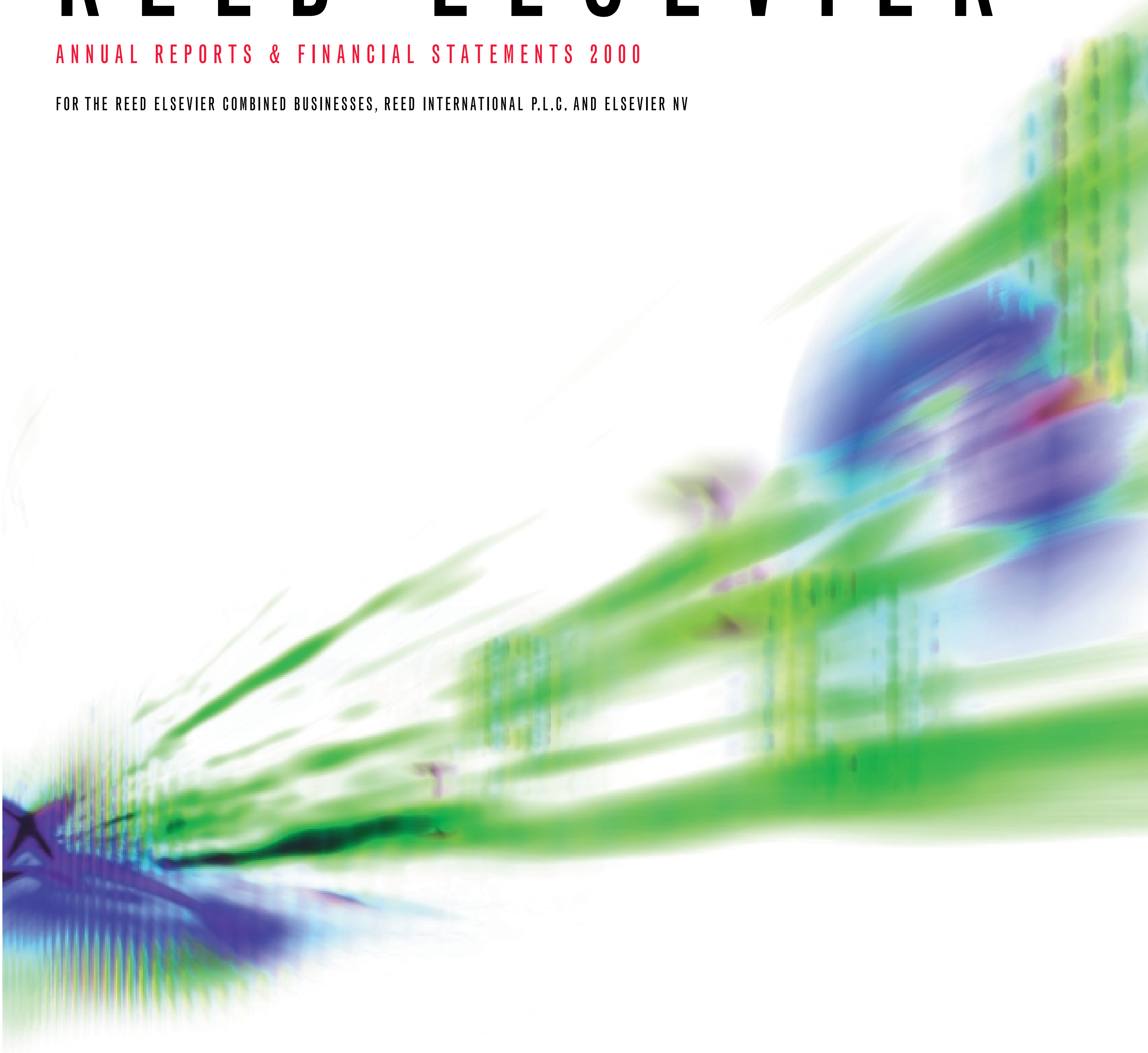
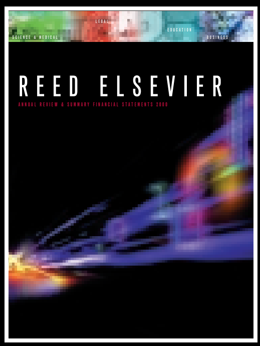
REED ELSEVIER

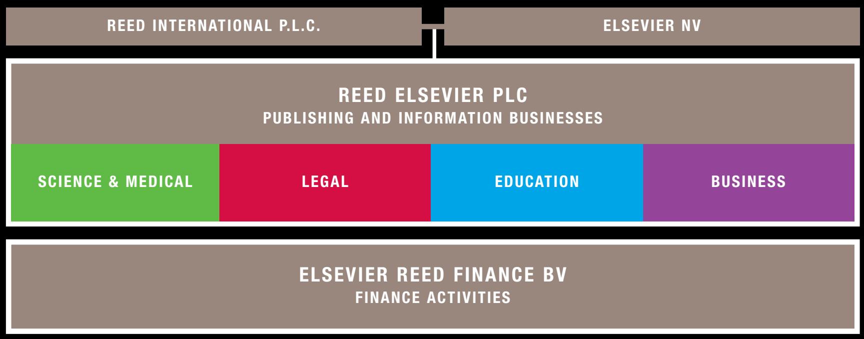
ANNUAL REPORTS & FINANCIAL STATEMENTS 2000

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





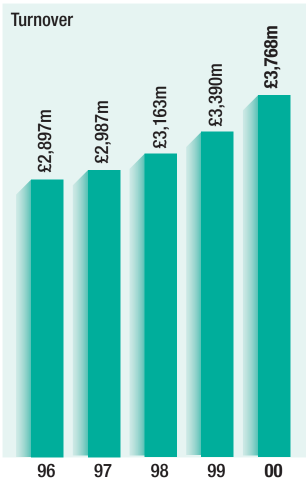
This document contains detailed Annual Report and Accounts information in respect of the Reed Elsevier combined businesses and the two parent companies, Reed International P.L.C. and Elsevier NV. This, together with the separate summary document Reed Elsevier Annual Review and Summary Financial Statements 2000, forms the Annual Reports and Financial Statements of Reed International P.L.C. and Elsevier NV for the year ended 31 December 2000 and the two documents should be read together.

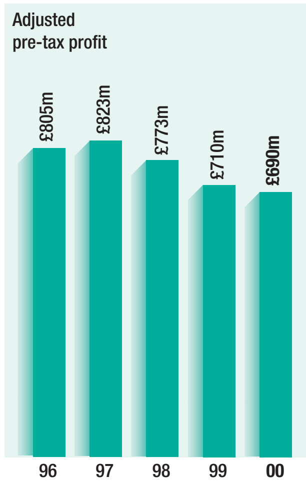


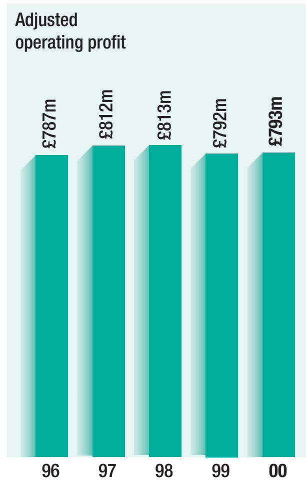
CONTENTS

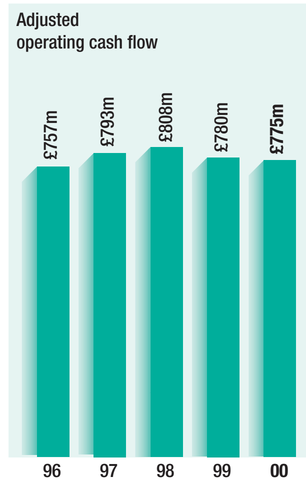
REED ELSEVIER COMBINED Results for the year ended 31 December

£ sterling

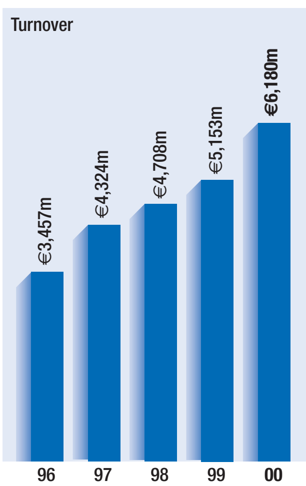


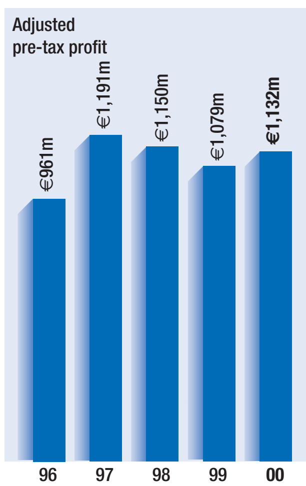


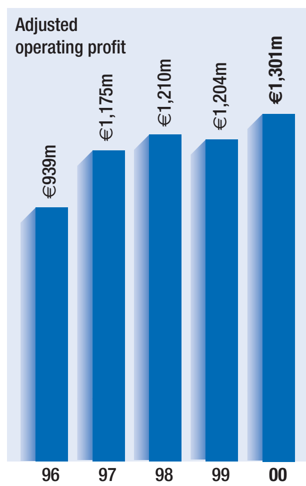


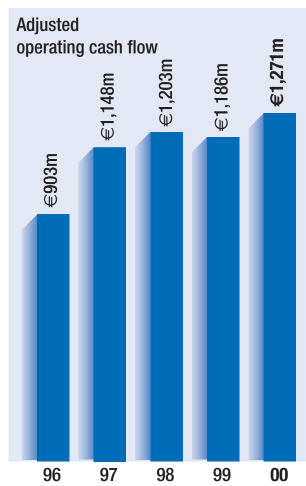


€ euro

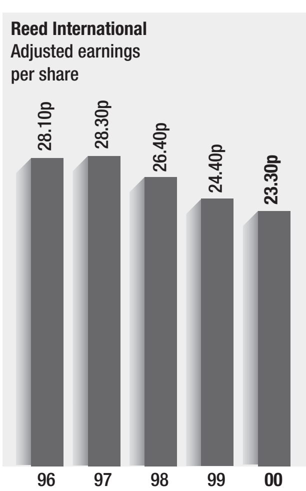


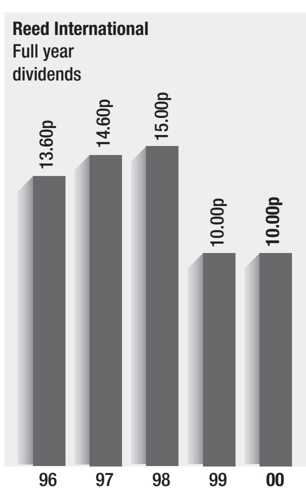


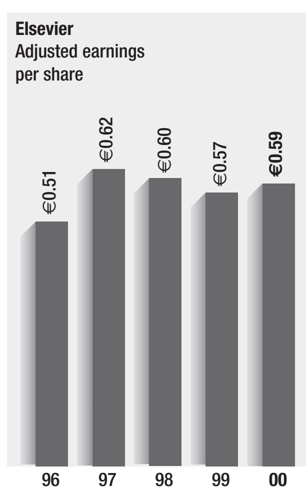


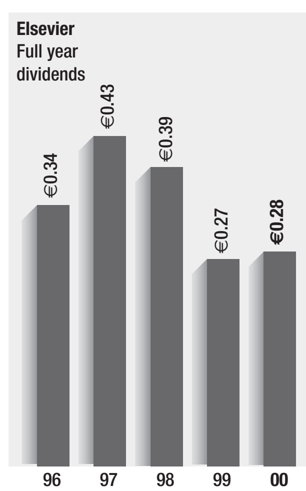


PARENT COMPANIES Results for the year ended 31 December









The financial highlights refer to 'adjusted' profit and cash flow figures. These figures are used by the Reed Elsevier businesses as additional performance measures and are stated before the amortisation of goodwill and intangible assets, exceptional items 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 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 2000. 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 1999 full year average rates, and are stated before the amortisation of goodwill and intangibles assets and exceptional items.

In anticipation of the acquisition of Harcourt General's STM and Education and Testing businesses, the Reed Educational & Professional Publishing business, formerly reported within the Legal segment, is now reported separately as an Education segment, and comparatives have been restated accordingly. The Scientific segment has been renamed Science & Medical to reflect business strategy.

FORWARD-LOOKING STATEMENTS

The Reed Elsevier Annual Reports & Financial Statements 2000 contain forward-looking statements within the meaning of Section 27A of the US 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

	2000 £m	1999 £m	**2000 €m**	1999 €m	% change at constant currencies
Turnover					
Science & Medical	**693**	652	**1,137**	991	7%
Legal	**1,201**	1,087	**1,970**	1,652	5%
Education	**202**	181	**331**	275	9%
Business	**1,672**	1,470	**2,742**	2,235	12%
Total	**3,768**	3,390	**6,180**	5,153	9%
Adjusted operating profit					
Science & Medical	**252**	231	**413**	351	12%
Legal	**237**	282	**389**	428	(19)%
Education	**40**	34	**66**	52	15%
Business	**264**	245	**433**	373	7%
Total	**793**	792	**1,301**	1,204	(1)%

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

SCIENCE & MEDICAL

2000 has been a very successful year for Elsevier Science. Our results have demonstrated the good growth momentum in the business and we have made major progress in the execution of our strategy. We have significantly expanded ScienceDirect accelerating the migration of our business from print to electronic information services, and we are now reaching new usage groups. Our sales and customer services activities have been significantly expanded and we have continued to upgrade our systems infrastructure to support our growth strategy.

Turnover and operating profit in the Science & Medical business increased by 7% and 12% respectively at constant rates of exchange, or 8% and 12% excluding acquisitions and disposals. The good sales growth was driven by the stronger subscription renewals in the year and the increasing contribution from Internet services. The previously adverse subscriber attrition trends were reversed. Operating margins were slightly higher reflecting the strong revenue growth, with the significant increase in investment, in new product and sales and marketing initiatives, offset by cost savings in production, distribution and back office functions.

The customer takeup of the ScienceDirect online services continues to progress well. ScienceDirect now covers over 45% of the subscription revenues, up from 25% a year ago, and usage is growing rapidly with more than 15 million page views in January 2001. Over 1,200,000 scientific articles can now be retrieved in full text search over the web. New functionalities and customised web services for specific user groups, such as PhysicsDirect, PharmaDirect, and EngineeringDirect, have been introduced, increasing utility and relevance and expanding the user base. The ScienceDirect sales force was doubled and customer service activities significantly expanded to capture the market opportunity.

In addition to the positive impact on subscription renewals, the Internet services contributed an additional 2 percentage points to sales growth.

SCIENCE & MEDICAL SEGMENT

	2000 £m	1999 £m	**2000 €m**	1999 €m	% change at constant currencies
Turnover					
Elsevier Science	**592**	534	**971**	812	12%
Medical Businesses	**101**	118	**166**	179	(15)%
	693	652	**1,137**	991	7%
Adjusted operating profit	**252**	231	**413**	351	12%
Operating margin	**36.4%**	35.4%	**36.4%**	35.4%	1.0 pts

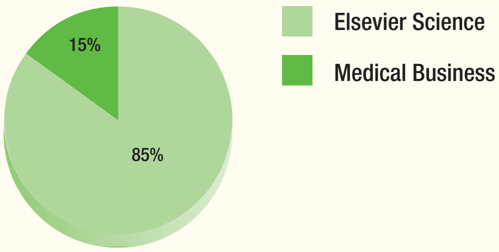
The new policy on pricing introduced for the 2000 subscription year, moderating increases and the impact of currencies so as to give more predictable journal pricing for customers, also contributed to the stronger renewals and helped the migration from print to electronic products.

The breadth of Elsevier Science's services has extended through acquisition: to the library community with Endeavor, the leading provider of digital library systems, and to the pharmaceutical industry through Afferent, with its advanced drug screening software. In June, the Springhouse business, focused on the nursing community, was sold for $105 million.

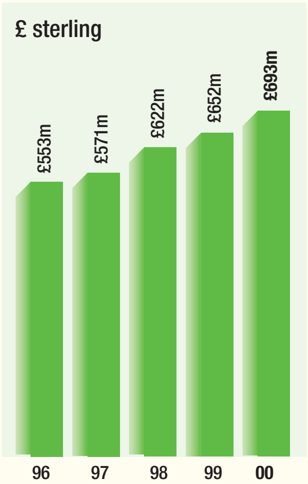
The medical publishing and communications business in 2000 reported turnover lower by 15% due to the disposal of Springhouse. Underlying sales were marginally ahead and operating profits up 22% following reorganisation of the sponsored communications business and in France after the weak performance in 1999. The year ended with good growth momentum as the benefit of the sales force expansion began to take effect.

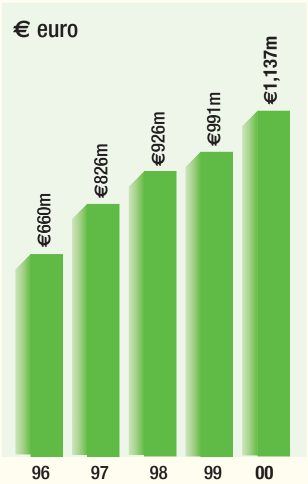
The outlook for the Science & Medical business is good. Revenue growth momentum is strong with high subscription renewals expected and an expanding customer base for the ScienceDirect product. Initiative spending will remain high as further progress is made on customisation, functionalities and marketing with the increased investment balanced by further cost savings expected from the full year effect of savings in 2000 and as new systems go live.

REVENUE BY BUSINESS



TURNOVER





LEGAL

In 2000, we have made strong progress against our key strategic priorities. We have launched new and upgraded Internet products and services which have been well received, most importantly the core research services of lexis.com and nexis.com for the US legal and corporate/ government markets respectively. We have significantly expanded our sales and marketing activities, and have been building our global capability and presence through acquisition and alliance. Our results have been impacted by this investment programme, but the progress made is substantial.

Turnover in the Legal business increased by 5%, or 3% excluding acquisitions, and operating profit was down 19%. This reflects the significant step up in investment, particularly at LEXIS-NEXIS, to deliver substantially upgraded products and services, and sales and marketing programmes. The investment was partly funded by the major cost savings programme. Operating margins were correspondingly lower by 6.2 percentage points at 19.7%, from which they are expected to recover as the investment pays off. At LEXIS-NEXIS, turnover excluding acquisitions was up 2% whilst operating profits were 24% lower.

In the US Legal Markets, online revenues grew 5% with the second half growth showing a continuing improvement over the first. This is partly offset by lower print and CD-ROM sales as business migrates online. Online usage is growing dramatically as customers migrate to the significantly upgraded functionalities and services of the lexis.com platform, which now accounts for more than 65% of searches. The Martindale Hubbell legal directory business had another successful year.

The enhanced lexis.com is a truly competitive product and we continue to add content and functionality to improve and differentiate our service. Key content licences were secured through long term agreements with CCH and Tax Analysts, both leading publishers of highly valued tax material, making LEXIS-NEXIS the most comprehensive online source of tax and accounting information available worldwide. Case law summaries have now been added to the LEXIS-NEXIS federal and state case law collection. These summaries cover cases since 1995 and we are working aggressively to include earlier years, having started with those cases most often accessed.

Particularly encouraging for the future has been the success in meeting our goal of competitive parity in product preference in law schools, where user preferences are first formed. The most recent independent market research shows lexis.com to have parity preference amongst law students, a substantial improvement from a year ago and representing an important milestone.

To meet the needs of US attorneys in small firm and single-lawyer practices, the lexisONE.com service was launched with free and fee-based

LEGAL SEGMENT

	2000 £m	1999 £m	**2000 €m**	1999 €m	% change at constant currencies
Turnover					
LEXIS-NEXIS US	**947**	854	**1,553**	1,298	4%
LEXIS-NEXIS International	**254**	233	**417**	354	11%
	1,201	1,087	**1,970**	1,652	5%
Adjusted operating profit	**237**	282	**389**	428	(19)%
Operating margin	**19.7%**	25.9%	**19.7%**	25.9%	(6.2) pts

research and legal forms, as well as resources to help attorneys manage firm business, client relationships and their careers.

In US Corporate and Federal Markets, Nexis online revenues grew by 4%, a major turnaround from the 4% decline seen the previous year, with a particularly strong second half. The launch of the significantly upgraded flagship product, nexis.com, has been exceptionally well received in the market and is driving new sales and expansion of existing customer accounts.

As in US Legal Markets, we are building customised solutions with our customers that are both industry and function specific, eg. insurance, media, sales support, mergers and acquisitions, business intelligence etc, that integrate searching across a customer's Intranet, LEXIS-NEXIS and other information sources, including the web. Alliances with major systems suppliers, such as Siebel and Verity, have embedded nexis.com in their products extending our penetration of the business market.

Across LEXIS-NEXIS the major re-engineering programme has continued to deliver substantial cost savings, in excess of $90m, with almost every area reengineered, including production, IT, administration and other support services. In addition to releasing substantial funds for reinvestment, the re-engineering is making LEXIS-NEXIS a leaner, faster moving organisation.

LEXIS-NEXIS International businesses outside the US (formerly the Reed Elsevier Legal Division) reported turnover and operating profit up 11% and 1% respectively, or 5% and flat excluding acquisitions, reflecting solid sales performance and a significant increase in new product and marketing investment.

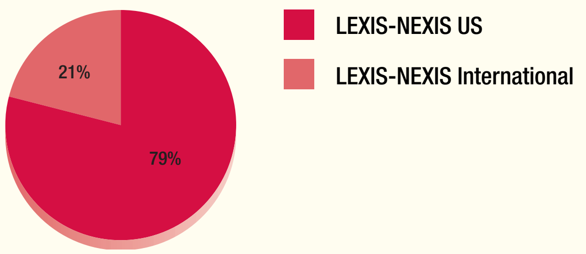
In the UK, the Butterworth Lexis Direct service has maintained its strong market position with expanded content and new functionalities. During the year, customised services were added in specialist fields, such as Human Rights Direct and EU Direct, and, in partnership with a leading legal training firm, CPD Direct was launched, providing online training and professional development. In France, a major initiative was the launch of the pre-eminent French case law database, Juris-Data, as an online service.

Acquisitions were also made in the year in US, UK, Asia and Latin America to extend our global capability. In International Markets, Eclipse in the UK added a leading publisher in UK employment law and related fields which is an important growing area of law. In Corporate and Federal Markets, we acquired the Riskwise group of companies which provide online identify verification and fraud-risk solutions for the rapidly growing e-commerce industry and is an excellent fit with our existing public record business.

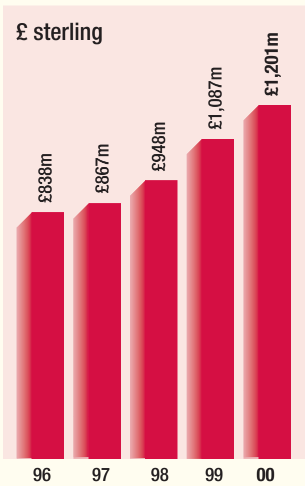
In recognition that our markets and customers are increasingly becoming global, we took steps to develop a global product and technology platform to serve as an underpinning to link all of our individual country offerings, and to ensure that

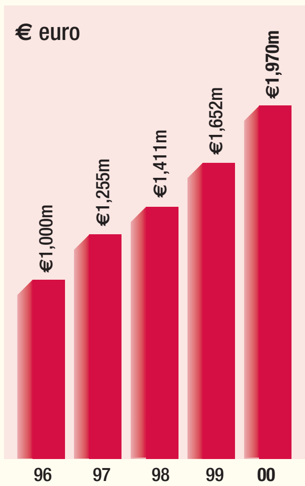
LEGAL SEGMENT

REVENUE BY BUSINESS



TURNOVER





content available on any Reed Elsevier legal offering can be delivered to any of our customers anywhere else around the globe. We also made the important decision to adopt LEXIS-NEXIS as our global brand. This will be implemented progressively across our International markets this year.

The outlook for the Legal business is positive and improving. The success of lexis.com, and the significantly upgraded sales and marketing efforts, will start to be reflected in the results going forward as opportunities are presented when subscriptions come up for renewal, and as ingrained preferences for competitor products are overcome. There is now real momentum behind nexis.com, and international markets outside the US continue to perform.

EDUCATION

Reed Educational & Professional Publishing saw revenues and operating profit increase by 9% and 15% respectively. Rigby, the US supplementary business, had a particularly good year with revenues 37% ahead driven by market share gains and a very successful launch of the new Rigby literacy programme. In UK Schools, sales in the Primary market were lower than the prior year which benefited from exceptional, ring fenced government funding for literacy materials. In Secondary, however, sales were up 23% on strong new publishing programmes addressing curriculum changes. The Australian schools business also performed well. The outlook for Reed Educational & Professional Publishing business remains good.

BUSINESS

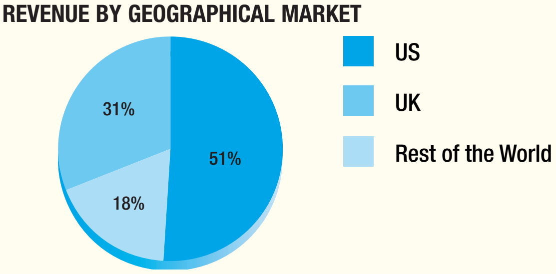
2000 has seen a good recovery in trading performance and major progress on our strategic initiatives to accelerate growth. The businesses have been brought together in one cohesive global division and the portfolio refocused on fewer, faster growing sectors through a programme of acquisitions and disposals. We have successfully launched Internet portals in key sectors, as well as new print magazines and exhibitions. Efficiency was significantly improved through the major cost savings programmes, funding in part the substantial increase in investment.

Turnover and operating profit in the Business segment increased by 12% and 7% respectively at constant rates of exchange. Excluding acquisitions and disposals, the figures were 4% and 3% respectively. Turnover growth was held

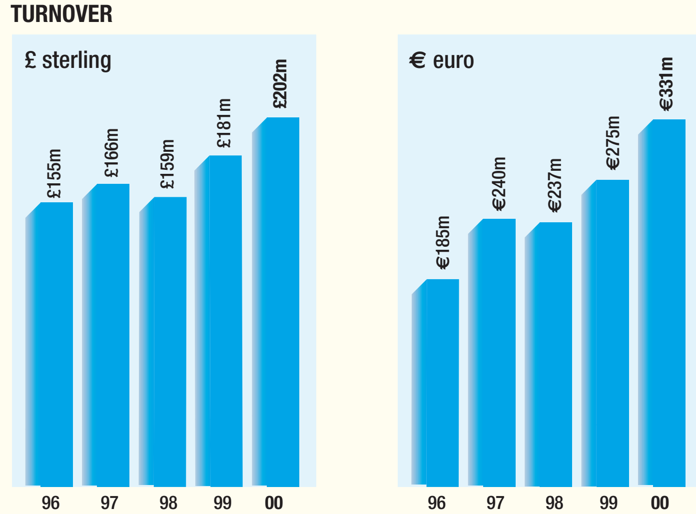
EDUCATION SEGMENT

	2000 £m	1999 £m	**2000 €m**	1999 €m	% change at constant currencies
Turnover					
Reed Educational & Professional Publishing	**202**	181	**331**	275	9%
Adjusted operating profit	**40**	34	**66**	52	15%
Operating margin	**19.8%**	18.8%	**19.8%**	18.8%	1.0 pts

REVENUE BY GEOGRAPHICAL MARKET



TURNOVER



back by the unfavourable cycling of non-annual exhibitions and lower revenues in the travel businesses being sold. Operating margins at 15.8% were 0.9 percentage points lower reflecting the significant increase in investment, although this is substantially funded by the cost saving programme.

Cahners Business Information turnover and operating profits were up 5% and 30% respectively before the impact of acquisitions. The Electronics, Supply Chain, Retail and Entertainment sectors performed particularly well, with Manufacturing flat and Cahners Travel Group lower. New product launches in both print and Internet services added 2% to revenue growth. Operating margins improved, despite a significant increase in new product investment, reflecting the major restructuring programme in the second half of 1999.

Substantial progress has been made in the last 12 months in the development and execution of Cahners Internet strategy, through launch, alliance and acquisition. Internet portals have been launched in key sectors including Electronics, Manufacturing, Entertainment, Television and Telecommunications and in over 15 other sectors using the e:Logic platform. The market opportunities have been reassessed as clearer business models emerge and are not considered as large as first thought. Our portals have, however, been well received in their markets with good growth in traffic and growing advertising revenues. We have reprioritised some of the Internet investment to take account of this. For instance, within the Manufacturing sector we are migrating the joint venture with i2 into a more straightforward licensing arrangement and refocused the web service on the design, automation and supply chain/logistics segments of Manufacturing. The recent downturn in so many dot.com valuations reinforces the importance of the strengths that we have in strong brands, key content and an established customer base.

In May, Cahners made the $300 million acquisition of CMD Group, a leading international supplier of information to the construction industry. Combined with Cahners existing construction magazines and websites, CMD provides a strong platform from which to lead the industry in print and online information services.

Cahners also acquired, in June for $73 million, e:Logic, a fast growing and leading application service provider of web development, design and delivery systems to media and Internet companies. e:Logic provides Cahners with world class content management technology and is accelerating our strategy of building leading Internet portals.

At Reed Business Information, turnover increased by 11%, or 7% excluding acquisitions, with stronger growth and market share gains in display and recruitment advertising in the UK magazines and in Internet revenues. The Computer, Personnel, Aerospace and Science sectors performed particularly well. Underlying operating profits were 1% lower, reflecting the major increase in investment, particularly in totaljobs.com, the online recruitment service, which has a leading position in the UK. Other initiatives include the 75/25 computerweekly.com

BUSINESS SEGMENT

	2000 £m	1999 £m	2000 €m	1999 €m	% change at constant currencies
Turnover					
Cahners Business Information	**665**	542	**1,090**	824	15%
Reed Business Information	**270**	243	**443**	369	11%
Elsevier Business Information	**278**	270	**456**	411	11%
Reed Exhibition Companies	**358**	301	**587**	458	18%
OAG Worldwide	**72**	85	**118**	129	(19)%
Other	**29**	29	**48**	44	
	1,672	1,470	**2,742**	2,235	12%
Adjusted operating profit	**264**	245	**433**	373	7%
Operating margin	**15.8%**	16.7%	**15.8%**	16.7%	(0.9) pts

joint venture with InterX to combine RBI's brands, content and publishing expertise with InterX's technical and product data services.

At OAG Worldwide, turnover declined by 19% due to portfolio rationalisation ahead of its impending sale and lower sales of the print product. Investment has been significantly increased in new web products and the OAG.com and OAGMobile services were launched in the second half. The sale of the business is well advanced.

At Elsevier Business Information, turnover and operating profits were up 11% and 5% respectively, or 7% and 10% excluding acquisitions. Strong performances were seen across the businesses in the Netherlands, Belgium, Spain and France. In the Netherlands, the Business and Management, Personnel, Healthcare and Retail sectors were particularly strong and buoyant advertising demand was captured with the launch of supplements. EBI's zibb.nl was successfully launched in the year and is now a leading general business information portal in the Netherlands.

The portfolio was extended by the acquisition in July of the Stammer business in Italy, as part of the Miller Freeman Europe transaction, and other acquisitions were made in France, Spain and Germany. Disposal of the K G Saur reference business was completed and a number of the non core Tuition businesses have been, or are in the process of being, sold.

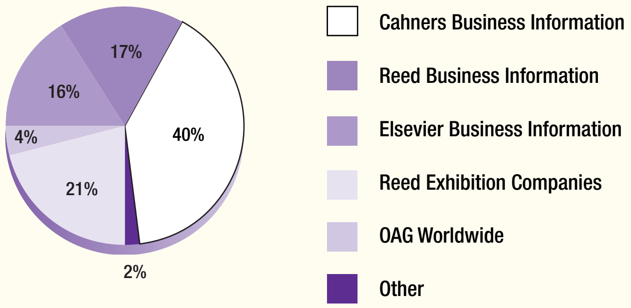
Turnover at Reed Exhibition Companies increased by 18% and operating profit by 19%. As several major non-annual shows in the UK and US did not take place in 2000, excluding acquisitions, revenue grew by 1% and operating profit declined by 8%. This also reflects the significant new show launch programme, with over 35 new shows launched, and a significant step up in investment in show related websites, of which there are now over 250. These will provide more accessible and focused pre and post event services, including contact broking, to exhibitors and attendees.

In July, Reed Elsevier acquired for £360m/€585m the leading trade exhibition organiser in Europe, Miller Freeman Europe, with operations in France, Spain, Italy, Germany and Scandinavia. The portfolio has over 100 shows and 66 related websites and includes prestigious international and national domestic events across a number of sectors, including building and construction, retail, food and hospitality, and environmental services. The post acquisition performance has been ahead of expectations.

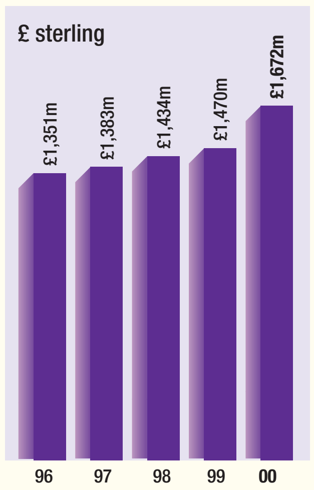
The outlook for the Business segment in 2001 is positive. Investment levels will remain high with more funding behind a number of successful print launches and some cutback on Internet spending to reflect changes in revenue expectations. The slowing of the US economy is a concern. However, it is expected to be manageable as the momentum across the businesses is strong and new product revenues are growing. The disposal of businesses will affect the reported results, balanced by a greater contribution from acquisitions made in the last year and favourable show cycling at Exhibitions.

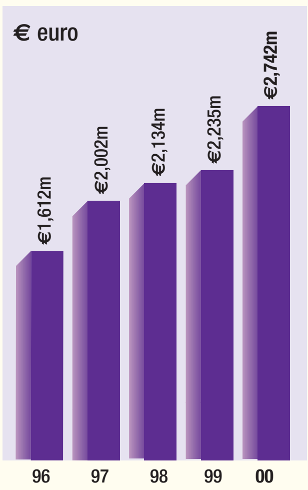
BUSINESS SEGMENT

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 £192m/€315m, which compares with a reported profit of £105m/€160m in 1999. The increase includes the favourable movement in exceptional items with lower reorganisation costs and the gain on disposals of businesses. The **reported attributable profit** of £33m/€54m compares with a reported attributable loss of £63m/€95m in 1999.

Turnover increased by 11% expressed in sterling to £3,768m, and by 20% expressed in euros to €6,180m.

Excluding exceptional items and the amortisation of goodwill and intangible assets, **adjusted operating profits** were flat expressed in sterling at £793m, and up 8% expressed in euros at €1,301m. Operating margins at 21.0% were 2.4 percentage points below the prior year principally reflecting the major investment programme less cost reductions achieved in production, distribution and support areas. Excluding acquisitions and disposals and currency translation effects, revenue growth was 5% whilst costs increased by 6%.

The **amortisation charge** for goodwill and intangible assets amounted to £468m/€768m, up £95m/€201m reflecting acquisitions made in 1999 and 2000, and currency translation effects.

Exceptional items showed a pre-tax charge of £30m/€49m, comprising £38m/€63m on acquisition related costs, £77m/€126m in respect of the major restructuring programme initiated in 1999, less £85m/€140m profit on sale of businesses. This compares with a net charge on exceptional items in 1999 of £232m/€352m, of which £161m/€244m related to restructuring.

Net interest expense, at £103m/€169m, was £21m/€44m higher than in the previous year principally due to the financing of acquisitions completed in 2000 and currency translation. Net interest cover was 8 times.

Adjusted profit before tax, which excludes the amortisation of goodwill and intangible assets and exceptional items, at £690m/€1,132m, was 3% lower than in previous years expressed in sterling, and 5% higher expressed in euros, or 3% lower at constant exchange rates.

The effective tax rate on adjusted earnings was slightly higher at 25.9% (1999 25.6%). The **adjusted profit attributable** to shareholders of £511m/€838m compared to £527m/€801m in 1999, 3% lower at constant exchange rates.

Cash flows, acquisitions, disposals 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 £144m/€236m, broadly similar to the prior year level. Depreciation in the year was £118m/€194m. Working capital requirements are

REED ELSEVIER COMBINED BUSINESSES

	2000 £m	1999 £m	**2000 €m**	1999 €m	Change at constant currencies %
Reported figures					
Turnover	**3,768**	3,390	**6,180**	5,153	9%
Operating profit	**210**	180	**344**	274	28%
Profit before taxation	**192**	105	**315**	160	106%
Net borrowings	**433**	1,066	**697**	1,717	
Adjusted figures					
Operating profit	**793**	792	**1,301**	1,204	(1)%
Operating margin	**21%**	23%	**21%**	23%	
Profit before taxation	**690**	710	**1,132**	1,079	(3)%
Operating cash flow	**775**	780	**1,271**	1,186	(1)%
Operating cash flow conversion	**98%**	98%	**98%**	98%	
Interest cover (times)	**8**	10	**8**	10	

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

negative overall, due to the substantial proportion of revenues received through subscription and similar advanced receipts.

Adjusted operating cash flow, before exceptional items, was £775m/€1,271m, representing a conversion rate of operating profit into cash flow of 98%, as for 1999.

Free cash flow – after interest, taxation and dividends but before acquisition spend and exceptional receipts and payments – was £334m/€548m compared to £187m/€286m in 1999. The increase in 2000 principally reflects reduced dividend payments as a result of the adjustment to dividend policy, and reduced taxation payments. **Net exceptional cash inflows** of £90m/€148m relate to the £153m/€251m proceeds from sale of businesses, less exceptional acquisition related costs and restructuring.

In 2000, acquisitions were made for a total consideration of £952m/€1,562m, including debt of £48m/€79m. An amount of £998m/€1,637m was capitalised as goodwill and intangible assets. The 2000 acquisitions contributed £12m/€20m to adjusted operating profit in the year and added £33m/€54m to operating cash flow.

Net borrowings at 31 December 2000 were £433m/€697m, a reduction of £633m/€1,020m on the prior year end, which reflected proceeds from the joint international share offering by Reed International and Elsevier in November 2000, together with the free cash flow and exceptional receipts, less spend on acquisitions.
Gross borrowings at 31 December 2000 amounted to £2,027m/€3,263m, denominated mostly in US dollars and partly offset by cash balances totalling £1,594m/€2,566m invested in short term deposits and marketable securities. Approximately 98% of cash balances were held in sterling, euros and US dollars. A total of 46% of Reed Elsevier's gross borrowings were at fixed rates, including £516m/€831m of floating rate debt fixed through the use of interest rate swaps. At 31 December 2000, the fixed rate debt had a weighted average interest coupon of 6.6% and an average remaining life of 7.7 years. The net interest expense also reflects the interest yield differentials between the short term investments and long term fixed rate borrowings.

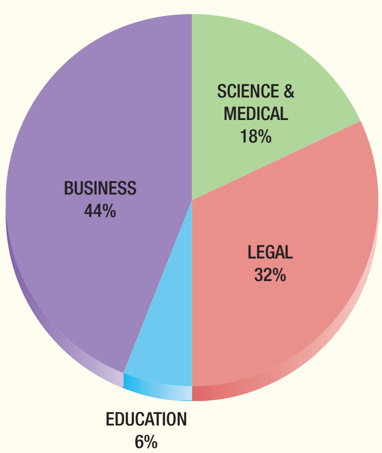
THE HARCOURT ACQUISITION AND EQUITY AND DEBT FINANCING

On 27 October 2000, Reed Elsevier entered into a definitive agreement with Harcourt General, Inc (Harcourt) to make a tender offer of $59 per share of common stock, or share equivalent, for the entire issued share capital of Harcourt. The offer values the company at $4.45 billion (£3.10 billion/€5.37 billion at exchange rates then prevailing). Reed Elsevier plc also entered into a definitive agreement with The Thomson Corporation (Thomson) to on-sell, for pre-tax proceeds of $2.06 billion, the Harcourt Higher Education business and the Corporate and Professional Services businesses other than educational and clinical testing.

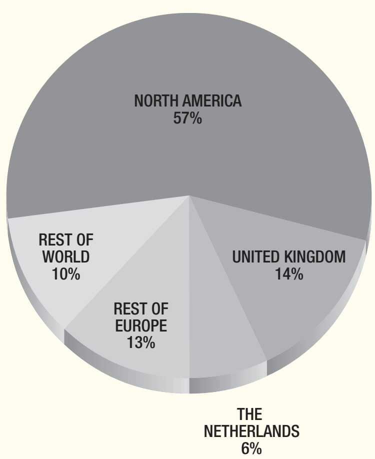
Following completion of the offer and the on-sale of businesses, Reed Elsevier will have acquired Harcourt's Scientific, Technical and Medical (STM) business and its K-12 (kindergarten to grade 12)

TURNOVER

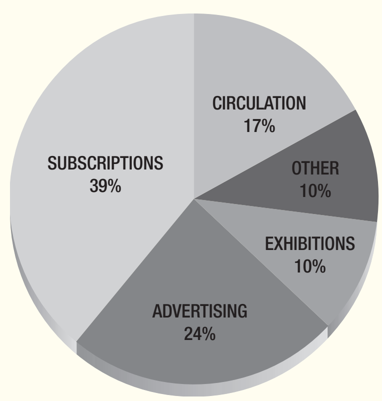
BY BUSINESS SEGMENT



BY GEOGRAPHICAL MARKET



BY SOURCE



Schools Education and Testing businesses for an implied value of approximately $4.5 billion, taking into account corporate net debt, taxes payable on the on-sale proceeds and the assumption of other corporate liabilities. In the year to 31 October 2000, these businesses had sales of $1.7 billion (STM $688m, 1999 $633m and Education and Testing $990m, 1999 $787m), adjusted operating profits (pre-amortisation of goodwill and intangible assets) of $371 million (STM $161m, 1999 $138m and Education and Testing $210m, 1999 $159m), and net assets of $1.1 billion (including $0.7 billion of goodwill and intangible assets) before corporate net debt of $1.2 billion.

The acquisition and the on-sale to Thomson is subject to customary regulatory approvals, which may require some divestment of assets.

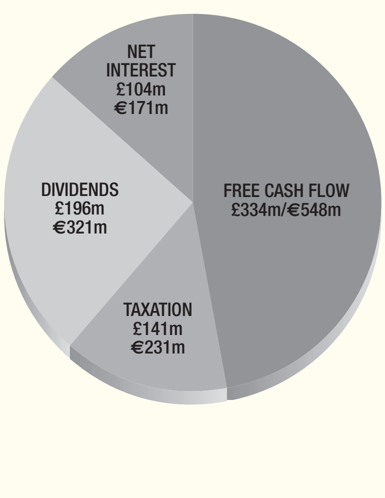
In order to fund the acquisition a placing of new shares in Reed International and Elsevier was undertaken jointly in November 2000 and new debt facilities obtained. The placing of new ordinary shares in the parent companies was executed through an accelerated bookbuild process completed on 29 November 2000. The net proceeds of the placing totalled £1,263m/€2,071m through the issue of 113.7m ordinary shares in Reed International at 625 pence per share and 66.26m ordinary shares in Elsevier at €14.50 per share, including the exercise of over-allotment options by the joint bookrunners. The majority of the proceeds have been hedged into US dollars.

This amount represented 9.9% of the share capitals of both parent companies. It is intended that Reed International should subscribe for additional R-shares in Elsevier, which represent the cross-shareholding of Reed International in Elsevier, so as to maintain Reed International's indirect equity interest at 5.8% on a fully diluted basis. This will reflect the respective economic interests of the shareholders of Reed International and Elsevier in the combined businesses, represented by the equalisation arrangements. The equalisation ratio is unaffected.

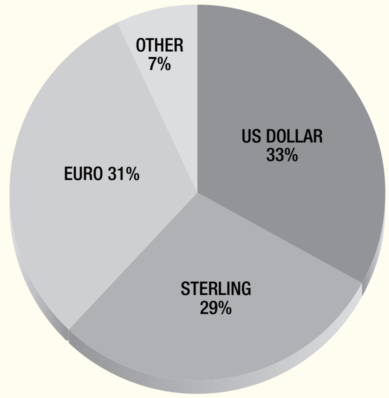
The initial acquisition funding will be provided by cash and short term borrowings off commercial paper programmes or draw down against committed credit facilities, and potentially by the assumption of up to $850 million of Harcourt public debt securities. The facilities include $6.5 billion of new bank facilities put in place in November 2000. The on-sale agreement between Reed Elsevier and Thomson has conditions which in effect mirror the terms of the merger agreement between Reed Elsevier and Harcourt, and the on-sale should therefore be completed at the time of the Harcourt acquisition or shortly thereafter dependent on the tender offer process. It is intended that the majority of the short term borrowings should be refinanced through the issuance of term debt securities.

The blended financing rate on the debt component of the funding, inclusive of the Harcourt public debt which Reed Elsevier may potentially assume, and the cost of long term debt including interest rate hedging undertaken, is expected to be approximately 7.2%.

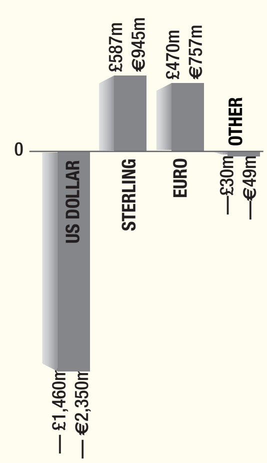
USE OF ADJUSTED OPERATING CASH FLOW



CURRENCY PROFILE – 2000 ADJUSTED PRE-TAX PROFIT



CURRENCY PROFILE – 2000 NET CASH/BORROWINGS



Proforma combined net borrowings of the Reed Elsevier businesses (as at 31 December 2000) and Harcourt (as at 31 October 2000), and taking into account the acquisition financing and the on-sale of businesses to Thomson, would be approximately £3.2 billion/€5.2 billion.

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 2000.

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 no more than $1,000m 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 the total borrowings. At 31 December 2000, after taking account of the maturity of committed bank facilities that back short term borrowings, but excluding the committed bank facilities put in place as part of the financing arrangements for the purchase of Harcourt General Inc, all net debt matures beyond two years, with 64% maturing in the third year, 12% in four to five years and 24% beyond 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 net interest cover. Reed Elsevier uses interest rate swaps, forward rate agreements and interest rate options to manage the exposure.

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 £1.7 billion/€2.7 billion, £0.9 billion/ €1.5 billion of which represents translation hedges for utilisation of the proceeds of the Reed International and Elsevier equity issues for the financing of the Harcourt acquisition.

European Economic and Monetary union

On 1 January 1999, the euro was introduced as the *de facto* currency of the 12 European countries now 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 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.

ELSEVIER REED FINANCE BV

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 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 $461m were made, of which $200m was to finance the acquisition of the CMD Group. Additional loans to Reed Elsevier plc businesses in Europe of €425m were made, of which €413m was to finance the purchase of the Miller Freeman Europe businesses. To fund this additional lending and to provide capacity to meet new lending requests, ERFBV raised $495m by means of a rights issue to which Elsevier subscribed and the funds were contributed to EFSA. Furthermore, EFSA issued a 7-year bond in the Swiss domestic market, for $300m equivalent. Additionally, EFSA put in place a US$3.0 billion US Commercial Paper programme in December, in anticipation of financing related to the Harcourt acquisition.

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 organised bank tenders in several European countries, and implemented a number of cash-pooling arrangements within Europe.
The volume of foreign exchange dealt by EFSA during 2000 amounted to approximately $3.8 billion equivalent. The average balance of cash under management, on behalf of Reed Elsevier plc companies, was approximately $0.5 billion.

Liabilities and assets

At the end of 2000, 87% (1999 93%) of ERF's gross assets were held in US dollars, including US$4.3 billion in loans to Reed Elsevier plc subsidiaries. The euro currency block represented 12% of total assets (1999 5%).

Liabilities included $822m in US dollars and $423m equivalent in euro currencies, borrowed under the euro commercial paper programme and the Swiss domestic bond.

PARENT COMPANIES

Profit and loss account

Adjusted earnings per share for Reed International were 23.3p, a decline of 5% compared to the previous year. Adjusted earnings per share for Elsevier were €0.59, an increase of 4%. The difference in percentage change is entirely attributable to the impact of the strengthening, on average, of sterling against the euro in 2000. At constant rates of exchange, the adjusted earnings per share of both companies would have shown a decline of 5% over the previous year.

After their share of the exceptional items and the charge in respect of goodwill and intangible assets amortisation, the **reported earnings per share** of Reed International after tax credit equalisation and Elsevier were 1.0p and €0.04, compared to a loss per share in 1999 of 3.4p and €0.07, respectively.

The Reed International and Elsevier annual reports and financial statements are presented on pages 56 to 82.

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 euro/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 6.9p, giving a total dividend of 10.0p for the year, the same as for 1999. The boards of Elsevier, in accordance with the dividend equalisation arrangements, have proposed a final dividend of €0.19. This results in a total dividend of €0.28 for the year, 4% higher than in 1999. The difference in percentage growth is attributable to currency movements.

Dividend cover for Reed International, using adjusted earnings, was 2.1 times. For Elsevier, the adjusted dividend cover was 2.1 times. Measured for the combined businesses, dividend cover was 2.1 times compared with 1999 at 2.3 times.

PARENT COMPANIES

	Reed International			Elsevier		
	2000 £m	1999 £m	% change	**2000 €m**	1999 €m	% change
Reported profit/(loss) attributable	**11**	(39)		**27**	(48)	
Adjusted profit attributable	**270**	279	(3)%	**419**	401	4%
Average exchange rate €:£	**1.64**	1.52		**1.64**	1.52	
Reported earnings/(loss) per share	**1.0p**	(3.4)p		**€0.04**	€(0.07)	
Adjusted earnings per share	**23.3p**	24.4p	(5)%	**€0.59**	€0.57	4%
Dividend per share	**10.0p**	10.0p	–	**€0.28**	€0.27	4%

The results of Reed International reflect its shareholders' 52.9% economic interest in the Reed Elsevier combined businesses. The results of Elsevier reflect its shareholders' 50% economic interest in the Reed Elsevier combined businesses. The respective economic interests of the Reed International and Elsevier shareholders take account of Reed International's interest in Elsevier. Both parent companies equity account for their respective shares in the Reed Elsevier combined businesses.

STRUCTURE

Corporate structure

Reed Elsevier came into existence in 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 39% interest in Elsevier Reed Finance BV, with Elsevier holding a 61% interest. Reed International additionally holds an indirect equity interest in Elsevier, reflecting the arrangements entered into between Reed International and Elsevier at the time of the merger, which determined 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 in the Combined Code in the Listing Rules of the Financial Services Authority (“the Combined Code”) and corporate governance best practice in the Netherlands as set out in the recommendations of the Peters Committee.

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 and practicable, also be observed by the other.

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

Elsevier

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

In order to facilitate the possibility of proxy voting by Elsevier shareholders, approval will be sought at the Elsevier Annual General Meeting in April 2001, to authorise the setting of a record date for the purpose of determining attendance and voting rights at general meetings of shareholders.

BOARDS

Reed International

The Reed International Board consists of five executive directors: Crispin Davis (Chief Executive Officer), Mark Armour (Chief Financial Officer), Derk Haank, Andrew Prozes and Gerard van de Aast, and six non-executive directors: Morris Tabaksblat (Chairman), John Brock, Roelof Nelissen, Steven Perrick, Rolf Stomberg and David Webster. Subject to the approval of the appointment of Andrew Prozes and Gerard van de Aast at the Elsevier Annual General Meeting in April 2001, all of the directors are also, or will be, directors of Reed Elsevier plc and Elsevier.

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 Combined 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 three members. The members of the

Supervisory Board are Morris Tabaksblat (Chairman), Dien de Boer-Kruyt, John Brock, Otto ter Haar, Roelof Nelissen, Steven Perrick, Rolf Stomberg and David Webster. The Executive Board comprises Crispin Davis (Chief Executive Officer), Mark Armour (Chief Financial Officer) and Derk Haank. A proposal will be put to the forthcoming Elsevier Annual General Meeting to appoint Andrew Prozes and Gerard van de Aast as additional members of the Executive Board. With the exception of Dien de Boer-Kruyt and Otto ter Haar, all of the directors are also directors of Reed International and of Reed Elsevier plc.

Otto ter Haar will retire at the conclusion of the Annual General Meeting in April 2001, when he will reach the statutory retirement age.

The functioning of and the relationship between the Executive Board and the Supervisory Board is governed by rules which have been adopted by the combined meeting of these boards (the Combined Board) and the Supervisory Board held a meeting during the year to discuss the functioning and the constitution of the boards.

The members of the Elsevier Executive and Supervisory boards are appointed by the shareholders and are subject to retirement at least every three years in accordance with a rotation schedule. They can be re-elected for successive terms, it being understood that no member of the Supervisory Board shall in principle serve more than 9 years in succession. The joint Nominations Committee of Reed International and Elsevier selects and recommends candidates for appointment to the Executive Board or the Supervisory Board. As regards the constitution of the Supervisory Board, nominations for appointment will be made in accordance with the profile that has been adopted by the Combined Board.

Reed Elsevier plc

The Reed Elsevier plc board consists of five executive directors and six non-executive directors. Biographical information in respect of the members of the board appears on page 5 of the Annual Review and Summary Financial Statements. 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 31 of the Annual Review and Summary Financial Statements.

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 Bruckhaus Deringer, 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.

Elsevier Reed Finance BV

The Elsevier Reed Finance BV group provides finance and treasury 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, Dien de Boer-Kruyt and Otto ter Haar, with the Management Board consisting of Cornelis Alberti and Willem Boellaard.

Otto ter Haar will retire from the Elsevier Reed Finance BV Supervisory Board at the conclusion of the Elsevier Annual General Meeting in April 2001, when he will reach the statutory retirement age.

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, and provides advice to the Chief Executive Officer on the remuneration of executives at a senior level below the board. 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 by 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 Annual General Meetings of Reed International and Elsevier, and near the end of the financial year. The Annual General Meetings provide an opportunity for the boards of Reed International and Elsevier to communicate with private shareholders. The Chairman, Chief Executive Officer, Chairman of the Remuneration Committee and other directors are available to answer questions from shareholders. Important announcements concerning Reed Elsevier are made available on the website: www.reedelsevier.com.

The environment

Reed Elsevier comprises a number of business units operating within different countries. The board of Reed Elsevier plc recognises that the operations of its businesses have an impact on the environment, principally in the areas of the use of energy and paper, the use of production technologies and the recycling of waste, and is committed to ensuring that the impact is reduced where practicable. The Board has adopted a policy, the terms of which require each of the business units to establish targets and to report to the Board annually on the performance against such targets. The members of the board with responsibility for Reed Elsevier's global business divisions are responsible for ensuring compliance with Reed Elsevier's overall environmental policy, and with any environmental regulations applicable to the businesses within each division. A range of local initiatives already undertaken include supply chain management, energy saving at 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 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 CONTROL

Parent companies

The boards of Reed International and Elsevier exercise independent supervisory roles over the activities and systems of internal control 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 operations, 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 Elsevier Audit Committees meet on a regular basis to review the systems of internal control of Reed Elsevier plc and Elsevier Reed Finance BV.

Operating and finance companies

The board of Reed Elsevier plc is responsible for the system of internal control of the Reed Elsevier publishing and information businesses, while the boards of Elsevier Reed Finance BV are responsible for the system of internal control in respect of the finance group activities. The objective of these systems of internal control is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss.

In accordance with the guidance published by the Internal Control Working Party of the Institute of

Chartered Accountants in England & Wales (the Turnbull Report), the boards of Reed Elsevier plc and Elsevier Reed Finance BV have implemented an ongoing process for identifying, evaluating and managing the material risks faced by their respective businesses. This process has been in place throughout the year ended 31 December 2000 and up to the date of approval of the Annual Reports and Financial Statements.

Reed Elsevier plc

Reed Elsevier plc has an established framework of procedures and internal controls, which is set out in a group Policies and Procedures Manual, and with which the management of each business is required to comply. 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 operational and financial risks that they face. The board of Reed Elsevier plc has adopted a schedule of matters which are required to be brought to it for decision.

Each business group has identified and evaluated its major risks, the controls in place to manage those risks and the level of residual risk accepted. Steps continue to be taken to embed risk management and control further into the operations of the business and to deal with areas of improvement which come to management and Board attention. The major risks identified include the protection of IT systems and data, challenges to intellectual property rights, management of strategic and operational change, evaluation and integration of acquisitions, and recruitment and retention of personnel. The major strategic risks facing the Reed Elsevier plc businesses are considered by the Strategy Committee. Litigation and other legal matters are managed by legal directors in Europe and the United States.

The Reed Elsevier plc Audit Committee receives regular reports on the management of material risks and reviews these reports with executive management. The Audit Committee also receives regular reports from both internal and external auditors on internal control matters. In addition, each Business Group is required, at the end of the financial year, to review the effectiveness of its internal controls and report its findings on a detailed basis to the management of Reed Elsevier plc. These reports are summarised and, as part of the annual review of effectiveness, submitted to the Audit Committee of Reed Elsevier plc. The Chairman of the Audit Committee reports to the board on any significant internal control matters arising.

Elsevier Reed Finance BV

Elsevier Reed Finance BV has established policy guidelines, which are applied for all Elsevier Reed Finance BV companies. The boards of Elsevier Reed Finance BV have adopted schedules of matters which are required to be brought to them for decision. Procedures are in place for monitoring the activities of the finance group, including a comprehensive treasury reporting system. The internal control system of Elsevier Reed Finance BV is reviewed each year by its external auditors.

Annual review

As part of the year end procedures, the boards of Reed International, Elsevier, Reed Elsevier plc and Elsevier Reed Finance BV have reviewed the effectiveness of the systems of internal control during the last financial year.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL 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 associates. They are responsible for maintaining proper accounting records, for safeguarding assets, and for taking reasonable steps to prevent and detect fraud and other irregularities. The directors are also responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgements and estimates that are prudent and reasonable.

Applicable accounting standards have been followed and the Reed Elsevier combined financial statements, which are the responsibility of Reed International and Elsevier, are prepared using accounting policies which comply with both UK and Dutch Generally Accepted Accounting Principles.

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 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 draws on external professional advice as necessary in making its recommendations.

The Remuneration Committee, which is chaired by Dr Rolf Stomberg, consists wholly of independent non-executive directors: John Brock, Roelof Nelissen and Rolf Stomberg.

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 remuneration consists only of fees.

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, appended to the Listing Rules of the UK Financial Services Authority.

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, appended to the Listing Rules of the UK Financial Services Authority.

Remuneration policy
In determining its policy on senior executive remuneration, including the directors, the committee's principal objective is to attract, retain and motivate people of the highest calibre and experience needed to execute the strategy and deliver shareholder value in the context of an ever more competitive and increasingly global employment market.

The Committee also has regard to, and balances as far as is 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, where appropriate, reflecting local practice operating 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 attainment of the results 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 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 the European Directors is 50% of basic salary. The maximum potential bonus payable to a US based director is 90% of basic salary.
- Share options, where the directors and other senior executives are granted options annually over shares in Reed International and Elsevier at the market price at the date of grant. The Remuneration Committee approves the grant of any option and sets performance conditions attaching to options.
- A longer-term incentive arrangement ("LTIP") under which a one off grant of options of 20 times salary has been made during the year. The LTIPs were granted at market value at the date of grant, and are exercisable after 5 years, subject to the achievement of highly demanding performance conditions.
- 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) M H Armour was appointed a director in July 1996 and his service contract provides for a notice period of twenty four months.

(ii) C H L Davis was appointed a director in September 1999. His service contract provides for a notice period of twelve months. In the event of loss of employment on a change of control before 1 September 2002, twelve months' salary would be payable to C H L Davis in addition to any other sums payable on termination.

(iii) D J Haank was appointed a director in November 1999. His service contract, which is subject to Dutch law, provides for six months' notice and, in the event of termination without cause by the company, eighteen months' salary and employer's pension contributions would be payable by way of liquidated damages.

(iv) A Prozes was appointed a director in August 2000. His service contract, which is subject to New York law, provides that, in the event of termination without cause by the company, prior to 6 July 2001, twenty four months' base salary would be payable and, thereafter, twelve months' base salary.

(v) G J A van de Aast was appointed a director in December 2000 and his service contract provides for a notice period of twelve months.

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 up to twenty four months, reducing to twelve 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 service contracts.

External appointments

Executive directors may, subject to the approval of the Chairman and the Chief Executive, 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.

Emoluments of the directors

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

a) Aggregate emoluments

	£000		€000	
	2000	1999	**2000**	1999
Salaries and fees	**2,068**	2,505	**3,391**	3,808
Benefits	**66**	108	**108**	164
Annual performance-related bonuses	**835**	412	**1,368**	626
Pension contributions	**786**	476	**1,289**	723
Pension to former director	**230**	214	**377**	325
One-off bonuses	**461**	277	**757**	421
Compensation and payments in respect of former directors	**581**(i)	3,474(ii)	**953**(i)	5,280(ii)
Total	**5,027**	7,466	**8,243**	11,347

b) Individual emoluments of executive directors

	£					€				
	Salary	Benefits	Bonuses	**Total**	1999	Salary	Benefits	Bonuses	**Total**	1999
M H Armour	385,002	18,841	166,700	**570,543**	390,503	631,403	30,899	273,388	**935,690**	593,565
C H L Davis (from 1.9.1999)	750,000	24,422	328,125	**1,102,547**	534,158	1,230,000	40,052	538,125	**1,808,177**	811,920
D J Haank (from 15.11.1999)	235,191	8,047	101,907	**345,145**	33,836	385,713	13,197	167,127	**566,037**	51,430
O Laman Trip (until 30.6.2000)	87,632	11,335	36,805	**135,772**(i)	206,116	143,716	18,589	60,360	**222,665**(i)	313,296
A Prozes (from 7.8.2000)	243,646	2,649	662,252	**908,547**	–	399,579	4,344	1,086,093	**1,490,016**	–
G J A van de Aast (from 6.12.2000)	27,083	1,281	–	**28,364**	–	44,416	2,100	–	**46,516**	–
Salaries, benefits and bonuses of former directors					1,723,360(ii)					2,619,509(ii)
				3,090,918	2,887,973				**5,069,101**	4,389,720

Taking into account gains of £ nil (€nil) on the exercise of share options, C H L Davis was the highest paid director in 2000.

(i) O Laman Trip ceased to be a director on 30 June 2000 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 £581,342 (€953,400).

(ii) Details of salaries, benefits and bonuses of and compensation payments to former directors in 1999 are set out in the Remuneration Committee report of that year.

c) Recruitment of directors

A Prozes was appointed Chief Executive Officer of Reed Elsevier plc's global Legal businesses in July 2000 and a Director of Reed International and Reed Elsevier plc with effect from 7 August 2000. Mr Prozes's base salary is US$800,000 per annum. In accordance with the terms of his service contract, Mr Prozes received in respect of 2000, in addition to his performance related bonus of £200,861 (€329,412), a bonus of £461,391 (€756,681) as compensation for loss of bonus from his previous employment. Target bonus for 2001 will be 72% of base salary.

Options were granted to Mr Prozes in August 2000 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. Options over shares in Reed International and Elsevier with an aggregate option price of twenty times base salary were also granted under the terms of the Reed Elsevier plc Senior Executive Long Term Incentive Scheme. Mr Prozes was also granted nil cost options, as compensation for stock option gains forfeited upon leaving his previous employment, over 60,507 ordinary shares in Reed International and 42,120 ordinary shares in Elsevier. The terms of such options provide that they shall become exercisable over three years in equal tranches on each anniversary of the commencement of employment, provided Mr Prozes has not voluntarily terminated, or given notice to terminate, his employment prior to such date.

G J A van de Aast was appointed Chief Executive Officer of Reed Elsevier plc's global Business to Business businesses in December 2000 and a Director of Reed International and Reed Elsevier plc with effect from 6 December 2000. Mr van de Aast's base salary is £325,000 per annum. Target bonus for 2001 will be 40% of base salary.

Options were granted to Mr van de Aast in December 2000, under the Reed Elsevier plc Executive Share Option Scheme, over shares in Reed International and Elsevier with an aggregate option price of two times base salary. Options over shares in Reed International and Elsevier with an aggregate option price of twenty times base salary were also granted under the terms of the Reed Elsevier plc Senior Executive Long Term Incentive Scheme.

Further details of the number of options, the option prices and the exercise periods are contained in the note under Share Options below.

d) Pensions

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

The policy for executive directors based in the United Kingdom is to provide pension benefits at a normal retirement age of 60, equivalent to two thirds of base salary in the 12 months prior to retirement, provided they have completed 20 years' service with the Reed Elsevier plc group or at an accrual rate of $^{1}/_{30}$th of pensionable salary per annum if employment is for less than 20 years. The target pension for C H L Davis at normal retirement age of 60 is 45% of base salary in the 12 months prior to retirement. In 1989, the Inland Revenue introduced a cap on the amount of pension that can be provided from an approved pension scheme. M H Armour's, G J A van de Aast's and C H L Davis's pension benefits will be provided from a combination of the Reed Elsevier Pension Scheme and the company's unapproved, unfunded pension arrangements.

D J Haank is a member of the Dutch pension scheme, and his pension at normal retirement age of 60 will be up to 70% of his final annual salary.

The target pension for A Prozes, a US based director, is US$265,000 per annum, which becomes payable on retirement only if he completes a minimum of 7 years' service. This pension has no associated contingent benefits for a spouse or dependants, and will be reduced in amount by the value of any other retirement benefits payable by the company or any former employer, other than those attributable to employee contributions.

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, except in the case of A Prozes, 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 31.12.2000*	Transfer value increase after deduction of directors' contributions	Increase in accrued annual pension during the period	Total accrued annual pension as at 31.12.2000*	Transfer value increase after deduction of directors' contributions
M H Armour	15,611	75,901	249,530	25,602	124,478	409,229
C H L Davis	35,906	47,162	665,827	58,886	77,346	1,091,956
D J Haank	9,247	75,814	39,567	15,165	124,335	64,890
O Laman Trip	7,172	37,054	107,358	11,762	60,768	176,067
A Prozes	–	–	–	–	–	–
G J A van de Aast	920	920	13,075	1,508	1,508	21,443

* Date of leaving service if prior to 31 December 2000.

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

e) Individual emoluments of non-executive directors

Thousands	£ 2000	£ 1999	€ 2000	€ 1999
J F Brock (from 15.4.99)	**34,220**	27,196	**56,120**	41,338
R J Nelissen (from 15.4.99)	**34,304**	30,197	**56,258**	45,900
S Perrick	**34,304**	43,530	**56,258**	66,166
R W H Stomberg	**34,220**	35,260	**56,120**	53,595
M Tabaksblat	**168,202**	125,277	**275,851**	190,421
D G C Webster	**34,220**	70,260	**56,120**	106,795
Aggregate emoluments of former directors		83,556		127,005
	339,470	415,276	**556,727**	631,220

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 Mr Tabaksblat were paid to Unilever NV until May 1999 at which point he retired from Unilever.

The emoluments of D G C Webster in 1999 included an additional fee payable to him to reflect the significant additional duties he undertook during that year, 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. Since 1999 all executive share options have been granted subject to the performance condition that the compound growth in the average of the Reed International and Elsevier adjusted EPS (i.e. before exceptional items, amortisation of goodwill and intangable assets and UK tax credit equalisation) in the three years immediately preceding vesting must exceed the compound growth in the average of the UK and Dutch retail price indices by a minimum of 6%.

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.

The terms of the Reed Elsevier plc schemes have been approved by the shareholders of Reed International. At the Annual General Meeting in April 2000, Reed International shareholders approved changes to the rules of the Executive Share Option Scheme to remove the limit on the number of options that any executive may hold at any one time of four times remuneration.

Under arrangements for Dutch based executives, options to subscribe for Reed International and Elsevier shares have been granted to members of the Elsevier Executive Board and to other senior executives. Prior to 1999 options were granted at the market price at the time of the grant and were exercisable for a period up to five years from the date of grant. Following the introduction of new tax laws in the Netherlands, the committee decided that Dutch based directors and senior executives granted options during 1999 could elect to take 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. No grants under such arrangements have been made since 1999 and all executive share options are now awarded through the Reed Elsevier plc Executive Share Option Scheme.

Longer term incentives

Options over shares in Reed International and Elsevier have been granted during the year under the Reed Elsevier plc Senior Executive Long Term Incentive Scheme ("LTIP"). Implementation of the LTIP was approved by shareholders of Reed International and Elsevier at their respective Annual General Meetings in April 2000.

The terms of the LTIP permitted a one off grant of options over Reed International and Elsevier ordinary shares, up to an aggregate value of 30 times salary, to be made to executive directors and a limited number of key executives. Grants have been made to existing management as well as individuals recruited during the year, regarded as key executives responsible for reshaping the business, executing the strategy for growth announced in February 2000 and producing a sustainable improvement in shareholder value. All grants under the LTIP were approved by the Remuneration Committee, and the maximum grant to any one individual represented an aggregate value of 20 times salary.

Participants in the LTIP are required to build up a significant personal shareholding in Reed International and/or Elsevier. At executive director level, the requirement is that they should own shares equivalent to $1\frac{1}{2}$ times salary, to be acquired over a reasonable period.

An option under the LTIP may only be exercised during the period 1 January 2005 and 31 December 2005, and then only if the performance targets have been satisfied.

The first performance condition requires the achievement of 20% per annum total shareholder return ("TSR") over three years from a base point of 436.5p per Reed International share and €10.73 for an Elsevier share, being the respective share prices on 2 May 2000. In the event that the required TSR performance is not achieved in the initial three year period, the TSR target will be extended to a maximum of five years with a corresponding increase in the growth requirement over such extended performance period.

The second performance condition requires participants to achieve individual business unit targets over the three financial years 2000-2002.

If the performance targets are not achieved, the entire option will lapse.

At the date of this Report, the Remuneration Committee had granted options to 36 participants over 14,370,866 Reed International ordinary shares and 10,059,317 Elsevier ordinary shares. In the event that the LTIP conditions are met in full, the total combined shareholder return during the first three year performance period would be approximately £5,913 million (€9,520 million) and the participants will achieve an aggregate gain of approximately £74 million (€119 million), which is 1.2% of the combined total shareholder return.

Details of options held by directors in the ordinary shares of Reed International and Elsevier as at 31 December 2000, and movements during the period are shown below:

Over shares in Reed International

		1 January 2000*	Granted during the year	Option price	31 December 2000	Exercisable
M H Armour	– Executive Scheme	59,600		400.75p	59,600	2001-2005
		30,000		585.25p	30,000	2001-2006
		52,000		565.75p	52,000	2001-2007
		66,900		523.00p	66,900	2001-2008
		33,600		537.50p	33,600	2002-2009
			88,202	436.50p	88,202	2003-2010
	– LTIP		882,016	436.50p	882,016	2005
	– SAYE Scheme	3,924		430.00p	3,924	2004
Total		246,024	970,218		1,216,242	
C H L Davis	– Executive Scheme	160,599		467.00p	160,599	2002-2009
		80,300		467.00p	80,300	2003-2009
		80,300		467.00p	80,300	2004-2009
			171,821	436.50p	171,821	2003-2010
	– Nil cost options	535,332		Nil	535,332	2002
	– LTIP		1,718,213	436.50p	1,718,213	2005
	– SAYE Scheme		5,019	336.20p	5,019	2005
Total		856,531	1,895,053		2,751,584	
D J Haank	– Executive Scheme	18,498		677.25p	18,498	2001-2004
		18,497		537.50p	18,497	2001-2009
			51,368	436.50p	51,368	2003-2010
	– LTIP		513,680	436.50p	513,680	2005
Total		36,995	565,048		602,043	
A Prozes	– Executive Scheme		188,281	566.00p	188,281	2003-2010
	– LTIP		941,406	566.00p	941,406	2005
	– Nil cost options		60,507	Nil	60,507	2001-2003
Total			1,190,194		1,190,194	
G J A van de Aast	– Executive Scheme	50,940		638.00p	50,940	2003-2010
	– LTIP	509,404		638.00p	509,404	2005
Total		560,344			560,344	

* On date of appointment if after 1 January 2000

The middle market price of a Reed International ordinary share during the year was in the range 390.75p to 700.00p and at 31 December 2000 was 700.00p.

Over shares in Elsevier

		1 January 2000 *	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2000	Exercisable
M H Armour	– Executive Scheme	20,244		€13.55			20,244	2002-2009
			61,726	€10.73			61,726	2003-2010
	– LTIP		617,256	€10.73			617,256	2005
Total		20,244	678,982				699,226	
C H L 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
			120,245	€10.73			120,245	2003-2010
	– LTIP		1,202,446	€10.73			1,202,446	2005
	– Nil cost options	319,250		Nil			319,250	2002
Total		510,800	1,322,691				1,833,491	
D J Haank	– Executive Scheme	35,000		€11.93			35,000	2001
		30,000		€14.11			30,000	2001-2002
		30,000		€15.25			30,000	2001-2003
		10,926		€17.07			10,926	2001-2004
		10,925		€13.55			10,925	2001-2009
			35,949	€10.73			35,949	2003-2010
	– LTIP		359,485	€10.73			359,485	2005
	– Convertible Debentures	9,540		€14.36(i)	3,000(ii)	€15.66	6,540	2001-2002
Total		126,391	395,434		3,000		518,825	
A Prozes	– Executive Scheme		131,062	€13.60			131,062	2003-2010
	– LTIP		655,310	€13.60			655,310	2005
	– Nil cost options		42,120	Nil			42,120	2001-2003
Total			828,492				828,492	
G J A van de Aast	– Executive Scheme	35,866		€14.87			35,866	2003-2010
	– LTIP	358,658		€14.87			358,658	2005
Total		394,524					394,524	

* On date of appointment if after 1 January 2000

(i) Average price

(ii) Retained an interest in 3,000 shares

The market price of an Elsevier ordinary share during the year was in the range €9.30 to €16.07 and at 31 December 2000 was €15.66.

The aggregate notional pre-tax gain made by the directors on the exercise of Reed International and Elsevier share options was £4,046 (€6,636).

Interests in shares

The interests of the directors 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 2000*	31 December 2000	1 January 2000*	31 December 2000
M H Armour	2,500	2,500	2,500	2,500
J F Brock	3,000	3,000	–	–
G J A van de Aast	–	–	–	–
C H L Davis	–	44,778	–	31,099
D J Haank	–	–	7,880	10,880
R J Nelissen	–	–	–	5,000
S Perrick	–	–	–	–
A Prozes	–	–	–	–
Dr R W H Stomberg	–	–	–	–
M Tabaksblat	–	–	8,000	8,000
D G C Webster	5,000	5,000	–	–

*On date of appointment if after 1 January 2000

There have been no changes in the interests of the directors in the share capital of Reed International since 31 December 2000. Subsequent to 31 December 2000 S Perrick acquired 962 Elsevier shares.

Any ordinary shares required to fulfil entitlements under nil cost share option grants 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 2000, amounted to 590,257 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 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 56 to 82. A list of principal businesses is set out on page 92.

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.

Investments

Fixed asset investments in joint ventures and associates are accounted for under the gross equity and equity methods respectively. Other fixed asset investments are stated at cost, less provision, if appropriate, for any impairment in value. Short term investments are stated at the lower of cost and net realisable value.

Foreign exchange translation

The combined financial statements are presented in both pounds sterling and euros.

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

The principal exchange rates used are set out in note 28.

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.

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. 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. Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term. Deferred taxation balances are not discounted.

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 2000

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Turnover					
Including share of turnover of joint ventures		**3,836**	3,464	**6,291**	5,265
Less: share of turnover of joint ventures		**(68)**	(74)	**(111)**	(112)
	1	**3,768**	3,390	**6,180**	5,153
Continuing operations before acquisitions		**3,589**	3,390	**5,886**	5,153
Acquisitions		**179**	–	**294**	–
Cost of sales	2	**(1,332)**	(1,185)	**(2,185)**	(1,801)
Gross profit		**2,436**	2,205	**3,995**	3,352
Operating expenses	2	**(2,239)**	(2,028)	**(3,672)**	(3,083)
Before amortisation and exceptional items		**(1,659)**	(1,420)	**(2,721)**	(2,159)
Amortisation of goodwill and intangible assets		**(465)**	(369)	**(762)**	(561)
Exceptional items	6	**(115)**	(239)	**(189)**	(363)
Operating profit (before joint ventures)		**197**	177	**323**	269
Continuing operations before acquisitions		**282**	177	**462**	269
Acquisitions		**(85)**	–	**(139)**	–
Share of operating profit of joint ventures		**13**	3	**21**	5
Operating profit including joint ventures	1,5	**210**	180	**344**	274
Non operating exceptional items					
Net profit on sale of fixed asset investments and businesses	6	**85**	7	**140**	11
Profit on ordinary activities before interest		**295**	187	**484**	285
Net interest expense	7	**(103)**	(82)	**(169)**	(125)
Profit on ordinary activities before taxation		**192**	105	**315**	160
Tax on profit on ordinary activities	8	**(159)**	(167)	**(261)**	(254)
Profit/(loss) on ordinary activities after taxation		**33**	(62)	**54**	(94)
Minority interests		**–**	(1)	**–**	(1)
Profit/(loss) attributable to parent companies' shareholders	26	**33**	(63)	**54**	(95)
Ordinary dividends paid and proposed	9	**(245)**	(234)	**(402)**	(356)
Retained loss taken to combined reserves		**(212)**	(297)	**(348)**	(451)

ADJUSTED FIGURES

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Adjusted operating profit	1,10	**793**	792	**1,301**	1,204
Adjusted profit before tax	10	**690**	710	**1,132**	1,079
Adjusted profit attributable to parent companies' shareholders	10	**511**	527	**838**	801

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 2000

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Net cash inflow from operating activities before exceptional items	11	907	898	1,487	1,365
Payments relating to exceptional items charged to operating profit	6	(94)	(138)	(154)	(210)
Net cash inflow from operating activities		813	760	1,333	1,155
Dividends received from joint ventures	15	6	4	10	6
Interest received		20	33	33	50
Interest paid		(124)	(114)	(204)	(173)
Returns on investments and servicing of finance		(104)	(81)	(171)	(123)
Taxation (including £31m/€51m (1999 £74m/€112m) exceptional inflow)		(110)	(99)	(180)	(150)
Purchase of tangible fixed assets		(141)	(137)	(231)	(208)
Proceeds from sale of tangible fixed assets		3	15	5	23
Capital expenditure		(138)	(122)	(226)	(185)
Acquisitions	11	(914)	(167)	(1,499)	(254)
Exceptional net proceeds from sale of fixed asset investments and businesses	6,11	153	3	251	5
Acquisitions and disposals		(761)	(164)	(1,248)	(249)
Ordinary dividends paid to the shareholders of the parent companies		(196)	(339)	(321)	(515)
Cash outflow before changes in short term investments and financing		(490)	(41)	(803)	(61)
(Increase)/decrease in short term investments	11	(1,137)	297	(1,865)	451
Financing	11	1,634	(197)	2,679	(300)
Increase in cash	11	7	59	11	90

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	2000 £m	1999 £m	2000 €m	1999 €m
Adjusted operating cash flow	10	775	780	1,271	1,186
Adjusted operating cash flow conversion		98%	98%	98%	98%

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 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 2000

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Fixed assets					
Goodwill and intangible assets	13	**4,127**	3,400	**6,644**	5,474
Tangible fixed assets	14	**416**	386	**670**	622
Investments	15	**153**	119	**247**	192
Investments in joint ventures:					
Share of gross assets		**137**	136	**221**	219
Share of gross liabilities		**(65)**	(47)	**(105)**	(76)
Share of net assets		**72**	89	**116**	143
Other investments		**81**	30	**131**	49
		4,696	3,905	**7,561**	6,288
Current assets					
Stocks	16	**114**	113	**184**	183
Debtors – amounts falling due within one year	17	**860**	666	**1,385**	1,072
Debtors – amounts falling due after more than one year	18	**164**	148	**264**	238
Cash and short term investments	19	**1,594**	440	**2,566**	708
		2,732	1,367	**4,399**	2,201
Creditors: amounts falling due within one year	20	**(3,379)**	(2,676)	**(5,441)**	(4,308)
Net current liabilities		**(647)**	(1,309)	**(1,042)**	(2,107)
Total assets less current liabilities		**4,049**	2,596	**6,519**	4,181
Creditors: amounts falling due after more than one year	21	**(873)**	(620)	**(1,406)**	(998)
Provisions for liabilities and charges	24	**(128)**	(113)	**(206)**	(182)
Minority interests		**(7)**	(8)	**(11)**	(14)
		3,041	1,855	**4,896**	2,987
Capital and reserves					
Combined share capitals		**185**	168	**298**	270
Combined share premium accounts		**1,621**	341	**2,610**	549
Combined reserves		**1,235**	1,346	**1,988**	2,168
Combined shareholders' funds	26	**3,041**	1,855	**4,896**	2,987

Approved by the Boards of Reed International P.L.C. and Elsevier NV, 21 February 2001.

COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 £m	1999 £m	2000 €m	1999 €m
Profit/(loss) attributable to parent companies' shareholders	33	(63)	54	(95)
Exchange translation differences	113	17	150	405
Total recognised gains and losses for the year	**146**	(46)	**204**	310

COMBINED SHAREHOLDERS' FUNDS RECONCILIATION

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 £m	1999 £m	2000 €m	1999 €m
Profit/(loss) attributable to parent companies' shareholders	33	(63)	54	(95)
Ordinary dividends paid and proposed	(245)	(234)	(402)	(356)
Issue of ordinary shares, net of expenses and less capital redemptions	1,285	5	2,107	8
Exchange translation differences	113	17	150	405
Net increase/(decrease) in combined shareholders' funds	**1,186**	(275)	**1,909**	(38)
Combined shareholders' funds at 1 January	1,855	2,130	2,987	3,025
Combined shareholders' funds at 31 December	**3,041**	1,855	**4,896**	2,987

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1 Segment analysis

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Business segment								
Science & Medical	**693**	652	**140**	111	**252**	231	**286**	315
Legal	**1,201**	1,087	**(8)**	57	**237**	282	**2,443**	2,295
Education	**202**	181	**19**	20	**40**	34	**144**	137
Business	**1,672**	1,470	**59**	(8)	**264**	245	**1,205**	668
Total	**3,768**	3,390	**210**	180	**793**	792	**4,078**	3,415
Geographical origin								
North America	**2,098**	1,836	**(89)**	(52)	**335**	359	**3,128**	2,792
United Kingdom	**734**	698	**109**	86	**191**	191	**476**	518
The Netherlands	**399**	391	**127**	91	**136**	135	**(62)**	(75)
Rest of Europe	**356**	307	**57**	51	**102**	87	**506**	147
Rest of World	**181**	158	**6**	4	**29**	20	**30**	33
Total	**3,768**	3,390	**210**	180	**793**	792	**4,078**	3,415

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2000 €m	1999 €m	**2000 €m**	1999 €m	**2000 €m**	1999 €m	**2000 €m**	1999 €m
Business segment								
Science & Medical	**1,137**	991	**230**	169	**413**	351	**460**	507
Legal	**1,970**	1,652	**(13)**	91	**389**	428	**3,933**	3,695
Education	**331**	275	**31**	26	**66**	52	**232**	221
Business	**2,742**	2,235	**96**	(12)	**433**	373	**1,941**	1,075
Total	**6,180**	5,153	**344**	274	**1,301**	1,204	**6,566**	5,498
Geographical origin								
North America	**3,441**	2,791	**(146)**	(79)	**549**	547	**5,036**	4,495
United Kingdom	**1,204**	1,061	**179**	131	**313**	290	**766**	834
The Netherlands	**654**	594	**208**	138	**223**	205	**(100)**	(121)
Rest of Europe	**584**	467	**93**	78	**167**	132	**815**	237
Rest of World	**297**	240	**10**	6	**49**	30	**49**	53
Total	**6,180**	5,153	**344**	274	**1,301**	1,204	**6,566**	5,498

The Education business, previously reported within the Legal segment, has been presented separately for the first time in 2000. Comparatives have been restated accordingly. The Scientific segment has been renamed Science & Medical to reflect business strategy.

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

Turnover is analysed before the £68m/€111m (1999 £74m/€112m) share of joint ventures' turnover, of which £21m/€34m (1999 £19m/€29m) relates to the Legal segment, principally to Giuffrè, and £47m/€77m (1999 £55m/€83m) relates to the Business segment, principally to exhibition joint ventures (1999 principally to REZsolutions, Inc.).

Share of operating profit in joint ventures of £13m/€21m (1999 £3m/€5m) comprises £4m/€6m (1999 £3m/€5m) relating to the Legal segment and £9m/€15m (1999 £nil/€nil) relating to the Business segment.

1 Segment analysis (continued)

	2000 £m	1999 £m	2000 €m	1999 €m
Analysis of turnover by geographical market				
North America	**2,152**	1,906	**3,529**	2,898
United Kingdom	**521**	484	**855**	736
The Netherlands	**234**	237	**384**	360
Rest of Europe	**478**	418	**784**	635
Rest of World	**383**	345	**628**	524
Total	**3,768**	3,390	**6,180**	5,153

	2000 £m	1999 £m	2000 €m	1999 €m
Reconciliation of capital employed to combined shareholders' funds				
Capital employed	**4,078**	3,415	**6,566**	5,498
Taxation	**(427)**	(364)	**(688)**	(586)
Dividends and net interest	**(170)**	(122)	**(274)**	(194)
Net borrowings	**(433)**	(1,066)	**(697)**	(1,717)
Minority interests	**(7)**	(8)	**(11)**	(14)
Combined shareholders' funds	**3,041**	1,855	**4,896**	2,987

	Depreciation		Amortisation		Capital expenditure	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Business segment						
Science & Medical	**17**	16	**98**	91	**26**	20
Legal	**60**	63	**168**	136	**72**	75
Education	**3**	3	**14**	15	**3**	5
Business	**38**	35	**188**	131	**43**	48
Total	**118**	117	**468**	373	**144**	148

	Depreciation		Amortisation		Capital expenditure	
	2000 €m	1999 €m	2000 €m	1999 €m	2000 €m	1999 €m
Business segment						
Science & Medical	**28**	24	**161**	138	**43**	30
Legal	**98**	96	**276**	207	**118**	114
Education	**5**	5	**23**	23	**5**	8
Business	**63**	53	**308**	199	**70**	73
Total	**194**	178	**768**	567	**236**	225

2 Cost of sales and operating expenses

	2000				1999			
	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	1,268	–	–	1,268	1,185	–	–	1,185
Acquisitions	64	–	–	64	–	–	–	–
Total	1,332	–	–	1,332	1,185	–	–	1,185
Distribution and selling costs								
Continuing operations	844	–	–	844	759	–	–	759
Acquisitions	40	–	–	40	–	–	–	–
	884	–	–	884	759	–	–	759
Administrative expenses								
Continuing operations	712	378	105	1,195	661	369	239	1,269
Acquisitions	63	87	10	160	–	–	–	–
	775	465	115	1,355	661	369	239	1,269
Operating expenses								
Continuing operations	1,556	378	105	2,039	1,420	369	239	2,028
Acquisitions	103	87	10	200	–	–	–	–
Total	1,659	465	115	2,239	1,420	369	239	2,028

	2000				1999			
	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	2,080	–	–	2,080	1,801	–	–	1,801
Acquisitions	105	–	–	105	–	–	–	–
Total	2,185	–	–	2,185	1,801	–	–	1,801
Distribution and selling costs								
Continuing operations	1,384	–	–	1,384	1,154	–	–	1,154
Acquisitions	66	–	–	66	–	–	–	–
	1,450	–	–	1,450	1,154	–	–	1,154
Administrative expenses								
Continuing operations	1,168	619	173	1,960	1,005	561	363	1,929
Acquisitions	103	143	16	262	–	–	–	–
	1,271	762	189	2,222	1,005	561	363	1,929
Operating expenses								
Continuing operations	2,552	619	173	3,344	2,159	561	363	3,083
Acquisitions	169	143	16	328	–	–	–	–
Total	2,721	762	189	3,672	2,159	561	363	3,083

3 Personnel

AVERAGE NUMBER OF PEOPLE EMPLOYED DURING THE YEAR	2000	1999
Business segment		
Science & Medical	**3,700**	3,600
Legal	**11,200**	10,800
Education	**1,500**	1,400
Business	**12,500**	11,900
Total	**28,900**	27,700
Geographical location		
North America	**14,800**	14,800
United Kingdom	**5,700**	5,500
The Netherlands	**3,000**	3,000
Rest of Europe	**3,000**	2,300
Rest of World	**2,400**	2,100
Total	**28,900**	27,700

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 two largest schemes, which cover the majority of employees, are in the UK and US. The main UK scheme was subject to a valuation by Watson Wyatt partners as at 5 April 2000. The main US scheme was subject to a valuation by Towers Perrin as at 1 January 2000.

The principal valuation assumptions for the main UK scheme were:

Actuarial method	Projected unit method
Annual rate of return on investments	6.60%
Annual increase in total pensionable remuneration	5.00%
Annual increase in present and future pensions in payment	3.00%

The principal valuation assumptions used for the US scheme were a rate of return on investments of 8%, increase in pensionable remuneration of 4.5%, and increase in present and future pensions in payment of 2%.

The actuarial values placed on scheme assets were sufficient to cover 121% and 117% of the benefits that had accrued to members of the main UK and US schemes, respectively. Actuarial surpluses are spread as a level amount over the average remaining service lives of current employees. The market values of the schemes' assets at the valuation dates, excluding assets held in respect of members' additional voluntary contributions, were £1,723m/€2,986m, and £158m/€273m in respect of the UK and US schemes, respectively.

Assessments for accounting purposes in respect of other schemes, including the Netherlands scheme, 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 are 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.

The net pension charge was £35m/€57m (1999 £28m/€43m), including a net £1m/€2m (1999 £3m/€5m) SSAP24 credit related to the main UK scheme. The net SSAP24 credit on the main UK scheme comprises a regular cost of £23m/€38m (1999 £16m/€24m), offset by amortisation of the net actuarial surplus of £24m/€40m (1999 £19m/€29m). Pension contributions made in the year amounted to £36m/€59m (1999 £31m/€48m). A prepayment of £128m/€206m (1999 £127m/€204m) 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	2000 £m	1999 £m	2000 €m	1999 €m
Hire of plant and machinery		**12**	12	**20**	18
Other operating lease rentals		**71**	60	**116**	91
Depreciation (including £4m/€7m (1999 £5m/€8m) in respect of assets held under finance leases)		**118**	117	**194**	178
Amortisation of goodwill and intangible assets		**465**	369	**762**	561
Amortisation of goodwill and intangible assets in joint ventures		**3**	4	**6**	6
Total amortisation		**468**	373	**768**	567
Staff costs					
Wages and salaries		**979**	859	**1,606**	1,305
Social security costs		**100**	86	**164**	131
Pensions	4	**35**	28	**57**	43
Total staff costs		**1,114**	973	**1,827**	1,479
Auditors' remuneration					
For audit services		**1.9**	1.6	**3.1**	2.4
For non audit services		**2.6**	1.1	**4.3**	1.7

Included in auditors' remuneration for non audit services is £1.5m/€2.5m (1999 £0.2m/€0.3m) paid to Deloitte & Touche and its associates in the UK.

Information on the remuneration and interests of directors is given in the Remuneration Report on pages 20 to 26, which forms part of these financial statements.

6 Exceptional items

	2000 £m	1999 £m	2000 €m	1999 €m
Reorganisation costs (i)	**(77)**	(161)	**(126)**	(244)
Acquisition related costs (ii)	**(38)**	(28)	**(63)**	(43)
Year 2000 compliance costs	**–**	(50)	**–**	(76)
Charged to operating profit	**(115)**	(239)	**(189)**	(363)
Net profit on sale of fixed asset investments and businesses (iii)	**85**	7	**140**	11
Total exceptional charge	**(30)**	(232)	**(49)**	(352)
Net tax credit (iv)	**20**	15	**33**	23

(i) Reorganisation 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) Acquisition related costs include £27m/€45m in respect of the integration of acquisitions, principally Miller Freeman Europe, CMD Group and Riskwise International, together with £11m/€18m of exceptional costs incurred in respect of the tender offer for Harcourt General, Inc (see note 27).

(iii) The net profit on sale of fixed asset investments and businesses related primarily to Springhouse, KG Saur and REZsolutions, Inc.

(iv) The net tax credit in 1999 is stated after taxes arising on business consolidation in the programme of reorganisation. Also in 1999, potential deferred tax assets of £32m/€49m in respect of the programme of reorganisation were not recognised.

Cash flows in respect of exceptional items were as follows:

	2000 £m	1999 £m	2000 €m	1999 €m
Reorganisation costs	**(76)**	(39)	**(125)**	(59)
Acquisition related costs	**(9)**	(32)	**(15)**	(49)
Year 2000 compliance costs	**(2)**	(47)	**(3)**	(71)
Reed Travel Group customer recompense (provided in 1997)	**(7)**	(20)	**(11)**	(31)
Exceptional operating cash outflow	**(94)**	(138)	**(154)**	(210)
Net proceeds from sale of fixed asset investments and businesses	**153**	3	**251**	5
Total exceptional cash inflow/(outflow)	**59**	(135)	**97**	(205)
Exceptional tax cash inflow	**31**	74	**51**	112

Cash flows in respect of acquisition related costs in 2000 are stated net of proceeds of £26m/€43m from a property disposal.

The exceptional tax cash inflow in 1999 includes £58m/€88m of tax repayments.

7 Net interest expense

	2000 £m	1999 £m	2000 €m	1999 €m
Interest receivable	**26**	32	**43**	49
Interest payable				
Other loans	**(45)**	(46)	**(74)**	(70)
Promissory notes and bank loans	**(83)**	(67)	**(136)**	(102)
Finance leases	**(1)**	(1)	**(2)**	(2)
Total	**(103)**	(82)	**(169)**	(125)
Interest cover (times)	**8**	10	**8**	10

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

	2000 £m	1999 £m	2000 €m	1999 €m
United Kingdom	**66**	62	**108**	94
The Netherlands	**53**	50	**87**	76
Rest of World	**56**	67	**92**	102
Sub-total (including defered tax of £3m/€5m (1999 £16m/€24m))	**175**	179	**287**	272
Share of tax attributable to joint ventures	**4**	3	**7**	5
Tax on ordinary activities before exceptional items	**179**	182	**294**	277
Net tax credit on exceptional items	**(20)**	(15)	**(33)**	(23)
Total	**159**	167	**261**	254

The total tax charge for the year is high as a proportion of profit before tax principally due to non-tax deductible amortisation and the non-recognition of potential deferred tax assets.

9 Ordinary dividends paid and proposed

	2000 £m	1999 £m	2000 €m	1999 €m
Reed International	**123**	116	**202**	177
Elsevier	**122**	118	**200**	179
Total	**245**	234	**402**	356

Dividends comprise the total dividend for Reed International of 10.0p per ordinary share (1999 10.0p) and the total dividend for Elsevier of €0.28 per ordinary share (1999 €0.27).

Dividends paid to Reed International and Elsevier shareholders are equalised at the gross level inclusive of the UK tax credit of 10% received by certain Reed International shareholders. The cost of funding the Reed International dividends is, therefore, similar to or 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 adjusted figures are derived as follows:

	2000 £m	1999 £m	**2000 €m**	1999 €m
Operating profit including joint ventures	**210**	180	**344**	274
Adjustments:				
Amortisation of goodwill and intangible assets	**468**	373	**768**	567
Reorganisation costs	**77**	161	**126**	244
Acquisition related costs	**38**	28	**63**	43
Year 2000 compliance costs	**–**	50	**–**	76
Adjusted operating profit	**793**	792	**1,301**	1,204
Profit before tax	**192**	105	**315**	160
Adjustments:				
Amortisation of goodwill and intangible assets	**468**	373	**768**	567
Reorganisation costs	**77**	161	**126**	244
Acquisition related costs	**38**	28	**63**	43
Year 2000 compliance costs	**–**	50	**–**	76
Net profit on sale of fixed asset investments and businesses	**(85)**	(7)	**(140)**	(11)
Adjusted profit before tax	**690**	710	**1,132**	1,079
Profit/(loss) attributable to parent companies' shareholders	**33**	(63)	**54**	(95)
Adjustments:				
Amortisation of goodwill and intangible assets	**468**	373	**768**	567
Reorganisation costs	**53**	161	**86**	244
Acquisition related costs	**33**	22	**55**	33
Year 2000 compliance costs	**–**	41	**–**	63
Net profit on sale of fixed asset investments and businesses	**(76)**	(7)	**(125)**	(11)
Adjusted profit attributable to parent companies' shareholders	**511**	527	**838**	801
Net cash inflow from operating activities	**813**	760	**1,333**	1,155
Dividends received from joint ventures	**6**	4	**10**	6
Purchase of tangible fixed assets	**(141)**	(137)	**(231)**	(208)
Proceeds from sale of fixed assets	**3**	15	**5**	23
Payments in relation to exceptional items charged to operating profit	**94**	138	**154**	210
Adjusted operating cash flow	**775**	780	**1,271**	1,186

NOTES TO THE COMBINED FINANCIAL STATEMENTS

11 Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Operating profit (before joint ventures)		**197**	177	**323**	269
Exceptional charges to operating profit	6	**115**	239	**189**	363
Operating profit before exceptional items		**312**	416	**512**	632
Amortisation of goodwill and intangible assets		**465**	369	**762**	561
Depreciation		**118**	117	**194**	178
Net SSAP24 pension credit	4	**(1)**	(3)	**(2)**	(5)
Total non cash items		**582**	483	**954**	734
Increase in stocks		**(3)**	(9)	**(5)**	(14)
Increase in debtors		**(110)**	(8)	**(181)**	(12)
Increase in creditors		**126**	16	**207**	25
Movement in working capital		**13**	(1)	**21**	(1)
Net cash inflow from operating activities before exceptional items		**907**	898	**1,487**	1,365
Payments relating to exceptional items charged to operating profit	6	**(94)**	(138)	**(154)**	(210)
Net cash inflow from operating activities		**813**	760	**1,333**	1,155

Acquisitions

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Purchase of businesses and subsidiary undertakings	12	**(848)**	(120)	**(1,391)**	(183)
Net payment of deferred consideration of prior year acquisitions		**(13)**	(5)	**(21)**	(7)
Payments against prior year acquisition provisions		**–**	(1)	**–**	(2)
Investment in joint ventures		**–**	(19)	**–**	(29)
Purchase of fixed asset investments		**(53)**	(22)	**(87)**	(33)
Total		**(914)**	(167)	**(1,499)**	(254)

Exceptional sale of fixed asset investments and businesses

	2000 £m	1999 £m	2000 €m	1999 €m
Goodwill and intangible assets	**35**	6	**57**	9
Net tangible assets (excluding cash of £nil/€nil (1999 £nil/€nil))	**44**	–	**73**	–
	79	6	**130**	9
Net profit	**85**	7	**140**	11
Consideration in respect of sale of fixed asset investments and businesses, net of expenses	**164**	13	**270**	20
Amounts paid in respect of prior year disposals	**–**	(8)	**–**	(12)
	164	5	**270**	8
Amounts receivable	**(11)**	(2)	**(19)**	(3)
Net cash inflow	**153**	3	**251**	5

11 Cash flow statement (continued)

Financing

	2000 £m	1999 £m	**2000 €m**	1999 €m
Net movement in promissory notes and bank loans	**304**	(20)	**499**	(31)
Repayment of other loans	**(155)**	(176)	**(254)**	(268)
Issuance of other loans	**202**	–	**331**	–
Repayment of finance leases	**(4)**	(6)	**(7)**	(9)
	347	(202)	**569**	(308)
Issue of ordinary shares	**1,287**	9	**2,110**	14
Redemption of preference shares	**–**	(4)	**–**	(6)
Total	**1,634**	(197)	**2,679**	(300)

The repayment of other loans relates primarily to US$100m of Private Placements and US$150m of Medium Term Notes which matured in the year. The repayment of other loans in 1999 related primarily to a US$200m Eurobond, Dfl 125m Private Placements and US$20m of Medium Term Notes which matured in the year.

The issuance of other loans relates to a US$300m Swiss Domestic Bond.

Reconciliation of net borrowings

	Cash £m	Short term investments £m	Borrowings £m	**2000 £m**	1999 £m
Net borrowings at 1 January	**79**	**361**	**(1,506)**	**(1,066)**	(962)
Increase in cash	**7**	**–**	**–**	**7**	59
Increase/(decrease) in short term investments	**–**	**1,137**	**–**	**1,137**	(297)
(Increase)/decrease in borrowings	**–**	**–**	**(347)**	**(347)**	202
Change in net borrowings resulting from cash flows	**7**	**1,137**	**(347)**	**797**	(36)
Loans in acquired businesses	**–**	**–**	**(48)**	**(48)**	–
Inception of finance leases	**–**	**–**	**(3)**	**(3)**	(11)
Exchange translation differences	**(1)**	**11**	**(123)**	**(113)**	(57)
Net borrowings at 31 December	**85**	**1,509**	**(2,027)**	**(433)**	(1,066)

	Cash €m	Short term investments €m	Borrowings €m	**2000 €m**	1999 €m
Net borrowings at 1 January	**127**	**581**	**(2,425)**	**(1,717)**	(1,366)
Increase in cash	**11**	**–**	**–**	**11**	90
Increase/(decrease) in short term investments	**–**	**1,865**	**–**	**1,865**	(451)
(Increase)/decrease in borrowings	**–**	**–**	**(569)**	**(569)**	308
Change in net borrowings resulting from cash flows	**11**	**1,865**	**(569)**	**1,307**	(53)
Loans in acquired businesses	**–**	**–**	**(79)**	**(79)**	–
Inception of finance leases	**–**	**–**	**(5)**	**(5)**	(17)
Exchange translation differences	**(1)**	**(17)**	**(185)**	**(203)**	(281)
Net borrowings at 31 December	**137**	**2,429**	**(3,263)**	**(697)**	(1,717)

Net borrowings comprise cash and short term investments, loan capital, finance leases, promissory notes and bank loans and are analysed further in notes 19 to 22.

12 Acquisitions

During the year a number of acquisitions were made for a total consideration amounting to £952m/€1,562m, after taking account of loans of £48m/€79m and net cash acquired of £6m/€10m. The most significant were Miller Freeman Europe for a total consideration of £360m/€585m and the CMD Group for a total consideration of £199m/€326m, subject to additional deferred consideration in 2004 if high performance targets are met.

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, which are provisional pending the completion of fair value assessments in 2001, and the consideration given are set out in the tables below:

	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Goodwill	152	528	680
Intangible fixed assets	9	309	318
Tangible fixed assets	17	(3)	14
Investments	13	–	13
Current assets	68	(5)	63
Current liabilities	(125)	(3)	(128)
Loans	(48)	–	(48)
Current and deferred tax	(8)	–	(8)
Net assets acquired	78	826	904
Consideration (after taking account of £6m net cash acquired)			904
Less: deferred to future years			(56)
Net cash flow			848

	Book value on acquisition €m	Fair value adjustments €m	Fair value €m
Goodwill	249	866	1,115
Intangible fixed assets	15	507	522
Tangible fixed assets	28	(5)	23
Investments	21	–	21
Current assets	112	(8)	104
Current liabilities	(205)	(5)	(210)
Loans	(79)	–	(79)
Current and deferred tax	(13)	–	(13)
Net assets acquired	128	1,355	1,483
Consideration (after taking account of €10m net cash acquired)			1,483
Less: deferred to future years			(92)
Net cash flow			1,391

Before the amortisation of goodwill and intangible assets and exceptional acquisition related costs, the businesses acquired in 2000 contributed £179m/€294m to turnover, £12m/€20m to operating profit and £33m/€54m to net cash inflow from operating activities for the part year under Reed Elsevier ownership.

13 Goodwill and intangible assets

	Goodwill £m	Intangible assets £m	Total £m	Goodwill €m	Intangible assets €m	Total €m
Cost						
At 1 January 2000	2,899	3,081	5,980	4,667	4,961	9,628
Acquisitions	680	318	998	1,115	522	1,637
Sale of businesses	(42)	(74)	(116)	(69)	(121)	(190)
Exchange translation differences	193	183	376	292	286	578
At 31 December 2000	3,730	3,508	7,238	6,005	5,648	11,653
Accumulated amortisation						
At 1 January 2000	1,197	1,383	2,580	1,927	2,227	4,154
Sale of businesses	(39)	(42)	(81)	(64)	(69)	(133)
Charge for the year	255	210	465	418	344	762
Exchange translation differences	65	82	147	99	127	226
At 31 December 2000	1,478	1,633	3,111	2,380	2,629	5,009
Net book amount						
At 1 January 2000	1,702	1,698	3,400	2,740	2,734	5,474
At 31 December 2000	2,252	1,875	4,127	3,625	3,019	6,644

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 2000	170	743	913	274	1,196	1,470
Acquisitions	4	20	24	7	32	39
Capital expenditure	5	139	144	8	228	236
Disposals	(21)	(116)	(137)	(34)	(191)	(225)
Exchange translation differences	10	40	50	15	65	80
At 31 December 2000	168	826	994	270	1,330	1,600
Accumulated depreciation						
At 1 January 2000	45	482	527	72	776	848
Acquisitions	–	10	10	–	16	16
Disposals	–	(104)	(104)	–	(171)	(171)
Charge for the year	7	111	118	11	183	194
Exchange translation differences	4	23	27	7	36	43
At 31 December 2000	56	522	578	90	840	930
Net book amount						
At 1 January 2000	125	261	386	202	420	622
At 31 December 2000	112	304	416	180	490	670

At 31 December 2000 and 1999, all assets were included at cost. No depreciation was provided on freehold land. The net book amount of tangible fixed assets includes £17m/€27m (1999 £18m/€28m) in respect of assets held under finance leases.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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 2000	89	30	119	143	49	192
Share of attributable profit	12	–	12	20	–	20
Amortisation of goodwill and intangible assets	(3)	–	(3)	(6)	–	(6)
Dividends received from joint ventures	(6)	–	(6)	(10)	–	(10)
Acquisitions	12	1	13	20	1	21
Additions	–	53	53	–	87	87
Disposals	(37)	(5)	(42)	(61)	(8)	(69)
Exchange translation differences	5	2	7	10	2	12
At 31 December 2000	72	81	153	116	131	247

The principal joint venture at 31 December 2000 is Giuffrè (an Italian legal publisher in which Reed Elsevier has a 40% shareholding). The cost and net book amount of goodwill and intangible assets in joint ventures were £37m/€60m and £27m/€43m respectively (1999 £74m/€119m and £49m/€79m).

At 31 December 2000, the Reed Elsevier plc Employee Benefit Trust (EBT) held 590,257 (1999 618,790) Reed International ordinary shares and 320,000 (1999 320,000) Elsevier ordinary shares with an aggregate market value at that date of £7.2m/€11.7m (1999 £5.1m/€8.2m). 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 Remuneration Report on pages 20 to 26.

16 Stocks

	2000 £m	1999 £m	**2000 €m**	1999 €m
Raw materials	17	20	27	32
Work in progress	26	29	42	47
Finished goods	71	64	115	104
Total	114	113	184	183

17 Debtors – amounts falling due within one year

	2000 £m	1999 £m	**2000 €m**	1999 €m
Trade debtors	652	530	1,050	853
Amounts owed by joint ventures	3	1	5	2
Other debtors	89	42	143	68
Prepayments and accrued income	116	93	187	149
Total	860	666	1,385	1,072

18 Debtors – amounts falling due after more than one year

	Note	**2000 £m**	1999 £m	**2000 €m**	1999 €m
Trade debtors		1	9	2	14
Pension prepayment	4	128	127	206	204
Prepayments, accrued income and other debtors		35	12	56	20
Total		164	148	264	238

19 Cash and short term investments

	2000 £m	1999 £m	2000 €m	1999 €m
Cash at bank and in hand	**85**	79	**137**	127
Short term investments	**1,509**	361	**2,429**	581
Total	**1,594**	440	**2,566**	708

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.

20 Creditors: amounts falling due within one year

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Borrowings					
Other loans		**4**	158	**6**	254
Promissory notes and bank loans		**1,395**	967	**2,246**	1,559
Obligations under finance leases	23	**5**	4	**8**	5
		1,404	1,129	**2,260**	1,818
Trade creditors		**245**	178	**394**	287
Other creditors		**213**	145	**343**	233
Taxation		**193**	120	**311**	193
Proposed dividends		**177**	127	**285**	204
Accruals and deferred income		**1,147**	977	**1,848**	1,573
Total		**3,379**	2,676	**5,441**	4,308

21 Creditors: amounts falling due after more than one year

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Borrowings					
Other loans repayable:					
Within one to two years		**4**	3	**6**	5
Within two to five years		**205**	81	**330**	130
After five years		**402**	279	**648**	449
Obligations under finance leases	23	**12**	14	**19**	23
		623	377	**1,003**	607
Other creditors		**27**	14	**43**	23
Taxation		**197**	208	**317**	335
Accruals and deferred income		**26**	21	**43**	33
Total		**873**	620	**1,406**	998

22 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 2000 Financial Performance on pages 2 to 15.

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

22 Financial instruments (continued)

Currency and interest rate profile of financial liabilities

The currency and interest rate profile of the aggregate financial liabilities of £2,147m/€3,457m (1999 £1,595m/€2,568m), after taking account of interest rate and cross currency interest rate swaps, is set out below:

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities €m	Fixed rate financial liabilities €m	Fixed rate financial liabilities Weighted average interest rate	Fixed rate financial liabilities Weighted average duration (years)
2000						
US dollar	**890**	**779**	**1,433**	**1,254**	6.8%	8.0
Sterling	**43**	**–**	**69**	**–**	–	–
Euro	**223**	**141**	**359**	**227**	5.6%	6.0
Other currencies	**65**	**6**	**105**	**10**	5.9%	0.7
Total	**1,221**	**926**	**1,966**	**1,491**	6.6%	7.7

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities €m	Fixed rate financial liabilities €m	Fixed rate financial liabilities Weighted average interest rate	Fixed rate financial liabilities 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

Included within fixed rate financial liabilities as at 31 December 2000 are £nil/€nil (1999 £154m/€248m) of US dollar term debt that matures within five months of the year end and £73m/€118m of interest rate swaps denominated principally in US dollars that mature within twelve months of the year end (1999 £106m/€171m denominated principally in euros and maturing within nine months).

Currency and interest rate profile of financial assets

The currency and interest rate profile of the aggregate financial assets of £1,694m/€2,727m (1999 £479m/€771m), 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
2000				
US dollar	**103**	**67**	**166**	**107**
Sterling	**622**	**16**	**1,001**	**26**
Euro	**834**	**1**	**1,343**	**2**
Other currencies	**35**	**3**	**56**	**5**
Total	**1,594**	**87**	**2,566**	**140**

	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

At 31 December 2000, there were fixed rate financial assets of £13m/€21m (1999 £nil/€nil) denominated in US dollars, with a weighted average interest rate of 8.0% and a weighted average duration of 1.3 years.

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 £81m/€130m (1999 £30m/€48m) of investments denominated principally in sterling and US dollars which have no maturity date.

22 Financial instruments (continued)

Forward rate agreements are used principally to fix the interest expense on short term borrowings.

At 31 December 2000, agreements totalling £1,767m/€2,845m (1999 £387m/€623m) were in place to enter into interest rate swaps and interest rate options at future dates. Of these, individual agreements totalling £946m/€1,523m (1999 £247m/€398m) were to fix the interest expense on US dollar borrowings commencing in 2001 and 2002 for periods of between two and ten years, at a weighted average interest rate of 6.8% In addition, interest rate options totalling £671m/€1,080m (1999 £nil/€nil) and starting in 2001 were to fix the interest expense on US dollar borrowings for periods of three to five years, at rates of between 5.7% and 6.7%. The other agreements totalling £150m/€242m (1999 £140m/€225m) were to fix the interest income on sterling short term investments commencing in 2001 for a period of four months at a weighted average interest rate of 7.2%.

Maturity profile of financial liabilities

The maturity profile of financial liabilities at 31 December comprised:

	2000 £m	1999 £m	**2000 €m**	1999 €m
Repayable:				
Within one year	**1,426**	1,131	**2,296**	1,821
Within one to two years	**54**	23	**87**	37
Within two to five years	**237**	112	**382**	180
After five years	**430**	329	**692**	530
Total	**2,147**	1,595	**3,457**	2,568

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 2000, a total of £4,497m/€7,240m (1999 £617m/€993m) of undrawn committed facilities were available, of which £2,389m/€3,846m (1999 £222m/€357m) matures within one year and £2,108m/€3,394m within two to three years (1999 £395m/€636m within two to five years). Included within this amount is £3,154m/€5,078m of committed facilities arranged in anticipation of the Harcourt acquisition (see note 27). Secured borrowings under finance leases were £17m/€27m (1999 £18m/€28m).

Currency exposure

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.

Fair values of financial assets and liabilities

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

			2000			1999
	Notional amount £m	**Book value £m**	**Fair value £m**	Notional amount £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance operations						
Investments		**81**	**81**		30	30
Cash		**85**	**85**		79	79
Short term investments		**1,509**	**1,512**		361	361
Other financial assets		**19**	**19**		9	9
Short term borrowings and current portion of long term borrowings		**(1,404)**	**(1,398)**		(1,129)	(1,123)
Long term borrowings		**(623)**	**(614)**		(377)	(363)
Other financial liabilities		**(34)**	**(34)**		(23)	(23)
Provisions		**(86)**	**(86)**		(66)	(66)
		(453)	**(435)**		(1,116)	(1,096)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	**1,612**	**(1)**	**(49)**	854	–	14
Interest rate options	**671**	**–**	**(17)**	–	–	–
Forward rate agreements	**885**	**–**	**(1)**	450	–	–
Forward foreign exchange contracts	**1,776**	**–**	**(38)**	486	–	(7)
Foreign exchange options	**50**	**–**	**(1)**	–	–	–
	4,994	**(1)**	**(106)**	1,790	–	7
Total financial instruments	**4,994**	**(454)**	**(541)**	1,790	(1,116)	(1,089)

22 Financial instruments (continued)

	2000			1999		
	Notional amount €m	Book value €m	Fair value €m	Notional amount €m	Book value €m	Fair value €m
Primary financial instruments held or issued to finance operations						
Investments		130	130		48	48
Cash		137	137		127	127
Short term investments		2,429	2,434		581	581
Other financial assets		31	31		14	14
Short term borrowings and current portion of long term borrowings		(2,260)	(2,251)		(1,818)	(1,808)
Long term borrowings		(1,003)	(987)		(607)	(585)
Other financial liabilities		(55)	(55)		(36)	(36)
Provisions		(139)	(139)		(106)	(106)
		(730)	(700)		(1,797)	(1,765)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	2,595	(2)	(79)	1,375	–	23
Interest rate options	1,080	–	(27)	–	–	–
Forward rate agreements	1,425	–	(2)	725	–	–
Forward foreign exchange contracts	2,859	–	(61)	782	–	(12)
Forward foreign exchange options	81	–	(2)	–	–	–
	8,040	(2)	(171)	2,882	–	11
Total financial instruments	8,040	(732)	(871)	2,882	(1,797)	(1,754)

The amounts shown as the book value of derivative financial instruments represent accruals or deferred income arising from these financial instruments. For certain instruments, including cash and investments, it has been assumed that the carrying amount approximates fair value because of the short maturity of these instruments. The fair value of long term debt has been based on current market rates offered to Reed Elsevier for debt of the same remaining maturities. The fair values for interest rate swaps, interest rate options and forward rate agreements represent the replacement cost calculated using market rates of interest at 31 December 2000 and 1999. The fair values of all other items have been calculated by discounting expected future cash flows at market rates.

Hedges

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

	Unrecognised		Deferred	
	Gains £m	Losses £m	Gains £m	Losses £m
On hedges at 1 January 2000	22	(15)	–	(18)
Arising in previous years included in 2000 profit and loss account	(21)	15	–	8
Arising in previous years not included in 2000 profit and loss account	1	–	–	(10)
Arising in 2000 not included in 2000 profit and loss account	1	(108)	17	(14)
On hedges at 31 December 2000	2	(108)	17	(24)
Of which:				
Expected to be included in 2001 profit and loss account	1	(40)	6	(12)
Expected to be included in 2002 profit and loss account or later	1	(68)	11	(12)

	Unrecognised		Deferred	
	Gains €m	Losses €m	Gains €m	Losses €m
On hedges at 1 January 2000	35	(24)	–	(29)
Arising in previous years included in 2000 profit and loss account	(33)	24	–	13
Arising in previous years not included in 2000 profit and loss account	2	–	–	(16)
Arising in 2000 not included in 2000 profit and loss account	1	(174)	27	(23)
On hedges at 31 December 2000	3	(174)	27	(39)
Of which:				
Expected to be included in 2001 profit and loss account	2	(64)	10	(19)
Expected to be included in 2002 profit and loss account or later	1	(110)	17	(20)

23 Obligations under leases

Future finance lease obligations are:

	Note	2000 £m	1999 £m	2000 €m	1999 €m
Repayable:					
Within one year		**6**	5	**10**	8
Within one to two years		**4**	4	**6**	6
Within two to five years		**1**	4	**2**	6
After five years		**11**	10	**18**	16
Less: interest charges allocated to future periods		**(5)**	(5)	**(9)**	(8)
Total		**17**	18	**27**	28
Obligations falling due within one year	20	**5**	4	**8**	5
Obligations falling due after more than one year	21	**12**	14	**19**	23
Total		**17**	18	**27**	28

Annual commitments under operating leases are:

	2000 £m	1999 £m	2000 €m	1999 €m
On leases expiring:				
Within one year	**4**	4	**6**	6
Within two to five years	**31**	26	**50**	42
After five years	**38**	36	**62**	58
Total	**73**	66	**118**	106

Of the above annual commitments, £71m/€115m relates to land and buildings (1999 £62m/€100m) and £2m/€3m to other leases (1999 £4m/€6m).

24 Provisions for liabilities and charges

	Surplus property £m	Deferred taxation £m	Other £m	Total £m
At 1 January 2000	64	36	13	113
Acquisitions	–	(2)	–	(2)
Transfers	–	7	–	7
Provided	16	(5)	1	12
Utilised	(1)	–	(7)	(8)
Exchange translation differences	5	1	–	6
At 31 December 2000	84	37	7	128

	Surplus property €m	Deferred taxation €m	Other €m	Total €m
At 1 January 2000	103	58	21	182
Acquisitions	–	(3)	–	(3)
Transfers	–	11	–	11
Provided	26	(8)	2	20
Utilised	(2)	–	(11)	(13)
Exchange translation differences	8	2	(1)	9
At 31 December 2000	135	60	11	206

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.

Deferred taxation is analysed as follows:

	2000 £m	1999 £m	**2000 €m**	1999 €m
Deferred taxation liabilities				
Pension prepayment	37	36	60	58
Revaluation gains	42	33	67	53
	79	69	127	111
Deferred taxation assets				
Excess of amortisation over related tax allowances	(8)	(9)	(13)	(14)
Acquisition related provisions	(34)	(24)	(54)	(39)
	(42)	(33)	(67)	(53)
Total	37	36	60	58

25 Contingent liabilities

There are contingent liabilities amounting to £10m/€16m (1999 £23m/€37m) in respect of borrowings of former subsidiaries.

26 Combined shareholders' funds

	Combined share capitals £m	Combined share premium accounts £m	Combined reserves £m	Total £m
At 1 January 2000	168	341	1,346	1,855
Profit attributable to parent companies' shareholders	–	–	33	33
Ordinary dividends paid and proposed	–	–	(245)	(245)
Issue of ordinary shares, net of expenses	17	1,268	–	1,285
Exchange translation differences	–	12	101	113
At 31 December 2000	185	1,621	1,235	3,041

	Combined share capitals €m	Combined share premium accounts €m	Combined reserves €m	Total €m
At 1 January 2000	270	549	2,168	2,987
Profit attributable to parent companies' shareholders	–	–	54	54
Ordinary dividends paid and proposed	–	–	(402)	(402)
Issue of ordinary shares, net of expenses	28	2,079	–	2,107
Exchange translation differences	–	(18)	168	150
At 31 December 2000	298	2,610	1,988	4,896

On 5 December 2000, following a joint international offering, Reed International issued 113,700,000 new 12.5 pence ordinary shares at 625 pence each and Elsevier issued 66,255,000 new €0.06 ordinary shares at €14.50 each. The purpose of the offering was to finance the proposed acquisition by Reed Elsevier of the Scientific, Technical and Medical business and the Schools Education and Testing businesses of Harcourt General, Inc. (see note 27).

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

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

27 Harcourt acquisition

On 8 November 2000, Reed Elsevier plc group launched, through a US subsidiary, Reed Elsevier Inc., a tender offer for the common stock and Series A cumulative convertible stock of Harcourt General, Inc. ('Harcourt'). The offer was unanimously recommended by the Harcourt board. The Smith family, which owns approximately 28% of the common stock of Harcourt, have undertaken to tender all their shares in the tender offer and to support the offer.

Reed Elsevier Inc. has also signed a definitive agreement with The Thomson Corporation to on-sell the Harcourt Higher Education business and the Corporate and Professional Services businesses, other than educational and clinical testing.

Following completion of the offer and the on-sale of businesses, Reed Elsevier plc will have acquired Harcourt's Scientific, Technical and Medical business and its Schools Education and Testing businesses for a net cost of approximately US$4.5 billion after taking into account Harcourt's net debt, taxes payable on the on-sale proceeds and the assumption of other corporate liabilities. In the year to 31 October 2000, these businesses had sales of US$1.7 billion and net assets of US$1.1 billion (including US$0.7 billion of goodwill and intangible assets) before corporate net debt of US$1.2 billion.

The acquisition and the on-sale to Thomson are subject to customary regulatory approvals, which may require some divestment of assets.

28 Exchange rates

The following exchange rates have been applied in preparing the combined financial statements:

	Profit and loss		Balance Sheet	
	2000	1999	**2000**	1999
Euro to sterling	**1.64**	1.52	**1.61**	1.61
US dollars to sterling	**1.51**	1.62	**1.49**	1.62
Euro to US dollars	**1.09**	0.94	**1.08**	0.99
US dollars to euro	**0.92**	1.07	**0.93**	1.01

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 28 to 53, which have been prepared under the accounting policies set out on pages 28 and 29.

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 19, preparation of the financial statements of the combined businesses, which are required to be prepared in accordance with applicable United Kingdom and Dutch accounting standards. 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 2000, and of their profits for the year then ended.

Deloitte & Touche
Chartered Accountants and
Registered Auditors
London
21 February 2001

Deloitte & Touche
Accountants
Amsterdam
21 February 2001

Reed International P.L.C.

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

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED 31 DECEMBER

	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
PROFIT AND LOSS ACCOUNT					
Adjusted profit before tax	426	435	409	376	**365**
Adjusted profit attributable to shareholders	319	322	302	279	**270**
Profit before tax	306	45	552	57	**102**
Profit/(loss) attributable to shareholders	194	(7)	408	(33)	**17**
PER SHARE INFORMATION					
Adjusted earnings per ordinary share	28.1p	28.3p	26.4p	24.4p	**23.3p**
Net dividend per ordinary share	13.60p	14.60p	15.00p	10.00p	**10.00p**
Dividend cover	1.9	1.8	1.7	2.4	**2.1**
Earnings/(loss) per ordinary share	17.1p	(0.6)p	35.7p	(2.9)p	**1.5p**
Ordinary share prices – high	605p	648p	716p	630p	**700p**
– low	491p	507p	428p	344p	**391p**
Market capitalisation (£m)	6,257	6,956	5,379	5,310	**8,837**

(i) All amounts presented are based on the 52.9% share of Reed Elsevier combined profits attributable to the Reed International shareholders (see note 9 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 profit and basic earnings per share for the year ended 31 December 2000 are £96m, £11m and 1.0p 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, 1996 and 1997 have been restated to include retrospective amortisation of goodwill and intangible assets on the introduction of FRS10: Goodwill and Intangible Assets in 1998.

(iv) The earnings per ordinary share and dividend per ordinary share for the year ended 31 December 1996 have been restated to take into account the 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 2000.

As a consequence of the merger of the company's businesses with those of Elsevier, described on page 16, 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 54, 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 39% 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 indirect equity interest in Elsevier. Reed International and Elsevier have retained their separate legal identities and are publicly held companies with separate stock exchange listings in Amsterdam, London 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 a gross 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 normally 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 2000 was £6m (1999 £6m).

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 2000 and 1999 results were significantly impacted by the company's share of amortisation of goodwill and intangible assets and exceptional items of Reed Elsevier plc. The share of operating profits was £106m, up from £91m in 1999, reflecting reduced exceptional items offset by higher amortisation. The share of operating exceptional items comprised reorganisation costs of £40m (1999 £85m) and acquisition related costs of £20m (1999 £15m). Share of operating exceptional items in 1999 included £26m in respect of Year 2000 compliance costs. The profit for the year also included the share of profits on sale of fixed asset investments and businesses of £45m (1999 £4m). The reported attributable profit for Reed International was £11m (1999 £39m loss). The adjusted profit attributable to shareholders – before exceptional items and the amortisation of goodwill and intangible assets – was £270m (1999 £279m).

Adjusted earnings per share decreased by 5% to 23.3p (1999 24.4p). Including the effect of the tax credit equalisation as well as the amortisation of goodwill and intangible assets and exceptional items, the basic earnings per share was 1.0p (1999 3.4p loss).

Balance sheet

The balance sheet of Reed International reflects the shareholders' 52.9% economic interest in net assets of Reed Elsevier, which at 31 December 2000 amounted to £1,609m (1999 £981m). The £628m increase in net assets principally reflects the net proceeds of £694m from the joint international share offering with Elsevier, less 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 6.9p per ordinary share to be paid on 14 May 2001 to shareholders on the Register on 20 April 2001 which, when added to the interim dividend already paid on 18 September 2000 amounting to 3.1p per ordinary share, makes the total dividend for the year 10.0p (1999 10.0p).

The total dividend on the ordinary shares for the financial year will amount to £123m (1999 £116m), leaving a retained loss of £112m (1999 £155m).

Directors

The following served as directors during the year:

MH Armour
JF Brock
CHL Davis
DJ Haank
RJ Nelissen
S Perrick
A Prozes (appointed 7 August 2000)
RWH Stomberg
M Tabaksblat
G J A van de Aast (appointed 6 December 2000)
DGC Webster

Brief biographical details of the directors at the date of this Report are given on page 5 of the Annual Review and Summary Financial Statements.

Messrs Prozes and van de Aast, having been appointed since the last Annual General Meeting, will retire at the forthcoming Annual General Meeting. Messrs Tabaksblat, Stomberg and Perrick 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 Prozes and van de Aast are set out in the Remuneration Report on page 21. Messrs Tabaksblat, Stomberg and Perrick 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 Remuneration Report on pages 20 to 26.

Share capital

During the period 3,119,645 ordinary shares in the company were issued in connection with the following share option schemes:

824,500 under a UK SAYE share option scheme at prices between 320.6p and 499.2p per share.
2,295,145 under executive share option schemes at prices between 188.75p and 585.25p per share.

In December 2000, 113,700,000 ordinary shares in the company were issued as a result of a joint international offering by Reed International and Elsevier. The purpose of the offering was to finance the proposed acquisition by Reed Elsevier of the Scientific, Technical and Medical business and the Schools Education and Testing businesses of Harcourt General, Inc.

At 20 February 2001, the company had received notification of the following substantial interests in the company's issued ordinary share capital:

Lord Hamlyn	43,302,816 shares	3.43%
Prudential Corporation	63,010,273 shares	4.99%

At the 2000 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 2000, this authority remained unutilised. A resolution to further extend the authority is to be put to the 2001 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 £29,000 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 Financial Services Authority. Details of how the provisions of the Combined Code have been applied and the directors' statement on internal control are set out in the Structure and Corporate Governance report on pages 16 to 19.

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
SJ Cowden
Secretary
21 February 2001

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 16.

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 28 and 29.

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 subsidiaries. Joint ventures are accounted for using the gross equity method.

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. 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.

Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term. Deferred taxation balances are not discounted.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 £m	1999 £m
Turnover			
Including share of turnover of joint ventures		**1,994**	1,793
Less: share of turnover of joint ventures		**(1,994)**	(1,793)
		–	–
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**	414
Amortisation of goodwill and intangible assets		**(248)**	(197)
Exceptional items		**(60)**	(126)
		106	91
Operating profit including joint ventures		**105**	90
Share of non operating exceptional items of joint ventures	1	**45**	4
		45	4
Net interest			
Group	6	**5**	3
Share of net interest of joint ventures		**(59)**	(46)
		(54)	(43)
Profit on ordinary activities before taxation		**96**	51
Tax on profit on ordinary activities	7	**(85)**	(90)
UK corporation tax		**(2)**	5
Share of tax of joint ventures		**(83)**	(95)
Profit/(loss) attributable to ordinary shareholders		**11**	(39)
Ordinary dividends paid and proposed	8	**(123)**	(116)
Retained loss taken to reserves		**(112)**	(155)

ADJUSTED FIGURES

	Note	2000 £m	1999 £m
Profit before tax	9	**365**	376
Profit attributable to ordinary shareholders	9	**270**	279

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	2000 pence	1999 pence
Basic EPS	10	**1.0**	(3.4)
Diluted EPS	10	**1.0**	(3.4)
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses	10	**1.5**	(2.9)
Adjusted EPS	10	**23.3**	24.4

The above amounts derive from continuing activities.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 £m	1999 £m
Net cash outflow from operating activities	11	**(1)**	(2)
Dividends received from Reed Elsevier plc		**97**	172
Interest received		**4**	3
Returns on investments and servicing of finance		**4**	3
Taxation		**(1)**	7
Ordinary dividends paid		**(98)**	(173)
Cash inflow before changes in short term investments and financing		**1**	7
(Increase)/decrease in short term investments	11	**(431)**	2
Issue of ordinary shares		**709**	–
Increase in net funding balances to Reed Elsevier plc group	11	**(279)**	(9)
Financing		**430**	(9)
Change in net cash		**–**	–

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 £m	1999 £m
Profit/(loss) attributable to ordinary shareholders	**11**	(39)
Exchange translation differences	**60**	9
Total recognised gains and losses for the year	**71**	(30)

Recognised gains and losses include gains of £75m (1999 losses of £37m) in respect of joint ventures.

RECONCILIATION OF SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2000

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit/(loss) attributable to ordinary shareholders	**11**	(39)	**95**	179
Ordinary dividends paid and proposed	**(123)**	(116)	**(123)**	(116)
Issue of ordinary shares, net of expenses	**708**	4	**708**	4
Redemption of preference shares	**–**	(4)	**–**	(4)
Exchange translation differences	**60**	–	**–**	–
Equalisation adjustments	**(28)**	9	**4**	–
Net increase/(decrease) in shareholders' funds	**628**	(146)	**684**	63
Shareholders' funds at 1 January	**981**	1,127	**1,051**	988
Shareholders' funds at 31 December	**1,609**	981	**1,735**	1,051

BALANCE SHEETS

AS AT 31 DECEMBER 2000	Note	Consolidated 2000 £m	Consolidated 1999 £m	Company 2000 £m	Company 1999 £m
Fixed assets					
Investment in joint ventures:	12				
Share of gross assets		**3,534**	2,825	**–**	–
Share of gross liabilities		**(2,733)**	(1,968)	**–**	–
Share of net assets		**801**	857	**–**	–
Investments	13	**–**	–	**1,005**	1,005
		801	857	**1,005**	1,005
Current assets					
Debtors	14	**513**	233	**513**	233
Short term investments		**431**	–	**431**	–
		944	233	**944**	233
Creditors: amounts falling due within one year	15	**(100)**	(73)	**(178)**	(151)
Net current assets		**844**	160	**766**	82
Total assets less current liabilities		**1,645**	1,017	**1,771**	1,087
Creditors: amounts falling due after more than one year	16	**(36)**	(36)	**(36)**	(36)
Net assets		**1,609**	981	**1,735**	1,051
Capital and reserves					
Called up share capital	17	**158**	143	**158**	143
Share premium account	19	**926**	233	**926**	233
Capital redemption reserve	19	**4**	4	**4**	4
Profit and loss reserve	19	**521**	601	**647**	671
Shareholders' funds		**1,609**	981	**1,735**	1,051

The financial statements were approved by the Board of Directors, 21 February 2001.

M Tabaksblat
Chairman

MH Armour
Chief Financial Officer

1 Income from interests in joint ventures

	Note	2000 £m	1999 £m
Share of operating profit before amortisation and exceptional items			
(based on 52.9% economic interest in the Reed Elsevier combined businesses)		**419**	419
Effect of tax credit equalisation on distributed earnings	2	**(6)**	(6)
Items consolidated within Reed International group		**1**	1
		414	414
Share of non operating exceptional items			
Reed Elsevier combined results (52.9%)		**45**	4
Items consolidated within Reed International group		**–**	–
		45	4

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

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 60.

3 Operating loss

The operating loss comprises administrative expenses and includes £255,000 (1999 £510,000) paid in the year to Reed Elsevier plc under a contract for the services of directors and administrative support. The company has no employees (1999 nil).

4 Auditors' remuneration

Audit fees payable for the group were £22,000 (1999 £21,000). Non audit fees payable by the company to its auditors in connection with the share offering were £350,000 (1999 £nil).

5 Directors' emoluments

Information on directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Remuneration Report on pages 20 to 26 and forms part of these financial statements.

6 Net interest

	2000 £m	1999 £m
Interest payable and similar charges		
On loans from Reed Elsevier plc group	**–**	(4)
Interest receivable and similar income		
On short term investments	**2**	–
On loans to Reed Elsevier plc group	**3**	7
Net interest income	**5**	3

7 Tax on profit on ordinary activities

	2000 £m	1999 £m
UK corporation tax	2	(5)
Share of tax arising in joint ventures:		
Before amortisation and exceptional items	94	103
On amortisation and exceptional items	(11)	(8)
Total	85	90

UK corporation tax has been provided at 30.00% (1999 30.25%).

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 and the non-recognition of potential deferred tax assets.

8 Dividends

	2000 pence	1999 pence	2000 £m	1999 £m
Ordinary shares of 12.5 pence each				
Interim	3.10	4.60	35	53
Final (2000 proposed)	6.90	5.40	88	63
Total	10.00	10.00	123	116

9 Adjusted figures

	2000 £m	1999 £m
Profit before tax	96	51
Effect of tax credit equalisation on distributed earnings	6	6
Profit before tax based on 52.9% economic interest in the Reed Elsevier combined businesses	102	57
Adjustments:		
Amortisation of goodwill and intangible assets	248	197
Exceptional items	15	122
Adjusted profit before tax	365	376
Profit/(loss) attributable to ordinary shareholders	11	(39)
Effect of tax credit equalisation on distributed earnings	6	6
Profit/(loss) attributable to ordinary shareholders based on 52.9% economic interest in the Reed Elsevier combined businesses	17	(33)
Adjustments:		
Amortisation of goodwill and intangible assets	248	197
Exceptional items	5	115
Adjusted profit attributable to ordinary shareholders	270	279

	2000 pence	1999 pence
Basic earnings/(loss) per ordinary share	1.0	(3.4)
Effect of tax credit equalisation on distributed earnings	0.5	0.5
Earnings/(loss) per share based on 52.9% economic interest in the Reed Elsevier combined businesses	1.5	(2.9)
Adjustments:		
Amortisation of goodwill and intangible assets	21.4	17.2
Exceptional items	0.4	10.1
Adjusted earnings per ordinary share	23.3	24.4

10 Earnings per ordinary share (EPS)

	Note	2000 Earnings £m	2000 Weighted average number of shares (millions)	2000 EPS pence
Basic EPS		**11**	**1,156.4**	**1.0**
Diluted EPS		**11**	**1,161.2**	**1.0**
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses		**17**	**1,156.4**	**1.5**
Adjusted EPS	9	**270**	**1,156.4**	**23.3**

	Note	1999 Earnings £m	1999 Weighted average number of shares (millions)	1999 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	9	279	1,145.1	24.4

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

11 Cash flow statement

Reconciliation of operating profit to net cash flow from operating activities

	2000 £m	1999 £m
Operating loss	**(1)**	(1)
Net movement in debtors and creditors	**–**	(1)
Net cash outflow from operating activities	**(1)**	(2)

Reconciliation of net borrowings

	Short term investments £m	Net funding balances to Reed Elsevier plc group £m	Total £m
At 1 January 2000	–	197	197
Cash flow	**431**	**279**	**710**
At 31 December 2000	**431**	**476**	**907**

12 Fixed asset investments – consolidated

Investment in joint ventures

	2000 £m	1999 £m
Share of operating profit	106	91
Share of non operating exceptional items	45	4
Share of net interest payable	(59)	(46)
Share of profit before tax	92	49
Share of taxation	(83)	(95)
Share of profit/(loss) after tax	9	(46)
Dividends received	(97)	(172)
Exchange translation differences	60	9
Equalisation adjustments	(28)	–
Net movement in the year	(56)	(209)
At 1 January	857	1,066
At 31 December	801	857

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

	2000 £m	1999 £m
Fixed assets	2,484	2,066
Current assets	1,050	759
Creditors: amounts falling due within one year	(2,200)	(1,576)
Creditors: amounts falling due after more than one year	(462)	(328)
Provisions	(68)	(60)
Minority interests	(3)	(4)
Total	801	857

Included within share of current assets and creditors are cash and short term investments of £412m (1999 £233m) and borrowings of £1,072m (1999 £797m) respectively.

13 Fixed asset investments – company

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost and net book amount – 2000 and 1999	244	761	1,005

14 Debtors

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts owed by Reed Elsevier plc group	512	233	512	233
Other debtors	1	–	1	–
Total	513	233	513	233

Amounts falling due after more than one year are £40m (1999 £40m). These amounts are denominated in sterling and earn interest at a fixed rate of 9.8% (1999 9.8%) for a duration of seven years (1999 eight years). At 31 December 2000 these amounts had a fair value of £49m (1999 £44m).

15 Creditors: amounts falling due within one year

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Other creditors	2	1	2	1
Proposed dividend	88	63	88	63
Taxation	10	9	10	9
Amounts owed to group undertakings	–	–	78	78
Total	100	73	178	151

16 Creditors: amounts falling due after more than one year

	Consolidated		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Amounts owed to Reed Elsevier plc group	**36**	36	**36**	36

These amounts are denominated in sterling and earn interest at a fixed rate of 10.5% (1999 10.5%) for a duration of five years (1999 six years). At 31 December 2000 these amounts had a fair value of £43m (1999 £44m).

17 Called up share capital

	Authorised		Issued and fully paid			
			2000		1999	
	No. shares	£ million	**No. shares**	**£ million**	No. shares	£ million
Ordinary shares of 12.5p each	1,262,450,655	158	**1,262,450,655**	**158**	1,145,631,010	143
Unclassified shares of 12.5p each	209,002,521	26	**–**	**–**	–	–
Total		184		**158**		143

On 5 December 2000, the company issued 113,700,000 new 12.5 pence ordinary shares at 625 pence each following a joint international offering by Reed International and Elsevier. The purpose of the offering was to finance the proposed acquisition by Reed Elsevier of the Scientific, Technical and Medical business and the Schools Education and Testing businesses of Harcourt General, Inc. The nominal value of the shares issued by the company was £14.2m and the net proceeds were £694m.

Details of shares issued under share option schemes are set out in note 18.

18 Share option schemes

During the year a total of 3,119,645 ordinary shares in the company, having a nominal value of £0.4m, were allotted in connection with the exercise of share options. The consideration received by the company was £13.4m. Options were granted during the year under the Reed Elsevier plc Executive Share Option Scheme and the Reed Elsevier plc Senior Executive Long Term Incentive Scheme to subscribe for 3,401,931 and 14,370,866 ordinary shares, respectively, at prices between 436.5p and 700p per share. Options were also granted during the year under the Reed Elsevier plc SAYE Share Option Scheme to subscribe for 2,542,410 ordinary shares at a price of 336.2p per share. Options to subscribe for 2,244,137 ordinary shares in the company lapsed.

Options outstanding at 31 December 2000 over the company's ordinary share capital were:

	Number of ordinary shares	Range of subscription prices	Exercisable
UK and overseas executive share option schemes	23,725,375	208.75p – 700p	2001-2010
Senior Executive Long Term Incentive Scheme	14,370,866	436.50p – 700p	2005
UK SAYE share option scheme	4,374,895	320.60p – 499.20p	2001-2006

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 601,071 nil cost options granted to certain directors and senior executives of Reed Elsevier plc, details of which are shown in the Remuneration Report on pages 20 to 26, and 2,514,405 options granted at subscription prices ranging between 424p and 677.25p.

19 Reserves

	Consolidated			
	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2000	**233**	**4**	**601**	**838**
Issue of ordinary shares, net of expenses	**693**	**–**	**–**	**693**
Profit attributable to ordinary shareholders	**–**	**–**	**11**	**11**
Ordinary dividends paid and proposed	**–**	**–**	**(123)**	**(123)**
Exchange translation differences	**–**	**–**	**60**	**60**
Equalisation adjustments	**–**	**–**	**(28)**	**(28)**
At 31 December 2000	**926**	**4**	**521**	**1,451**

Equalisation adjustments relate to equity accounting effects in respect of the proceeds of the joint international offering (see note 17).

19 Reserves (continued)

	Company			
	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2000	233	4	671	908
Issue of ordinary shares, net of expenses	693	–	–	693
Profit attributable to ordinary shareholders	–	–	99	99
Ordinary dividends paid and proposed	–	–	(123)	(123)
At 31 December 2000	926	4	647	1,577

Reed International's share of the revenue reserves of the Reed Elsevier combined businesses is £651m (1999 £710m).

20 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:

	2000 £m	1999 £m
Guaranteed jointly and severally with Elsevier	1,827	1,431
Guaranteed solely by Reed International	–	1

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 22 to the Reed Elsevier combined financial statements on pages 47 to 50.

21 Capital commitments

Details of the capital commitments of the company's joint ventures are disclosed in note 27 to the Reed Elsevier combined financial statements on page 53.

22 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, educational 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,	154 ordinary 'E' shares	–
1061 AG Amsterdam		
Holding company for financing businesses	Equivalent to a 39% equity interest	

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

23 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. Subject to renewal of the authority to allot shares at the forthcoming Annual General Meeting, the boards of Elsevier intend to allot an additional 629,298 R-shares to Reed Holding BV so as to maintain Reed International's 5.8% indirect equity interest in Elsevier (5.2% at 31 December 2000 following the joint international offering by Reed International and Elsevier).

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 60 to 69 which have been prepared under the accounting policies set out on page 60.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 59, preparation of 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 Financial Services Authority, 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 59 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, 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 2000 and the profit 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
21 February 2001

SHAREHOLDER INFORMATION

Analyses of ordinary shareholders

Ordinary shareholders	Holders 31 Dec 2000	% held 31 Dec 2000	Shares held 31 Dec 2000	% held 31 Dec 2000
Individuals	24,470	71.36	74,880,498	5.93
Institutions and companies*	9,820	28.64	1,187,570,157	94.07
Totals	34,290	100.00	1,262,450,655	100.00

*Nominees have been included under institutions and companies.

Ordinary shareholdings	Holders 31 Dec 2000	% held 31 Dec 2000	Shares held 31 Dec 2000	% held 31 Dec 2000
1-1,000	15,153	44.19	8,024,368	0.63
1,001-10,000	16,743	48.83	46,661,348	3.70
10,001-100,000	1,532	4.47	46,857,776	3.71
100,001-1,000,000	675	1.97	213,720,474	16.93
1,000,001-10,000,000	165	0.48	427,981,927	33.90
Over 10,000,000	22	0.06	519,204,762	41.13
Totals	34,290	100.00	1,262,450,655	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-uk.computershare.com/investor**.

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 2001 is shown on page 35 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.reedelsevier.com**, through the CEEFAX and ORACLE service and also from national newspapers.

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 €m, unless otherwise indicated)	1996	1997	1998	1999	**2000**
PROFIT					
Adjusted profit attributable	360	440	425	401	**419**
PER SHARE INFORMATION (in €)					
Adjusted EPS	0.51	0.62	0.60	0.57	**0.59**
Cash dividend per ordinary share	0.34	0.43	0.39	0.27	**0.28**
Pay-out	67%	69%	66%	47%	**47%**
Share price, high	13.79	17.88	17.83	15.25	**16.07**
Share price, low	9.67	12.03	9.94	8.95	**9.30**
Share price, closing	13.25	14.88	11.93	11.86	**15.66**
OTHER DATA					
Average number of shares outstanding (in millions)	704	707	708	708	**715**
Number of shares outstanding at year end (in millions)	706	707	708	709	**776**
Market capitalisation	9,355	10,526	8,447	8,409	**12,152**
Price/earnings ratio	26	24	20	21	**27**

(i) Financial information for 1996 to 1998 has been calculated on the basis of the official exchange rate of Dfl 2.20371 to one euro. Percentage changes and financial ratios have been calculated using historic 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 Stockmarket of Euronext Amsterdam N.V. for ordinary shares.

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

(vii) The number of shares outstanding at year end include the R-shares, assuming that they have been converted into ten ordinary shares. A further 629,298 R-shares, equivalent to 6,292,980 ordinary shares on conversion, are intended to be allotted to Reed International so as to maintain its 5.8% indirect equity interest in Elsevier following the joint international share offering (see note 9 to the financial statements).

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

BOARDS

Supervisory Board
M Tabaksblat, Chairman
GJ de Boer-Kruyt
JF Brock
O ter Haar
RJ Nelissen
S Perrick
RWH Stomberg
DGC Webster

Executive Board
CHL Davis, Chairman
MH Armour
DJ Haank

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 2000 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 2000 and the Reed Elsevier Annual Reports and Financial Statements 2000. These reports explain the business results of 2000, the financial state of the company at the end of 2000, and the key strategic issues.

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 2000 Financial Performance on page 15.

The Supervisory Board
21 February 2001

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 2000 and the Reed Elsevier Annual Reports and Financial Statements 2000. These reports explain the business results of 2000, the financial state of the company at the end of 2000, and the key strategic issues.

The share of profits attributable to the shareholders of Elsevier was €27m/Dfl 60m (1999 €48m/Dfl 106m loss). Net assets at 31 December 2000, largely representing the investments in Reed Elsevier plc and Elsevier Reed Finance BV, were €2,448m/Dfl 5,395m (1999 €1,493m/Dfl 3,290m).

The Executive Board
21 February 2001

Registered office
Van de Sande Bakhuyzenstraat 4
1061 AG Amsterdam

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 €m	1999 €m
Turnover			
Including share of turnover of joint ventures		**3,091**	2,577
Less: share of turnover of joint ventures		**(3,091)**	(2,577)
		–	–
Administrative expenses		**(3)**	(5)
Operating loss (before joint ventures)	1	**(3)**	(5)
Share of operating profit of joint ventures			
Before amortisation and exceptional items		**654**	608
Amortisation of goodwill and intangible assets		**(384)**	(284)
Exceptional items		**(95)**	(182)
		175	142
Operating profit including joint ventures		**172**	137
Share of non operating exceptional items of joint ventures		**70**	6
		70	6
Net interest			
Group	2	**7**	3
Share of net interest of joint ventures		**(92)**	(66)
		(85)	(63)
Profit on ordinary activities before taxation		**157**	80
Tax on profit on ordinary activities		**(130)**	(128)
Profit/(loss) attributable to ordinary shareholders		**27**	(48)
Ordinary dividends paid and proposed		**(200)**	(179)
Retained loss taken to reserves		**(173)**	(227)

ADJUSTED FIGURES

	Note	2000 €m	1999 €m
Profit before tax	3	**566**	540
Profit attributable to ordinary shareholders	3	**419**	401

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 SHARE (EPS)

	Note	2000 €	1999 €
Basic EPS	3	**0.04**	(0.07)
Diluted EPS		**0.03**	(0.07)
Adjusted EPS	3	**0.59**	0.57

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 €m	1999 €m
Net cash outflow from operating activities	**(2)**	(5)
Dividends received from joint ventures	**623**	254
Interest received	**4**	3
Returns on investments and servicing of finance	**4**	3
Taxation	**4**	–
Investment in joint venture	**(533)**	–
Acquisitions and disposals	**(533)**	–
Ordinary dividends paid	**(160)**	(255)
Cash outflow before financing	**(64)**	(3)
Increase in short term investments	**(952)**	(2)
Issue of ordinary shares	**956**	8
Net repayment of debenture loans	**(2)**	–
(Increase)/decrease in funding balances to joint ventures	**62**	(3)
Financing	**1,016**	5
Change in net cash	**–**	–

BALANCE SHEET

AS AT 31 DECEMBER 2000

	Note	2000 €m	1999 €m
Fixed assets	4	**1,674**	1,559
Current assets			
Debtors	5	**5**	61
Short term investments		**971**	19
		976	80
Creditors: amounts falling due within one year	6	**(154)**	(102)
Net current assets/(liabilities)		**822**	(22)
Total assets less current liabilities		**2,496**	1,537
Creditors: amounts falling due after more than one year	7	**(6)**	(8)
Provisions	8	**(42)**	(36)
Net assets		**2,448**	1,493
Share capital issued		**47**	43
Paid-in surplus		**1,328**	385
Legal reserves		**432**	847
Other reserves		**641**	218
Shareholders' funds	9	**2,448**	1,493

ACCOUNTING POLICIES

Basis of preparation

These statutory financial statements report the profit and loss account, cash flow and financial position of Elsevier, and have been prepared in accordance with Dutch generally accepted accounting principles. Unless otherwise indicated, all amounts shown in the financial statements are in millions of euro.

As a consequence of the merger of the company's businesses with those of Reed International, described on page 16, 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 (61%) 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 28 to 53. Therefore, the Reed Elsevier combined financial statements form part of the notes to Elsevier's statutory financial statements.

Elsevier's investments in the Reed Elsevier combined businesses are accounted for using the gross equity method, as adjusted for the effects of the equalisation arrangement between Reed International and Elsevier. The arrangement lays down the distribution of dividends 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.

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.

Other accounting policies

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.

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:	2000 €m	1999 €m
Gross remuneration		
Salaries	–	5
Total	–	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 €0.2m (1999 €0.5m) 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

	2000 €m	1999 €m
Interest on receivables from joint ventures	2	2
Other interest	5	1
Net interest income	7	3

3 Adjusted figures

	2000 €m	1999 €m
Profit before tax	157	80
Adjustments:		
Amortisation of goodwill and intangible assets	384	284
Exceptional items	25	176
Adjusted profit before tax	566	540
Profit/(loss) attributable to ordinary shareholders	27	(48)
Adjustments:		
Amortisation of goodwill and intangible assets	384	284
Exceptional items	8	165
Adjusted profit attributable to ordinary shareholders	419	401

	2000 €	1999 €
Earnings/(loss) per ordinary share	0.04	(0.07)
Adjustments:		
Amortisation of goodwill and intangible assets	0.54	0.40
Exceptional items	0.01	0.24
Adjusted earnings per ordinary share	0.59	0.57

4 Fixed assets

Investments in joint ventures

	2000 €m	1999 €m
At 1 January	1,559	1,661
Investment in joint venture	533	–
Share in profits/(losses)	24	(48)
Dividends received	(623)	(254)
Currency translation	75	202
Equalisation (see note 9)	106	(2)
At 31 December	1,674	1,559

4 Fixed assets (continued)

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

	2000 €m	1999 €m
Fixed assets	3,781	3,144
Current assets	1,229	1,021
Creditors: amounts falling due within one year	(2,572)	(2,053)
Creditors: amounts falling due after more than one year	(697)	(491)
Provisions	(61)	(55)
Minority interests	(6)	(7)
Total	1,674	1,559

The investments in joint ventures are:
– Reed Elsevier plc, London (50%)
– Elsevier Reed Finance BV, Amsterdam (61%)

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 Debtors

	2000 €m	1999 €m
Joint ventures	–	57
Other accounts receivable	5	4
Total	5	61

The accounts receivable from joint ventures bear interest.

6 Creditors: amounts falling due within one year

	2000 €m	1999 €m
Proposed dividend	140	100
Joint ventures	5	–
Accounts payable and other debts	9	2
Total	154	102

7 Creditors: amounts falling due after more than one year

	2000 €m	1999 €m
Debenture loans	6	8

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

	2000 €m	1999 €m
Deferred taxation	41	35
Pension	1	1
Total	42	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 1999	32	388	949	143	1,512
Redenomination of share capital into euros	11	(11)	–	–	–
Issue of ordinary shares, net of expenses	–	8	–	–	8
Loss attributable	–	–	(48)	–	(48)
Ordinary dividends paid and proposed	–	–	–	(179)	(179)
Dividends from joint ventures	–	–	(254)	254	–
Currency translation	–	–	202	–	202
Equalisation	–	–	(2)	–	(2)
Balance as at 1 January 2000	**43**	**385**	**847**	**218**	**1,493**
Issue of ordinary shares, net of expenses	**4**	**943**	**–**	**–**	**947**
Profit attributable	**–**	**–**	**27**	**–**	**27**
Ordinary dividends paid and proposed	**–**	**–**	**–**	**(200)**	**(200)**
Dividends from joint ventures	**–**	**–**	**(623)**	**623**	**–**
Currency translation	**–**	**–**	**75**	**–**	**75**
Equalisation	**–**	**–**	**106**	–	**106**
Balance as at 31 December 2000	**47**	**1,328**	**432**	**641**	**2,448**

On 5 December 2000, the company issued 66,255,000 new €0.06 ordinary shares at €14.50 each following a joint international offering by Reed International and Elsevier. The purpose of the offering was to finance the proposed acquisition by Reed Elsevier of the Scientific, Technical and Medical business and the Schools Education and Testing business of Harcourt General, Inc. The nominal value of the shares issued by the company was €4.0m and the net proceeds were €933m.

During 1999, 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 share capital consists of 2,100m ordinary shares and 30m registered R-shares. As at 31 December 2000, the issued share capital consisted of 735,717,794 (1999 668,251,106) ordinary shares of €0.06 par value and 4,049,951 (1999 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. Subject to renewal of the authority to allot shares at the forthcoming Annual General Meeting, the boards of Elsevier intend to allot an additional 629,298 R-shares to Reed Holding BV so as to maintain Reed International's 5.8% indirect equity interest in Elsevier.

Within paid-in surplus, an amount of €1,151m (1999 €208m) is free of tax.

On 31 December 2000, there were options outstanding for the purchase of 24.3m (1999 12.8m) shares at an average price of €11.78 (1999 €11.98). The average term of these options is four years (1999 three years).

10 Contingent liabilities

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

	2000 €m	1999 €m
Guaranteed jointly and severally with Reed International	**2,941**	2,305
Guaranteed solely by Elsevier	**–**	1

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 22 to the Reed Elsevier combined financial statements on pages 47 to 50.

The financial statements were signed by the Boards of Directors, 21 February 2001.

M Tabaksblat
Chairman

MH Armour
Chief Financial Officer

OTHER INFORMATION

AUDITORS' REPORT TO THE MEMBERS OF ELSEVIER NV

We have audited the 2000 financial statements of Elsevier NV, Amsterdam, as set out on pages 76 to 81, which include the Reed Elsevier combined financial statements, set out on pages 28 to 53 of the Reed Elsevier Annual Reports and Financial Statements, dated 21 February 2001. 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 2000 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
21 February 2001

PROPOSAL FOR ALLOCATION OF PROFIT

	2000 €m	1999 €m
Interim dividend on ordinary shares	**60**	79
Final dividend on ordinary shares	**140**	100
Dividend on R-shares	**–**	–
Retained loss	**(173)**	(227)
	27	(48)

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 the 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

	2000 US$	1999 US$
Sterling		
Profit and loss and cash flow	**1.51**	1.62
Balance sheet	**1.49**	1.62
Euro		
Profit and loss and cash flow	**0.921**	1.066
Balance sheet	**0.925**	1.006

Profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 US$m	1999 US$m
Net sales – continuing	**5,690**	5,492
Adjusted operating profit	**1,197**	1,283
Profit before tax	**290**	170
Profit/(loss) attributable	**50**	(102)
Adjusted profit before tax	**1,042**	1,150
Adjusted profit attributable	**772**	854

Cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 US$m	1999 US$m
Net cash inflow from operating activities	**1,228**	1,231
Dividends received from joint ventures	**9**	6
Returns on investments and servicing of finance	**(157)**	(131)
Taxation (including US$47m (1999 US$120m) exceptional net inflow)	**(166)**	(160)
Capital expenditure	**(208)**	(198)
Acquisitions and disposals	**(1,149)**	(266)
Ordinary dividends paid to the shareholders of the parent companies	**(297)**	(548)
Cash outflow before changes in short term investments and financing	**(740)**	(66)
(Increase)/decrease in short term investments	**(1,717)**	481
Financing	**2,468**	(319)
Increase in cash	**11**	96
Adjusted operating cash flow	**1,170**	1,263
Adjusted operating cash flow conversion	**98%**	98%

SUMMARY FINANCIAL INFORMATION IN US DOLLARS (continued)

Balance sheet

AS AT 31 DECEMBER 2000	2000 US$m	1999 US$m
Capital employed		
Goodwill and intangible assets	**6,149**	5,508
Other fixed assets	**848**	818
Trading working capital	**(714)**	(639)
Other working capital	**(207)**	(155)
Total	**6,076**	5,532
Funded by:		
Combined shareholders' funds	**4,531**	3,005
Other net liabilities	**900**	800
Net borrowings	**645**	1,727
Total	**6,076**	5,532

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 88.

Goodwill and other intangible assets

In the 1998 financial 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.

The gross cost under US GAAP, as at 31 December 2000, of goodwill is £3,757m (1999 £3,042m) and of other intangible assets including those held in joint ventures is £3,900m (1999 £3,285m). Accumulated amortisation under US GAAP, as at 31 December 2000, of goodwill is £1,497m (1999 £1,180m) and of other intangible assets including those held in joint ventures is £1,433m (1999 £1,174m).

Deferred taxation

The combined businesses provide in full for timing differences using the liability method. 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, in accordance with SFAS 109, Accounting for Income Taxes. 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 timing differences where those assets are not considered recoverable in the short term.

Acquisition accounting

Under UK and Dutch GAAP, severance and integration costs in relation to acquisitions are only expensed as incurred. Due to their size and incidence, under UK and Dutch GAAP, those costs are disclosed as exceptional items charged to operating profit. 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 SFAS 87, Employers' Accounting for Pensions. However, SSAP24 is less prescriptive in the application of the actuarial methods and assumptions to be applied in the calculation of pension costs.

Under US GAAP, plan assets are valued by reference to market-related values at the date of the financial statements. Liabilities are assessed using the rate of return obtainable on fixed or inflation-linked bonds. Under UK GAAP, pension plan assets and liabilities are based on the results of the latest actuarial valuation. Pension assets are valued at the discounted present value determined by expected future income. Liabilities are assessed using the expected rate of return on plan assets.

Short term obligations expected to be refinanced

Under US GAAP, where it is expected to refinace short term obligations on a long term basis and this is supported by an ability to consummate the refinancing, such short term obligations should be excluded from current liabilities and shown as long term obligations. Under UK and Dutch GAAP, such obligations can only be excluded from current liabilities where, additionally, the debt and facility are under a single agreement or course of dealing with the same lender or group of lenders. Short term obligations at 31 December 2000 of £1,101m (1999 £395m) would thus be excluded from current liabilities under US GAAP and shown as long term obligations.

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.

Exceptional items

Exceptional items are material items within the combined businesses' ordinary activities which, under UK and Dutch GAAP, are required to be disclosed separately due to their size or incidence. These items do not qualify as extraordinary under US GAAP and are considered a part of operating results.

Adjusted earnings

In the combined financial statements adjusted profit and cash flow measures are presented as permitted by UK and Dutch GAAP as an additional performance measure. US GAAP does not permit the presentation of alternative earnings measures. Accordingly, adjusted profit is not regarded as an alternative performance measure under US GAAP.

Stock based compensation

SFAS 123: Accounting for Stock Based Compensation, establishes a fair value based method of computing compensation cost. It encourages the application of this method in the profit and loss account instead of intrinsic value based methods. Where fair value based methods are not applied in the profit and loss account, the proforma effect on net income is disclosed.

The disclosure only provisions of SFAS 123 have been adopted. If compensation costs based on fair value at the grant date had been recognised in the profit and loss account, net income under US GAAP would have been reduced by £23m in 2000 (1999 £5m).

Recently issued accounting pronouncements

SFAS 133: Accounting for Derivative Instruments and Hedging Activities, was issued in June 1998 and, as amended by SFAS 138, is effective for the financial year beginning 1 January 2001. The standard requires all derivative instruments to be valued at fair value in the balance sheet. Changes in fair value are accounted for through the profit and loss account or comprehensive income statement, depending on the derivative's designation and effectiveness as a hedging instrument. On implementation, a cumulative transition adjustment of £1m to the 2000 US GAAP net income and £86m in other comprehensive income will be made. Under UK and Dutch GAAP, derivative instruments are recorded at appropriate historical cost amounts, with fair values shown as a disclosure item.

FRS17: Retirement Benefits, was issued by the UK Accounting Standards Board in November 2000. As under SFAS 87, plan assets and liabilities are determined by, respectively, market-related values at the date of the financial statements and by discounting plan obligations using a market derived discount factor. Under FRS17, actuarial gains and losses are recognised in full in the balance sheet with movements recognised in the statement of total recognised gains and losses. This will differ from current US GAAP which does not require the full recognition of actuarial gains and losses, and also requires the amortisation of actuarial gains and losses to be recognised in the profit and loss account. FRS17 is required to be fully implemented in the 2003 financial year, with disclosures of the impact required from 2001. The impact of adopting the standard cannot be reasonably estimated at this time.

FRS19: Deferred Tax, was issued by the UK Accounting Standards Board in December 2000. FRS19 requires deferred tax on timing differences to be provided in full, except on timing differences arising where non-monetary assets are revalued and where there is no commitment to sell the asset and on the retained earnings of subsidiaries, joint ventures or associates where there is no commitment to remit such earnings. FRS19 is required to be implemented in the 2002 financial year. The standard is not expected to have a material impact on implementation.

REED ELSEVIER COMBINED BUSINESSES

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

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 £m	1999 £m	2000 €m	1999 €m
Net income/(loss) under UK and Dutch GAAP	33	(63)	54	(95)
US GAAP adjustments:				
Amortisation of goodwill and other intangible assets	(78)	(83)	(128)	(126)
Deferred taxation	85	67	139	101
Pensions	22	6	36	9
Other items	(2)	–	(3)	–
Net income/(loss) under US GAAP	60	(73)	98	(111)

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

AS AT 31 DECEMBER 2000

	2000 £m	1999 £m	2000 €m	1999 €m
Combined shareholders' funds under UK and Dutch GAAP	3,041	1,855	4,896	2,987
US GAAP adjustments:				
Goodwill and other intangible assets	604	553	973	890
Deferred taxation	(203)	(180)	(327)	(290)
Pensions	86	63	138	102
Other items	2	5	3	8
Ordinary dividends not declared in the period	177	127	285	204
Combined shareholders' funds under US GAAP	3,707	2,423	5,968	3,901

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 2000	**2000 US$m**	1999 US$m
Profit/(loss) attributable to ordinary shareholders: statutory	**17**	(63)
Profit/(loss) attributable to 52.9% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	**408**	452
Amortisation of goodwill and intangible assets	**(374)**	(319)
Exceptional items	**(8)**	(186)
Total	**26**	(53)

Data per American Depositary Share	**2000 US$**	1999 US$
Earnings per American Depositary Share based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	**$1.41**	$1.58
Basic	**$0.09**	$(0.19)
Net dividend per American Depositary Share	**$0.60**	$0.65

Balance sheet

AS AT 31 DECEMBER 2000	**2000 US$m**	1999 US$m
Shareholders' funds	**2,397**	1,589

Exchange rates for translation of sterling	**2000 US$:£**	1999 US$:£
Profit and loss and cash flow	**1.51**	1.62
Balance sheet	**1.49**	1.62

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 9 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 pages 86 and 87. The Reed Elsevier Annual Report 2000 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 2000	**2000 £m**	1999 £m
Net income/(loss) under UK GAAP	**11**	(39)
Impact of US GAAP adjustments to combined financial statements	**16**	(8)
Net income/(loss) under US GAAP	**27**	(47)
Earnings/(loss) per ordinary share under US GAAP (pence)	**2.3p**	(4.1)p

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

AS AT 31 DECEMBER 2000	**2000 £m**	1999 £m
Shareholders' funds under UK GAAP	**1,609**	981
Impact of US GAAP adjustments to combined financial statements	**264**	238
Ordinary dividends not declared in the period	**88**	63
Shareholders' funds under US GAAP	**1,961**	1,282

SUMMARY FINANCIAL INFORMATION IN US DOLLARS

Basis of preparation

The summary financial information is a simple translation of Elsevier'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 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 2000	2000 US$m	1999 US$m
Adjusted profit attributable	**386**	427

Data per American Depositary Share	2000 US$	1999 US$
Adjusted earnings per American Depositary Share	**1.09**	1.22
Dividend per American Depositary Share	**0.52**	0.58

Balance sheet

AS AT 31 DECEMBER 2000	2000 US$m	1999 US$m
Shareholders' funds	**2,264**	1,502

Exchange rates for translation of euros	2000 €:$	1999 €:$
Profit and loss and cashflow	**1.086**	0.938
Balance sheet	**1.081**	0.994

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 pages 86 and 87. The Reed Elsevier Annual Report 2000 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 2000	2000 €m	1999 €m
Net income/(loss) under Dutch GAAP	**27**	(48)
Impact of US GAAP adjustments to combined financial statements	**31**	2
Net income/(loss) under US GAAP	**58**	(46)
Earnings/(loss) per share under US GAAP (euros)	**€0.08**	€(0.06)

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

AS AT 31 DECEMBER 2000	2000 €m	1999 €m
Shareholders' funds under Dutch GAAP	**2,448**	1,493
Impact of US GAAP adjustments to combined financial statements	**396**	358
Ordinary dividends not declared in the period	**140**	100
Shareholders' funds under US GAAP	**2,984**	1,951

Reed Elsevier plc
25 Victoria Street, London SW1H 0EX, UK
Tel: +44 (0)20 7222 8420
Fax: +44 (0)20 7227 5799

Van de Sande Bakhuyzenstraat 4
1061 AG Amsterdam, The Netherlands
Tel: +31 (0)20 515 9341
Fax: +31 (0)20 618 0325

125 Park Avenue, 23rd Floor
New York, NY 10017, USA
Tel: +1 212 309 5498
Fax: +1 212 309 5480

Elsevier Reed Finance BV
Van de Sande Bakhuyzenstraat 4
1061 AG Amsterdam, The Netherlands
Tel: +31 (0)20 515 9341
Fax: +31 (0)20 618 0325

For further information or contact details, please consult our website:
www.reedelsevier.com

Elsevier Science
Sara Burgerhartstraat 25
1055 KV Amsterdam, The Netherlands
www.elsevier.nl

Elsevier Science, UK
The Boulevard, Langford Lane
Kidlington, Oxford OX5 1GB, UK
www.elsevier.co.uk

Elsevier Science, US
655 Avenue of the Americas
New York NY10010, USA
www.elsevier.com

Excerpta Medica Asia
19th Floor
Eight Commercial Tower
8 Sun Yip Street
Chai Wan, Hong Kong

MDL Information Systems
14600 Catalina Street
San Leandro
California 94577 USA
www.mdl.com

LEXIS-NEXIS
9393 Springboro Pike
Miamisburg, Ohio 45342, USA
www.lexis-nexis.com

LEXIS-NEXIS, New York
125 Park Avenue, 22nd Floor
New York NY 10017, USA
www.lexis-nexis.com

LEXIS-NEXIS International
Halsbury House, 35 Chancery Lane
London WC2A 1EL, UK
www.butterworths.co.uk

Editions du Juris-Classeur
141 rue de Javel, 75747 Paris
Cedex 15, France
www.ed-juris-classeur.fr

Reed Educational & Professional Publishing
Halley Court, Jordan Hill
Oxford OX2 8EJ, UK
www.repp.com

Cahners Business Information
245 West 17th Street
New York NY10011, USA
www.cahners.com

Reed Business Information
Quadrant House, The Quadrant
Sutton, Surrey SM2 5AS, UK
www.reedbusiness.com

Elsevier Business Information
Hanzestraat 1
7006 RH Doetinchem
The Netherlands
www.ebi.nl

Reed Exhibition Companies
Oriel House, 26 The Quadrant
Richmond, Surrey TW9 1DL, UK
www.reedexpo.com

Reed Exhibition Companies
Merrit View
383 Main Avenue
Norwalk CT06851, USA
www.reedexpo.com

Designed by Corporate Edge +44 (0)20 7855 5830, typeset and printed by Pillans & Wilson Greenaway

REED ELSEVIER

ANNUAL REPORTS & FINANCIAL STATEMENTS 2000

REED ELSEVIER