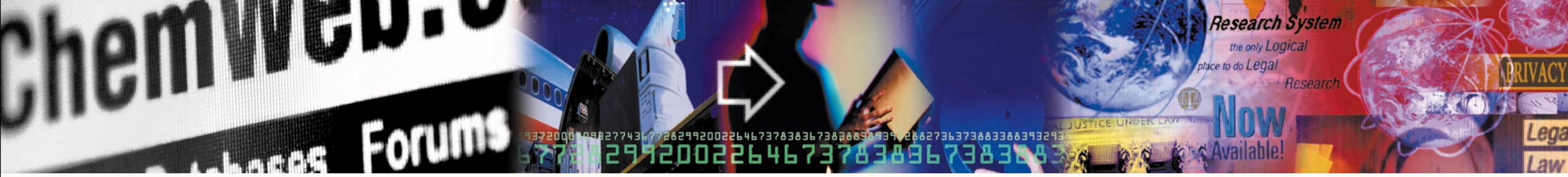


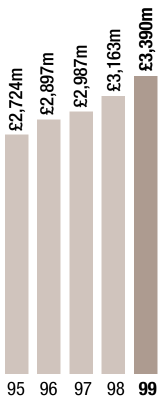
REED ELSEVIER

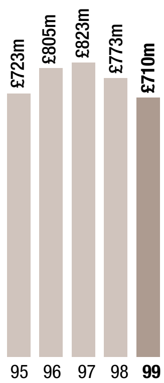
ANNUAL REPORTS & FINANCIAL STATEMENTS 1999

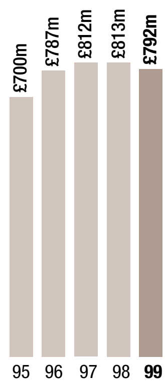
FOR THE REED ELSEVIER COMBINED BUSINESSES, REED INTERNATIONAL P.L.C. AND ELSEVIER NV

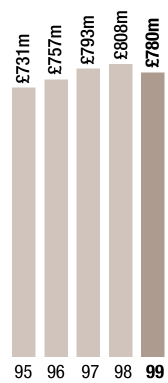
REED ELSEVIER COMBINED Results for the year ended 31 December

£ sterling



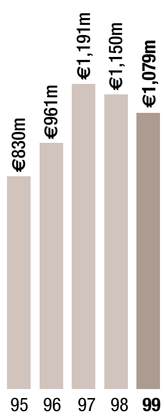






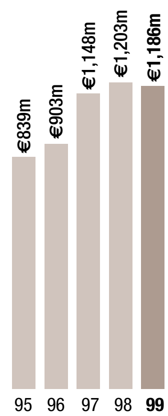
€ euro

Turnover



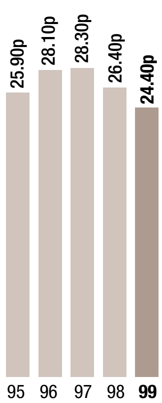
Adjusted pre-tax profit

Adjusted operating profit

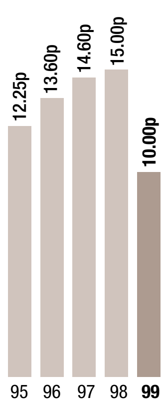


Adjusted operating cash flow

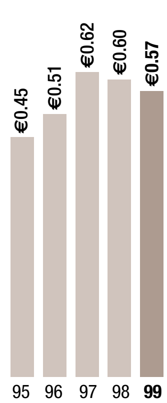
PARENT COMPANIES Results for the year ended 31 December



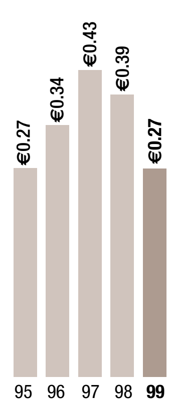
Reed International
Adjusted earnings per share



Reed International
Full year dividends



Elsevier
Adjusted earnings per share



Elsevier
Full year dividends

The financial highlights refer to 'adjusted' profit and cash flow figures. These figures are used by the Reed Elsevier business as additional performance measures and are stated before exceptional items, the amortisation of goodwill and intangible assets and related tax effects.

Adjusted pre-tax profit is presented for total operations; other highlights relate to continuing operations, which exclude the consumer publishing businesses sold in the period 1995 to 1998.

This review provides a commentary on the operating and financial performance of the Reed Elsevier combined businesses for the year ended 31 December 1999. In addition, it describes other financial aspects of the combined businesses including taxation and treasury management and accounting policies. The review also includes information on the financial performance and dividends of the two parent companies and on the finance activities of the Elsevier Reed Finance BV group.

REVIEW OF OPERATIONS

The combined financial statements encompass the businesses of Reed Elsevier plc and Elsevier Reed Finance BV, together with their parent companies, Reed International and Elsevier (the 'Reed Elsevier combined businesses' or 'Reed Elsevier'). Financial information is presented in both sterling and euros.

Unless otherwise indicated, all percentage movements in the following commentary refer to constant currency rates, using 1998 full year average rates, and are stated before amortisation of goodwill and intangibles and exceptional items. During 1999, management and development responsibility for the Elsevier Tuition training business has been transferred from the Legal to the Business segment. Comparatives had been restated accordingly.

FORWARD-LOOKING STATEMENTS

The Reed Elsevier Annual Reports & Financial Statements 1999 contain forward-looking statements within the meaning of Section 27A of the Securities Act 1933, as amended, and Section 21E of the 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 being anticipated as reflected in such forward-looking statements. The terms 'expect', 'should be', 'will be', and similar expressions identify forward-looking statements. Factors which may cause future outcomes to differ from those foreseen in forward-looking statements include, but are not limited to, general economic conditions and business conditions in Reed Elsevier's markets, customers' acceptance of its products and services, the actions of competitors, changes in law and legal interpretation affecting Reed Elsevier's intellectual property rights, and the impact of technological change.

REVIEW OF OPERATIONS

	1999 £m	1998 £m	**1999 €m**	1998 €m	% change at constant currencies
Turnover					
Scientific	**652**	622	**991**	926	+5%
Legal	**1,268**	1,107	**1,927**	1,648	+13%
Business	**1,470**	1,434	**2,235**	2,134	+2%
Continuing operations	**3,390**	3,163	**5,153**	4,708	+6%
Discontinued operations	**–**	28	**–**	41	
Total	**3,390**	3,191	**5,153**	4,749	+5%
Adjusted operating profit					
Scientific	**231**	223	**351**	332	+5%
Legal	**316**	322	**480**	479	-4%
Business	**245**	268	**373**	399	-9%
Continuing operations	**792**	813	**1,204**	1,210	-3%
Discontinued operations	**–**	–	**–**	–	
Total	**792**	813	**1,204**	1,210	-3%

Adjusted figures, which are stated before the amortisation of goodwill and intangible assets and exceptional items, are presented as additional performance measures.

Scientific segment

Turnover and operating profits in the Scientific segment both increased by 5% at constant rates of exchange, or 2% excluding acquisitions. Operating margins were slightly lower at 35.4%. Sales growth at Elsevier Science of 5%, which included a 3% benefit from acquisitions, was adversely affected by the impact on subscription renewals of currency movements on library budgets, particularly in Japan and Continental Europe. Operating profits excluding acquisitions increased by 4%.

Good progress was made during the year in the roll-out of ScienceDirect, the web-based scientific information service, with over 25% of journal subscription revenues now covering both print journals and the ScienceDirect service. Over 800,000 scientific research articles are now available in the online database. Usage is growing rapidly, significantly increasing the value of our information to the scientific community. An increasing number of publishers now include their information within ScienceDirect, and linkages have been established with other major databases. The new pricing approach introduced in the year, moderating the impact of currencies so as to give more predictable journal pricing for customers, has contributed to the continuing success of the migration of revenue from print to electronic delivery. Acquisitions in the year included Cell Press with its four first class journals in the field of molecular biology.

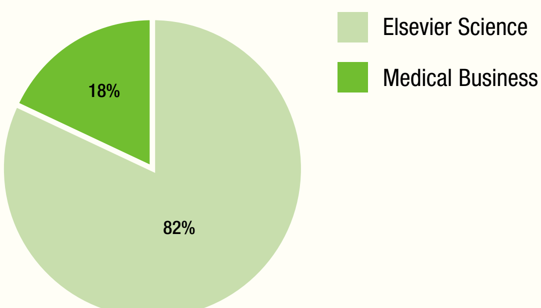
The outlook for Elsevier Science is positive. Considerable additional investment is being made in the ScienceDirect product line and in sales and marketing and other initiatives. This is being funded from cost savings across the business and most particularly in production, pre-press and distribution through the re-engineering of processes and technology advances.

The medical publishing and communications business in 1999 reported turnover growth of 6%, due to acquisitions, with underlying operating profits down 12% due to some weakness in the sponsored communications business and in France. A much stronger performance is expected in 2000 from improvements in the market and in organisational effectiveness.

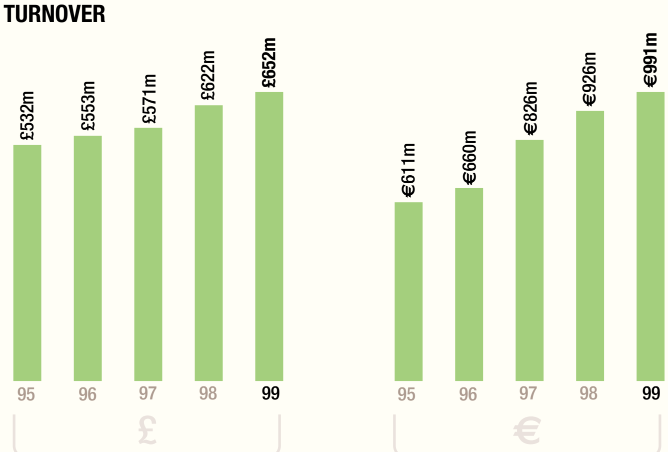
SCIENTIFIC SEGMENT

	1999 £m	1998 £m	**1999 €m**	1998 €m	% change at constant currencies
Turnover					
Elsevier Science	**534**	513	**812**	764	+5%
Medical Businesses	**118**	109	**179**	162	+6%
	652	622	**991**	926	+5%
Adjusted operating profit	**231**	223	**351**	332	+5%
Operating margin	**35.4%**	35.9%	**35.4%**	35.9%	-0.5 pts

REVENUE BY BUSINESS



TURNOVER



Legal segment

The Professional segment has been renamed Legal to reflect the principal markets of this segment.

Turnover in the Legal segment increased by 13% whilst operating profits declined by 4% at constant rates of exchange. Excluding the effect of acquisitions, principally Matthew Bender and the remaining 50% of Shepard's acquired in August 1998, turnover increased by 5% whereas operating profits declined by 12%. This result reflected the combination of low revenue growth at LEXIS-NEXIS and continued investment spend, resulting in operating margins 4.2 percentage points lower at 24.9% for the segment.

At LEXIS-NEXIS, turnover increased by 13% whereas operating profits were down 8% as significant additional investment was made in new product development and in sales and marketing. Excluding acquisitions, turnover was up 2% and operating profits down 18%. In the US legal market, the LEXIS Publishing businesses had flat revenues with a good performance in the large law firm market offset by weaker revenues in other markets. The print/CD-ROM legal publishing business saw some loss of revenues, principally at Shepard's, due to heavy promotion and discounting by a competitor as its licence to the Shepard's content expired. The Martindale-Hubbell legal directory business had an excellent year with revenues 12% ahead. In the online business information market, NEXIS revenues fell by 4%, reflecting pricing pressures across the industry.

Throughout 1999, LEXIS-NEXIS has been launching innovative web-based legal research products and legal practice tools, which have been well received in the market. The content and editorial strengths of Matthew Bender and Shepard's have been pivotal in these developments. The launch of the web delivered lexis.com service has had a major impact in the law schools where customer preferences are first developed. The benefits of these and other initiatives will mostly be felt as customers migrate from the proprietary systems to the easier to use web format of the lexis.com service, and as subscription contracts come up for renewal.

NEXIS continues to see strong growth in demand for its online business information services, but this is not converting into growing revenues due to pricing pressures across the industry. A step up in new product development to add further value and differentiate from competitors is in hand under a new management team. In January 2000, NEXIS acquired the FT Profile archival news business together with a long term licence agreement for Financial Times content.

LEGAL SEGMENT

	1999 £m	1998 £m	**1999 €m**	1998 €m	% change at constant currencies
Turnover					
LEXIS-NEXIS	**854**	741	**1,298**	1,103	+13%
Reed Elsevier Legal Division	**233**	207	**354**	308	+13%
Reed Educational & Professional Publishing	**181**	159	**275**	237	+12%
	1,268	1,107	**1,927**	1,648	+13%
Adjusted operating profit	**316**	322	**480**	479	-4%
Operating margin	**24.9%**	29.1%	**24.9%**	29.1%	-4.2 pts

LEXIS-NEXIS has very strong positions in the US legal and online business information markets, and is committed to restoring revenue growth to market levels and beyond, through increasing investment in new product and in sales and marketing. The pick up revenues from these investments, both made and planned, will however take time due to the lag involved in changing embedded customer preferences coupled with subscription cycles. Operating margins are, therefore, expected to decline further, although a major re-engineering of the businesses presently in process will release part of the funding required for investment.

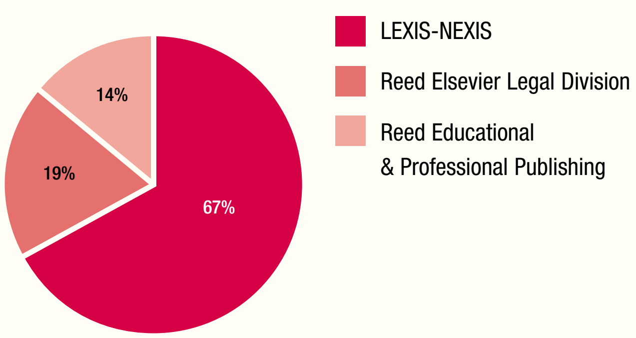
The Reed Elsevier Legal Division, comprising Reed Elsevier's legal businesses outside the USA, saw turnover and operating profits up 13% and 7% respectively, including the benefit of small acquisitions in Austria, Argentina, Australia and South Africa. Excluding these, operating profit growth was 5% on sales up 7%, led by strong performances in the UK, France and South East Asia.

In the UK, Butterworths Direct, the legal and tax online service, continued to add materials and add to its customer base, accounting for half of Butterworths' new subscriptions. The continued expansion into regulatory publishing was given a significant boost with the acquisition in January 2000 of Eclipse, the leading publisher of employment law and related fields. The outlook for the Reed Elsevier Legal Division remains positive.

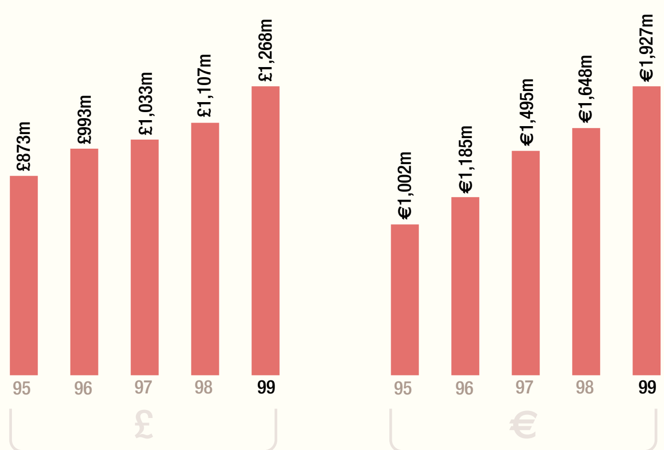
The Reed Educational & Professional Publishing business saw turnover and operating profit increase by 12% and 9% respectively. The UK and US Schools businesses both increased sales by 15% driven by additional government funding for literacy materials and by increased market share. Costs increased faster than revenues as investment was made in new publishing programmes to capture market demand. The Butterworth-Heinemann businesses also performed well with a strong front-list in scientific, technical and medical markets. The outlook for Reed Educational & Professional Publishing is positive with a strong publishing programme for 2000.

LEGAL SEGMENT

REVENUE BY BUSINESS



TURNOVER



Business segment

Turnover in the Business segment increased by 2% whilst operating profits decreased by 9%, reflecting low underlying revenue growth, particularly at Cahners, whilst costs rose. Excluding acquisitions, turnover was up 1% and operating profits 11% lower. Operating margins at 16.7% were 2.0 percentage points lower than the prior year.

Cahners Business Information's turnover was flat for the year, before a 1% reduction due to the net effect of divestments less acquisitions. Operating profits declined by 40% due to a 5% increase in costs, largely reflecting the full year effect of prior year investments made in the organisation which had anticipated much stronger revenue growth. Whilst the Entertainment & Media, Building & Construction and Retail sectors performed well, this was offset by revenue declines in Manufacturing, Electronics and Travel. Although the slowdown in sales growth began in the second half of 1998, the degree to which this persisted into 1999 was unexpected. A major restructuring of the business took place in the second half of 1999 to realign the cost base.

The revenue outlook for 2000 is more encouraging. Major initiatives for the development of Internet services in targeted sectors are planned with a substantial increase in development spending. This is largely financed from funds released from the cost actions taken.

At Reed Business Information, turnover and operating profits were down 2% and 6% respectively. Weakness in advertising demand, particularly in high margin recruitment, in the first half was recovered in the second half as the UK economy strengthened with the exception of the important Computer sector which saw strong competition both in print and online. The Healthcare, Property and Social Services sectors performed particularly well. Online services established around core titles continue to develop well with good growth in subscriptions and growing advertising support. In July 1999, Reed Business Information launched its totaljobs.com Internet recruitment service which by mid-February held 17,000 UK jobs, significantly more than any other service.

The Computer sector is expected to remain very competitive, particularly as online recruitment grows, whilst the outlook for other advertising demand is positive. Significant additional investment is being made in 2000 in totaljobs.com and other Internet services which will in large part be funded from cost efficiency savings.

At OAG Worldwide, operating profits increased by 18% on turnover down 6%. During the year good progress was made in stabilising the business with certain activities terminated to increase profitability, and plans developed to capitalise on the growing demand for electronic products

BUSINESS SEGMENT

	1999 £m	1998 £m	**1999 €m**	1998 €m	% change at constant currencies
Turnover					
Cahners Business Information	**542**	531	**824**	790	-1%
Reed Business Information	**243**	248	**369**	369	-2%
Elsevier Business Information (including Tuition)	**270**	257	**411**	383	+7%
OAG Worldwide	**85**	90	**129**	134	-6%
Reed Exhibition Companies	**301**	274	**458**	408	+8%
Other	**29**	34	**44**	50	
	1,470	1,434	**2,235**	2,134	+2%
Adjusted operating profit	**245**	268	**373**	399	-9%
Operating margin	**16.7%**	18.7%	**16.7%**	18.7%	-2.0 pts

using OAG data. Whilst good growth is seen in electronic revenues, the shift of customers from print to online services continues to adversely affect overall revenues. OAG is significantly increasing its investment spending and entering into a number of alliance partnerships to capture more fully the benefit from the growing demand for online travel solutions.

Elsevier Business Information, excluding Tuition, saw underlying turnover and operating profit growth of 3% and 6% respectively as advertising demand in Continental Europe picked up as the year progressed. In the Netherlands, the journal *Elsevier* and titles in the Human Resources, General Management and Construction sectors performed particularly well, with good profit growth also in Spain and France.

The outlook for 2000 is positive with economic conditions expected to be more favourable. Elsevier Business Information has an ambitious launch programme for new Internet services leveraging the strengths of its core brands, partly funded by cost savings.

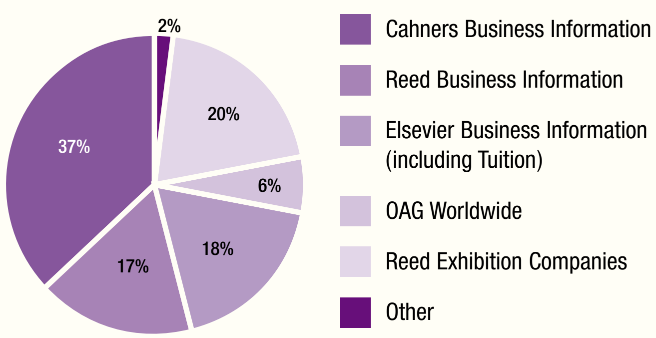
Elsevier Tuition turnover and operating profits both increased by 8%, with good performances in in-company and open training. During the year, management responsibility for the business was moved within Elsevier Business Information to provide combined product focus on targeted customer groups. During 2000, the training portfolio will be reorganised accordingly and certain non-core businesses sold. In January 2000, Elsevier Tuition acquired the Baard group which is a leading provider of management training in the Netherlands.

Turnover at Reed Exhibition Companies was ahead by 8%, whilst operating profits rose by 11%, driven by good growth in the annual trade shows, particularly in the US, and the contribution of the PGA golf equipment shows acquired in the previous year. 30 shows were launched in the year in the US, Europe and Asia Pacific, adding over 3% to turnover. The impact of show cycling, i.e. of non-annual shows, and acquisitions was broadly neutral in 1999.

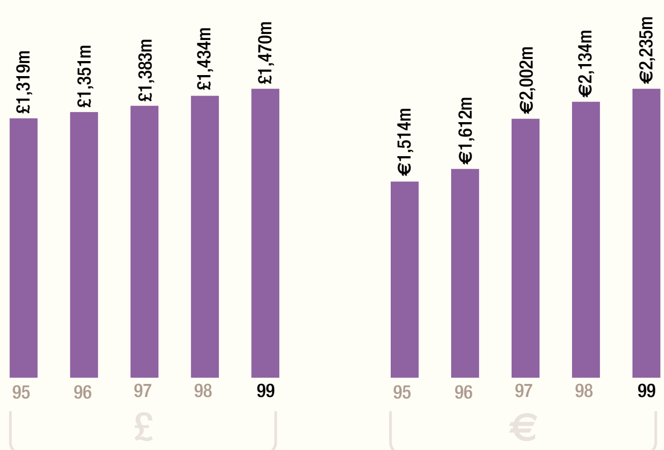
Reed Exhibitions is significantly stepping up its investment in new shows and in show related web services, including information and contact broking to increase the effectiveness of the trade shows for both exhibitors and visiting buyers. Much of this investment will be funded from efficiency savings. The results in 2000 will, however, be adversely affected by the net cycling out of some important non-annual shows.

BUSINESS SEGMENT

REVENUE BY BUSINESS



TURNOVER



REED ELSEVIER COMBINED BUSINESSES

Profit and loss

The **reported profit before tax** for the Reed Elsevier combined businesses, including exceptional items and the FRS10 amortisation of goodwill and intangible assets, was £105m/€160m, which compares with a reported profit of £1,044m/€1,554m in 1998. The decline reflects the net £835m/€1,250m adverse movement in exceptional items, higher amortisation charges arising from acquisitions, and a weaker trading performance. The **reported attributable loss** of £63m/€95m compares with a reported attributable profit of £772m/€1,149m in 1998.

Turnover increased by 6% expressed in sterling to £3,390m, and by 9% expressed in euros to €5,153m. Underlying revenue growth, excluding the impact of acquisitions and disposals and currency translation effects, was 3%.

Excluding exceptional items and the amortisation of goodwill and intangible assets, **adjusted operating profits** were down 3% expressed in sterling to £792m, and flat expressed in euros at €1,204m. Operating margins at 23.4% were 2.1 percentage points below the prior year. Excluding acquisitions and disposals and currency translation effects, revenue growth was 3% whilst costs increased by 5%, principally reflecting investment in people, products and sales and marketing.

The **amortisation charge** for goodwill and intangible assets amounted to £373m/€567m, up £41m/€73m reflecting acquisitions made in 1998 and 1999.

Exceptional items showed a pre-tax charge of £232m/€352m, being £50m/€76m costs incurred in 1999 in respect of the Year 2000 compliance programme, £28m/€43m on acquisition related integration, £161m/€244m in respect of the major restructuring projects across the operating businesses, and £7m/€11m profit on sale of fixed asset investments. This compares with a net gain on exceptional items in 1998 of £603m/€898m which included a £692m/€1,031m profit on the sale of IPC Magazines and other businesses.

Net interest expense, at £82m/€125m, was £42m/€65m higher than the previous year principally due to the financing of the Matthew Bender and Shepard's acquisitions completed in the second half of 1998. Net interest cover was 10 times.

REED ELSEVIER COMBINED BUSINESSES

	1999 £m	1998 £m	**1999 €m**	1998 €m	Change at constant currencies %
Reported figures					
Turnover	**3,390**	3,191	**5,153**	4,749	+5%
Operating profit	**180**	402	**274**	598	-54%
Profit before taxation	**105**	1,044	**160**	1,554	-88%
Net borrowings	**1,066**	962	**1,717**	1,366	
Adjusted figures					
Operating profit	**792**	813	**1,204**	1,210	-3%
Operating margin	**23%**	25%	**23%**	25%	
Profit before taxation	**710**	773	**1,079**	1,150	-9%
Operating cash flow	**780**	808	**1,186**	1,203	-4%
Operating cash flow conversion	**98%**	99%	**98%**	99%	
Interest cover (times)	**10**	20	**10**	20	

Adjusted figures, which are stated before the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures.

Adjusted profit before tax, which excludes the amortisation of goodwill and intangible assets and exceptional items, at £710m/€1,079m, was 8% lower than in previous years expressed in sterling, and 6% lower expressed in euros.

The **total tax charge** for the year was high as a proportion of profit before tax principally due to non-tax deductible amortisation, the non-recognition of potential deferred tax assets and taxes arising on restructuring related business consolidation. The **effective tax rate** on adjusted earnings was slightly lower at 25.6% (1998 26%).

The **adjusted profit attributable** to shareholders of £527m/€801m compared to £571m/€850m in 1998, a decline of 8% at constant exchange rates.

Cash flows, acquisitions and debt

Reed Elsevier generates significant cash flows as its principal businesses do not require major fixed or working capital investments. Capital expenditure principally relates to computer equipment and, increasingly, investment in systems infrastructure to support electronic publishing activities.

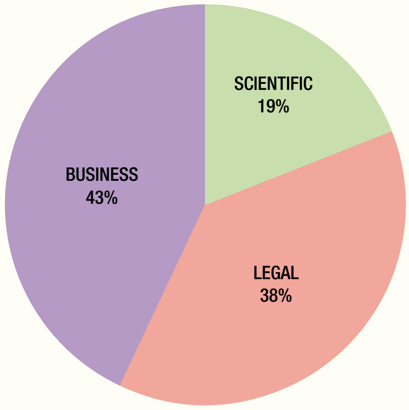
Total capital expenditure in the year amounted to £148m/€225m. This was £13m/€15m lower than the prior year in part reflecting the completion of spend on replacement systems ahead of the millennium date change. Depreciation in the year was £117m/€178m. Working capital requirements are negative overall, due to the substantial proportion of revenues received through subscription and similar advanced receipts.

Adjusted operating cash flow, before exceptional items, was £780m/€1,186m, representing a conversion rate of operating profit into cash flow of 98%, which compares with 99% in 1998.

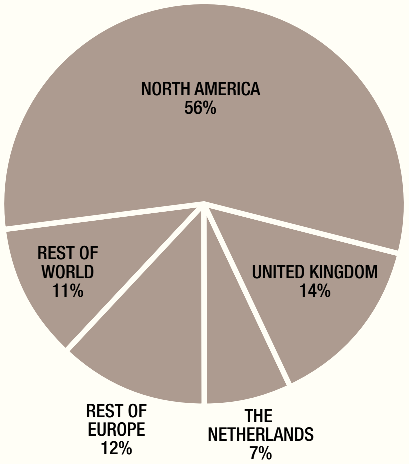
Free cash flow – after interest, taxation and dividends but before acquisition spend and exceptional receipts and payments – was £186m/€284m compared to £246m/€366m in 1998. The decrease in 1999 reflects adjusted operating cash flow, and higher taxation and interest payments. **Net exceptional payments** of £61m/€93m relate to the 1999 exceptional charges, less tax recoveries in respect of prior year exceptional charges.

TURNOVER

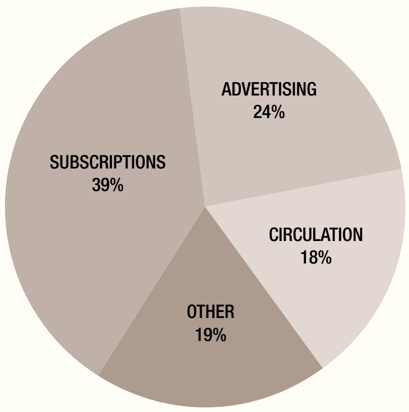
BY BUSINESS SEGMENT



BY GEOGRAPHICAL MARKET



BY SOURCE



In 1999, **acquisitions** were made for a total consideration of £132m/€201m. An amount of £138m/€210m was capitalised as goodwill and intangible assets. The 1999 acquisitions contributed £5m/€8m to adjusted operating profit in the year and added £4m/€6m to operating cash flow.

Net borrowings at 31 December 1999 were £1,066m/€1,717m, an increase of £104m/€351m on the previous year end, principally reflecting spend on acquisitions, payments in relation to exceptional items less free cash flow.

Gross borrowings at 31 December 1999 amounted to £1,506m/€2,425m, denominated mostly in US dollars and partly offset by cash balances totalling £440m/€708m invested in short term deposits and marketable securities. Approximately 82% of cash balances were held in sterling, euros and US dollars. A total of 67% of Reed Elsevier's gross borrowings were at fixed rates, including £467m/€752m of floating rate debt fixed through the use of interest rate swaps. At 31 December 1999, the fixed rate debt had a weighted average interest coupon of 6.7% and an average remaining life of 6.7 years. The net interest expense also reflects the interest yield differentials between the short term cash investments and long term fixed rate borrowings.

YEAR 2000

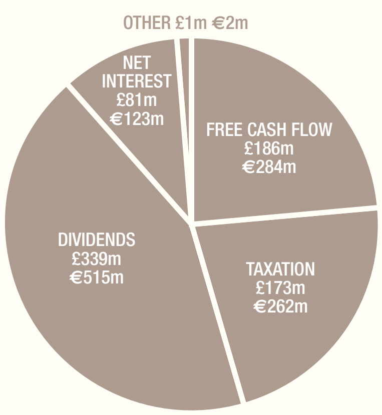
The Year 2000 compliance programme has so far proved very effective with negligible disruption over the millennium date change. Total costs of the programme were £114m/€171m of which £50m/€76m was expensed in 1999.

TREASURY POLICIES

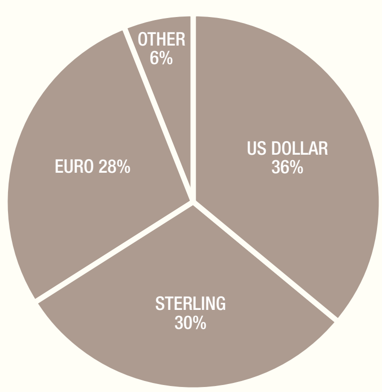
The boards of Reed International and Elsevier have requested that Reed Elsevier plc and Elsevier Reed Finance BV have due regard to the best interests of Reed International and Elsevier shareholders in the formulation of treasury policies.

Financial instruments are used to finance the Reed Elsevier business and to hedge transactions. Reed Elsevier's businesses do not enter into speculative transactions. The main risks faced by Reed Elsevier are liquidity risk, interest rate risk and foreign currency risk. The boards of the parent companies agree overall policy guidelines for managing each of these risks and the boards of Reed Elsevier plc and Elsevier Finance SA agree policies (in conformity with parent company guidelines) for their respective business and treasury centres. These policies are summarised below and have not changed significantly since the beginning of 1999.

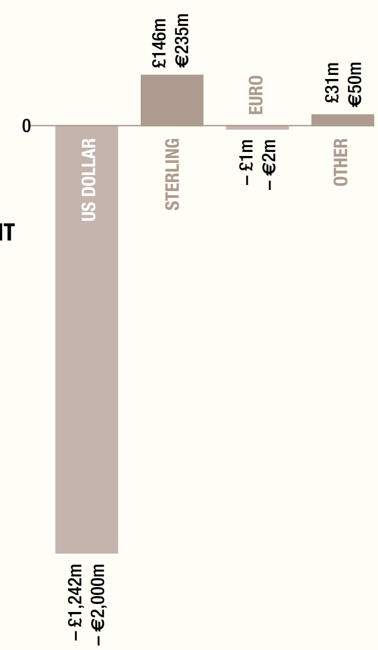
USE OF ADJUSTED OPERATING CASH FLOW



CURRENCY PROFILE – 1999 ADJUSTED PRE-TAX PROFIT



CURRENCY PROFILE – 1999 NET CASH/BORROWINGS



Funding

Reed Elsevier develops and maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. The significance of Reed Elsevier plc's US operations means that the majority of debt is denominated in US dollars and is raised in the US debt markets. A mixture of short term and long term debt is utilised and Reed Elsevier maintains a maturity profile to facilitate refinancing. Reed Elsevier's policy is that not more than $500m of long term debt should mature in any 12 month period. In addition, minimum proportions of net debt with maturities over three years and five years are specified, depending on the level of total borrowings. At 31 December 1999, and after taking account of the maturity of committed bank facilities that back short term borrowings, 28% of net debt matured within 12 months, 29% within three years and 73% within five years.

Interest rate exposure management

Reed Elsevier's interest rate exposure management policy is aimed at reducing the exposure of the combined businesses to changes in interest rates. The proportion of interest expense that is fixed on gross debt is determined by reference to the level of gross interest cover. Reed Elsevier uses interest rate swaps and forward rate agreements to manage the exposure. While interest rate caps, floors and collars may also be used, there were no such transactions outstanding at 31 December 1999 or during 1999.

Foreign currency exposure management

Translation exposures arise on the earnings and net assets of business operations in countries other than those of the parent companies. These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars.

Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts. In addition, recurring transactions and future investment exposures may be hedged, within defined limits, in advance of becoming contractual. The precise policy differs according to the commercial situation of the individual businesses. Expected future net cash flows may be covered for sales expected for up to the next 12 months (50 months for Elsevier Science subscription businesses up to limits staggered by duration). Cover takes the form of foreign exchange forward contracts.

At the year end, the amount of outstanding foreign exchange cover in respect of future transactions was £486m/€787m.

European Economic and Monetary Union

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

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

The implications for Reed Elsevier businesses have been initially low relative to many other multinational European companies. Principally this is because, with the significant exception of Elsevier Science, which already publishes global prices, Reed Elsevier's businesses have limited cross border trade. The most significant issue, therefore, has been the timing of euro based marketing and invoicing and the transfer to euro denominated business and financial systems. In this respect, Reed Elsevier businesses have put in place systems to accommodate the euro. The profit and loss expense of moving to a euro currency environment is not expected to be significant.

ELSEVIER REED FINANCE BV GROUP

Structure

Elsevier Reed Finance BV, the Dutch resident parent company of the Elsevier Reed Finance BV group (ERF), is directly owned by Reed International and Elsevier. ERF provides treasury, finance and insurance services to the Reed Elsevier plc businesses through its subsidiaries in Switzerland: Elsevier Finance SA (EFSA), Elsevier Properties SA (EPSA) and Elsevier Risks SA (ERSA). These three Swiss companies are organised under one Swiss holding company, which is in turn owned by Elsevier Reed Finance BV.

Activities

EFSA, EPSA and ERSA each focus on their own specific area of expertise.

EFSA is the principal treasury centre for the Reed Elsevier combined businesses. It is responsible for all aspects of treasury advice and support for Reed Elsevier plc's businesses operating in Continental Europe and certain other territories and undertakes foreign exchange and derivatives dealing services for the whole of Reed Elsevier. EFSA also provides Reed Elsevier plc businesses with financing for acquisitions and product development and manages cash pools and investments.

EPSA is responsible for the exploitation of tangible and intangible property rights whilst ERSA is responsible for insurance activities relating to risk retention.

Major developments

During the year, additional loans to Reed Elsevier plc businesses in the US of US$1,050m were made of which US$220m was to refinance a maturing Reed Elsevier Inc. Eurobond and a maturing Medium Term Note. In addition, US$50m equivalent was lent to operating companies in Continental Europe. To fund this additional lending and to provide capacity to meet new lending requests, EFSA increased the size of the European Commercial Paper Programme, used by both EFSA and EPSA, from US$1,000m to US$1,500m and continues to look for opportunities to issue term debt in the domestic or international capital markets.

EFSA continued to advise Reed Elsevier plc businesses on the treasury implications of the introduction of the euro and all euro transfer programmes are progressing according to plan. EFSA also assisted Continental European operating businesses with their treasury preparations for the year 2000 changeover.

The volume of foreign exchange dealt by EFSA during 1999 amounted to approximately US$2bn equivalent. The average balance of cash under management, on behalf of Reed Elsevier plc companies, was approximately US$1bn equivalent.

Liabilities and assets

At the end of 1999, 93% (1998 91%) of ERF's gross assets were held in US dollars, including US$3,879m in loans to Reed Elsevier plc subsidiaries. The euro currency block represented 5% of total assets (1998 8%).

Liabilities included US$805m in US dollars and US$209m equivalent in euro currencies, borrowed under the euro commercial paper programme.

PARENT COMPANIES

Profit and loss account

Adjusted earnings per share for Reed International were 24.4p, a decline of 8% compared to the previous year. Adjusted earnings per share for Elsevier were €0.57, a decline of 5%. The difference in the percentage change is entirely attributable to the impact of the strengthening of sterling against the euro in 1999. At constant rates of exchange, the adjusted earnings per share of both companies would have shown a decline of 8% over the previous year.

After their share of the exceptional items and the charge in respect of goodwill and intangible assets amortisation, the **reported loss per share** of Reed International after tax credit equalisation and Elsevier were 3.4p and €0.07, compared to earnings per share in 1998 of 34.7p and €0.81 respectively.

The Reed International and Elsevier annual reports and financial statements are presented on pages 53 to 80.

Dividends

Dividends to Reed International and Elsevier shareholders are equalised at the gross level, including the benefit of the UK attributable tax credit of 10% received by certain Reed International shareholders. The exchange rate used for each dividend calculation – as defined in the Reed Elsevier merger agreement – is the spot guilder/sterling exchange rate, averaged over a period of five business days commencing with the tenth business day before the announcement of the proposed dividend.

The board of Reed International has proposed a final dividend of 5.4p, giving a total dividend of 10.0p for the year, 33% lower than 1998. The boards of Elsevier, in accordance with the dividend equalisation arrangements, have proposed a final dividend of €0.15 (Dfl 0.33), reflecting a guilder/sterling exchange rate of Dfl 3.58 to £1. This results in a total dividend of €0.27 (Dfl 0.59) for the year, 31% lower than in 1998. The difference in percentage reductions is attributable to currency movements and the change in the level of UK tax credit effective April 1999.

Dividend cover for Reed International, using adjusted earnings, was 2.4 times. For Elsevier, the adjusted dividend cover was 2.2 times. Measured for the combined businesses, dividend cover was 2.3 times compared with 1998 at 1.6 times.

The reduction by approximately one-third in the equalised Reed International and Elsevier dividends from the 1998 level reflects the adjustment to dividend policy in support of the new Reed Elsevier strategy for investment-led growth. This is explained more fully in the Report of the Chairman and the Chief Executive Officer.

PARENT COMPANIES

	Reed International			Elsevier		
	1999 £m	1998 £m	% change	**1999 €m**	1998 €m	% change
Reported (loss)/profit attributable	**(39)**	396		**(48)**	574	
Adjusted profit attributable	**279**	302	-8%	**401**	425	-6%
Average exchange rate €:£	**1.52**	1.49		**1.52**	1.49	
Reported (loss)/earnings per share	**(3.4)p**	34.7p		**€(0.07)**	€0.81	
Adjusted earnings per share	**24.4p**	26.4p	-8%	**€0.57**	€0.60	-5%
Dividend per share	**10.0p**	15.0p	-33%	**€0.27**	€0.39	-31%

The results of Reed International reflect its shareholders' 52.9% economic interest, through a 50% share of the Reed Elsevier combined businesses and a 5.8% interest in Elsevier. The results of Elsevier reflect its 50% share of the Reed Elsevier combined businesses. Both parent companies equity account for their respective shares in the Reed Elsevier combined businesses.

STRUCTURE

Corporate structure

Reed Elsevier came into existence on 1 January 1993 when Reed International and Elsevier contributed their businesses to two jointly owned companies, Reed Elsevier plc, a UK registered company which owns all the publishing and information businesses, and Elsevier Reed Finance BV, a Dutch registered company which owns the financing activities. Reed International and Elsevier have retained their separate legal and national identities and are publicly held companies with separate stock exchange listings in Amsterdam, London and New York.

Equalisation arrangements

Reed International and Elsevier each holds a 50% interest in Reed Elsevier plc. Reed International holds a 46% interest in Elsevier Reed Finance BV, with Elsevier holding a 54% interest. Reed International additionally holds a 5.8% indirect economic interest in Elsevier. This equity interest has been taken into account in determining the equalisation ratio whereby one Elsevier ordinary share is, in broad terms, intended to confer equivalent economic interests to 1.538 Reed International ordinary shares. The equalisation ratio is subject to change to reflect share splits and similar events that affect the number of outstanding ordinary shares of either Reed International or Elsevier.

Under the equalisation arrangements, Reed International shareholders have a 52.9% economic interest in Reed Elsevier, and Elsevier shareholders (other than Reed International) have a 47.1% economic interest in Reed Elsevier. Holders of ordinary shares in Reed International and Elsevier enjoy substantially equivalent dividend and capital rights with respect to their ordinary shares.

The boards of both Reed International and Elsevier have agreed, except in exceptional circumstances, to recommend equivalent gross dividends (including, with respect to the dividend on Reed International ordinary shares, the associated UK tax credit), based on the equalisation ratio. A Reed International ordinary share pays dividends in sterling and is subject to UK tax law with respect to dividend and capital rights. An Elsevier ordinary share pays dividends in euros and is subject to Dutch tax law with respect to dividend and capital rights.

CORPORATE GOVERNANCE

Compliance with codes of best practice

The boards of Reed International and Elsevier support the principles of corporate governance set out by the London Stock Exchange in its Combined Code: the Principles of Good Governance and Code of Best Practice, and corporate governance best practice in the Netherlands as set out in the Peters Committee Report.

Under the new governance arrangements arising from the adoption of a unitary management structure during the year, the boards of Reed International and Elsevier have implemented standards of corporate governance and disclosure policies applicable to companies listed on the stock exchanges of the United Kingdom and the Netherlands. The effect of this is that an obligation applying to one of Reed International or Elsevier will, where not in conflict, be observed by the other, where practicable.

The way in which the relevant principles of corporate governance are applied and complied with within Reed International, Elsevier and Reed Elsevier plc is described below.

Reed International

Reed International, which has its primary listing on the London Stock Exchange, has complied in all material respects throughout the period under review with the code provisions set out in Section 1 of the Combined Code.

As permitted by the London Stock Exchange, Reed International has complied this year with Code provision D.2.1 on internal control by reporting on internal financial control. The company has established the necessary procedures to be able to comply with the further guidance on internal controls, published by the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales. In future, the company will report on internal control generally.

Elsevier

Elsevier, which has its primary listing on the Amsterdam Stock Exchange, has complied throughout the period under review with the listing rules of the Amsterdam Stock Exchange and best custom and practice appropriate to internationally focused Dutch companies.

BOARDS

Reed International

The Reed International board consists of three executive directors: Crispin Davis (Chief Executive Officer), Mark Armour (Chief Financial Officer) and Derk Haank; and six non-executive directors: Morris Tabaksblat (Chairman), John Brock, Roelof Nelissen, Steven Perrick, Rolf Stomberg and David Webster. Subject to the approval of Derk Haank's appointment at the Elsevier AGM in April, all of the directors are also, or will be, directors of Elsevier and of Reed Elsevier plc.

All Reed International directors are subject to retirement at least every three years, and are able then to make themselves available for re-election by Reed International shareholders.

As the non-executive directors are a source of strong independent advice and judgement, the board has considered carefully the need to appoint a senior non-executive director, other than the Chairman, as recommended by the Code, and has concluded that such an appointment is not necessary at the present time.

Elsevier

Elsevier has a two-tier board structure comprising a Supervisory Board of eight members, all of whom are non-executives and an Executive Board of currently two members. The members of the Supervisory Board are Morris Tabaksblat (Chairman), John Brock, Jules van Dijck, Otto ter Haar, Roelof Nelissen, Steven Perrick, Rolf Stomberg and David Webster. The Executive Board comprises Crispin Davis (Chief Executive Officer) and Mark Armour (Chief Financial Officer). A proposal will be put to the forthcoming Elsevier Annual General Meeting to appoint Derk Haank as an additional member of the Executive Board. With the exception of Jules van Dijck and Otto ter Haar, all of the directors are also directors of Reed International and of Reed Elsevier plc.

Mr van Dijck will retire at the conclusion of the forthcoming Annual General Meeting of Elsevier, and is not seeking re-election. A recommendation will be made to the AGM to appoint Mrs GJ de Boer-Kruyt as a member of the Elsevier Supervisory Board.

All Elsevier directors are subject to retirement at least every three years, and are able then to make themselves available for re-election by Elsevier shareholders.

Reed Elsevier plc

The Reed Elsevier plc board consists of four executive directors and six non-executive directors. Biographical information in respect of the members of the board appears on page 7 of the Annual Review and Summary Financial Statements.

The non-executive directors, who have significant commercial experience outside Reed Elsevier, represent a source of strong independent advice and judgement. None of the non-executive directors are involved in any business relationship with Reed Elsevier, with the exception of Steven Perrick, who is a partner in Freshfields, an international firm of advisers who provide legal advice to Reed Elsevier. As a general rule, non-executive directors will serve on the board for a maximum period of ten years. The board, on the recommendation of the joint Nominations Committee, may extend this period where they consider it appropriate in individual circumstances.

Biographical information in respect of the two members of the Elsevier Supervisory Board who do not serve on the Reed International and Reed Elsevier plc boards appears on page 29 of the Annual Review and Summary Financial Statements.

Elsevier Reed Finance BV

The Elsevier Reed Finance BV group provides services to the Reed Elsevier plc group businesses. The principal finance subsidiary, Elsevier Finance SA, is based in Switzerland. The Supervisory Board of Elsevier Reed Finance BV comprises Roelof Nelissen (Chairman), Mark Armour, Jules van Dijck and Otto ter Haar, with the Management Board consisting of Cornelis Alberti and Willem Boellaard.

COMMITTEES

Audit Committees

Reed International, Elsevier and Reed Elsevier plc have established Audit Committees which comprise only non-executive directors, the majority of whom are independent. The committees, which meet regularly, are chaired by David Webster, the other members being Steven Perrick and Roelof Nelissen. The committees are responsible for reviewing matters relating to the financial affairs of the companies, internal control policies and the internal and external audit programmes. This includes, for example, reviewing accounting policies, compliance with accounting standards and other statutory requirements, and matters related to the effectiveness of internal controls. The committees also consider the appointment and fees of external auditors, including the nature and extent of non-audit services provided by the auditors. Senior representatives of the internal audit function of Reed Elsevier plc and the external auditors of the respective companies attend meetings of the committees.

Nominations Committee

Reed International and Elsevier have established a joint Nominations Committee which is chaired by Morris Tabaksblat, the other members being Crispin Davis, Steven Perrick and Rolf Stomberg. The committee meets regularly and its terms of reference include assessing the performance of the directors, assuring board succession and making recommendations to the boards of Reed International, Elsevier and Reed Elsevier plc concerning the appointment or reappointment of directors to, and the retirement of directors from, those boards. In conjunction with the Chairman of the Reed Elsevier plc Remuneration Committee and external consultants, the committee is also responsible for developing proposals for the remuneration and fees for new directors.

Remuneration Committee

Reed Elsevier plc has established a Remuneration Committee which comprises only independent non-executive directors. The committee, which meets regularly, is chaired by Rolf Stomberg, the other members being John Brock and Roelof Nelissen. The committee is responsible for recommending to the board the remuneration in all its forms of executive directors of Reed Elsevier plc. All executive directors of Reed International and Elsevier are also executive directors of Reed Elsevier plc.

The fees of non-executive directors are dealt with by each of the boards as a whole.

Strategy Committee

Reed Elsevier plc has established a Strategy Committee which is chaired by Morris Tabaksblat, the other members being Crispin Davis, John Brock and David Webster. The committee meets regularly and its terms of reference include reviewing the major features of the strategy proposed by the Chief Executive Officer, and subsequently recommending the proposed strategy to the board. The committee is also responsible for reviewing any acquisition or investment which would have major strategic or structural implications for the Reed Elsevier plc group.

PEOPLE, COMMUNITY AND ENVIRONMENT

Employee relations

The board of Reed Elsevier plc is fully committed to the concept of employee involvement and participation, and encourages each of its businesses to formulate its own tailor-made approach with the co-operation of employees. The group 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. Codes of Conduct applicable to employees within the Reed Elsevier plc group have been adopted throughout its businesses.

Investor relations

Reed International and Elsevier participate in regular dialogue with institutional shareholders, and presentations on the Reed Elsevier combined businesses are made after the announcement of the interim and full year results. A trading update is provided at the respective AGMs of Reed International and Elsevier, and near the end of each financial year.

The environment

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

Community relations

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

INTERNAL FINANCIAL CONTROL

Parent companies

The boards of Reed International and Elsevier exercise independent supervisory roles over the activities of Reed Elsevier plc and Elsevier Reed Finance BV. They approve the strategies and annual budgets of each company, and receive regular reports on their operation, including their treasury and risk management activities. Major transactions proposed by the boards of Reed Elsevier plc or Elsevier Reed Finance BV require the approval of the boards of both Reed International and Elsevier. The Reed International and the Elsevier Audit Committees meet on a regular basis to review the internal financial control environment of Reed Elsevier plc and of Elsevier Reed Finance BV. They also consider reports from the executive directors of these two companies and from the internal auditors and the respective external auditors.

Reed Elsevier plc

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

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

The internal financial control system is monitored and supported by an internal audit function, operated on a global basis. The work of the internal audit function is focused on areas of greatest risk, determined through a formalised approach to risk assessment. The external auditors, in co-ordination with the internal auditors, review and test the system of internal financial control and the information contained in the Reed Elsevier plc Report and Accounts, to the extent necessary to express their opinion on the consolidated financial statements. The Audit Committee reviews the internal financial control environment of Reed Elsevier plc, and considers reports from the executive directors and from the internal and external auditors on a regular basis.

Elsevier Reed Finance BV

The Supervisory Board of Elsevier Reed Finance BV has adopted a schedule of matters which are required to be brought to it for decision. Policy guidelines are applied for all Elsevier Reed Finance BV companies, and procedures are in place for monitoring the activities of the finance group, including a comprehensive budgeting and treasury reporting system.

The internal financial control system of Elsevier Reed Finance BV is reviewed each year by the external auditors. The Audit Committees of Reed International and of the Elsevier Supervisory Board also review the internal financial control environment of Elsevier Reed Finance BV, and consider reports from the executive directors and external auditors on a regular basis.

RESPONSIBILITY STATEMENTS

The directors of Reed International, Elsevier, Reed Elsevier plc and Elsevier Reed Finance BV are required to prepare financial statements as at the end of each financial period, which give a true and fair view of the state of affairs, and of the profit or loss, of the respective companies and their subsidiaries, joint ventures and associated undertakings. They acknowledge their responsibility for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the respective companies. 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 and the Reed Elsevier combined financial statements, which are the responsibility of the directors of Reed International and Elsevier, are prepared using accounting policies which comply with both UK and Dutch Generally Accepted Accounting Principles.

The board of Reed Elsevier plc has overall responsibility for internal control of the publishing and information businesses, whilst the boards of Elsevier Reed Finance BV have responsibility for internal control in respect of the finance group activities. Each board is required by the two parents to take reasonable steps to safeguard assets and to prevent or detect material errors and irregularities within a timely period.

The directors of Reed Elsevier plc, having reviewed the effectiveness of the systems of internal financial control, 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. The directors of Elsevier Reed Finance BV, having carried out a similar review in respect of their businesses, believe that their systems of internal financial control provide similar assurances. It is noted that no system of internal financial control can provide absolute assurance against material mis-statement or loss.

GOING CONCERN

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

Remuneration Committee

This report has been prepared by the Remuneration Committee of Reed Elsevier plc and approved by the boards of Reed International and Elsevier.

The Remuneration Committee, which is chaired by Dr Rolf Stomberg, consists wholly of independent non-executive directors: John Brock, Roelof Nelissen and Rolf Stomberg. The committee is responsible for recommending to the board the remuneration (in all its forms), and the terms of the service contracts and all other terms and conditions of employment of the executive directors. The committee also provides advice to the Chief Executive Officer on major policy issues affecting the remuneration of executives at a senior level below the board. The committee works closely with the Nominations Committee, and draws on external professional advice as necessary in making its recommendations.

Remuneration of non-executive directors

The remuneration of the non-executive directors is determined by the board with the aid of external professional advice.

The non-executive directors do not participate in any of the company's share option schemes, longer-term incentive arrangements or pension schemes.

Compliance with the Best Practice Provisions

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

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

Remuneration policy

In determining its policy on executive directors' remuneration, the committee's principal objective is to attract, retain and motivate people of the highest calibre and experience needed to meet the challenges faced by Reed Elsevier plc group businesses both within its traditional businesses and in the transition to electronic publishing media.

The committee also has regard to, and balances as far as practicable, 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 reflecting, where appropriate, local practice within the country in which an individual director is based;

(ii) to ensure that it encourages enhanced performance by directors and fairly recognises the contribution of individual directors to the performance of the Reed Elsevier plc group, whilst also encouraging a team approach which will work towards achieving the long-term strategic objectives of the Reed Elsevier plc group;

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

The remuneration of executive directors consists of the following elements:

- Base salary, which is set at the median of the market range based on comparable positions in businesses of similar size and complexity. Salaries are reviewed annually by the Remuneration Committee.
- A variable annual cash bonus, based on achievement of specific realistic but stretching financial and individual performance-related targets. Targets are set at the beginning of the year by the Remuneration Committee. The maximum potential bonus for 1999 was 50% of basic salary.
- Share options, where the directors and other senior executives are granted options annually over shares in Reed International or Elsevier at no less than the market price at the date of grant. The Remuneration Committee approves the grant of any option and sets performance conditions attaching to options.
- Longer-term incentives, which have until 1999 comprised the grant of nil cost options to acquire shares in Reed International, where exercise is conditional upon the attainment of long-term performance objectives, set at the date of grant by the Remuneration Committee. Following a review by the committee of longer-term incentives, the annual grant of nil cost options has ceased, and a proposal will be submitted to Reed International and Elsevier shareholders at their forthcoming Annual General Meetings to introduce a new longer-term incentive arrangement for the executive directors and other senior executives.
- Post-retirement benefits, which comprise only pensions, where Reed Elsevier plc group companies have different retirement schemes which apply depending on local competitive market practice, length of service and age of the director. The only element of remuneration which is pensionable is base salary.

Service contracts

Each of the executive directors has a service contract, the notice periods of which are described below:

(i) MH Armour was appointed a director on 1 July 1996 and his service contract provides for a notice period of 24 months.

(ii) CHL Davis was appointed a director on 1 September 1999 and his service contract provides initially for a notice period of 24 months, reducing to 12 months after 1 September 2000. In the event of loss of employment on a change of control after 1 September 2000 but before 1 September 2002, 12 months' salary would be payable to CHL Davis in addition to any other sums payable on termination.

(iii) O Laman Trip and DJ Haank were appointed directors on 15 September 1997 and 15 November 1999 respectively. Their service contracts, which are subject to Dutch law, provide for six months' notice and, in the event of termination without cause by the company, salary and the value of the employer's pension contributions for 18 months by way of liquidated damages.

The notice periods in respect of individual directors have been reviewed by the Remuneration Committee. The committee believes that as a general rule for future contracts, the initial notice period should be 24 months, reducing to 12 months, and that the directors should, subject to practice within the country in which the director is based, be required to mitigate their damages in the event of termination. The committee will, however, have regard to local market conditions so as to ensure that the terms offered are appropriate to recruit and retain key executives operating in a global business.

The non-executive directors do not have a service contract.

External appointments

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

Directors' remuneration

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

a) Aggregate remuneration

	1999 £000	1998 £000	**1999 €000**	1998 €000
Salaries and fees	**2,505**	3,202	**3,808**	4,548
Benefits	**108**	111	**164**	157
Annual performance-related bonuses	**412**	278	**626**	395
Pension contributions	**476**	463	**723**	658
Pension to former director	**214**	209	**325**	297
One-off bonuses (i)	**277**	–	**421**	–
Compensation and payments to former directors (i)	**3,474**	1,424	**5,280**	2,022
Total	**7,466**	5,687	**11,347**	8,077

(i) See paragraph (d) on page 20.

(ii) All amounts have been converted at average exchange rates for the year.

b) Individual remuneration of executive directors

	Salary £	Benefits £	Bonuses £	**Total £**	1998 £	Salary €	Benefits €	Bonuses €	**Total €**	1998 €
MH Armour	361,551	18,105	10,847	**390,503**	387,047	549,558	27,520	16,487	**593,565**	549,735
HJ Bruggink (until 30.9.99)	368,131	9,689	147,118	**524,938**	497,064	559,560	14,728	223,619	**797,907**	705,996
GRN Cusworth (until 30.4.99)	76,979	7,584	–	**84,563**	268,513	117,008	11,528	–	**128,536**	381,377
CHL Davis (from 1.9.99)	250,000	9,158	275,000	**534,158**	–	380,000	13,920	418,000	**811,920**	–
DJ Haank (from 15.11.99)	31,716	1,168	952	**33,836**	–	48,209	1,775	1,446	**51,430**	–
O Laman Trip	189,872	10,571	5,673	**206,116**	207,470	288,606	16,068	8,622	**313,296**	294,676
JB Mellon (until 30.4.99)	162,155	24,763	–	**186,918**	509,550	246,476	37,640	–	**284,116**	723,730
HP Spruijt (until 15.11.99)	199,369	9,077	–	**208,446**	253,960	303,040	13,798	–	**316,838**	360,705
NJ Stapleton (until 30.9.99)	450,000	18,495	250,000	**718,495**	706,868	684,000	28,112	380,000	**1,092,112**	1,003,987

Taking into account gains of £329,851 (€501,373) on the exercise of share options, HJ Bruggink was the highest paid director in 1999.

c) Recruitment of new Chief Executive Officer

CHL Davis was appointed Chief Executive Officer of Reed Elsevier plc, and Reed International and Elsevier, on 1 September 1999. CHL Davis's base salary is £750,000 (€1,140,000) per annum. He was entitled, under his service contract, to a bonus, in respect of 1999, of £275,000 (€418,000). Potential bonus for 2000 will be up to 50% of base salary.

On the date of his appointment, CHL Davis was granted nil cost options over 535,332 ordinary shares in Reed International and 319,250 ordinary shares in Elsevier. The terms of these options provide that the options shall become exercisable on or after 1 September 2002, provided he has not voluntarily terminated, or given notice to terminate, his employment prior to that date.

Options were also granted on 1 September 1999 under the Reed Elsevier plc Executive Share Option Scheme over shares in Reed International and Elsevier with an aggregate option price of four times base salary. Further details of the number of options, the option price and the exercise period are contained in the note under Share Options.

d) Compensation and payments to former directors

As indicated in last year's report, Reed International's and Elsevier's decision to move to a unitary management structure of a single non-executive Chairman and a sole Chief Executive Officer for the parent companies and Reed Elsevier plc gave HJ Bruggink and NJ Stapleton the right to treat their employment with Reed Elsevier plc as having been terminated immediately by the company. In order to maintain continuity of senior management, Messrs Bruggink and Stapleton agreed to defer their right to leave the company until after the appointment of a single Chief Executive Officer. In recognition, *inter alia,* of agreeing to provide continuity of senior management during the search for a single Chief Executive Officer, a one-off bonus was paid in 1999 of £136,966 (€208,188) to HJ Bruggink, and £140,000 (€212,800) to NJ Stapleton. Because NJ Stapleton committed to stay at least until 31 August 1999 and, if necessary, until 31 December 1999, he also received a credit of one year's service for pension purposes and a guaranteed annual bonus in 1999 of 20% of salary. HJ Bruggink and NJ Stapleton ceased to be directors on 30 September 1999. On termination of their respective employments, HJ Bruggink received a payment representing two years' salary and an amount equal to two years' employer's pension contributions, the aggregate amount of which was £1,457,528 (€2,215,442), and NJ Stapleton received a payment of £1,200,000 (€1,824,000), representing two years' salary, and two years' pension augmentation as compensation for termination of their service agreements. The capital cost of NJ Stapleton's pension augmentation was £830,000 (€1,261,600). NJ Stapleton also received £103,656 (€157,557) salary and other benefits during the period October to November 1999.

HP Spruijt ceased to be a director on 15 November 1999 and, as compensation for termination of his service agreement, received a payment representing two years' salary and an amount equal to two years' employer's pension contributions plus certain other benefits, the aggregate amount of which was £656,221 (€997,455). HP Spruijt also received £28,481 (€43,292) salary during the period November and December 1999.

GRN Cusworth was paid £27,992 (€42,548) in respect of consultancy services provided during the period May to December 1999.

e) Pensions

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

The policy for executive directors based in the United Kingdom is to provide pension benefits at a normal retirement age of 60, equivalent to two-thirds of base salary in the 12 months prior to retirement, provided they have completed 20 years' service with the Reed Elsevier plc group. The target pension for CHL Davis at normal retirement age of 60 is 45% of base salary in the 12 months prior to retirement. 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. GRN Cusworth, JB Mellon and NJ Stapleton commenced service prior to the introduction of the cap and so all of their pension benefits will be provided from the REPS. MH Armour's and CHL Davis'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. At 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 and/or dependants' pension on death.

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

	Increase in accrued annual pension during the period £	Total accrued annual pension as at 31.12.1999 £	Transfer value increase after deduction of directors' contributions £	Increase in accrued annual pension during the period €	Total accrued annual pension as at 31.12.1999 €	Transfer value increase after deduction of directors' contributions €
MH Armour	11,288	59,228	174,793	17,157	90,026	265,685
CHL Davis (from 1.9.99)	11,815	11,815	220,994	17,958	17,958	335,910
DJ Haank	985	66,567	5,970	1,497	101,182	9,074
O Laman Trip	4,765	29,882	45,671	7,242	45,420	69,420

(i) GRN Cusworth retired on 30 April 1999 and received a lump sum of £420,743 (€639,529) and a reduced pension of £123,536 pa (€187,774). This did not represent an increase in the value of his benefits since the start of the year.

(ii) JB Mellon retired on 30 April 1999 and received a lump sum of £875,800 (€1,331,216) and a reduced pension of £244,269 pa (€371,288) (excluding pension provided from AVCs). This did not represent an increase in the value of his benefits since the start of the year.

(iii) HJ Bruggink retired on 30 September 1999 and became entitled to a deferred pension of £204,420 pa (€310,718) (excluding pension provided from AVCs). This represents an increase in the transfer value of his benefits since the start of the year of £149,253 (€226,864).

(iv) HP Spruijt retired on 15 November 1999 and became entitled to a deferred pension of £104,317 pa (€158,561) (excluding pension provided from AVCs). This represents an increase in the transfer value of his benefits since the start of the year of £162,985 (€247,737).

(v) NJ Stapleton retired on 30 November 1999 and received a lump sum of £701,794 (€1,066,726) and a reduced pension of £228,670 pa (€347,578) (excluding pension provided from AVCs). This represents an increase in the transfer value of his benefits since the start of the year of £697,262 (€1,059,838).

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

f) Individual remuneration of non-executive directors

	1999 £	1998 £	**1999 €**	1998 €
RS Bodman (until 15.4.99)	**7,708**	90,361	**11,716**	128,342
JF Brock (from 15.4.99)	**27,196**	–	**41,338**	–
AA Greener (until 31.12.98)	**–**	24,000	**–**	34,088
Lord Hamlyn (until 29.4.98)	**–**	8,334	**–**	11,837
Sir Christopher Lewinton (until 15.4.99)	**26,667**	80,000	**40,534**	113,626
RJ Nelissen (i)	**30,197**	30,000	**45,900**	42,610
S Perrick (from 1.7.98)	**43,530**	26,666	**66,166**	37,874
RWH Stomberg (from 1.1.99)	**35,260**	–	**53,595**	–
M Tabaksblat (from 1.7.98) (ii)	**125,277**	26,666	**190,421**	37,874
PJ Vinken (until 6.4.99)	**31,731**	80,000	**48,231**	113,626
L van Vollenhoven (until 6.4.99)	**17,450**	52,500	**26,524**	74,567
DGC Webster (iii)	**70,260**	84,555	**106,795**	120,096

(i) RJ Nelissen was a member of the Supervisory Board of Elsevier throughout 1998 and 1999, and a director of Reed Elsevier plc for only part of 1998 and 1999. His fees above relate to the amounts he received in respect of each of those capacities.

(ii) M Tabaksblat was appointed Chairman of Reed Elsevier plc and Reed International, and Chairman of the Supervisory Board of Elsevier in April 1999. Fees in respect of M Tabaksblat were paid to Unilever NV until May 1999, at which point he retired from Unilever.

(iii) The emoluments of DGC Webster include an additional fee payable to him to reflect the significant additional duties he has undertaken, including those arising from his appointment as non-executive Chairman of Reed Elsevier plc during the period August 1998 to April 1999.

Share options

Executive directors have been granted options over Reed International and Elsevier shares.

Options over shares in Reed International and Elsevier have been granted under the Reed Elsevier plc Executive Share Option Scheme, in which executive directors and other senior executives participate. The scheme grants options at the market price at the time of grant, which are normally exercisable between three and ten years from the date of grant.

Under the Reed Elsevier plc Executive Share Option Schemes, the number of options that a participant may hold at any one time is limited to four times their remuneration. A proposal will be submitted to the forthcoming Annual General Meeting of Reed International seeking shareholder approval to amend the rules of the schemes so as to remove this limit.

Since 1996 the Remuneration Committee has applied a precondition to the grant of options under executive share option schemes, which required the attainment of EPS growth targets in the three years prior to the date of grant. The Remuneration Committee reviewed its previous policy during 1999, in the light of new tax laws introduced in the Netherlands in 1998. As a consequence of this review, the committee decided that the exercise of options granted from 1999 onwards under the Reed Elsevier plc Executive Share Option Schemes should be subject to performance criteria. In order for an option to become exercisable, the compound growth in the average of the Reed International and Elsevier adjusted EPS (i.e. before exceptional items, amortisation of goodwill and intangible assets and UK tax credit equalisation) in a consecutive three year period after the grant is made, must exceed the compound growth in the average of the UK and Dutch retail price index during the same period, by a minimum of 6%.

Under arrangements for Dutch based executives, options to subscribe for Elsevier shares were granted prior to 1999 to members of the Elsevier Executive Board and to a small number of other senior executives, and were exercisable for a period up to five years from the date of grant. In relation to options granted in April 1999 to Dutch based executives, account has been taken of the impact of the tax treatment on the grant of options in the Netherlands. Dutch directors and senior executives were granted either a five year option at an option price representing a premium of 26% to the market price, or a ten year option at market price, or a combination of both. Since April 1999 all options have been granted under the terms of the Reed Elsevier plc Executive Share Option Schemes.

Grants have also been made over shares in Reed International under the Reed Elsevier plc 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.

Elsevier has arrangements in place, which are open to all eligible employees in the Netherlands, under which interest-bearing loans may be subscribed by participants for a period of five years, during which time they may be converted into Elsevier shares.

Details of options held by directors in the ordinary shares of Reed International and Elsevier as at 31 December 1999, and movements during the period are shown below:

Over shares in Reed International

	1 January 1999 (i)	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 1999	Exercisable between
MH Armour – Executive Scheme	189,600		400.75p	130,000	548.5p	59,600	2000/2005
	30,000		585.25p			30,000	2000/2006
	52,000		565.75p			52,000	2000/2007
	66,900		523.00p			66,900	2001/2008
		33,600	537.50p			33,600	2002/2009
– SAYE Scheme		3,924	430.00p			3,924	2004
Total	338,500	37,524		130,000 (ii)		246,024	
CHL Davis – Executive Scheme		160,599	467p			160,599	2002/2009
		80,300	467p			80,300	2003/2009
		80,300	467p			80,300	2004/2009
– Nil cost options (iii)		535,332	Nil			535,332	2002
Total		856,531				856,531	
DJ Haank – Executive Scheme	18,498		677.25p			18,498	2000/2004
	18,497		537.5p			18,497	2000/2009
Total	36,995					36,995	

(i) On date of appointment if after 1 January 1999.
(ii) Retained an interest in 2,500 shares.
(iii) See paragraph (c) on page 20.

The middle market price of a Reed International ordinary share during the year was in the range 343.75p to 629.75p and at 31 December 1999 was 463.5p.

Over shares in Elsevier

		1 January 1999 (i)	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 1999	Exercisable between
MH Armour	– Executive Scheme		20,244	€13.55			20,244	2002/2009
Total			20,244				20,244	
CHL Davis	– Executive Scheme		95,774	€12.00			95,774	2002/2009
			47,888	€12.00			47,888	2003/2009
			47,888	€12.00			47,888	2004/2009
	– Nil cost options (ii)		319,250	Nil			319,250	2002
Total			510,800				510,800	
DJ Haank	– Executive Scheme	8,500		€7.71	8,500 (iii)	€11.27		
		35,000		€11.93			35,000	2000/2001
		30,000		€14.11			30,000	2000/2002
		30,000		€15.25			30,000	2000/2003
		10,926		€17.07			10,926	2000/2004
		10,925		€13.55			10,925	2000/2009
	– Convertible Debentures	12,540		€14.36	3,000	€10.14	9,540	2000/2002
Total		137,891			11,500		126,391	
O Laman Trip	– Executive Scheme	49,590		€12.50			49,590	2000/2003
			11,667	€17.07			11,667	2000/2004
			35,001	€13.55			35,001	2000/2009
Total		49,590	46,668				96,258	

(i) On date of appointment if after 1 January 1999.

(ii) See paragraph (c) on page 20.

(iii) Retained an interest in 1,500 shares.

The market price of an Elsevier ordinary share during the year was in the range €8.95 to €15.25 and at 31 December 1999 was €11.86.

The aggregate notional pre-tax gain made by the directors on the exercise of Reed International and Elsevier share options was £543,947 (€826,800).

Longer term incentives

A Longer Term Incentive Plan (‘the Plan’), which has granted options to certain executive directors of Reed International since 1991, was discontinued following the grant in respect of 1999/2001.

Under the Plan, options over Reed International ordinary shares are only exercisable if Reed International achieves significant growth in adjusted EPS over a three-year period. The maximum number of shares over which options were granted and the EPS performance targets were approved by the Remuneration Committee.

No entitlements arose under the 1997/1999 Plan, and MH Armour has waived any entitlement under the Plan in respect of the three year performance periods 1998/2000 and 1999/2001.

During 1999 the Remuneration Committee, in conjunction with external remuneration consultants, carried out a detailed review of incentive remuneration arrangements, including longer-term incentives, operating within the Reed Elsevier plc group.

The Reed Elsevier management team has been set the objective of rebuilding sustainable shareholder value over a three to five year term, and to reshape the business to produce long term revenue and profit growth. To achieve this objective, Reed Elsevier needs to recruit and retain the very best executive talent. The Remuneration Committee has given very careful thought to the remuneration structure that will best support the new strategy, and has concluded that the most appropriate way to achieve these goals is through the implementation of revised share incentive arrangements. Accordingly, a proposal will be submitted to the forthcoming Annual General Meetings of Reed International and Elsevier, seeking shareholder approval to introduce a new longer-term incentive scheme, which would grant options to executive directors and executives at a senior level below the board. Exercise of the options would be subject to the attainment of highly demanding performance targets. The main features of the proposed new scheme are:

- Participation in the scheme, together with the level of grants, will be subject to approval by the Remuneration Committee.
- A one-off grant of options will be made over a basket of Elsevier and Reed International shares in equal proportion by market value.
- The exercise price will be based on the closing market price of the shares on the date of grant.
- The face value of the grant will be between 10 and 30 times the salary of the participant.
- The performance target will require the achievement of 20% compound annual growth in total shareholder return ('TSR') from the price at the date of grant, over three years. In the event that the required TSR performance is not achieved in the initial three-year period, the growth target will be retested at the end of the fourth or fifth years. The board has reserved the right to amend the performance hurdle in the event of a material change in the share price between the date of circulation of the notice to shareholders convening the Annual General Meetings and the date of the AGMs.
- Subject to attainment of the growth target, options will vest on the fifth anniversary of date of grant, provided the participant remains employed within the Reed Elsevier group.
- Options will, as a general rule, be satisfied by the issue of new shares.

The Remuneration Committee has also recommended the use of options over restricted shares in Reed International and Elsevier to assist in the recruitment and retention of senior executives. Options over restricted shares will be met by the Employee Benefit Trust, from market purchases.

The Remuneration Committee is satisfied that, taken together, the existing Executive Share Option Schemes and the options over restricted shares, together with the new longer-term incentive scheme, constitute a well-considered overall plan for the long term remuneration of senior executives.

Interests in shares

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

	Reed International ordinary shares		Elsevier ordinary shares	
	1 January 1999 (i)	31 December 1999	1 January 1999 (i)	31 December 1999
MH Armour	–	2,500	–	2,500
JF Brock	–	3,000	–	–
CHL Davis	–	–	–	–
DJ Haank	–	–	3,380	7,880
O Laman Trip	–	–	–	–
RJ Nelissen	–	–	–	–
S Perrick	–	–	–	–
Dr RWH Stomberg	–	–	–	–
M Tabaksblat	–	–	–	8,000
DGC Webster	5,000	5,000	–	–

(i) On date of appointment if after 1 January 1999.

Any ordinary shares required to fulfil entitlements under current longer-term incentives are provided by the Employee Benefit Trust (EBT) from market purchases. As beneficiaries under the EBT, the directors are deemed to be interested in the shares held by the EBT which, at 31 December 1999, amounted to 618,790 Reed International ordinary shares and 320,000 Elsevier ordinary shares.

On behalf of the Board of Reed Elsevier plc

Rolf Stomberg

Chairman of the Remuneration Committee

Reed Elsevier combined

REED ELSEVIER COMBINED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

Basis of preparation

The equalisation agreement between Reed International and Elsevier has the effect that their shareholders can be regarded as having the interests of a single economic group. The Reed Elsevier combined financial statements ('the combined financial statements') represent the combined interests of both sets of shareholders and encompass the businesses of Reed Elsevier plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the parent companies, Reed International and Elsevier ('the combined businesses').

These financial statements are presented under the historical cost convention and in accordance with applicable UK and Dutch Generally Accepted Accounting Principles ('GAAP').

These financial statements form part of the statutory information required to be provided by Elsevier, but are not for a legal entity and do not include all the information required to be disclosed by a company in its financial statements under the UK Companies Act 1985 or Dutch Civil Code. Additional information is given in the annual reports and financial statements of the parent companies set out on pages 53 to 80. A list of principal businesses is set out on page 89.

In addition to the figures required to be reported by accounting standards, adjusted profit and operating cash flow figures have been presented as additional performance measures. Adjusted profit is shown before the amortisation of goodwill and intangible assets and exceptional items. Adjusted operating cash flow is measured after dividends from joint ventures, tangible fixed asset spend and proceeds from the sale of fixed assets, but before exceptional payments and proceeds.

Associates and joint ventures

Investments which are held for the long term and where the combined businesses exercise significant influence or joint control with other parties represent interests in associates or joint ventures and are accounted for under the equity and gross equity methods respectively.

Foreign exchange translation

The combined financial statements are presented in both pounds sterling and euros. Euro amounts for 1998 have been stated using the relevant Dutch guilder amounts, translated at the euro conversion rate which was fixed on 1 January 1999.

Balance sheet items are translated at year end exchange rates and profit and loss account items are translated at average rates. 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.

Transactions entered into in foreign currencies are recorded at the exchange rates applicable at the time of the transaction. The results of hedging transactions for profit and loss amounts in foreign currency are accounted for in the profit and loss account to match the underlying transaction.

Goodwill and intangible assets

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

In accordance with FRS10: Goodwill and Intangible Assets, acquired goodwill and intangible assets are capitalised and amortised systematically over their estimated useful lives up to a maximum period of 20 years, subject to impairment review.

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

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. No depreciation is provided on freehold land.

Freehold buildings and long leases are depreciated over their estimated useful lives. Plant and equipment is depreciated on a straight line basis at rates from 5%–33%. Short leases are written off over the duration of the lease.

ACCOUNTING POLICIES (continued)

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 period 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.

Investments
Fixed asset and short term investments are stated at the lower of cost and estimated net realisable value.

Financial instruments
Payments and receipts on interest rate hedges are accounted for on an accruals basis over the lives of the hedges and included respectively within interest payable and interest receivable in the profit and loss account. Gains and losses on foreign exchange hedges, other than in relation to net currency borrowings hedging equity investments, are recognised in the profit and loss account on maturity of the underlying transaction. Gains and losses on net currency borrowings hedging equity investments are taken to reserves. Gains and losses arising on hedging instruments that are closed out due to the cessation of the underlying exposure are taken directly to the profit and loss account.

Currency swap agreements are valued at exchange rates ruling at the balance sheet date with net gains and losses being included within short term investments or borrowings. Interest payable and receivable arising from the swap is accounted for on an accruals basis over the life of the swap.

Finance costs associated with debt issuances are charged to the profit and loss account over the life of the related borrowings.

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

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 as a fixed asset and written off over its estimated useful 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, associates or joint ventures, unless there is an intention to distribute such retained earnings giving rise to a charge. The potential deferred tax has not been quantified.

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

COMBINED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Turnover					
Including share of turnover in joint ventures		**3,464**	3,271	**5,265**	4,867
Less: share of turnover in joint ventures		**(74)**	(80)	**(112)**	(118)
	1	**3,390**	3,191	**5,153**	4,749
Continuing operations before acquisitions		**3,359**	3,163	**5,106**	4,708
Acquisitions		**31**	–	**47**	–
Continuing operations		**3,390**	3,163	**5,153**	4,708
Discontinued operations		**–**	28	**–**	41
Cost of sales	2	**(1,185)**	(1,092)	**(1,801)**	(1,625)
Gross profit		**2,205**	2,099	**3,352**	3,124
Operating expenses	2	**(2,028)**	(1,706)	**(3,083)**	(2,540)
Before amortisation and exceptional items		**(1,420)**	(1,304)	**(2,159)**	(1,941)
Amortisation of goodwill and intangible assets		**(369)**	(323)	**(561)**	(481)
Exceptional items	6	**(239)**	(79)	**(363)**	(118)
Operating profit (before joint ventures)		**177**	393	**269**	584
Continuing operations before acquisitions		**191**	394	**290**	586
Acquisitions		**(14)**	–	**(21)**	–
Continuing operations		**177**	394	**269**	586
Discontinued operations		**–**	(1)	**–**	(2)
Share of operating profit in joint ventures		**3**	9	**5**	14
Operating profit including joint ventures	1,5	**180**	402	**274**	598
Non operating items	6				
Continuing – net profit on sale of fixed asset investments		**7**	–	**11**	–
– merger expenses		**–**	(10)	**–**	(15)
Discontinued – net profit on sale of businesses		**–**	692	**–**	1,031
Profit on ordinary activities before interest		**187**	1,084	**285**	1,614
Net interest expense	7	**(82)**	(40)	**(125)**	(60)
Profit on ordinary activities before taxation		**105**	1,044	**160**	1,554
Tax on profit on ordinary activities	8	**(167)**	(271)	**(254)**	(404)
(Loss)/profit on ordinary activities after taxation		**(62)**	773	**(94)**	1,150
Minority interests and preference dividends		**(1)**	(1)	**(1)**	(1)
(Loss)/profit attributable to parent companies' shareholders	25	**(63)**	772	**(95)**	1,149
Ordinary dividends paid and proposed	9	**(234)**	(349)	**(356)**	(519)
Retained (loss)/profit taken to combined reserves		**(297)**	423	**(451)**	630

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

ADJUSTED FIGURES

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Adjusted operating profit	1,10	**792**	813	**1,204**	1,210
Adjusted profit before tax	10	**710**	773	**1,079**	1,150
Adjusted profit attributable to parent companies' shareholders	10	**527**	571	**801**	850

Adjusted figures, which exclude the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures.

COMBINED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	**1999 £m**	1998 £m	**1999 €m**	1998 €m
Net cash inflow from operating activities before exceptional items	11	**898**	937	**1,365**	1,395
Payments relating to exceptional items charged to operating profit	6	**(138)**	(258)	**(210)**	(384)
Net cash inflow from operating activities		**760**	679	**1,155**	1,011
Dividends received from joint ventures		**4**	11	**6**	16
Interest received		**33**	61	**50**	91
Interest paid		**(114)**	(106)	**(173)**	(158)
Returns on investments and servicing of finance		**(81)**	(45)	**(123)**	(67)
Taxation (including £74m/€112m (1998 £nil/€nil) exceptional repayments)		**(99)**	(144)	**(150)**	(214)
Purchase of tangible fixed assets		**(137)**	(151)	**(208)**	(225)
Proceeds from sale of fixed assets		**15**	11	**23**	17
Capital expenditure		**(122)**	(140)	**(185)**	(208)
Acquisitions	11	**(166)**	(1,232)	**(252)**	(1,833)
Payments against acquisition provisions		**(1)**	(11)	**(2)**	(16)
Exceptional net proceeds from sale of fixed asset investments and businesses	11	**3**	913	**5**	1,359
Merger expenses		**–**	(8)	**–**	(13)
Acquisitions and disposals		**(164)**	(338)	**(249)**	(503)
Equity dividends paid to the shareholders of the parent companies		**(339)**	(362)	**(515)**	(540)
Cash outflow before changes in short term investments and financing		**(41)**	(339)	**(61)**	(505)
Decrease in short term investments		**297**	63	**451**	94
Financing	11	**(197)**	192	**(300)**	286
Increase/(decrease) in cash	11	**59**	(84)	**90**	(125)

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

ADJUSTED FIGURES

	Note	**1999 £m**	1998 £m	**1999 €m**	1998 €m
Adjusted operating cash flow	10	**780**	808	**1,186**	1,203
Adjusted operating cash flow conversion		**98%**	99%	**98%**	99%

Reed Elsevier businesses focus on adjusted operating cash flow as the key cash flow measure. Adjusted operating cash flow is measured after dividends from joint ventures, tangible fixed asset spend and proceeds from the sale of fixed assets but before operating exceptional payments and proceeds. Adjusted operating cash flow conversion expresses adjusted operating cash flow as a percentage of adjusted operating profit.

COMBINED BALANCE SHEET

AS AT 31 DECEMBER 1999

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Fixed assets					
Goodwill and intangible assets	13	**3,400**	3,598	**5,474**	5,110
Tangible assets	14	**386**	399	**622**	567
Investments	15	**119**	87	**192**	123
Investments in joint ventures:					
Share of gross assets		**136**	107	**219**	152
Share of gross liabilities		**(47)**	(32)	**(76)**	(45)
Share of net assets		**89**	75	**143**	107
Other investments		**30**	12	**49**	16
		3,905	4,084	**6,288**	5,800
Current assets					
Stocks		**113**	101	**183**	144
Debtors: amounts falling due within one year	16	**666**	731	**1,072**	1,038
Debtors: amounts falling due after more than one year	17	**148**	136	**238**	193
Cash and short term investments	18	**440**	708	**708**	1,005
		1,367	1,676	**2,201**	2,380
Creditors: amounts falling due within one year	19	**(2,676)**	(2,791)	**(4,308)**	(3,963)
Net current liabilities		**(1,309)**	(1,115)	**(2,107)**	(1,583)
Total assets less current liabilities		**2,596**	2,969	**4,181**	4,217
Creditors: amounts falling due after more than one year	20	**(620)**	(797)	**(998)**	(1,132)
Provisions for liabilities and charges	23	**(113)**	(36)	**(182)**	(51)
Minority interests		**(8)**	(6)	**(14)**	(9)
Net assets		**1,855**	2,130	**2,987**	3,025
Capital and reserves					
Combined share capitals		**168**	168	**270**	239
Combined share premium accounts		**341**	353	**549**	501
Combined reserves		**1,346**	1,609	**2,168**	2,285
Combined shareholders' funds	25	**1,855**	2,130	**2,987**	3,025

Approved by the Boards of Reed International P.L.C. and Elsevier NV, 23 February 2000.

COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £m	1998 £m	1999 €m	1998 €m
(Loss)/profit attributable to parent companies' shareholders	(63)	772	(95)	1,149
Exchange translation differences	17	(3)	405	(196)
Total recognised gains and losses for the year	(46)	769	310	953

COMBINED SHAREHOLDERS' FUNDS RECONCILIATION

FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £m	1998 £m	1999 €m	1998 €m
Combined shareholders' funds at 1 January	2,130	1,692	3,025	2,564
(Loss)/profit attributable to parent companies' shareholders	(63)	772	(95)	1,149
Ordinary dividends paid and proposed	(234)	(349)	(356)	(519)
Issue of shares on exercise of options, less capital redemptions	5	18	8	27
Exchange translation differences	17	(3)	405	(196)
Combined shareholders' funds at 31 December	1,855	2,130	2,987	3,025

1 Segment analysis

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	1999 £m	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Business segment								
Scientific	**652**	622	**111**	126	**231**	223	**315**	338
Legal	**1,268**	1,107	**77**	169	**316**	322	**2,432**	2,544
Business	**1,470**	1,434	**(8)**	108	**245**	268	**668**	768
Continuing operations	**3,390**	3,163	**180**	403	**792**	813	**3,415**	3,650
Discontinued operations	**–**	28	**–**	(1)	**–**	–	**–**	(16)
Total	**3,390**	3,191	**180**	402	**792**	813	**3,415**	3,634
Geographical origin								
North America	**1,836**	1,663	**(52)**	98	**359**	390	**2,792**	2,906
United Kingdom	**698**	692	**86**	139	**191**	204	**518**	579
The Netherlands	**391**	383	**91**	114	**135**	128	**(75)**	(46)
Rest of Europe	**307**	293	**51**	47	**87**	76	**147**	173
Rest of world	**158**	132	**4**	5	**20**	15	**33**	38
Continuing operations	**3,390**	3,163	**180**	403	**792**	813	**3,415**	3,650
Discontinued operations	**–**	28	**–**	(1)	**–**	–	**–**	(16)
Total	**3,390**	3,191	**180**	402	**792**	813	**3,415**	3,634

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	1999 €m	1998 €m	**1999 €m**	1998 €m	**1999 €m**	1998 €m	**1999 €m**	1998 €m
Business segment								
Scientific	**991**	926	**169**	187	**351**	332	**507**	480
Legal	**1,927**	1,648	**117**	251	**480**	479	**3,916**	3,612
Business	**2,235**	2,134	**(12)**	162	**373**	399	**1,075**	1,092
Continuing operations	**5,153**	4,708	**274**	600	**1,204**	1,210	**5,498**	5,184
Discontinued operations	**–**	41	**–**	(2)	**–**	–	**–**	(23)
Total	**5,153**	4,749	**274**	598	**1,204**	1,210	**5,498**	5,161
Geographical origin								
North America	**2,791**	2,476	**(79)**	146	**547**	581	**4,495**	4,127
United Kingdom	**1,061**	1,030	**131**	207	**290**	304	**834**	822
The Netherlands	**594**	570	**138**	170	**205**	190	**(121)**	(65)
Rest of Europe	**467**	436	**78**	70	**132**	113	**237**	246
Rest of world	**240**	196	**6**	7	**30**	22	**53**	54
Continuing operations	**5,153**	4,708	**274**	600	**1,204**	1,210	**5,498**	5,184
Discontinued operations	**–**	41	**–**	(2)	**–**	–	**–**	(23)
Total	**5,153**	4,749	**274**	598	**1,204**	1,210	**5,498**	5,161

During 1999, management and development responsibility for the Elsevier Tuition training businesses has been transferred from the Legal to the Business segment. Comparative figures have been restated accordingly.

Adjusted operating profit is presented as an additional performance measure and is shown after share of operating profit in joint ventures and before amortisation of goodwill and intangible assets and exceptional items.

Turnover is analysed before the £74m/€112m (1998 £80m/€118m) share of joint ventures' turnover, of which £19m/€29m (1998 £26m/€39m) relates to the Legal segment, principally to Giuffrè and, in 1998, Shepard's prior to the acquisition of the remaining 50% interest on 1 August 1998. £55m/€83m (1998 £54m/€79m) relates to the Business segment, principally to REZsolutions, Inc.

Share of operating profit in joint ventures of £3m/€5m (1998 £9m/€14m) comprises £3m/€5m (1998 £6m/€10m) relating to the Legal segment and £nil/€nil (1998 £3m/€4m) relating to the Business segment.

1 Segment analysis (continued)

	1999 £m	1998 £m	**1999 €m**	1998 €m
Analysis of turnover by geographical market				
North America	**1,906**	1,726	**2,898**	2,569
United Kingdom	**484**	483	**736**	719
The Netherlands	**237**	222	**360**	330
Rest of Europe	**418**	407	**635**	606
Rest of world	**345**	325	**524**	484
Continuing operations	**3,390**	3,163	**5,153**	4,708
Discontinued operations	**–**	28	**–**	41
Total	**3,390**	3,191	**5,153**	4,749

	1999 £m	1998 £m	**1999 €m**	1998 €m
Reconciliation of capital employed to net assets				
Capital employed	**3,415**	3,634	**5,498**	5,161
Taxation	**(364)**	(297)	**(586)**	(422)
Dividends and net interest	**(122)**	(239)	**(194)**	(339)
Net borrowings	**(1,066)**	(962)	**(1,717)**	(1,366)
Minority interests	**(8)**	(6)	**(14)**	(9)
Net assets	**1,855**	2,130	**2,987**	3,025

Discontinued operations comprise IPC Magazines and the remaining consumer book publishing operations which were the final elements of the Consumer segment sold in 1998.

2 Cost of sales and operating expenses

	1999				1998			
	Before amortisation and exceptional items £m	Amortisation of goodwill and intangible assets £m	Exceptional items £m	Total £m	Before amortisation and exceptional items £m	Amortisation of goodwill and intangible assets £m	Exceptional items £m	Total £m
Cost of sales								
Continuing operations	1,174	–	–	1,174	1,071	–	–	1,071
Acquisitions	11	–	–	11	–	–	–	–
Discontinued operations	–	–	–	–	21	–	–	21
Total	1,185	–	–	1,185	1,092	–	–	1,092
Distribution and selling costs								
Continuing operations	754	–	–	754	709	–	–	709
Acquisitions	5	–	–	5	–	–	–	–
Discontinued operations	–	–	–	–	5	–	–	5
	759	–	–	759	714	–	–	714
Administrative expenses								
Continuing operations	651	350	239	1,240	588	322	79	989
Acquisitions	10	19	–	29	–	–	–	–
Discontinued operations	–	–	–	–	2	1	–	3
	661	369	239	1,269	590	323	79	992
Operating expenses								
Continuing operations	1,405	350	239	1,994	1,297	322	79	1,698
Acquisitions	15	19	–	34	–	–	–	–
Discontinued operations	–	–	–	–	7	1	–	8
Total	1,420	369	239	2,028	1,304	323	79	1,706

	1999				1998			
	Before amortisation and exceptional items €m	Amortisation of goodwill and intangible assets €m	Exceptional items €m	Total €m	Before amortisation and exceptional items €m	Amortisation of goodwill and intangible assets €m	Exceptional items €m	Total €m
Cost of sales								
Continuing operations	1,785	–	–	1,785	1,594	–	–	1,594
Acquisitions	16	–	–	16	–	–	–	–
Discontinued operations	–	–	–	–	31	–	–	31
Total	1,801	–	–	1,801	1,625	–	–	1,625
Distribution and selling costs								
Continuing operations	1,146	–	–	1,146	1,056	–	–	1,056
Acquisitions	8	–	–	8	–	–	–	–
Discontinued operations	–	–	–	–	7	–	–	7
	1,154	–	–	1,154	1,063	–	–	1,063
Administrative expenses								
Continuing operations	990	532	363	1,885	875	480	118	1,473
Acquisitions	15	29	–	44	–	–	–	–
Discontinued operations	–	–	–	–	3	1	–	4
	1,005	561	363	1,929	878	481	118	1,477
Operating expenses								
Continuing operations	2,136	532	363	3,031	1,931	480	118	2,529
Acquisitions	23	29	–	52	–	–	–	–
Discontinued operations	–	–	–	–	10	1	–	11
Total	2,159	561	363	3,083	1,941	481	118	2,540

3 Personnel

AVERAGE NUMBER OF PEOPLE EMPLOYED DURING THE YEAR	**1999**	1998
Business segment		
Scientific	**3,600**	3,500
Legal	**12,200**	10,600
Business	**11,900**	11,800
Continuing operations	**27,700**	25,900
Discontinued operations	**–**	200
Total	**27,700**	26,100
Geographical location		
North America	**14,800**	13,600
United Kingdom	**5,500**	5,400
The Netherlands	**3,000**	2,800
Rest of Europe	**2,300**	2,200
Rest of world	**2,100**	1,900
Continuing operations	**27,700**	25,900
Discontinued operations	**–**	200
Total	**27,700**	26,100

During 1999, management and development responsibility for the Elsevier Tuition training businesses has been transferred from the Legal to the Business segment. Comparative figures have been restated accordingly.

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 three 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/€1,924m, excluding assets held in respect of members' additional voluntary contributions. 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 companies have no significant health and medical plans providing post-retirement benefits.

The net pension charge was £28m/€43m (1998 £22m/€33m), including a net £3m/€5m (1998 £4m/€6m) SSAP24 credit related to the main UK scheme. The net SSAP24 credit on the main scheme comprises a regular cost of £16m/€24m (1998 £15m/€22m), offset by amortisation of the net actuarial surplus of £19m/€29m (1998 £19m/€28m). Pension contributions made in the year amounted to £31m/€48m (1998 £26m/€39m). A prepayment of £127m/€204m (1998 £124m/€176m) is included in debtors falling due after more than one year, representing the excess of the pension credit to the profit and loss account since 1988 over the amounts funded to the main UK scheme.

5 Operating profit

Operating profit is stated after the following:

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Hire of plant and machinery		**12**	10	**18**	15
Other operating lease rentals		**60**	50	**91**	74
Depreciation (including £5m/€8m (1998 £4m/€6m) in respect of assets held under finance leases)		**117**	97	**178**	144
Amortisation of goodwill and intangible assets		**369**	323	**561**	481
Amortisation of goodwill and intangible assets in joint ventures		**4**	9	**6**	13
Total amortisation		**373**	332	**567**	494
Auditors' remuneration					
for audit services		**1.6**	1.5	**2.4**	2.2
for non audit services (£0.2m/€0.3m relates to UK companies (1998 £0.7m/€1.0m))		**1.1**	1.5	**1.7**	2.2
Staff costs					
Wages and salaries		**859**	748	**1,305**	1,113
Social security costs		**86**	80	**131**	119
Pensions	4	**28**	22	**43**	33
Total		**973**	850	**1,479**	1,265

Information on the remuneration and interests of directors is given in the Reed Elsevier plc Remuneration Report on pages 18 to 24.

6 Exceptional items

	1999 £m	1998 £m	1999 €m	1998 €m
Reorganisation costs (i)	**(161)**	–	**(244)**	–
Acquisition related integration costs (ii)	**(28)**	(26)	**(43)**	(39)
Year 2000 compliance costs (iii)	**(50)**	(53)	**(76)**	(79)
Charged to operating profit	**(239)**	(79)	**(363)**	(118)
Net profit on sale of fixed asset investments and businesses (iv)	**7**	692	**11**	1,031
Merger expenses (v)	**–**	(10)	**–**	(15)
Total exceptional (charge)/credit	**(232)**	603	**(352)**	898
Net tax credit/(charge) (vi)	**15**	(70)	**23**	(105)

(i) Costs related to a major programme of reorganisation across the Reed Elsevier businesses, commenced in 1999. Costs include employee severance, surplus leasehold property obligations and fixed asset write offs.

(ii) Costs related to the integration of acquisitions, principally Matthew Bender (acquired 1998) and the Chilton Business Group (acquired 1997).

(iii) Expenditure in the year incurred in connection with the combined businesses' Year 2000 compliance programme.

(iv) The net profit in 1999 related primarily to sales of fixed asset investments. The profit in 1998 related to the divestment of IPC Magazines and the remaining consumer book publishing operations.

(v) Professional fees and other costs incurred in 1998 in respect of the abandoned merger of Reed Elsevier and Wolters Kluwer.

(vi) The net tax credit in 1999 is stated after taxes arising on business consolidation in the programme of reorganisation. Potential deferred tax assets of £32m/€49m in respect of the programme of reorganisation have not been recognised.

Cash flows in respect of exceptional items were as follows:

	1999 £m	1998 £m	1999 €m	1998 €m
Reorganisation costs	**(39)**	–	**(59)**	–
Acquisition related integration costs	**(32)**	(22)	**(49)**	(33)
Year 2000 compliance costs	**(47)**	(53)	**(71)**	(79)
Reed Travel Group customer recompense (provided in 1997)	**(20)**	(183)	**(31)**	(272)
Exceptional operating cash outflow	**(138)**	(258)	**(210)**	(384)
Net proceeds from sale of fixed asset investments and businesses	**3**	913	**5**	1,359
Merger expenses	**–**	(8)	**–**	(13)
Total exceptional cash (outflow)/inflow	**(135)**	647	**(205)**	962
Exceptional tax cash inflow	**74**	–	**112**	–

The exceptional tax cash inflow in 1999 includes £58m/€88m of tax repayments due to prior year exceptional items.

7 Net interest expense

	1999 £m	1998 £m	1999 €m	1998 €m
Interest receivable	**32**	64	**49**	95
Interest payable:				
Other loans	**(46)**	(51)	**(70)**	(76)
Promissory notes and bank loans	**(67)**	(52)	**(102)**	(77)
Finance leases	**(1)**	(1)	**(2)**	(2)
Total	**(82)**	(40)	**(125)**	(60)
Interest cover (times)	**10**	20	**10**	20

Interest cover is calculated as the number of times adjusted operating profit is greater than the net interest expense.

8 Tax on profit on ordinary activities

	1999 £m	1998 £m	1999 €m	1998 €m
United Kingdom	**62**	69	**94**	103
The Netherlands	**50**	49	**76**	73
Rest of world	**67**	77	**102**	114
Sub-total (including deferred tax of £16m/€24m (1998 £77m/€115m))	**179**	195	**272**	290
Share of tax attributable to joint ventures	**3**	6	**5**	9
Tax on ordinary activities before exceptional items	**182**	201	**277**	299
Net tax (credit)/charge on exceptional items	**(15)**	70	**(23)**	105
Total	**167**	271	**254**	404

The total tax charge for the year is high as a proportion of profit before tax principally due to non-tax deductible amortisation, the non-recognition of potential deferred tax assets, and taxes arising on business consolidation in the programme of reorganisation.

9 Ordinary dividends paid and proposed

	1999 £m	1998 £m	1999 €m	1998 €m
Reed International	**116**	172	**177**	256
Elsevier	**118**	177	**179**	263
Total	**234**	349	**356**	519

Dividends paid to Reed International and Elsevier shareholders are equalised at the gross level inclusive of the UK tax credit (10% from 6 April 1999; formerly 20% applicable to the 1998 interim dividend) received by certain Reed International shareholders. The cost of funding the Reed International dividends is, therefore, lower than that of Elsevier.

10 Adjusted figures

Adjusted profit and cash flow figures are used by the Reed Elsevier businesses as additional performance measures. The adjustments made in arriving at the adjusted figures are as follows:

	1999 £m	1998 £m	**1999 €m**	1998 €m
Operating profit including joint ventures	**180**	402	**274**	598
Adjustments:				
Amortisation of goodwill and intangible assets	**373**	332	**567**	494
Reorganisation costs	**161**	–	**244**	–
Acquisition related integration costs	**28**	26	**43**	39
Year 2000 compliance costs	**50**	53	**76**	79
Adjusted operating profit	**792**	813	**1,204**	1,210
Profit before tax	**105**	1,044	**160**	1,554
Adjustments:				
Amortisation of goodwill and intangible assets	**373**	332	**567**	494
Reorganisation costs	**161**	–	**244**	–
Acquisition related integration costs	**28**	26	**43**	39
Year 2000 compliance costs	**50**	53	**76**	79
Net profit on sale of fixed asset investments	**(7)**	–	**(11)**	–
Net profit on sale of businesses	**–**	(692)	**–**	(1,031)
Merger expenses	**–**	10	**–**	15
Adjusted profit before tax	**710**	773	**1,079**	1,150
(Loss)/profit attributable to parent companies' shareholders	**(63)**	772	**(95)**	1,149
Adjustments:				
Amortisation of goodwill and intangible assets	**373**	332	**567**	494
Reorganisation costs	**161**	–	**244**	–
Acquisition related integration costs	**22**	16	**33**	24
Year 2000 compliance costs	**41**	33	**63**	49
Net profit on sale of fixed asset investments	**(7)**	–	**(11)**	–
Net profit on sale of businesses	**–**	(592)	**–**	(881)
Merger expenses	**–**	10	**–**	15
Adjusted profit attributable to parent companies' shareholders	**527**	571	**801**	850
Net cash inflow from operating activities	**760**	679	**1,155**	1,011
Dividends received from joint ventures	**4**	11	**6**	16
Purchase of tangible fixed assets	**(137)**	(151)	**(208)**	(225)
Proceeds from sale of fixed assets	**15**	11	**23**	17
Payments in relation to exceptional items charged to operating profit	**138**	258	**210**	384
Adjusted operating cash flow	**780**	808	**1,186**	1,203

11 Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Operating profit (before joint ventures)		177	393	269	584
Exceptional charges to operating profit	6	239	79	363	118
Operating profit before exceptional items		416	472	632	702
Amortisation of goodwill and intangible assets		369	323	561	481
Depreciation charges		117	97	178	144
Net SSAP24 pension credit	4	(3)	(4)	(5)	(6)
Total non cash items		483	416	734	619
Increase in stocks		(9)	–	(14)	–
(Increase)/decrease in debtors		(8)	17	(12)	26
Increase in creditors		16	32	25	48
Movement in working capital		(1)	49	(1)	74
Net cash inflow from operating activities before exceptional items		898	937	1,365	1,395
Payments relating to exceptional items charged to operating profit	6	(138)	(258)	(210)	(384)
Net cash inflow from operating activities		760	679	1,155	1,011

There were no net cash flows from operating activities of discontinued operations.

Acquisitions

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Purchase of businesses and subsidiary undertakings	12	(120)	(1,231)	(183)	(1,832)
Net payment of deferred consideration of prior year acquisitions		(5)	–	(7)	–
Investment in joint ventures		(19)	–	(29)	–
Purchase of fixed asset investments		(22)	(1)	(33)	(1)
Total		(166)	(1,232)	(252)	(1,833)

Exceptional sale of fixed asset investments and businesses

	1999 £m	1998 £m	1999 €m	1998 €m
Goodwill and intangible assets	6	132	9	196
Net tangible assets (excluding cash of £nil/€nil (1998 £42m/€63m))	–	72	–	108
	6	204	9	304
Net profit	7	692	11	1,029
Consideration in respect of sale of fixed asset investments and businesses, net of expenses	13	896	20	1,333
(Amounts paid)/deferred consideration received in respect of prior year disposals	(8)	9	(12)	14
	5	905	8	1,347
Amounts (receivable)/payable	(2)	8	(3)	12
Net cash inflow	3	913	5	1,359

11 Cash flow statement (continued)

Financing

	1999 £m	1998 £m	1999 €m	1998 €m
Net movement in promissory notes and bank loans	(20)	181	(31)	269
Repayment of other loans	(176)	(3)	(268)	(4)
Issuance of other loans	–	2	–	3
Repayment of finance leases	(6)	(6)	(9)	(9)
	(202)	174	(308)	259
Issue of ordinary shares	9	18	14	27
Redemption of preference shares	(4)	–	(6)	–
Total	(197)	192	(300)	286

The repayment of other loans relates primarily to a US$200m Eurobond, Dfl 125m Private Placements and US$20m of medium term notes which matured during the year. In 1998 £3m/€4m of Dutch guilder convertible loan stock was repaid on maturity.

Reconciliation of net borrowings

	Cash £m	Short term investments £m	Borrowings £m	1999 £m	1998 £m
Net borrowings at 1 January	26	682	(1,670)	(962)	(630)
Increase/(decrease) in cash	59	–	–	59	(84)
Decrease in short term investments	–	(297)	–	(297)	(63)
Decrease/(increase) in borrowings	–	–	202	202	(174)
Change in net borrowings resulting from cash flows	59	(297)	202	(36)	(321)
Inception of finance leases	–	–	(11)	(11)	(10)
Exchange translation differences	(6)	(24)	(27)	(57)	(1)
Net borrowings at 31 December	79	361	(1,506)	(1,066)	(962)

	Cash €m	Short term investments €m	Borrowings €m	1999 €m	1998 €m
Net borrowings at 1 January	37	968	(2,371)	(1,366)	(955)
Increase/(decrease) in cash	90	–	–	90	(125)
Decrease in short term investments	–	(451)	–	(451)	(94)
Decrease/(increase) in borrowings	–	–	308	308	(259)
Change in net borrowings resulting from cash flows	90	(451)	308	(53)	(478)
Inception of finance leases	–	–	(17)	(17)	(15)
Exchange translation differences	–	64	(345)	(281)	82
Net borrowings at 31 December	127	581	(2,425)	(1,717)	(1,366)

Net borrowings comprise cash and short term investments, loan capital, finance leases, promissory notes and bank loans and are analysed further in notes 19, 20 and 21.

12 Acquisitions

During the year a number of acquisitions were made for a total consideration amounting to £132m/€201m, after taking account of £4m/€6m of net cash acquired. The most significant was Cell Press, Inc.

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 and the restatement of tangible fixed assets and current assets and liabilities in accordance with Reed Elsevier accounting policies. Summaries of these adjustments and the consideration given are set out in the tables below:

	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Goodwill	–	61	61
Intangible fixed assets	–	77	77
Tangible fixed assets	1	–	1
Current assets	10	(2)	8
Current liabilities	(12)	–	(12)
Current tax	(3)	–	(3)
Net assets acquired	(4)	136	132
Consideration (after taking account of £4m net cash acquired)			132
Less: deferred to future years			(12)
Net cash flow			120

	Book value on acquisition €m	Fair value adjustments €m	Fair value €m
Goodwill	–	93	93
Intangible fixed assets	–	117	117
Tangible fixed assets	2	–	2
Current assets	15	(3)	12
Current liabilities	(18)	–	(18)
Current tax	(5)	–	(5)
Net assets acquired	(6)	207	201
Consideration (after taking account of €6m net cash acquired)			201
Less: deferred to future years			(18)
Net cash flow			183

Before the amortisation of goodwill and intangible assets and exceptional acquisition related integration costs, the businesses acquired in 1999 contributed £31m/€47m to turnover, £5m/€8m to operating profit and £4m/€6m to net cash inflow from operating activities for the part year under Reed Elsevier ownership.

Finalisation of the fair value exercise in respect of acquisitions in the previous year resulted in a decrease in goodwill of £7m/€11m.

13 Goodwill and intangible assets

	Goodwill £m	Intangible assets £m	Total £m	Goodwill €m	Intangible assets €m	Total €m
Cost						
At 1 January 1999	2,827	2,973	5,800	4,014	4,223	8,237
Acquisitions	54	77	131	82	117	199
Disposals of businesses	(14)	–	(14)	(21)	–	(21)
Exchange translation differences	32	31	63	592	621	1,213
At 31 December 1999	2,899	3,081	5,980	4,667	4,961	9,628
Accumulated amortisation						
At 1 January 1999	1,008	1,194	2,202	1,431	1,696	3,127
Disposals of businesses	(8)	–	(8)	(12)	–	(12)
Charge for the year	195	174	369	296	265	561
Exchange translation differences	2	15	17	212	266	478
At 31 December 1999	1,197	1,383	2,580	1,927	2,227	4,154
Net book amount						
At 1 January 1999	1,819	1,779	3,598	2,583	2,527	5,110
At 31 December 1999	1,702	1,698	3,400	2,740	2,734	5,474

14 Tangible fixed assets

	Land and buildings £m	Plant, equipment and computer systems £m	Total £m	Land and buildings €m	Plant, equipment and computer systems €m	Total €m
Cost						
At 1 January 1999	166	679	845	236	964	1,200
Acquisitions	–	1	1	–	2	2
Capital expenditure	10	138	148	15	210	225
Disposals	(6)	(75)	(81)	(9)	(114)	(123)
Exchange translation differences	–	–	–	32	134	166
At 31 December 1999	170	743	913	274	1,196	1,470
Accumulated depreciation						
At 1 January 1999	42	404	446	60	573	633
Disposals	(3)	(63)	(66)	(5)	(97)	(102)
Charge for the year	6	111	117	9	169	178
Exceptional write down	–	30	30	–	46	46
Exchange translation differences	–	–	–	8	85	93
At 31 December 1999	45	482	527	72	776	848
Net book amount						
At 1 January 1999	124	275	399	176	391	567
At 31 December 1999	125	261	386	202	420	622

The net book amount of tangible fixed assets includes £18m/€28m (1998 £15m/€22m) in respect of assets held under finance leases.

15 Fixed asset investments

	Investments in joint ventures £m	Other investments £m	Total £m	Investments in joint ventures €m	Other investments €m	Total €m
At 1 January 1999	75	12	87	107	16	123
Share of attributable profit	4	–	4	6	–	6
Amortisation of goodwill and intangible assets	(4)	–	(4)	(6)	–	(6)
Dividends received from joint ventures	(4)	–	(4)	(6)	–	(6)
Additions	19	22	41	29	33	62
Disposals	–	(4)	(4)	–	(6)	(6)
Exchange translation differences	(1)	–	(1)	13	6	19
At 31 December 1999	89	30	119	143	49	192

The principal joint ventures at 31 December 1999 are Giuffrè (a 40% shareholding in an Italian legal publisher) and REZsolutions, Inc. (a 67% shareholding in a hotel reservations and marketing business which is in the process of being sold). The cost and net book amount of goodwill and intangible assets in joint ventures were £74m/€119m and £49m/€79m respectively (1998 £58m/€82m and £36m/€51m).

At 31 December 1999, the Reed Elsevier plc Employee Benefit Trust (EBT) held 618,790 Reed International ordinary shares and 320,000 Elsevier ordinary shares with an aggregate market value at that date of £5.1m/€8.2m (1998 121,374 Reed International ordinary shares; market value £0.5m/€0.7m). The EBT purchases Reed International and Elsevier shares which, at the Trustee's discretion, can be used in respect of the exercise of executive share options. Further details of these share option schemes are set out in the Reed Elsevier plc Remuneration Report on pages 18 to 24.

16 Debtors: amounts falling due within one year

	1999 £m	1998 £m	**1999 €m**	1998 €m
Trade debtors	**530**	504	**853**	716
Amounts owed by joint ventures	**1**	1	**2**	1
Corporation tax recoverable	**–**	56	**–**	80
Advance corporation tax	**–**	13	**–**	18
Other debtors	**42**	48	**68**	68
Prepayments and accrued income	**93**	109	**149**	155
Total	**666**	731	**1,072**	1,038

17 Debtors: amounts falling due after more than one year

	Note	**1999 £m**	1998 £m	**1999 €m**	1998 €m
Trade debtors		**9**	10	**14**	14
Pension prepayment	4	**127**	124	**204**	176
Prepayments, accrued income and other debtors		**12**	2	**20**	3
Total		**148**	136	**238**	193

18 Cash and short term investments

	1999 £m	1998 £m	**1999 €m**	1998 €m
Cash at bank and in hand	**79**	26	**127**	37
Short term investments	**361**	682	**581**	968
Total	**440**	708	**708**	1,005

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

19 Creditors: amounts falling due within one year

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Borrowings					
Other loans		**158**	179	**254**	254
Promissory notes and bank loans		**967**	968	**1,559**	1,375
Obligations under finance leases	22	**4**	3	**5**	4
		1,129	1,150	**1,818**	1,633
Trade creditors		**178**	148	**287**	210
Other creditors		**145**	150	**233**	213
Taxation		**120**	141	**193**	200
Proposed dividends		**127**	244	**204**	346
Accruals and deferred income		**977**	958	**1,573**	1,361
Total		**2,676**	2,791	**4,308**	3,963

20 Creditors: amounts falling due after more than one year

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Borrowings					
Other loans repayable:					
Within one to two years		**3**	154	**5**	219
Within two to five years		**81**	82	**130**	116
After five years		**279**	273	**449**	388
Promissory notes and bank loans repayable:					
Within one to two years		**–**	1	**–**	1
Obligations under finance leases	22	**14**	10	**23**	14
		377	520	**607**	738
Other creditors		**14**	16	**23**	23
Taxation		**208**	225	**335**	320
Accruals and deferred income		**21**	36	**33**	51
Total		**620**	797	**998**	1,132

21 Financial instruments

Details of the objectives, policies and strategies pursued by Reed Elsevier in relation to financial instruments are set out in the Review of 1999 Financial Performance on pages 2 to 13.

For the purpose of the disclosures which follow in this note, short term debtors and creditors have been excluded, as permitted under FRS13.

The currency and interest rate profile of the aggregate financial liabilities of £1,595m/€2,568m (1998 £1,726m/€2,451m), after taking account of interest rate and cross currency interest rate swaps, is set out below:

					Fixed rate financial liabilities	
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities €m	Fixed rate financial liabilities €m	Weighted average interest rate	Weighted average duration (years)
1999						
US dollar	**500**	**888**	**805**	**1,430**	6.9%	7.4
Sterling	**1**	**–**	**2**	**–**	–	–
Euro	**58**	**97**	**93**	**156**	4.7%	1.7
Other currencies	**31**	**20**	**50**	**32**	6.7%	0.7
Total	**590**	**1,005**	**950**	**1,618**	6.7%	6.7

					Fixed rate financial liabilities	
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities €m	Fixed rate financial liabilities €m	Weighted average interest rate	Weighted average duration (years)
1998						
US dollar	446	996	633	1,414	7.0%	6.9
Sterling	7	–	10	–	–	–
Euro	100	127	142	180	5.0%	1.8
Other currencies	34	16	49	23	7.3%	1.1
Total	587	1,139	834	1,617	6.8%	6.3

Included within fixed rate financial liabilities as at 31 December 1999, are £154m/€248m of US dollar term debt that matures within five months of the year end and £106m/€171m of interest rate swaps denominated principally in euro that mature within nine months of the year end.

The currency and interest rate profile of the aggregate financial assets of £479m/€771m (1998 £727m/€1,032m), after taking account of interest rate swaps, is set out below:

	Floating rate financial assets £m	Non interest bearing financial assets £m	Floating rate financial assets €m	Non interest bearing financial assets €m
1999				
US dollar	**67**	**24**	**108**	**39**
Sterling	**146**	**15**	**235**	**24**
Euro	**149**	**–**	**240**	**–**
Other currencies	**78**	**–**	**125**	**–**
Total	**440**	**39**	**708**	**63**

	Floating rate financial assets £m	Non interest bearing financial assets £m	Floating rate financial assets €m	Non interest bearing financial assets €m
1998				
US dollar	55	15	78	21
Sterling	465	4	660	6
Euro	154	–	219	–
Other currencies	34	–	48	–
Total	708	19	1,005	27

Floating rate interest rates payable on US commercial paper are based on US dollar commercial paper rates. Other financial assets and liabilities bear interest by reference to LIBOR or other national LIBOR equivalent interest rates. Included within non interest bearing financial assets are £30m/€48m (1998 £12m/€17m) of investments denominated principally in sterling and US dollars which have no maturity date.

21 Financial instruments (continued)

Forward rate agreements are used principally to fix the interest income on short term investments. At 31 December 1999, the gross notional amount of sterling forward rate agreements totalled £450m/€725m, commencing in periods of up to 12 months from 31 December 1999, and for periods of between 77 days and four months duration, ending on dates between April 2000 and April 2001.

At 31 December 1999, agreements totalling £387m/€623m (1998 £nil/€nil) were in place to enter into interest rate swaps at future dates. Of these, individual agreements totalling £247m/€398m were to fix the interest expense on US dollar borrowings commencing in 2002 for periods of five or six years, at a weighted average interest rate of 6.3%. The other agreements totalling £140m/€225m were to fix the interest income on sterling short term investments commencing in 2000 for periods of nine to 12 months at a weighted average interest rate of 5.1%.

Excluded from the analysis above are cross currency interest rate swaps hedging the currency exposure on inter-affiliate loans of £200m/€322m. Reed Elsevier pays US dollar interest and receives sterling interest, both at floating rates. These swaps mature within four months.

As at 31 December 1999 there were no outstanding caps, floors, collars or similar instruments.

The maturity profile of financial liabilities at 31 December comprised:

	1999 £m	1998 £m	**1999 €m**	1998 €m
Repayable:				
Within one year	**1,131**	1,162	**1,821**	1,650
Within one to two years	**23**	180	**37**	256
Within two to five years	**112**	105	**180**	149
After five years	**329**	279	**530**	396
Total	**1,595**	1,726	**2,568**	2,451

Financial liabilities repayable within one year include US commercial paper and euro commercial paper. Short term borrowings are supported by available committed facilities and by centrally managed cash and short term investments. As at 31 December 1999, a total of £617m/€993m (1998 £602m/€855m) of undrawn committed facilities were available, of which £222m/€357m matures within one year and £395m/€636m within two to five years (1998 £602m/€855m matured within two to five years). Secured borrowings under finance leases were £18m/€28m (1998 £13m/€18m).

The business policy is to hedge all significant transaction exposures on monetary assets and liabilities fully and consequently there are no material currency exposures that would give rise to gains and losses in the profit and loss account in the functional currencies of the operating units.

The book value and fair value of financial instruments are as follows:

	1999		1998	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance operations				
Investments	**30**	**30**	12	12
Cash	**79**	**79**	26	26
Short term investments	**361**	**361**	682	682
Other financial assets	**9**	**9**	7	7
Short term borrowings and current portion of long term borrowings	**(1,129)**	**(1,123)**	(1,150)	(1,152)
Long term borrowings	**(377)**	**(363)**	(520)	(558)
Other financial liabilities	**(23)**	**(23)**	(44)	(44)
Provisions	**(66)**	**(66)**	(16)	(16)
	(1,116)	**(1,096)**	(1,003)	(1,043)
Derivative financial instruments held to manage interest rate and currency exposure				
Interest rate swaps	**–**	**14**	–	(12)
Forward rate agreements	**–**	**–**	–	2
Currency swaps	**–**	**–**	–	–
Forward foreign exchange contracts	**–**	**(7)**	–	2
	–	**7**	–	(8)
Total financial instruments	**(1,116)**	**(1,089)**	(1,003)	(1,051)

21 Financial instruments (continued)

	1999 Book value €m	1999 Fair value €m	1998 Book value €m	1998 Fair value €m
Primary financial instruments held or issued to finance operations				
Investments	48	48	17	17
Cash	127	127	37	37
Short term investments	581	581	968	968
Other financial assets	14	14	10	10
Short term borrowings and current portion of long term borrowings	(1,818)	(1,808)	(1,633)	(1,636)
Long term borrowings	(607)	(585)	(738)	(792)
Other financial liabilities	(36)	(36)	(62)	(62)
Provisions	(106)	(106)	(23)	(23)
	(1,797)	(1,765)	(1,424)	(1,481)
Derivative financial instruments held to manage interest rate and currency exposure				
Interest rate swaps	–	23	–	(17)
Forward rate agreements	–	–	–	3
Currency swaps	–	–	–	–
Forward foreign exchange contracts	–	(12)	–	3
	–	11	–	(11)
Total financial instruments	(1,797)	(1,754)	(1,424)	(1,492)

The contingent liabilities, as disclosed in note 24, are denominated in euros with a weighted average duration of four years (1998 five years).

Market values have been used to determine the fair value of all swaps, forward foreign exchange contracts and all term debt issued and held. The fair values of all other items have been calculated by discounting expected future cash flows at market rates.

The unrecognised and deferred gains and losses on financial instruments used for hedging purposes are as follows:

	Unrecognised Gains £m	Unrecognised Losses £m	Deferred Gains £m	Deferred Losses £m
On hedges at 1 January 1999	4	(12)	–	(5)
Arising in previous years included in 1999 profit and loss account	(4)	5	–	1
Arising in previous years not included in 1999 profit and loss account	–	(7)	–	(4)
Arising in 1999 not included in 1999 profit and loss account	22	(8)	–	(14)
On hedges at 31 December 1999	22	(15)	–	(18)
Of which:				
Expected to be included in 2000 profit and loss account	4	(3)	–	(15)
Expected to be included in 2001 profit and loss account or later	18	(12)	–	(3)

	Unrecognised Gains €m	Unrecognised Losses €m	Deferred Gains €m	Deferred Losses €m
On hedges at 1 January 1999	6	(17)	–	(7)
Arising in previous years included in 1999 profit and loss account	(6)	8	–	2
Arising in previous years not included in 1999 profit and loss account	–	(9)	–	(5)
Arising in 1999 not included in 1999 profit and loss account	35	(15)	–	(24)
On hedges at 31 December 1999	35	(24)	–	(29)
Of which:				
Expected to be included in 2000 profit and loss account	6	(5)	–	(24)
Expected to be included in 2001 profit and loss account or later	29	(19)	–	(5)

22 Obligations under leases

Future finance lease obligations are:

	Note	1999 £m	1998 £m	1999 €m	1998 €m
Repayable:					
Within one year		5	3	8	4
Within one to two years		4	3	6	4
Within two to five years		4	4	6	6
After five years		10	9	16	13
Less: interest charges allocated to future periods		(5)	(6)	(8)	(9)
Total		18	13	28	18
Obligations falling due within one year	19	4	3	5	4
Obligations falling due after more than one year	20	14	10	23	14
Total		18	13	28	18

Annual commitments under operating leases are:

	1999 £m	1998 £m	1999 €m	1998 €m
On leases expiring:				
Within one year	4	5	6	7
Within two to five years	26	21	42	30
After five years	36	30	58	43
Total	66	56	106	80

Of the above annual commitments, £62m/€100m relates to land and buildings (1998 £50m/€71m) and £4m/€6m to other leases (1998 £6m/€9m).

23 Provisions for liabilities and charges

	Surplus property £m	Acquisitions £m	Reed Travel Group £m	Deferred taxation £m	Total £m
At 1 January 1999	–	3	33	–	36
Transfers	18	–	–	9	27
Provided	46	–	–	28	74
Utilised	–	(1)	(22)	–	(23)
Exchange translation differences	–	–	–	(1)	(1)
At 31 December 1999	64	2	11	36	113

	Surplus property €m	Acquisitions €m	Reed Travel Group €m	Deferred taxation €m	Total €m
At 1 January 1999	–	4	47	–	51
Transfers	27	–	–	14	41
Provided	70	–	–	42	112
Utilised	–	(2)	(33)	–	(35)
Exchange translation differences	6	1	4	2	13
At 31 December 1999	103	3	18	58	182

The surplus property provision relates to lease obligations for various periods up to 2012 and represents estimated sub-lease shortfalls in respect of properties which have been, or are in the process of being, vacated. Where material, long term obligations have been discounted.

The Reed Travel Group provision is in respect of recompense payments and credits due to customers. The majority of the remaining provision is expected to be utilised in 2000.

24 Contingent liabilities

There are contingent liabilities amounting to £23m/€37m (1998 £32m/€45m) in respect of borrowings of former subsidiaries.

A lawsuit has been filed in the United States against Reed Elsevier Inc. by Jurisline.com LLC seeking declaratory relief relating to copyrights and trademarks and challenging the validity of subscription agreements. It also alleges that Reed Elsevier Inc. has engaged in anti-competitive behaviour and seeks damages and injunctive relief. The lawsuit is being vigorously defended. In a related lawsuit, the Reed Elsevier subsidiary, Matthew Bender & Company, Inc. has filed a suit alleging that Jurisline has fraudulently obtained its products and has sought to use those products in developing a legal information service in breach of express contract restrictions. Reed Elsevier fully expects the courts to reaffirm the enforceability of its contracts and dismiss the claims filed against Reed Elsevier Inc. A decision against Reed Elsevier could, however, have significant consequences across the information industry in relation to the protection of databases. A lawsuit has also recently been filed against Reed Elsevier Inc. and the Thomson Corporation by two practicing attorneys in the US Virgin Islands, alleging anti-competitive behaviour and misuse of copyright, claiming $6bn in damages and penalties. The claim is regarded as baseless and Reed Elsevier expects that it will be successfully defended. No amounts have been provided in respect of the above claims.

25 Combined shareholders' funds

	Combined share capitals £m	Combined share premium accounts £m	Combined reserves £m	Total £m
At 1 January 1999	168	353	1,609	2,130
Loss attributable to parent companies' shareholders	–	–	(63)	(63)
Ordinary dividends paid and proposed	–	–	(234)	(234)
Issue of shares on exercise of options, less capital redemptions	(4)	9	–	5
Redenomination of Elsevier share capital into euros	7	(7)	–	–
Exchange translation differences	(3)	(14)	34	17
At 31 December 1999	168	341	1,346	1,855

	Combined share capitals €m	Combined share premium accounts €m	Combined reserves €m	Total €m
At 1 January 1999	239	501	2,285	3,025
Loss attributable to parent companies' shareholders	–	–	(95)	(95)
Ordinary dividends paid and proposed	–	–	(356)	(356)
Issue of shares on exercise of options, less capital redemptions	(6)	14	–	8
Redenomination of Elsevier share capital into euros	11	(11)	–	–
Exchange translation differences	26	45	334	405
At 31 December 1999	270	549	2,168	2,987

Combined share capital excludes the shares of Elsevier held by Reed International.

Combined reserves include a £4m/€6m (1998 £nil/€nil) capital redemption reserve following the redemption of non equity shares in Reed International in 1999.

AUDITORS' REPORT

To the shareholders of Reed International P.L.C. and Elsevier NV

We have audited the combined financial statements of Reed International P.L.C., Elsevier NV, Reed Elsevier plc, Elsevier Reed Finance BV and their respective subsidiaries (together 'the combined businesses') on pages 26 to 50, which have been prepared under the accounting policies set out on pages 26 and 27.

Respective responsibilities of directors and auditors

The directors of Reed International P.L.C. and Elsevier NV are responsible for preparing the Annual Reports and Financial Statements, including as described on page 17, the combined financial statements. Our responsibilities, as independent auditors of the combined financial statements, are set out in auditing standards generally accepted in the United Kingdom and the Netherlands and by our respective professions' ethical guidance.

We report to you our opinion as to whether the combined financial statements give a true and fair view. We read the other information contained in the Annual Reports and Financial Statements, including the corporate governance statement, and consider whether it is consistent with the audited combined financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the combined financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and the Netherlands. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of financial statements, and of whether the accounting policies are appropriate to the 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 combined financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the combined financial statements.

Opinion

In our opinion the combined financial statements give a true and fair view of the state of affairs of the combined businesses as at 31 December 1999, and of their losses for the year then ended.

Deloitte & Touche
Chartered Accountants and
Registered Auditors
London
23 February 2000

Deloitte & Touche
Accountants
Amsterdam
23 February 2000

Reed International P.L.C.

REED INTERNATIONAL P.L.C. ANNUAL REPORT AND FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED 31 DECEMBER

	1995 £m	1996 £m	1997 £m	1998 £m	**1999 £m**
PROFIT AND LOSS ACCOUNT					
Profit before tax	461	306	45	552	**57**
Profit/(loss) attributable to shareholders	362	194	(7)	408	**(33)**
ADJUSTED PROFIT AND LOSS ACCOUNT					
Profit before tax	382	426	435	409	**376**
Profit attributable to shareholders	292	319	322	302	**279**
Percentage change	22%	9%	1%	(6%)	**(8%)**
PER SHARE INFORMATION					
Earnings/(loss) per ordinary share	32.1p	17.1p	(0.6)p	35.7p	**(2.9)p**
Adjusted earnings per ordinary share	25.9p	28.1p	28.3p	26.4p	**24.4p**
Percentage change	22%	8%	1%	(7%)	**(8%)**
Net dividend per ordinary share	12.25p	13.60p	14.60p	15.00p	**10.00p**
Percentage change	14%	11%	7%	3%	**(33%)**
Dividend cover	2.0	1.9	1.8	1.7	**2.4**
Ordinary share prices – high	523p	605p	648p	716p	**630p**
– low	357p	491p	507p	428p	**344p**
Market capitalisation (£m)	5,551	6,257	6,956	5,379	**5,310**

(i) All amounts presented are based on the 52.9% Reed Elsevier combined profits attributable to the Reed International shareholders (see note 8 to the financial statements). The statutory profit for Reed International includes the impact of sharing the UK tax credit with Elsevier as a reduction in reported profits. On this basis, the consolidated profit before tax, attributable loss and loss per share for the year ended 31 December 1999 are £51m, £(39)m and (3.4)p respectively.

(ii) Adjusted figures are shown before amortisation of goodwill and intangible assets, exceptional items and equalisation adjustments. The Reed Elsevier businesses focus on adjusted profit and cash flow as additional performance measures.

(iii) The figures for the years ended 31 December, 1995, 1996 and 1997 have been restated to include retrospective amortisation of goodwill and intangible assets on the introduction of FRS10: Goodwill and Intangible Assets.

(iv) The earnings per ordinary share and dividend per ordinary share for the years 31 December 1995 and 31 December 1996 have been restated to take into account a two-for-one share split of the ordinary shares on 2 May 1997.

(v) Dividend cover is calculated as the number of times adjusted profit attributable to shareholders, after taking account of the sharing of the UK tax credit with Elsevier, covers the annual dividend.

(vi) Share prices quoted are the closing mid-price. Market capitalisation is at the year end date.

DIRECTORS' REPORT

The directors present their report, together with the financial statements of the company, for the year ended 31 December 1999.

As a consequence of the merger of the company's businesses with those of Elsevier, described on page 14, the shareholders of Reed International and Elsevier can be regarded as having the interests of a single economic group. The Reed Elsevier combined financial statements represent the combined interests of both sets of shareholders and encompass the businesses of Reed Elsevier plc, Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the parent companies, Reed International and Elsevier ('the combined businesses'). This directors' report and the financial statements of the company should be read in conjunction with the combined financial statements and other reports set out on pages 2 to 51, as well as the Report of the Chairman and the Chief Executive Officer in the Annual Review and Summary Financial Statements.

Principal activities

The company is a holding company and its principal investments are its direct 50% shareholding in Reed Elsevier plc and its 46% shareholding in Elsevier Reed Finance BV, which are engaged in publishing and information activities and financing activities, respectively. The remaining shareholdings in these two companies are held by Elsevier. Reed International also has an equivalent 5.8% indirect interest in Elsevier. Reed International and Elsevier have retained their separate legal identities and are publicly held companies with separate stock exchange listings in London, Amsterdam and New York.

Financial statement presentation

The consolidated financial statements of Reed International include the 52.9% economic interest that shareholders have under the equalisation arrangements in the Reed Elsevier combined businesses, accounted for on an equity basis.

Under the terms of the merger agreement, dividends paid to Reed International and Elsevier shareholders are equalised at the gross level inclusive of the UK tax credit received by certain Reed International shareholders. Because of the tax credit, Reed International requires less cash to fund its net dividend than Elsevier does to fund its gross dividend. An adjustment is, therefore, required in the statutory profit and loss account of Reed International to share this tax benefit between the two sets of shareholders in accordance with the equalisation agreement. The equalisation adjustment arises only on dividends paid by Reed International to its shareholders and it reduces the statutory attributable earnings of the company by 47.1% of the total amount of the tax credit, which in 1999 was £6m (1998 £12m).

In addition to the reported figures, adjusted profit figures are presented as additional performance measures. These exclude the tax credit equalisation adjustment, the amortisation of goodwill and intangible assets and exceptional items and provide a basis for performance comparison that is not dependent on the choice of adoption method of FRS10 on accounting for goodwill and intangible assets.

Profit and loss account

The 1999 and 1998 results were significantly impacted by the company's share of exceptional items of Reed Elsevier plc. These exceptional items related in both years to Year 2000 and acquisition integration costs, in 1999 to a reorganisation charge of £161m (company's share £85m), and in 1998 to a gain on the sale of businesses (principally IPC) of £692m (company's share £366m). The reported attributable loss for Reed International – including the effect of amortisation of goodwill and intangible assets and exceptional items – comprises 50% of the loss after tax of Reed Elsevier (£31m, 1998 £386m profit) and 5.8% of Elsevier's loss after tax (sterling equivalent: £2m, 1998 £22m profit), together with the effect of tax credit equalisation.

The 1999 adjusted profit attributable to shareholders was £279m, down from £302m in 1998.

1999 adjusted earnings per share decreased by 8% to 24.4p (1998 26.4p) for Reed International shareholders. Including the effect of the tax credit equalisation as well as the amortisation of goodwill and intangible assets and exceptional items, the basic loss per share was 3.4p (1998 34.7p earnings per share).

Balance sheet

The balance sheet of Reed International reflects the shareholders' 52.9% economic interest in the net assets of Reed Elsevier, which at 31 December 1999 amounted to £981m (1998 £1,127m). The £146m decrease in net assets principally reflects Reed International's share in the retained losses of Reed Elsevier plc and Elsevier Reed Finance BV, after dividends paid and payable.

DIRECTORS' REPORT (continued)

Dividends

The board is recommending a final dividend of 5.4p per ordinary share to be paid on 22 May 2000 to shareholders on the Register on 8 May 2000 which, when added to the interim dividend already paid on 1 October 1999 amounting to 4.6p per ordinary share, makes the total dividend for the year 10.0p. This represents a decrease of 33% over the dividend paid on the ordinary shares for 1998. An explanation of the change in dividend policy is set out in the Report of the Chairman and the Chief Executive Officer on pages 2 to 6 in the Annual Review and Summary Financial Statements.

The total dividend on the ordinary shares for the financial year will amount to £116m (1998 £172m), leaving a retained loss of £155m (1998 £224m profit).

Directors

The following served as directors during the year:

MH Armour
RS Bodman (retired 15 April 1999)
JF Brock (appointed 15 April 1999)
CHL Davis (appointed 1 September 1999)
DJ Haank (appointed 15 November 1999)
Sir Christopher Lewinton (retired 15 April 1999)
JB Mellon (retired 15 April 1999)
RJ Nelissen (appointed 16 April 1999)
S Perrick (appointed 15 April 1999)
NJ Stapleton (retired 30 September 1999)
RWH Stomberg (appointed 1 January 1999)
M Tabaksblat (appointed 15 April 1999)
DGC Webster

Brief biographical details of the directors at the date of this Report are given on page 7 of the Annual Review and Summary Financial Statements.

Messrs Nelissen, Davis and Haank, having been appointed since the last Annual General Meeting, will retire at the forthcoming Annual General Meeting. Messrs Armour and Webster will retire by rotation at the forthcoming Annual General Meeting. Being eligible, they will each offer themselves for re-election.

The notice periods applicable to the service contracts of Messrs Armour, Davis and Haank are set out in the Reed Elsevier plc Remuneration Report on page 19. Messrs Nelissen and Webster do not have a service contract with the company or Reed Elsevier plc.

Details of directors' remuneration and their interests in the share capital of the company are provided in the Reed Elsevier plc Remuneration Report on pages 18 to 24.

Share capital

During the period 1,132,133 ordinary shares in the company were issued in connection with the following share option schemes:

663,233 under UK SAYE share option schemes at prices between 263p and 449.2p per share.
468,900 under executive share option schemes at prices between 201p and 410.25p per share.

Following shareholder approval at the 1999 Annual General Meeting, the company repaid, at par, 1,500,000 3.15% preference shares of £1 each, 1,200,000 3.85% preference shares of £1 each, 317,766 3.50% preference shares of £1 each, and 1,050,587 4.90% preference shares of £1 each.

At 22 February 2000, the company had received notification of the following substantial interests in the company's issued ordinary share capital:

Lord Hamlyn	43,302,816 shares	3.7%
Prudential Corporation	79,882,798 shares	6.9%

At the 1999 Annual General Meeting a resolution was passed to extend the authority given to the company to purchase up to 10% of its ordinary shares by market purchase. At 31 December 1999, this authority remained unutilised. A resolution to further extend the authority is to be put to the 2000 Annual General Meeting.

DIRECTORS' REPORT (continued)

United Kingdom charitable and political donations
Reed Elsevier companies in the United Kingdom made donations during the year for charitable purposes amounting to £40,000 of which £1,000 was for educational purposes. There were no donations for political purposes.

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. In preparing those financial statements, the directors ensure that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used, and accounting standards have been followed.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the law.

The directors have general responsibility for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Corporate governance
The company has complied in all material respects throughout the period under review with the provisions of Section 1 of the Combined Code – the Principles of Good Governance and Code of Best Practice, issued by the London Stock Exchange. As permitted by the London Stock Exchange, the directors have complied with Code D.2.1 on internal control by reporting on internal financial control. Details of how the provisions of the Combined Code have been applied and the directors' statement on internal financial control are set out in the Structure and Corporate Governance report on pages 14 to 17.

Going concern
After making enquiries, the directors have a reasonable expectation that the group has adequate resources 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.

Payments to suppliers
Reed Elsevier companies agree terms and conditions for business transactions with suppliers and payment is made on these terms. The average time taken to pay suppliers was between 30 and 45 days.

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

By order of the Board
WM St John Radcliffe
Secretary
23 February 2000

Registered Office:
25 Victoria Street
London
SW1H 0EX

ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

The basis of the merger of the Reed International and Elsevier businesses is set out on page 14.

As permitted by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account.

Determination of profit

The Reed International share of the Reed Elsevier combined results has been calculated on the basis of the 52.9% economic interest of the Reed International shareholders in the Reed Elsevier combined businesses, after taking account of results arising in Reed International and its subsidiary undertakings. Dividends paid to Reed International and Elsevier shareholders are equalised at the gross level inclusive of the UK tax credit received by certain Reed International shareholders. In the financial statements, an adjustment is required to equalise the benefit of the tax credit between the two sets of shareholders in accordance with the equalisation agreement. This equalisation adjustment arises only on dividends paid by Reed International to its shareholders and reduces the attributable earnings of the company by 47.1% of the total amount of the tax credit.

The accounting policies adopted in the preparation of the combined financial statements are set out on pages 26 and 27.

Segmental analysis of the Reed Elsevier combined results is shown in the Reed Elsevier combined financial statements.

Basis of valuation of assets and liabilities

Reed International's 52.9% economic interest in the net assets of the combined businesses has been shown on the balance sheet as interests in joint ventures, net of the assets and liabilities reported as part of Reed International and its subsidiary undertakings.

In the parent company accounts, investments are stated at cost, less provision, if appropriate, for any impairment in value.

Translation of foreign currencies into sterling

Profit and loss items are translated at average exchange rates. In the consolidated balance sheet, assets and liabilities are translated at rates ruling at the balance sheet date or contracted rates where applicable. The gains or losses relating to the retranslation of Reed International's 52.9% economic interest in the net assets of the combined businesses are taken directly to reserves.

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 might become payable on the distribution of retained profits by foreign subsidiaries or joint ventures unless there is an intention to distribute such retained earnings giving rise to a charge. The potential deferred tax has not been quantified.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 £m	1998 £m
Turnover			
Share of turnover in joint ventures		1,793	1,688
Less: share of turnover in joint ventures		(1,793)	(1,688)
		–	–
Administrative expenses		(1)	(1)
Operating loss (before joint ventures)	3	(1)	(1)
Share of operating profit of joint ventures:	1		
Before amortisation and exceptional items		414	419
Amortisation of goodwill and intangible assets		(197)	(176)
Exceptional items		(126)	(42)
		91	201
Operating profit including joint ventures		90	200
Non operating exceptional items	3	–	(5)
Share of non operating exceptional items of joint ventures	1	4	366
		4	361
Net interest:			
Group	5	3	5
Share of net interest of joint ventures		(46)	(26)
		(43)	(21)
Profit on ordinary activities before taxation		51	540
Tax on profit on ordinary activities	6	(90)	(144)
(Loss)/profit attributable to ordinary shareholders		(39)	396
Dividends	7	(116)	(172)
Retained (loss)/profit taken to reserves		(155)	224

ADJUSTED FIGURES

	Note	1999 £m	1998 £m
Profit before tax	8	376	409
Profit attributable to ordinary shareholders	8	279	302

Adjusted figures, which exclude the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures.

EARNINGS PER ORDINARY SHARE (EPS)

	Note	1999 pence	1998 pence
Basic EPS	9	(3.4)	34.7
Diluted EPS	9	(3.4)	34.6
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses	9	(2.9)	35.7
Adjusted EPS	9	24.4	26.4

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

The above amounts derive from continuing activities.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 £m	1998 £m
Net cash outflow from operating activities	10	**(2)**	(5)
Dividends received from Reed Elsevier plc		**172**	171
Interest received		**3**	5
Returns on investments and servicing of finance		**3**	5
Taxation		**7**	(1)
Equity dividends paid		**(173)**	(169)
Cash inflow before changes in short term investments and financing		**7**	1
Decrease in short term investments	10	**2**	–
Issue of ordinary shares, less capital redemptions		**–**	14
Increase in net funding balances to Reed Elsevier plc group	10	**(9)**	(15)
Financing	10	**(9)**	(1)
Change in net cash		**–**	–

BALANCE SHEETS

AS AT 31 DECEMBER 1999

		Consolidated		Company	
	Note	1999 £m	1998 £m	1999 £m	1998 £m
Fixed assets					
Investment in joint ventures (share of gross assets £2,825m (1998 £3,081m); share of gross liabilities £1,968m (1998 £2,015m))	11	**857**	1,066	**–**	–
Investments	12	**–**	–	**1,005**	1,005
		857	1,066	**1,005**	1,005
Current assets					
Debtors	13	**233**	224	**233**	224
Short term investments		**–**	2	**–**	2
		233	226	**233**	226
Creditors: amounts falling due within one year	14	**(73)**	(129)	**(151)**	(207)
Net current assets		**160**	97	**82**	19
Total assets less current liabilities		**1,017**	1,163	**1,087**	1,024
Creditors: amounts falling due after more than one year	15	**(36)**	(36)	**(36)**	(36)
Net assets		**981**	1,127	**1,051**	988
Capital and reserves					
Called up share capital	16	**143**	147	**143**	147
Share premium account	18	**233**	229	**233**	229
Capital redemption reserve	18	**4**	–	**4**	–
Profit and loss reserve	18	**601**	751	**671**	612
Shareholders' funds		**981**	1,127	**1,051**	988

The financial statements were approved by the Board of Directors, 23 February 2000.

M Tabaksblat
Chairman

M H Armour
Chief Financial Officer

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £m	1998 £m
(Loss)/profit attributable to ordinary shareholders	(39)	396
Exchange translation differences	9	(2)
Total recognised gains and losses for the year	**(30)**	**394**

Recognised gains and losses include losses of £37m (1998 gains of £396m) in respect of joint ventures.

RECONCILIATION OF SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1999

	Consolidated		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Shareholders' funds at 1 January	1,127	895	988	977
(Loss)/profit attributable to ordinary shareholders	(39)	396	179	169
Dividends	(116)	(172)	(116)	(172)
Issue of shares on exercise of options	4	14	4	14
Redemption of preference shares	(4)	–	(4)	–
Exchange translation differences and other adjustments	9	(6)	–	–
Shareholders' funds at 31 December	**981**	**1,127**	**1,051**	**988**

1 Income from interests in joint ventures

	Note	1999 £m	1998 £m
Share of operating profit before amortisation and exceptional items			
Reed Elsevier combined results (50%)		**396**	407
Elsevier's results (5.8%)		**23**	23
Share of operating profit before amortisation and exceptional items (based on 52.9% economic interest in the Reed Elsevier combined businesses)		**419**	430
Effect of tax credit equalisation on distributed earnings	2	**(6)**	(12)
Items consolidated within Reed International group		**1**	1
		414	419
Share of non operating exceptional items			
Reed Elsevier combined results (52.9%)		**4**	361
Items consolidated within Reed International group	3	**–**	5
		4	366

2 Effect of tax credit equalisation on distributed earnings

The equalisation adjustment arises only on dividends paid by Reed International to its shareholders and reduces the earnings of the company by 47.1% of the total amount of the tax credit, as set out in the accounting policies on page 58.

3 Profit on ordinary activities before tax

The operating loss comprises administrative expenses and includes £510,000 (1998 £388,000) paid in the year to Reed Elsevier plc under a contract for the services of directors and administrative support. The company has no employees (1998 nil).

Audit fees payable for the group were £21,000 (1998 £21,000). Non audit fees payable to the company's auditors were £nil (1998 £164,000).

Exceptional costs of £5m were paid to Reed Elsevier plc in 1998, in respect of professional fees and other expenses relating to the abandoned merger of the Reed International, Elsevier and Wolters Kluwer businesses.

4 Directors' emoluments

Information on directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Reed Elsevier plc Remuneration Report on pages 18 to 24 and forms part of these financial statements.

5 Net interest

	1999 £m	1998 £m
Interest payable and similar charges		
On loans from Reed Elsevier plc group	**(4)**	(4)
Interest receivable and similar income		
On loans to Reed Elsevier plc group	**7**	9
Net interest income	**3**	5

6 Tax on profit on ordinary activities

	1999 £m	1998 £m
UK corporation tax	(5)	1
Share of tax arising in joint ventures:		
Before amortisation and exceptional items	103	106
On amortisation and exceptional items	(8)	37
Total	90	144

UK corporation tax has been provided at 30.25% (1998 31.0%).

The share of tax arising in joint ventures is high as a proportion of the share of profit before tax principally due to non-tax deductible amortisation, the non-recognition of potential deferred tax assets, and taxes arising on business consolidation in the programme of reorganisation within the joint ventures.

7 Dividends

	1999 pence	1998 pence	1999 £m	1998 £m
Ordinary shares of 12.5 pence each				
Interim	4.60	4.60	53	52
Final (1999 proposed)	5.40	10.40	63	120
Total	10.00	15.00	116	172

8 Adjusted figures

	1999 £m	1998 £m
Profit before tax	51	540
Effect of tax credit equalisation on distributed earnings	6	12
Profit before tax based on 52.9% economic interest in the Reed Elsevier combined businesses	57	552
Adjustments:		
Amortisation of goodwill and intangible assets	197	176
Exceptional items	122	(319)
Adjusted profit before tax	376	409
(Loss)/profit attributable to ordinary shareholders	(39)	396
Effect of tax credit equalisation on distributed earnings	6	12
(Loss)/profit attributable to ordinary shareholders based on 52.9% economic interest in the Reed Elsevier combined businesses	(33)	408
Adjustments:		
Amortisation of goodwill and intangible assets	197	176
Exceptional items	115	(282)
Adjusted profit attributable to ordinary shareholders	279	302

8 Adjusted figures (continued)

	1999 pence	1998 pence
Basic (loss)/earnings per ordinary share	(3.4)	34.7
Effect of tax credit equalisation on distributed earnings	0.5	1.0
(Loss)/earnings per share based on 52.9% economic interest in the Reed Elsevier combined businesses	(2.9)	35.7
Adjustments:		
Amortisation of goodwill and intangible assets	17.2	15.4
Exceptional items	10.1	(24.7)
Adjusted earnings per ordinary share	**24.4**	**26.4**

9 Earnings per ordinary share (EPS)

		1999		
	Note	Earnings £m	Weighted average number of shares (millions)	EPS pence
Basic EPS		(39)	1,145.1	(3.4)
Diluted EPS		(39)	1,145.3	(3.4)
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses		(33)	1,145.1	(2.9)
Adjusted EPS	8	279	1,145.1	24.4

		1998		
		Earnings £m	Weighted average number of shares (millions)	EPS pence
Basic EPS		396	1,142.6	34.7
Diluted EPS		396	1,144.6	34.6
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses		408	1,142.6	35.7
Adjusted EPS	8	302	1,142.6	26.4

The diluted EPS figures are calculated after taking account of the effect of share options.

10 Cash flow statement

Reconciliation of operating profit to net cash flow from operating activities

	1999 £m	1998 £m
Operating loss	(1)	(1)
Non operating exceptional items	–	(5)
Net movement in debtors and creditors	(1)	1
Net cash outflow from operating activities	**(2)**	**(5)**

Reconciliation of net borrowings

	Short term investments £m	Net funding balances to Reed Elsevier plc group £m	Total £m
At 1 January 1999	2	188	190
Cash flow	(2)	9	7
At 31 December 1999	**–**	**197**	**197**

11 Fixed asset investments – consolidated

Investment in joint ventures

	1999 £m	1998 £m
At 1 January	**1,066**	845
Share of operating profit	**91**	201
Share of non operating exceptional items	**4**	366
Share of net interest payable	**(46)**	(26)
Share of profit before tax	**49**	541
Share of taxation	**(95)**	(143)
Share of (loss)/profit after tax	**(46)**	398
Dividends received	**(172)**	(171)
Exchange translation differences and other items	**9**	(6)
At 31 December	**857**	1,066

The investment in joint ventures comprises the group's share at the following amounts of:

	1999 £m	1998 £m
Fixed assets	**2,066**	2,160
Current assets	**759**	921
Creditors: amounts falling due within one year	**(1,576)**	(1,571)
Creditors: amounts falling due after more than one year	**(328)**	(422)
Provisions	**(60)**	(19)
Minority interests	**(4)**	(3)
	857	1,066

Included within share of current assets and creditors are cash and short term investments of £233m (1998 £374m) and borrowings of £797m (1998 £883m) respectively.

12 Fixed asset investments – company

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost and net book amount	**244**	**761**	**1,005**

13 Debtors

	Consolidated		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Amounts owed by Reed Elsevier plc group	**233**	224	**233**	224

Amounts falling due after more than one year are £40m (1998 £40m), denominated in sterling at a fixed rate of 9.8% (1998 9.8%) for a duration of eight years (1998 nine years). At 31 December 1999 these amounts had a fair value of £44m (1998 £47m).

14 Creditors: amounts falling due within one year

	Consolidated		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Other creditors	**1**	2	**1**	2
Proposed dividend	**63**	120	**63**	120
Taxation	**9**	7	**9**	7
Amounts owed to group undertakings	**–**	–	**78**	78
Total	**73**	129	**151**	207

15 Creditors: amounts falling due after more than one year

	Consolidated		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Amounts owed to Reed Elsevier plc group	**36**	36	**36**	36

These amounts are denominated in sterling at a fixed rate of 10.5% (1998 10.5%) for a duration of six years (1998 seven years). At 31 December 1999 these amounts had a fair value of £44m (1998 £47m).

16 Called up share capital

	Authorised		Issued and fully paid			
			1999		1998	
	No. shares	£ million	**No. shares**	**£ million**	No. shares	£ million
Non equity shares	–	–	**–**	**–**	4,068,353	4
Ordinary shares of 12.5p each	1,145,631,010	143	**1,145,631,010**	**143**	1,144,498,877	143
Unclassified shares of 12.5p each	325,822,166	41	**–**	**–**	–	–
Total		184		**143**		147

Following shareholder approval at the 1999 Annual General Meeting, the company repaid, at par, 1,500,000 3.15% preference shares of £1 each, 1,200,000 3.85% preference shares of £1 each, 317,766 3.50% preference shares of £1 each, and 1,050,587 4.90% preference shares of £1 each.

Details of shares issued under share option schemes are set out in note 17.

17 Share option schemes

During the year a total of 1,132,133 ordinary shares in the company, having a nominal value of £141,517, were allotted in connection with share option schemes. The consideration received by the company was £4m. Options were granted during the year under the Reed Elsevier plc Executive Share Option Scheme to subscribe for 2,930,229 ordinary shares at a price of 537.5p per share, 321,199 ordinary shares at a price of 467p per share and 11,271,478 ordinary shares at a price of 424p per share. Options were granted during the year under the Reed Elsevier plc SAYE Share Option Scheme to subscribe for 1,251,005 ordinary shares at a price of 430p per share. Options to subscribe for 1,553,890 shares in the company lapsed.

Options outstanding at 31 December 1999 over the company's ordinary share capital were:

	Number of ordinary shares	Range of subscription prices	Exercisable
UK and overseas executive share option schemes	23,740,973	188.75p – 611p	2000-2009
UK SAYE share option schemes	3,778,738	320.6p – 499.2p	2000-2005

The above entitlements will, upon exercise, be met by the issue of new ordinary shares.

Excluded from the above are options which, upon exercise, will be met by the Reed Elsevier plc Employee Benefit Trust from shares purchased in the market. These comprise nil cost options granted to certain directors, details of which are shown in the Reed Elsevier plc Remuneration Report on pages 18 to 24, and 2,062,892 options granted during the year at subscription prices ranging between 424p and 537.5p.

18 Reserves

	Consolidated			
	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 1 January 1999	**229**	**–**	**751**	**980**
Issue of shares on exercise of options	**4**	**–**	**–**	**4**
Redemption of preference shares	**–**	**4**	**(4)**	**–**
Loss attributable to ordinary shareholders	**–**	**–**	**(39)**	**(39)**
Dividends	**–**	**–**	**(116)**	**(116)**
Exchange translation differences and other adjustments	**–**	**–**	**9**	**9**
At 31 December 1999	**233**	**4**	**601**	**838**

18 Reserves (continued)

	Company			
	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 1 January 1999	229	–	612	841
Issue of shares on exercise of options	4	–	–	4
Redemption of preference shares	–	4	(4)	–
Profit attributable to ordinary shareholders	–	–	179	179
Dividends	–	–	(116)	(116)
At 31 December 1999	233	4	671	908

The capital redemption reserve arose on the redemption of £4m of non equity shares at par. Reed International's share of the revenue reserves of the Reed Elsevier combined businesses is £710m (1998 £851m).

19 Contingent liabilities

There are contingent liabilities in respect of borrowings of the Reed Elsevier plc group and Elsevier Reed Finance BV group guaranteed by Reed International as follows:

	1999 £m	1998 £m
Guaranteed jointly and severally with Elsevier	1,431	1,616
Guaranteed solely by Reed International	1	2

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 21 to the Reed Elsevier combined financial statements on pages 46 to 48.

20 Principal joint ventures

The principal joint ventures are:

		% holding
Reed Elsevier plc		
Incorporated and operating in Great Britain	£10,000 ordinary 'R' shares	100%
25 Victoria Street,	£10,000 ordinary 'E' shares	–
London SW1H 0EX	£100,000 7$^1/_2$% cumulative preference non voting shares	100%
Holding company for operating businesses involved in scientific, legal and business publishing	Equivalent to a 50% equity interest	
Elsevier Reed Finance BV		
Incorporated in the Netherlands	101 ordinary 'R' shares	100%
Van de Sande Bakhuyzenstraat 4,	119 ordinary 'E' shares	–
1061 AG Amsterdam		
Holding company for financing businesses	Equivalent to a 46% equity interest	

The 'E' shares in Reed Elsevier plc and Elsevier Reed Finance BV are owned by Elsevier.

21 Principal subsidiary undertakings

The principal subsidiary undertaking is:

		% holding
Reed Holding BV		
Incorporated in the Netherlands	40 ordinary shares	100%
Van de Sande Bakhuyzenstraat 4,		
1061 AG Amsterdam		

Reed Holding BV owns 4,049,951 shares of a separate class in Elsevier representing an equivalent economic interest of 5.8% in that company.

AUDITORS' REPORT TO THE MEMBERS OF REED INTERNATIONAL P.L.C.

We have audited the Reed International P.L.C. financial statements ('the financial statements') on pages 58 to 67 which have been prepared under the accounting policies set out on page 58.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 57, the Financial Statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on page 57 reflects the compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1999 and the loss 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
23 February 2000

SHAREHOLDER INFORMATION

Analyses of ordinary shareholders

Ordinary shareholders	Holders 31 Dec 1999	% held 31 Dec 1999	Shares held 31 Dec 1999	% held 31 Dec 1999
Individuals	27,257	68.55	102,330,377	8.93
Institutions and companies*	12,508	31.45	1,043,300,633	91.07
Totals	39,765	100.00	1,145,631,010	100.00

*Nominees have been included under institutions and companies.

Ordinary shareholdings	Holders 31 Dec 1999	% held 31 Dec 1999	Shares held 31 Dec 1999	% held 31 Dec 1999
1-1,000	17,475	43.95	9,510,806	0.83
1,001-10,000	19,998	50.29	55,235,421	4.82
10,001-100,000	1,560	3.92	47,037,307	4.11
100,001-1,000,000	576	1.45	182,779,193	15.95
1,000,001-10,000,000	137	0.34	381,793,219	33.33
Over 10,000,000	19	0.05	469,275,064	40.96
Totals	39,765	100.00	1,145,631,010	100.00

Registrar

The Reed International share register is administered by Computershare Services PLC. Enquiries concerning shareholdings in Reed International, dividend payments, share certificates and change of personal details should be addressed to Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH (telephone – 0870 702 0000, textphone – 0870 702 0005). In addition, a Reed International shareholder can obtain information concerning their shareholding, or initiate changes to standing instructions, via the Internet at **www.computershare.com**.

Individual Savings Account

Details of an ISA facility for Reed International ordinary shares may be obtained by writing to Halifax Share Dealing Ltd, Corporate ISAs, Trinity Road, Halifax HX1 2RG (telephone 0870 600 9966).

Share dealing facility

A Reed International postal share dealing service is operated by Cazenove & Co, 12 Tokenhouse Yard, London EC2R 7AN (telephone 020 7606 1768).

Financial diary

The financial diary for 2000 is shown on page 32 of the Annual Review and Summary Financial Statements.

Capital gains tax

The mid-market price of Reed International's £1 ordinary shares on 31 March 1982 was 282p each which, when adjusted for the four for one share split on 28 July 1986 and the subsequent two for one share split on 2 May 1997, gives an equivalent amount of 35.25p for each 12.5p ordinary share.

Share price information

The Reed International share price may be obtained via the Internet at **www.reed-elsevier.com**, through the CEEFAX and ORACLE service, from national newspapers and also the FT Cityline Service (telephone 0906 843 3796 – calls from within the United Kingdom cost 60p per minute).

American Depositary Shares

Enquiries concerning Reed International American Depositary Shares (ADSs) should be addressed to Citibank Shareholder Services, PO Box 2502, Jersey City, New Jersey 07303-2502 (telephone +1 877-CITI-ADR – toll free if dialled from within the United States). Alternatively, information can be obtained via the Internet at **www.citibank.com/adr**.

Reed International's CUSIP number is 758212872 and its trading symbol is RUK.

Elsevier NV

ELSEVIER NV ANNUAL REPORT AND FINANCIAL STATEMENTS

FIVE YEAR FINANCIAL SUMMARY IN EUROS

(in €m, unless otherwise indicated)	1995	1996	1997	1998	**1999**
PROFIT					
Adjusted profit attributable	317	360	440	425	**401**
Percentage change	11%	14%	22%	(4%)	**(6%)**
PER SHARE INFORMATION (in €)					
Adjusted EPS	0.45	0.51	0.62	0.60	**0.57**
Percentage change	11%	13%	21%	(4%)	**(5%)**
Cash dividend per ordinary share	0.27	0.34	0.43	0.39	**0.27**
Percentage change	8%	29%	25%	(8%)	**(31%)**
Pay-out	59%	67%	69%	66%	**47%**
Share price, high	10.21	13.79	17.88	17.83	**15.25**
Share price, low	6.72	9.67	12.03	9.94	**8.95**
Share price, closing	9.71	13.25	14.88	11.93	**11.86**
OTHER DATA					
Average number of shares outstanding (in millions)	700	704	707	708	**708**
Number of shares outstanding at year end (in millions)	702	706	707	708	**709**
Market capitalisation	6,820	9,355	10,526	8,447	**8,409**
Price/earnings ratio	21	26	24	20	**21**

FIVE YEAR FINANCIAL SUMMARY IN GUILDERS

(in Dfl m, unless otherwise indicated)	1995	1996	1997	1998	**1999**
PROFIT					
Adjusted profit attributable	698	793	970	936	**884**
Percentage change	11%	14%	22%	(4%)	**(6%)**
PER SHARE INFORMATION (in Dfl)					
Adjusted EPS	1.00	1.13	1.37	1.32	**1.26**
Percentage change	11%	13%	21%	(4%)	**(5%)**
Cash dividend per ordinary share	0.59	0.76	0.95	0.87	**0.59**
Percentage change	8%	29%	25%	(8%)	**(31%)**
Pay-out	59%	67%	69%	66%	**47%**
OTHER DATA					
Market capitalisation	15,029	20,615	23,197	18,615	**18,530**
Price/earnings ratio	21	26	24	20	**21**

(i) Financial information in euros has been calculated on the basis of the official exchange rate of Dfl 2.20371. Percentage changes and financial ratios have been calculated using guilder figures and may be affected by rounding.

(ii) Adjusted profit attributable and adjusted EPS are before amortisation of goodwill and intangible assets, exceptional items and related tax effects.

(iii) Per share information has been calculated using the average number of shares outstanding, taking into account that the R-shares can be converted into ten ordinary shares.

(iv) Pay-out is the cash dividend as a percentage of adjusted EPS.

(v) The closing price is the final quotation at year end on the Amsterdam Stock Exchange for ordinary shares.

(vi) The price/earnings ratio is the closing share price divided by adjusted EPS.

(vii) Market capitalisation is the number of shares outstanding at year end multiplied by the closing price.

BOARDS

Supervisory Board
M Tabaksblat, Chairman
JF Brock
JJJ van Dijck
O ter Haar
RJ Nelissen
S Perrick
RWH Stomberg
DGC Webster

Executive Board
CHL Davis, Chairman
MH Armour

THE SUPERVISORY BOARD'S REPORT

As required by Article 33 of the Articles of Association, we herewith submit the Executive Board's annual report and financial statements for the financial year ended 31 December 1999 to the shareholders' meeting for adoption. The financial statements have been examined by Deloitte & Touche, Accountants, Amsterdam.

We refer to the Report of the Chairman and the Chief Executive Officer and to the other reports contained within the Reed Elsevier Annual Review and Summary Financial Statements 1999 and the Reed Elsevier Annual Reports and Financial Statements 1999. These reports explain the business results of 1999, the financial state of the company at the end of 1999, the key strategic issues and the alignment of the management structure that took place in 1999.

The equalisation agreement between Elsevier and Reed International has the effect that shareholders can be regarded as having the interests of a single economic group and provides that Elsevier shall declare dividends such that the dividend on one Elsevier ordinary share, which shall be payable in euros, will equal 1.538 times the cash dividend, including the related UK tax credit, paid on one Reed International ordinary share. In that context, the Combined Supervisory and Executive Board ('the Combined Board') determines the amounts of the company's profit to be distributed and retained. The ordinary shares and the R-shares are entitled to receive distribution in proportion to their nominal value. The Combined Board may resolve to pay less per R-share, but not less than 1% of the nominal value.

Details of dividends are contained in the Review of 1999 Financial Performance on page 13.

The Supervisory Board
23 February 2000

Registered office
Van de Sande Bakhuyzenstraat 4
1061 AG Amsterdam

THE EXECUTIVE BOARD'S REPORT

We refer to the Report of the Chairman and the Chief Executive Officer and to the other reports contained within the Reed Elsevier Annual Review and Summary Financial Statements 1999 and the Reed Elsevier Annual Reports and Financial Statements 1999. These reports explain the business results of 1999, the financial state of the company at the end of 1999, the key strategic issues and the alignment of the management structure that took place in 1999.

The share of losses attributable to the shareholders of Elsevier was €48m/Dfl 106m (1998 €574m/Dfl 1,266m profit). Net assets at 31 December 1999, largely representing the investments in Reed Elsevier plc and Elsevier Reed Finance BV, were €1,493m/Dfl 3,290m (1998 €1,512m/Dfl 3,333m).

The Executive Board
23 February 2000

Registered office
Van de Sande Bakhuyzenstraat 4
1061 AG Amsterdam

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	**1999 €m**	1998 €m
Operating loss (before joint ventures)	1	**(5)**	(7)
Share of operating profit of joint ventures:			
Before amortisation and exceptional items		**608**	612
Amortisation of goodwill and intangible assets		**(284)**	(247)
Exceptional items		**(182)**	(59)
		142	306
Operating profit including joint ventures		**137**	299
Non operating exceptional items		**–**	(8)
Share of non operating exceptional items of joint ventures		**6**	516
		6	508
Net interest:			
Group	2	**3**	4
Share of net interest of joint ventures		**(66)**	(34)
		(63)	(30)
Profit on ordinary activities before taxation		**80**	777
Tax on profit on ordinary activities		**(128)**	(203)
(Loss)/profit attributable to ordinary shareholders		**(48)**	574
Dividends paid and proposed		**(179)**	(263)
Retained (loss)/profit taken to reserves		**(227)**	311

ADJUSTED FIGURES

	Note	**1999 €m**	1998 €m
Profit before tax	3	**540**	575
Profit attributable to ordinary shareholders	3	**401**	425

EARNINGS PER SHARE (EPS)

	Note	**1999 €**	1998 €
Basic EPS	3	**(0.07)**	0.81
Diluted EPS		**(0.07)**	0.81
Adjusted EPS	3	**0.57**	0.60

Adjusted figures, which exclude the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 €m	1998 €m
Net cash outflow from operating activities	**(2)**	(8)
Dividends received from joint ventures	**254**	324
Equity dividends paid	**(255)**	(288)
Cash (outflow)/inflow before financing	**(3)**	28
Issue of ordinary shares	**8**	5
Decrease in funding balances to affiliates	**(3)**	(116)
Financing	**5**	(111)
Change in short term investments	**2**	(83)

BALANCE SHEET

AS AT 31 DECEMBER 1999

AFTER ALLOCATION OF PROFIT

	Note	1999 €m	1998 €m
Financial fixed assets	4	**1,559**	1,661
Accounts receivable	5	**61**	58
Short term investments		**19**	17
Current assets		**80**	75
Current liabilities	6	**(102)**	(177)
Net working capital		**(22)**	(102)
Long term liabilities	7	**(8)**	(11)
Provisions	8	**(36)**	(36)
Net assets		**1,493**	1,512
Share capital issued		**43**	32
Paid-in surplus		**385**	388
Legal reserves		**847**	949
Other reserves		**218**	143
Shareholders' funds	9	**1,493**	1,512
Contingent liabilities		**2,306**	2,295

ACCOUNTING POLICIES

These statutory financial statements report the profit and loss account, cash flow and the financial position of Elsevier, and the notes thereto.

Unless otherwise indicated, all amounts shown in the financial statements are in millions of euro.

Basis of preparation

These statutory financial statements have been prepared in accordance with Dutch generally accepted accounting principles.

As a consequence of the merger of the company's businesses with those of Reed International, described on page 14, the shareholders of Elsevier and Reed International can be regarded as having the interests of a single economic group enjoying substantially equivalent ordinary dividend and capital rights in the earnings and net assets of the Reed Elsevier combined businesses.

Elsevier holds a majority interest in Elsevier Reed Finance BV (54%) and is therefore required to prepare consolidated financial statements. However, management believes that a better insight into the financial position and results of Elsevier is provided by looking at the investment in the combined businesses in aggregate, as presented in the Reed Elsevier combined financial statements on pages 26 to 50. Therefore, the Reed Elsevier combined financial statements form part of the notes to Elsevier's statutory financial statements.

Investments in joint ventures are valued using equity accounting as adjusted for the effects of the equalisation arrangement between Reed International and Elsevier. The arrangement lays down the distribution of dividend and net assets in such a way that Elsevier's share in the profit and net assets of the Reed Elsevier combined businesses equals 50%. All settlements accruing to shareholders from the equalisation arrangement are taken directly to reserves.

Goodwill and intangible assets are capitalised on acquisition and amortised over a maximum period of 20 years.

Past service liabilities have been fully funded.

Other assets and liabilities are stated at face value.

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

Under the merger agreements, Elsevier is entitled to 50% of the Reed Elsevier combined profit attributable to parent company shareholders. In calculating the euro equivalent of that share of profit, sterling's average exchange rate for the year is applied. For 1999, this rate is €1.52 (1998 €1.49).

Because the dividend paid to shareholders by Elsevier is equivalent to the Reed International dividend plus the UK tax credit, Elsevier distributes a higher proportion of the combined profit attributable than Reed International. Reed International's share in this difference in dividend distributions is settled with Elsevier and has been credited directly to reserves under equalisation.

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

Tax is calculated on profit from Elsevier's own operations, taking into account profit not subject to tax. The difference between the tax charge and tax payable in the short term is included in the provision for deferred tax. This provision is based upon relevant rates, taking into account tax deductible losses, which can be compensated within the foreseeable future.

1 Operating loss

Operating loss is stated after the following:	1999 €m	1998 €m
Gross remuneration		
Salaries	5	4
Pension contributions	–	1
Total	5	5

Gross remuneration represents the remuneration for present and former directors of Elsevier in respect of services rendered to Elsevier and the combined businesses. Fees for present and former members of the Supervisory Board of Elsevier of €0.5m (1998 €0.4m) are included in gross remuneration. In so far as gross remuneration is related to services rendered to Reed Elsevier plc and Elsevier Reed Finance BV, it is borne by these companies.

2 Net interest

	1999 €m	1998 €m
Interest on receivables from joint ventures	2	3
Interest on personnel debenture loans	–	(1)
Other interest	1	2
Net interest income	3	4

3 Adjusted figures

	1999 €m	1998 €m
Profit before tax	80	777
Adjustments:		
Amortisation of goodwill and intangible assets	284	247
Exceptional items	176	(449)
Adjusted profit before tax	540	575
(Loss)/profit attributable to ordinary shareholders	(48)	574
Adjustments:		
Amortisation of goodwill and intangible assets	284	247
Exceptional items	165	(396)
Adjusted profit attributable to ordinary shareholders	401	425

	1999 €	1998 €
(Loss)/earnings per ordinary share	(0.07)	0.81
Adjustments:		
Amortisation of goodwill and intangible assets	0.40	0.35
Exceptional items	0.24	(0.56)
Adjusted earnings per ordinary share	0.57	0.60

4 Financial fixed assets

	1999 €m	1998 €m
Investments in joint ventures	1,559	1,661
The changes are as follows:		
Investments as at 1 January	1,661	1,393
Paid-in surplus	–	102
Share in (losses)/profits	(48)	576
Dividends received	(254)	(324)
Currency translation	202	(98)
Equalisation	(2)	12
Investments as at 31 December	1,559	1,661

Share of turnover in joint ventures was €2,577m (1998 €2,375m).

4 Financial fixed assets (continued)

The investments in joint ventures are:

– Reed Elsevier plc, London (50%)

– Elsevier Reed Finance BV, Amsterdam (54%)

In addition, Elsevier holds Dfl 0.3m par value in shares with special dividend rights in Reed Elsevier Overseas and Reed Elsevier Nederland, both with registered offices in Amsterdam. These shares are included in the amount shown under investments in joint ventures above. They enable Elsevier to receive dividends from companies within the same tax jurisdiction.

5 Accounts receivable

	1999 €m	1998 €m
Joint ventures	57	54
Other accounts receivable	4	4
Total	61	58

The accounts receivable from joint ventures bear interest.

6 Current liabilities

	1999 €m	1998 €m
Proposed dividend	100	176
Accounts payable and other debts	2	1
Total	102	177

7 Long term liabilities

	1999 €m	1998 €m
Debenture loans	8	11

Debenture loans consist of four convertible personnel debenture loans with a weighted average interest rate of 5.4%. Depending on the conversion terms, the surrender of Dfl 1,000 par value debenture loans qualifies for the acquisition of 40–60 Elsevier ordinary shares.

8 Provisions

	1999 €m	1998 €m
Deferred tax	35	35
Pension	1	1
Total	36	36

9 Shareholders' funds

	Share capital issued €m	Paid-in surplus €m	Legal reserves €m	Other reserves €m	Total €m
Balance as at 1 January 1998	32	383	783	84	1,282
Issue ordinary shares	–	5	–	–	5
Profit attributable	–	–	576	(2)	574
Proposed dividend	–	–	–	(263)	(263)
Dividends from joint ventures	–	–	(324)	324	–
Currency translation	–	–	(98)	–	(98)
Equalisation	–	–	12	–	12
Balance as at 31 December 1998	32	388	949	143	1,512

	Share capital issued €m	Paid-in surplus €m	Legal reserves €m	Other reserves €m	Total €m
Balance as at 1 January 1999	**32**	**388**	**949**	**143**	**1,512**
Redenomination of share capital into euros	**11**	**(11)**	**–**	**–**	**–**
Issue ordinary shares	**–**	**8**	**–**	**–**	**8**
Loss attributable	**–**	**–**	**(48)**	**–**	**(48)**
Proposed dividend	**–**	**–**	**–**	**(179)**	**(179)**
Dividends from joint ventures	**–**	**–**	**(254)**	**254**	**–**
Currency translation	**–**	**–**	**202**	**–**	**202**
Equalisation	**–**	**–**	**(2)**	**–**	**(2)**
Balance as at 31 December 1999	**43**	**385**	**847**	**218**	**1,493**

During the year, the ordinary shares of Dfl 0.10 par value were redenominated as ordinary shares of €0.06 par value. This resulted in an increase in share capital of €11m which was transferred from the paid-in surplus account.

The authorised capital consists of 2,100m ordinary shares and 30m registered R-shares. As at 31 December 1999, the issued share capital consisted of 668,251,106 ordinary shares of €0.06 par value and 4,049,951 R-shares of €0.60 par value. The R-shares are held by a subsidiary company of Reed International. The R-shares are convertible at the election of the holder into ten ordinary shares each. They have otherwise the same rights as the ordinary shares, except that Elsevier may pay a lower dividend on the R-shares.

Within paid-in surplus, an amount of €208m is free of tax.

On 31 December 1999, there were options outstanding for the purchase of 12.8m shares at an average price of €11.98. The average term of these options is three years.

The financial statements were signed by the Boards of Directors, 23 February 2000.

M Tabaksblat
Chairman

MH Armour
Chief Financial Officer

AUDITORS' REPORT TO THE MEMBERS OF ELSEVIER NV

We have audited the 1999 financial statements of Elsevier NV, Amsterdam, as set out on pages 74 to 79, which include the Reed Elsevier combined financial statements, set out on pages 26 to 50 of the Reed Elsevier Annual Reports and Financial Statements, dated 23 February 2000. The financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of audit opinion

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

Opinion

In our opinion, the financial statements of Elsevier NV, which include the Reed Elsevier combined financial statements, give a true and fair view of the financial position of Elsevier NV at 31 December 1999 and of the result and cash flow for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements for financial statements as included in Part 9, Book 2 of the Netherlands Civil Code.

Deloitte & Touche
Accountants
Amsterdam
23 February 2000

PROPOSAL FOR ALLOCATION OF PROFIT

	1999 €m	1998 €m
Interim dividend on ordinary shares	**79**	87
Final dividend on ordinary shares	**100**	176
Dividend on R-shares	**–**	–
Retained (loss)/profit	**(227)**	311
	(48)	574

The Combined Supervisory and Executive Board determines the part of the profit to be retained. The profit to be distributed is paid on the ordinary shares and the R-shares in proportion to their nominal value. The Combined Board may resolve to pay less per R-share, but not less than 1% of the nominal value.

The company is bound by the Governing Agreement with Reed International, which provides that Elsevier shall declare dividends such that the dividend on one Elsevier ordinary share, which shall be payable in euros, will equal 1.538 times each cash dividend, including the related UK tax credit, paid on one Reed International ordinary share.

Additional information for US investors

ADDITIONAL INFORMATION FOR US INVESTORS

SUMMARY FINANCIAL INFORMATION IN US DOLLARS

Basis of preparation

The summary financial information is a simple translation of the Reed Elsevier combined financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK and Dutch GAAP as used in the preparation of the Reed Elsevier combined financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Exchange rates for translation

	1999 US$	1998 US$
Sterling		
Profit and loss and cash flow	**1.62**	1.66
Balance sheet	**1.62**	1.66
Euro		
Profit and loss and cash flow	**1.066**	1.116
Balance sheet	**1.006**	1.169

Profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 US$m	1998 US$m
Sales		
Continuing operations	**5,492**	5,251
Discontinued operations	**–**	46
Total sales	**5,492**	5,297
Adjusted operating profit		
Continuing operations	**1,283**	1,350
Discontinued operations	**–**	–
Total adjusted operating profit	**1,283**	1,350
Profit before tax	**170**	1,733
(Loss)/profit attributable	**(102)**	1,282
Adjusted profit before tax	**1,150**	1,283
Adjusted profit attributable	**854**	948

Cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 US$m	1998 US$m
Net cash inflow from operating activities	**1,231**	1,127
Dividends received from joint ventures	**6**	18
Returns on investments and servicing of finance	**(131)**	(75)
Taxation (including US$120m (1998 US$nil) exceptional repayments)	**(160)**	(239)
Capital expenditure	**(198)**	(232)
Acquisitions and disposals	**(266)**	(561)
Equity dividends paid to the shareholders of the parent companies	**(548)**	(601)
Cash outflow before changes in short term investments and financing	**(66)**	(563)
Decrease in short term investments	**481**	105
Financing	**(319)**	319
Increase/(decrease) in cash	**96**	(139)
Adjusted operating cash flow	**1,263**	1,341
Adjusted operating cash flow conversion	**98%**	99%

SUMMARY FINANCIAL INFORMATION IN US DOLLARS (continued)

Balance sheet

AS AT 31 DECEMBER 1999	**1999 US$m**	1998 US$m
Capital employed		
Goodwill and intangible assets	**5,508**	5,973
Other fixed assets	**818**	807
Trading working capital	**(639)**	(704)
Other working capital	**(155)**	(44)
Total	**5,532**	6,032
Funded by:		
Combined shareholders' funds	**3,005**	3,536
Other net liabilities	**800**	899
Net borrowings	**1,727**	1,597
Total	**5,532**	6,032

SUMMARY OF THE PRINCIPAL DIFFERENCES BETWEEN UK AND DUTCH GAAP AND US GAAP

The combined financial statements are prepared in accordance with UK and Dutch GAAP, which differ in certain significant respects from US GAAP. The principal differences that affect net income and combined shareholders' funds are explained below and their approximate effect is shown on page 85.

Sale of businesses

Discontinued operations, as separately categorised in the profit and loss account under UK and Dutch GAAP and US GAAP, may relate only to significant business segments. Under UK and Dutch GAAP, such businesses are separately segmented as discontinued only when sale transactions or closures have been completed. Under US GAAP, such businesses are segmented as discontinued once formal commitment to sale or closure is made.

Under US GAAP, net income from discontinued operations includes all operating results of the discontinued operations and the gain or loss on sale. Under UK and Dutch GAAP, operating results from discontinued activities are disclosed as a separate element within operating profit and the gain or loss on sale is disclosed as an exceptional item.

Goodwill and other intangible assets

In the 1998 fiscal year, Reed Elsevier adopted the new UK financial reporting standard FRS10: Goodwill and Intangible Assets, and changed its accounting policy for goodwill and intangible assets. Under the new policy, goodwill and intangible assets are being amortised through the profit and loss account over their estimated useful lives, up to a maximum of 20 years. In view of this and the consideration given to the determination of appropriate prudent asset lives, the remaining asset lives for US GAAP purposes were reviewed and determined consistently with those adopted for the new UK and Dutch GAAP treatment.

This re-evaluation of asset lives under US GAAP, which was effective from 1 January 1998, significantly increased the periodic amortisation charge, as the unamortised value of existing assets, which were previously being amortised over periods up to 40 years, are now amortised over shorter periods.

Deferred taxation

The combined businesses provide 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. Under US GAAP, deferred taxation is provided on all temporary differences under the liability method subject to a valuation allowance on deferred tax assets where applicable. The principal adjustments to apply US GAAP are to provide deferred taxation on temporary differences arising from the amortisation under US GAAP of goodwill and other intangible assets and the recognition of deferred tax assets on other timing differences.

Acquisition accounting

Under UK and Dutch GAAP, restructuring and integration costs in relation to acquisitions are only expensed as incurred. Under US GAAP, certain integration costs may be provided as part of purchase accounting adjustments on acquisition.

Pensions

The combined businesses account for pension costs under the rules set out in SSAP24. Its objectives and principles are broadly in line with US GAAP. However, SSAP24 is less prescriptive in its provisions and allows the use of different methods of measurement.

Ordinary dividends

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

EFFECTS ON NET INCOME OF MATERIAL DIFFERENCES BETWEEN UK AND DUTCH GAAP AND US GAAP

FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £m	1998 £m	1999 €m	1998 €m
Net income under UK and Dutch GAAP	(63)	772	(95)	1,149
US GAAP adjustments:				
Amortisation of goodwill and other intangibles	(83)	(477)	(126)	(710)
Deferred taxation	67	77	101	114
Pensions	6	30	9	45
Other items	–	(4)	–	(6)
Net income under US GAAP	(73)	398	(111)	592
Analysed:				
Continuing operations	(73)	(122)	(111)	(182)
Discontinued operations – income from operations	–	(1)	–	(1)
– gain on sales	–	521	–	775
Net income under US GAAP	(73)	398	(111)	592

The adjustment for amortisation of goodwill and intangible assets in 1998 includes the additional write downs arising as a consequence of the re-evaluation of the remaining asset lives of goodwill and intangible assets under US GAAP.

Discontinued operations comprised IPC Magazines and the remaining consumer book publishing operations which were the final elements of the Consumer segment sold in 1998.

EFFECTS ON COMBINED SHAREHOLDERS' FUNDS OF MATERIAL DIFFERENCES BETWEEN UK AND DUTCH GAAP AND US GAAP

AS AT 31 DECEMBER 1999

	1999 £m	1998 £m	1999 €m	1998 €m
Combined shareholders' funds under UK and Dutch GAAP	1,855	2,130	2,987	3,025
US GAAP adjustments:				
Goodwill and other intangibles	553	637	890	905
Deferred taxation	(180)	(242)	(290)	(344)
Pensions	63	57	102	81
Other items	5	7	8	10
Ordinary dividends not declared in the period	127	244	204	346
Combined shareholders' funds under US GAAP	2,423	2,833	3,901	4,023

SUMMARY FINANCIAL INFORMATION IN US DOLLARS

Basis of preparation

The summary financial information is a simple translation of Reed International's consolidated financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK GAAP as used in the preparation of the Reed International consolidated financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Consolidated profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 1999	**1999 US$m**	1998 US$m
(Loss)/profit attributable to ordinary shareholders: statutory	**(63)**	657
(Loss)/profit attributable to 52.9% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	**452**	501
Amortisation of goodwill and intangible assets	**(319)**	(292)
Exceptional items	**(186)**	468
Total	**(53)**	677

Data per American Depositary Share

	1999 US$	1998 US$
Earnings per American Depositary Share based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	**$1.58**	$1.75
Basic	**$(0.19)**	$2.37
Net dividend per American Depositary Share	**$0.65**	$1.00

Balance sheet

AS AT 31 DECEMBER 1999	**1999 US$m**	1998 US$m
Shareholders' funds	**1,589**	1,871

Exchange rates for translation of sterling

	1999 US$	1998 US$
Profit and loss and cash flow	**1.62**	1.66
Balance sheet	**1.62**	1.66

Adjusted earnings per American Depositary Share is based on Reed International's 52.9% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation of goodwill and intangible assets and exceptional items. Adjusted figures are described in note 8 to the Reed International consolidated financial statements.

Reed International shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs), representing four Reed International ordinary shares of 12.5p each. (CUSIP No. 758212872; trading symbol, RUK; Citibank are the ADS Depositary.)

SUMMARY OF THE PRINCIPAL DIFFERENCES BETWEEN UK AND US GAAP

Reed International accounts for its 52.9% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, by the gross equity method in conformity with UK GAAP which is similar to the equity method in US GAAP. Using the equity method to present its net income and shareholders' funds under US GAAP, Reed International reflects its 52.9% share of the effects of differences between UK and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the capitalisation and amortisation of goodwill and other intangibles, and deferred taxes. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between UK and US GAAP is given on page 84. The Reed Elsevier Annual Report 1999 on Form 20-F provides further information for US investors.

EFFECTS ON NET INCOME OF MATERIAL DIFFERENCES BETWEEN UK AND US GAAP

FOR THE YEAR ENDED 31 DECEMBER 1999	**1999 £m**	1998 £m
Net income under UK GAAP	**(39)**	396
Impact of US GAAP adjustments to combined financial statements	**(8)**	(205)
Net income under US GAAP	**(47)**	191
(Loss)/earnings per ordinary share under US GAAP (pence)	**(4.1)p**	16.7p

EFFECTS ON SHAREHOLDERS' FUNDS OF MATERIAL DIFFERENCES BETWEEN UK AND US GAAP

AS AT 31 DECEMBER 1999	**1999 £m**	1998 £m
Shareholders' funds under UK GAAP	**981**	1,127
Impact of US GAAP adjustments to combined financial statements	**238**	252
Ordinary dividends not declared in the period	**63**	120
Shareholders' funds under US GAAP	**1,282**	1,499

SUMMARY FINANCIAL INFORMATION IN US DOLLARS

Basis of preparation

The summary financial information is a simple translation of Elsevier NV's statutory financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under Dutch GAAP as used in the preparation of the Elsevier NV statutory financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 1999	**1999 US$m**	1998 US$m
Adjusted profit attributable	**427**	473

Data per American Depositary Share	**1999 US$**	1998 US$
Adjusted earnings per American Depositary Share	**1.22**	1.34
Dividend per American Depositary Share	**0.58**	0.88

Balance sheet

AS AT 31 DECEMBER 1999	**1999 US$m**	1998 US$m
Shareholders' funds	**1,502**	1,763

Exchange rates for translation of euros	**1999 €**	1998 €
Profit and loss account	**0.938**	0.896
Balance sheet	**0.994**	0.855

Adjusted earnings per American Depositary Share is based on Elsevier's 50% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation of goodwill and intangible assets and exceptional items. Adjusted figures are described in note 3 to the Elsevier statutory financial statements.

Elsevier shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs), representing two Elsevier ordinary shares of €0.06 each. (CUSIP No. 290259100; trading symbol, ENL; Citibank are the ADS Depositary.)

SUMMARY OF THE PRINCIPAL DIFFERENCES BETWEEN DUTCH AND US GAAP

Elsevier accounts for its 50% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, by the equity method in conformity with Dutch GAAP which is similar to the equity method in US GAAP. Using the equity method to present its net income and shareholders' funds under US GAAP, Elsevier reflects its 50% share of the effects of differences between Dutch and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the capitalisation and amortisation of goodwill and other intangibles, and deferred taxes. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between Dutch and US GAAP is given on page 84. The Reed Elsevier Annual Report 1999 on Form 20-F provides further information for US investors.

EFFECTS ON NET INCOME OF MATERIAL DIFFERENCES BETWEEN DUTCH AND US GAAP

FOR THE YEAR ENDED 31 DECEMBER 1999	**1999 €m**	1998 €m
Net income under Dutch GAAP	**(48)**	574
Impact of US GAAP adjustments to combined financial statements	**2**	(248)
Net income under US GAAP	**(46)**	326
(Loss)/earnings per share under US GAAP	**€(0.06)**	€0.46

EFFECTS ON SHAREHOLDERS' FUNDS OF MATERIAL DIFFERENCES BETWEEN DUTCH AND US GAAP

AS AT 31 DECEMBER 1999	**1999 €m**	1998 €m
Shareholders' funds under Dutch GAAP	**1,493**	1,512
Impact of US GAAP adjustments to combined financial statements	**358**	324
Ordinary dividends not declared in the period	**100**	176
Shareholders' funds under US GAAP	**1,951**	2,012

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