation of operating profit to net cash inflow from operating activities</i>		
Operating profit	654.5	621.7
Income from interests in associated undertakings	(19.2)	(18.0)
Net SSAP 24 pension credit	(8.3)	(16.0)
Loss from sale of fixed assets	(2.0)	(6.1)
Depreciation charges	70.9	72.1
Non cash items	41.4	32.0
(Increase)/decrease in stocks	(6.6)	0.5
Decrease in debtors	4.1	4.2
Increase in creditors	52.6	172.5
Movement in working capital	50.1	177.2
Net cash inflow from operating activities	746.0	830.9

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

27 CASH FLOW STATEMENT (continued)

Analysis of changes in financing

	Net borrowings from shareholders		Short term invest- ments original maturity after 3 months and within 1 year	
	Share capital and share premium	and fellow associated undertaking	Long term borrowings	
<i>£ million</i>				
At 31 December 1993	324.1	650.7	676.6	(30.3)
Net cash inflow from financing	-	360.8	87.7	24.9
Inception of finance leases	-	-	8.1	-
Finance leases of acquired undertakings	-	-	13.4	-
Exchange differences	-	(2.9)	(28.7)	(0.9)
At 31 December 1994	324.1	1,008.6	757.1	(6.3)

Long term borrowings comprise loan capital, finance leases, promissory notes and bank loans with an original maturity of over 3 months. Cash outflows and inflows relating to commercial paper and other similar borrowings are shown net. The net cash inflow from financing includes the proceeds of issuing a \$200m 7.5% Eurodollar Bond (£131m) and the outflow from net repayments of borrowings £43.3m (1993 : £94m).

Analysis of changes in net cash and cash equivalents

		Bank loans		
		Short term	promissory notes	
		investments	and overdrafts	
	Cash at bank	original maturity	original maturity	
<i>£ million</i>	and in hand	within 3 months	within 3 months	Total
At 31 December 1993	66.9	114.4	(394.3)	(213.0)
Increase/(decrease) in net cash and cash equivalents	6.0	(82.9)	(346.9)	(423.8)
Exchange differences	-	3.1	14.5	17.6
At 31 December 1994	72.9	34.6	(726.7)	(619.2)

28 CONTINGENT LIABILITIES

<i>£ million</i>	PARENT	
<i>There are contingent liabilities in respect of:</i>	1994	1993
Borrowings of subsidiary undertakings	52.7	15.6
Borrowings of associated undertakings	3.9	2.0

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 Civil Code, responsibility for the liabilities, including trade creditors and external borrowings totalling £130.4m (1993 : £129.8m), 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 1994.

NOTES TO THE ACCOUNTS
For the year to 31 December 1994

29 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 Reed Elsevier plc's UK employees, was subject to a revaluation by R. Watson & Sons, consulting actuaries, as at 5 April 1994. The scheme is valued formally every 3 years, the next valuation being due in April 1997.

The principal 1994 valuation assumptions were :

Actuarial method	: projected unit method
Annual rate of return on investments	: 9%
Annual increase in total pensionable remuneration	: 7%
Annual rate of dividend growth	: 4.5%
Annual increase in present and future pensions in payment	: 5%

The actuarial value placed on the assets was sufficient to cover 125% 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 as at date of valuation was £1,045.4m. 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 or 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 £15.2m (1993 : £11.8m), including a £8.3m (1993 : £16.0m) SSAP 24 credit related to the main UK scheme. The net SSAP 24 credit on the main scheme comprises a regular cost of £14.6m (1993 : £16.5m), offset by amortisation of the net actuarial surplus of £22.9m (1993 : £32.5m). Pension contributions made in the year amounted to £23.7m (1993 : £27.8m). A prepayment of £118.5m (1993 : £110.2m) is included in debtors, 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 to 31 December 1994

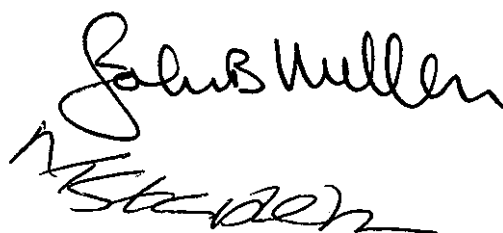
30 BALANCE SHEET OF REED ELSEVIER plc AS AT 31 DECEMBER 1994

<i>£ million</i>			1994	1993
Fixed assets				
Investments	note 11	862.4	862.4	835.1
Current assets				
Debtors : amounts falling due within 1 year	note 13	22.9		17.0
Debtors : amounts falling due after more than 1 year	note 14	-		1.1
		22.9		18.1
Creditors: amounts falling due within 1 year	note 16	286.7		330.8
Net current liabilities			(263.8)	(312.7)
Total assets less current liabilities			598.6	522.4
Creditors: amounts falling due after more than 1 year	note 17		13.8	-
Net assets			584.8	522.4
Capital and reserves				
Called up share capital	note 24		0.1	0.1
Share premium account	note 25		324.0	324.0
Profit and loss reserve			260.7	198.3
Shareholders' funds	note 26		584.8	522.4

Approved by the Board of Reed Elsevier plc, 31 March 1995

J B Mellon *Director*

N J Stapleton *Director*



SUPPLEMENTARY INFORMATION

Principal Subsidiary Undertakings at 31 December 1994

Holding Companies

Reed Elsevier (UK) Limited *	
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)
RPH Limited +	

Scientific and Medical

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

Professional

Butterworth & Co (Publishers) xx	
Congressional Information Service Inc	(USA)
Reed Educational Publishing xxx	
Reed Reference Publishing #	(USA)
Lexis-Nexis #	(USA)

Business

Reed Telepublishing Limited	
Cahners Publishing Company #	(USA)
Reed Telepublishing #	(USA)
Uitgeversmaatschappij C. Misset BV	(The Netherlands)
Reed Business Publishing Limited	
Reed Exhibition Companies #	(USA)

Consumer

IPC Magazines Limited	
Reed Consumer Books xxx	
Reed Regional Newspapers Limited	
Nederlandse Dagbladunie BV	(The Netherlands)

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

*	Direct subsidiary undertakings of the parent company
+	Preference shares held by outside interests
#	Division of Reed Elsevier Inc (USA)
xx	Division of Reed Elsevier (UK) Limited
xxx	Division of Reed International Books Limited

Principal Associated Undertakings at 31 December 1994

		<u>Operating in:</u>	<u>Principal place of business</u>
Book Club Associates (partnership)	50%	UK	Farnsby Street, Swindon
TRW/REDI Property Data (partnership)	40%	USA	Central Avenue, Riverside CA
Giuffrè	40%	Italy	Via Busto Arsizio, Milan