ANNUAL REPORTS & FINANCIAL STATEMENTS 2001

For the Reed Elsevier Combined Businesses,
Reed International P.L.C. and Elsevier NV

Reed Elsevier

ELSEVIER SCIENCE • SCIENCEDIRECT • CHEMWEB • BIOMEDNET • MDL INFORMATION SYSTEMS • SCIRUS • EXCERPTA MEDICA • THE LANCET • GRAY'S ANATOMY • ACADEMIC PRESS • CHURCHILL LIVINGSTONE • MOSBY • WB SAUNDERS • CELL • BRAIN RESEARCH • ONCOLOGY TODAY • TETRAHEDRON LETTERS • VASCULAR SURGERY • ENCYCLOPEDIA OF GENETICS • LEXISNEXIS • BUTTERWORTHS TOLLEY • MATTHEW BENDER • SHEPARD'S • MARTINDALE HUBBELL • LEXIS.COM • NEXIS.COM • EDITIONS DU JURIS CLASSEUR • MALAYAN LAW JOURNAL • DEPALMA • CONOSUR • NIMMER ON COPYRIGHT • HALSBURY'S LAWS • MOORE'S FEDERAL PRACTICE • HARCOURT SCHOOL PUBLISHERS • LEX POLONICA • RIGBY • HEINEMANN • GINN • GREENWOOD • HOLT RINEHART AND WINSTON • STECK-VAUGHN • THE PSYCHOLOGICAL CORPORATION • WECHSLER TESTS • HI.COM.AU • STANFORD ACHIEVEMENT TEST • WECHSLER INTELLIGENCE SERIES • HARCOURT EDUCATIONAL MEASUREMENT • ELECTRONIC DESIGN NEWS • VARIETY • RESTAURANTS & INSTITUTIONS • COMPUTER WEEKLY • COMMUNITY CARE • NEW SCIENTIST • FLIGHT INTERNATIONAL • ESTATES GAZETTE • CNI.COM • RATI.COM • ELSEVIER • BELEGGERS BELANGEN • BIZZ • ZIBB.NL • TOERISTIEK • MIDEM • WORLD TRAVEL MARKET • HOTELYMPIA • BATIMAT • BOOKEXPO • STRATEGIES • MIPCOM • DOCTOR • KELLY'S DIRECTORIES • FARMERS' WEEKLY • TOTALJOBS.COM

(£) (%) ($) (€)

Indispensable global information

SCIENCE & MEDICAL

LEGAL

EDUCATION

BUSINESS

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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 2001, forms the Annual Reports and Financial Statements of Reed International P.L.C. and Elsevier NV for the year ended 31 December 2001 and the two documents should be read together.

REED ELSEVIER

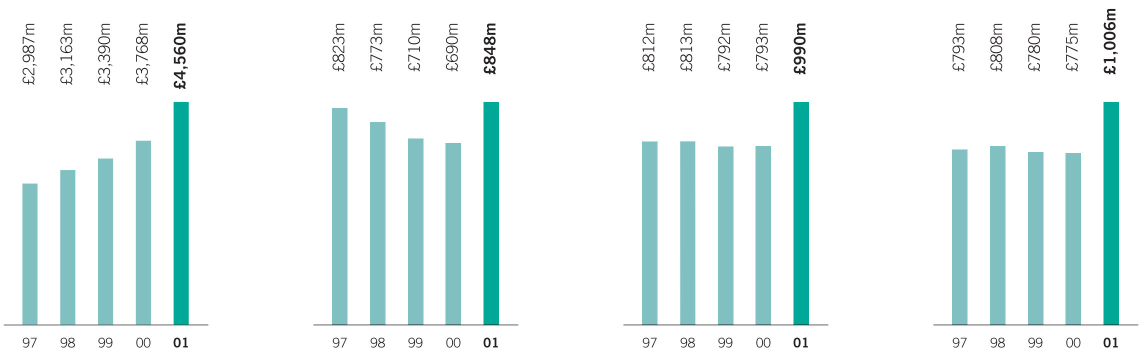
Financial highlights

Results for the year ended 31 December

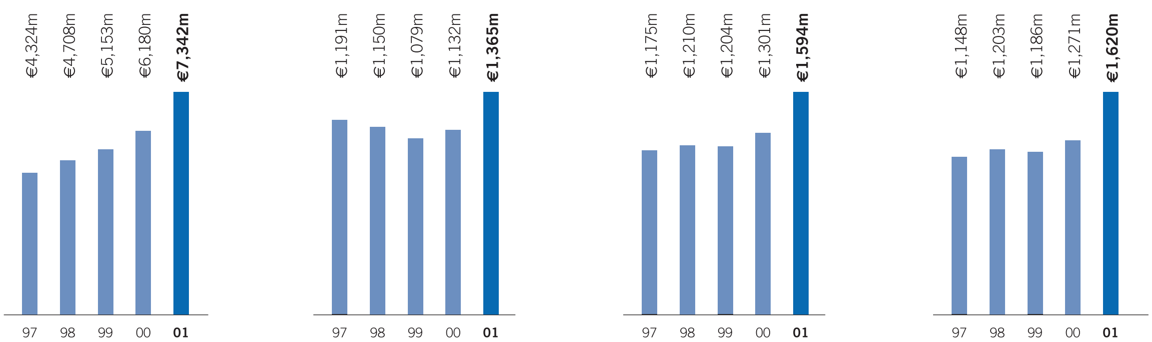
REED ELSEVIER COMBINED

TURNOVER | **ADJUSTED PRE-TAX PROFIT** | **ADJUSTED OPERATING PROFIT** | **ADJUSTED OPERATING CASH FLOW**

£ sterling



€ euro



Results for the year ended 31 December

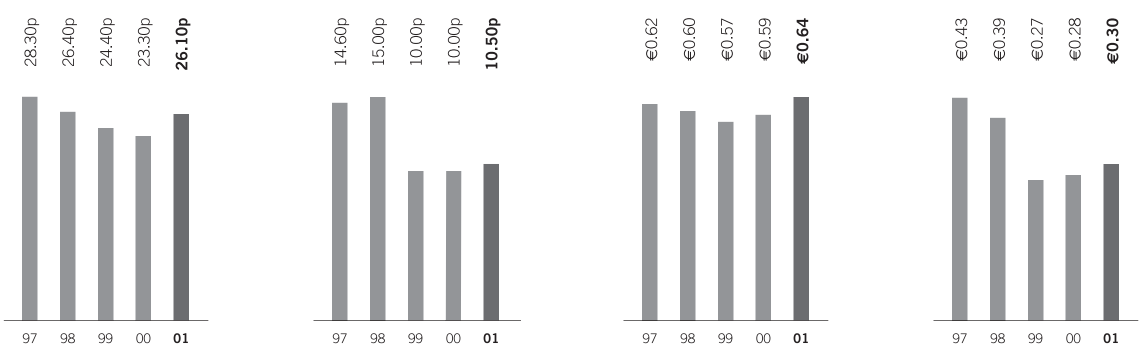
PARENT COMPANIES

REED INTERNATIONAL
Adjusted earnings per share

REED INTERNATIONAL
Full year dividends

ELSEVIER
Adjusted earnings per share

ELSEVIER
Full year dividends



The financial highlights refer to 'adjusted' profit and cash flow figures. These figures are used by the Reed Elsevier 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.

REED ELSEVIER

Review of 2001 financial performance

REVIEW OF OPERATIONS

	2001 £m	2000 £m	2001 €m	2000 €m	% change at constant currencies
Turnover					
Science & Medical	**1,024**	693	**1,649**	1,137	44%
Legal	**1,330**	1,201	**2,141**	1,970	7%
Education	**579**	202	**932**	331	177%
Business	**1,627**	1,672	**2,620**	2,742	(5)%
Total	**4,560**	3,768	**7,342**	6,180	18%
Adjusted operating profit					
Science & Medical	**344**	252	**554**	413	34%
Legal	**267**	237	**430**	389	9%
Education	**132**	40	**212**	66	218%
Business	**247**	264	**398**	433	(8)%
Total	**990**	793	**1,594**	1,301	22%

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

This review provides a commentary on the operating and financial performance of the Reed Elsevier combined businesses for the year ended 31 December 2001. 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 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 2000 full year average rates, and are stated before the amortisation of goodwill and intangible assets and exceptional items.

FORWARD-LOOKING STATEMENTS

The Reed Elsevier Annual Reports & Financial Statements 2001 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.

SCIENCE & MEDICAL

	2001 £m	2000 £m	2001 €m	2000 €m	% change at constant currencies
Turnover					
Science & Technology	**748**	592	**1,204**	971	24%
Health Sciences	**276**	101	**445**	166	165%
	1,024	693	**1,649**	1,137	44%
Adjusted operating profit	**344**	252	**554**	413	34%
Operating margin	**33.6%**	36.4%	**33.6%**	36.4%	(2.8)pts

SCIENCE & MEDICAL

The Science & Medical business has had another very successful year. Elsevier Science has extended its leading position, growing revenue well ahead of the market and delivering double digit profit growth. The key indicators on ScienceDirect usage, penetration and customer retention, all show good progress. The Harcourt Science, Technical and Medical (STM) business acquired in July 2001 is contributing well and the business integration is well advanced.

Revenue and operating profits increased by 44% and 34% respectively at constant exchange rates, including the part year contribution of the Harcourt STM business. Excluding this and other acquisitions and disposals, revenue and operating profit growth were 8% and 13% respectively. The good sales performance was driven by stronger subscription renewals and growing sales of online products.

Underlying operating margins improved by 2 percentage points reflecting the strong revenue growth and increasing operating efficiency. Additional investments in new product, sales and marketing were more than offset by cost savings particularly in production following prior year rationalisation. The overall margin, at 34%, decreased by 2.8 percentage points due to the inclusion of the lower margin Harcourt STM business.

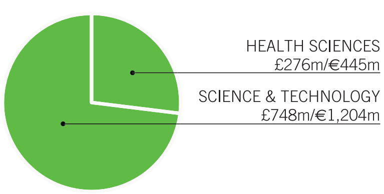
The ScienceDirect service saw its penetration of the subscriber base increase to 66% by value, up from 45% a year ago and 25% a year before that. Usage continues to grow strongly with annual page views doubled over the year to 220 million.

New product development has focused on customised subject collections and superior navigation tools. Good progress was made in a three year programme to make all our historical scientific research archive available online on ScienceDirect, with modules released in three Chemistry disciplines. Also well received by customers has been the Scirus scientific web search engine, which enables retrieval in a focused way of scientific material from over 70 million pages available on the web.

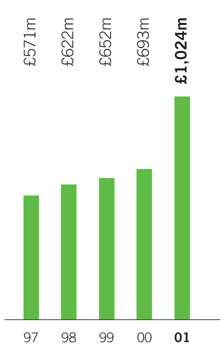
The Harcourt STM business made a satisfactory contribution in the part year under Reed Elsevier ownership. As previously reported, the business was affected by the uncertainties of the extended regulatory review process prior to acquisition and some momentum in the business was lost. On a pro forma calendar year basis, the Harcourt STM business saw revenue and operating profit growth of 3% and 5% respectively in 2001 over 2000. The strategies and management organisation for the enlarged Elsevier Science business – within two divisions, Science & Technology and Health Sciences – are now in place and substantial progress has been made in the integration of the businesses. The majority of the targeted annual cost savings of $40 million will be realised in 2002, principally in production, technology and back office functions. This will fund the investments being made in new online medical information products and in sales and marketing.

The outlook for the Science & Medical business is good. Revenue growth momentum in Science & Technology is strong and in Health Sciences is building. The opportunities in the medical field for electronically delivered information and solutions are growing and considerable. We have the investment plans in place to capture this and the increases in investment will be funded from operational efficiencies. Another good year can be expected in 2002.

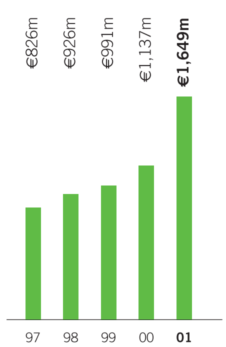
Revenue by business



Turnover £ sterling



Turnover € euro



REED ELSEVIER

Review of 2001 financial performance

LEGAL

	2001 £m	2000 £m	2001 €m	2000 €m	% change at constant currencies
Turnover					
LexisNexis North America	**1,041**	947	**1,676**	1,553	6%
LexisNexis International	**289**	254	**465**	417	10%
	1,330	1,201	**2,141**	1,970	7%
Adjusted operating profit	**267**	237	**430**	389	9%
Operating margin	**20.1%**	19.7%	**20.1%**	19.7%	0.4 pts

LEGAL

The Legal business has had a year of significant business turnaround. For the first time in a number of years, we are showing encouraging growth in the US and, with margins also now improving, there has been a positive initial turnaround in the business. The acceleration in revenue growth represents a very satisfactory payback from the step up in investment over the last two years in product, sales and marketing.

Revenues and operating profits increased by 7% and 9% respectively at constant exchange rates, or 5% and 9% excluding acquisitions. Operating margins improved by 0.4 percentage points reflecting the stronger revenue growth and increased operational efficiency, particularly in the US. LexisNexis North America saw underlying revenue growth of 5%, which we estimate to be slightly ahead of market growth, and compares with 2% in 2000. Operating profits were up 15% compared with a 24% decline in 2000.

In US Legal Markets, online revenues grew strongly by 10% in part offset by lower print and CD-ROM sales as business migrates online. This compares with online revenue growth of 5% in 2000 and reflects the strong performance of the new and upgraded products and the impact of the expanded sales force and better marketing. In US Corporate and Federal markets, revenues increased by 5% with the upgraded nexis.com service continuing to make good progress. Weakness in second half transactional volumes driven by the economic downturn was more than offset by strong demand in government and academic markets.

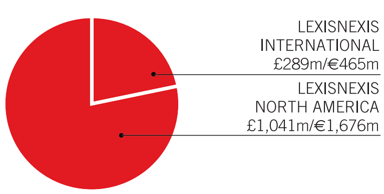
Usage of the LexisNexis online services continues to grow strongly with the number of searches up 30% in the year. On average, LexisNexis handled over 400,000 searches each working day in 2001. Migration from the older proprietary online system to the easier to use and more functional web products continues with over 80% of all legal searches now web based. In addition to the growing commercial preference reflected in our revenues, the success of our web products has again been reaffirmed by the most recent independent market research in US law schools.

The Martindale Hubbell legal directories business had another good year with strong renewals and significant revenue growth from sales of lawyer home pages to the small law market and listings on the lawyers.com website.

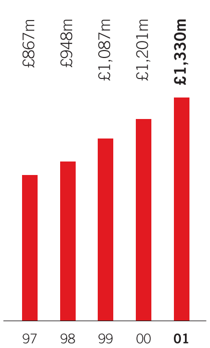
LexisNexis International businesses outside the US reported revenues and operating profits up 10% and 3% respectively, or 5% and 2% excluding acquisitions, with a solid sales performance coupled with further investment in online services. Good sales growth in Europe and Asia Pacific was in part held back by the weaker market conditions in Argentina. Online sales continued to grow rapidly in the UK and significant new online product was launched in France.

The outlook for the Legal business is good. Our products are doing well in their markets and a continued high level of investment is building on this success. Margins are expected to improve further as revenues grow and investment levels stabilise.

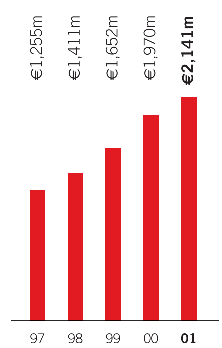
Revenue by business



Turnover £ sterling



Turnover € euro



EDUCATION SEGMENT

	2001 £m	2000 £m	2001 €m	2000 €m	% change at constant currencies
Turnover					
Harcourt Education and Testing	**376**		**605**		
Reed Educational & Professional Publishing	**203**	202	**327**	331	(1)%
	579	202	**932**	331	177%
Adjusted operating profit	**132**	40	**212**	66	218%
Operating margin	**22.8%**	19.8%	**22.8%**	19.8%	3.0 pts

EDUCATION

The Education businesses have had a very good year. The Harcourt Education and Testing businesses acquired in July 2001 have made an excellent contribution and transformed the division into a leading publisher in the global English speaking schools market. The Harcourt K-12 (Kindergarten – 12th grade) business again outperformed the US schools market in 2001 and has exceeded our high expectations. The Reed Educational & Professional Publishing business also had a good year.

Revenues and operating profits increased substantially including the part year contribution of the Harcourt businesses. Excluding this and other acquisitions, revenues and operating profit growth for the Reed Educational & Professional Publishing business was 8% and 10% respectively at constant exchange rates. On a pro forma calendar basis, the Harcourt Education and Testing businesses saw revenues up 12% and operating profits up 10% in 2001 despite weaker performances in Canada and Trade Books.

The Harcourt US K-12 business had another strong year in 2001 with pro forma revenue growth of 11%, significantly ahead of the market and on top of a very successful year in 2000. It won the highest overall market share in 2001 state adoption revenues in both the elementary and secondary schools markets. Particular successes in the elementary market were achieved in California maths and science, Florida social studies and Texas language arts. In the secondary market, the literature and language arts programmes, Elements of Literature and Elements of Language, were very successful, as was the science programme, particularly in California. Strong performances were also achieved in open states with the reading, science and maths programmes.

Significant progress has also been made in the development of our e-learning strategy for the US market, focused around electronically delivered curriculum content, teacher professional development and classroom based testing. To accelerate the creation of our e-content, in October 2001 we entered into a co-development alliance with Riverdeep Inc, a leading electronic curriculum content developer. In September we acquired Classroom Connect, the leading online professional development company for the schools market. For e-testing, we are building on Harcourt's substantial test creation expertise.

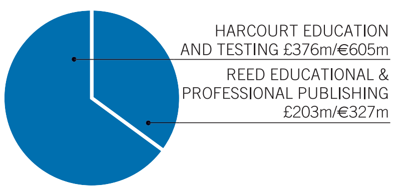
The Harcourt Testing businesses saw pro forma revenue growth of 22% in 2001 with good growth boosted by significant one off incremental requirements on existing state testing contracts. The business moved into new and expanded facilities in the year, and scoring capacity is being added to position it well to capture the opportunities in the rapidly growing testing market.

The Reed Educational & Professional Publishing business saw underlying revenue and operating profit growth of 8% and 10% respectively, with particularly strong performances from the Rigby US supplemental business and in UK secondary schools driven by strong publishing to meet changes in the curriculum. The global library business also performed well, particularly in the US. Rigby is now being integrated with the Harcourt Steck-Vaughn supplemental business to form one unified US supplemental unit.

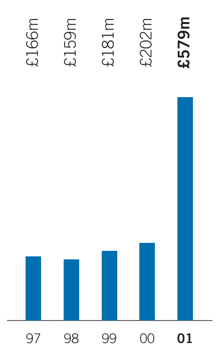
Reported revenues for Reed Educational & Professional Publishing were 1% down, after reflecting the transfer of the Butterworth-Heinemann academic book publishing activities to Science & Medical where the technical publishing programme has greater fit.

The outlook for the Education business is good. The US schools education market is not expected in 2002 to repeat its most recent growth, largely as a result of the phasing of the state adoption cycle. We have however strong programmes for 2002 and fully expect to have a satisfactory year of growth outperforming a somewhat dull market. The integration of the US supplemental businesses and cost savings programmes across the Harcourt Education supply chain and infrastructure are expected to fund over $20 million of additional investment in e-learning strategies.

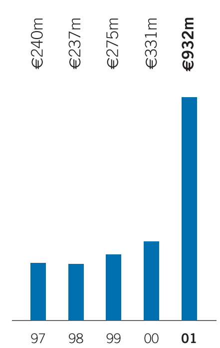
Revenue by business



Turnover
£ sterling



Turnover
€ euro



Review of 2001 financial performance

BUSINESS

	2001 £m	2000 £m	2001 €m	2000 €m	% change at constant currencies
Turnover					
Cahners Business Information	**593**	665	**955**	1,090	(15)%
Reed Business Information	**260**	270	**419**	443	(4)%
Elsevier Business Information	**263**	278	**423**	456	(7)%
Reed Exhibition Companies	**446**	358	**718**	587	23%
Other	**65**	101	**105**	166	
	1,627	1,672	**2,620**	2,742	(5)%
Adjusted operating profit	**247**	264	**398**	433	(8)%
Operating margin	**15.2%**	15.8%	**15.2%**	15.8%	(0.6)pts

BUSINESS

The Business division has had a very difficult year with the progressive weakening of global economic conditions exacerbated by the events of September 11 which particularly affected US markets. Whilst aggressive actions have been taken to reduce costs, the focus has also been on improving yields and building market share through strengthening sales and marketing activities and improving product quality. The division significantly outperformed the Business to Business market reflecting this share growth, the sector and geographic spread of the business, and the market leading positions of our titles and exhibitions.

Revenues and operating profits were down 5% and 8% respectively on the prior year at constant exchange rates, or 3% and 8% excluding acquisitions and disposals. The revenue decline was driven by falls in advertising particularly in the US partly offset by good growth in the Exhibitions business. Cost actions were taken across the division with substantial additional headcount reductions over and above the restructurings in 2000. Internet spend has been scaled back reflecting the market circumstances. Total savings, on top of directly variable costs, amounted to approximately £45m/€72m in the year. Operating margins at 15% were only slightly lower than in the prior year reflecting the cost savings made, with some margin dilution from portfolio changes.

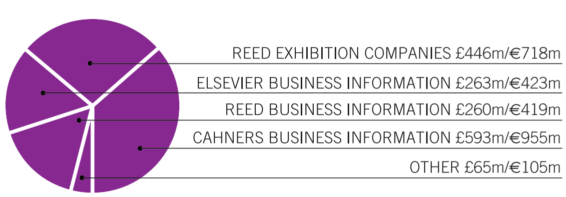
In the US, Cahners Business Information saw underlying revenues 13% lower, impacted by the slowdown in the US economy and the hiatus caused by the September 11 events, with ad pages in Manufacturing, Electronics and TV/Telecommunications most affected. Market share gains were however made in many sectors reflecting the investments made in product, sales and marketing and the greater resilience of our market leading titles in a downturn. Underlying operating margins were held, due to the cost actions taken, despite the revenue drop.

In the UK, Reed Business Information underlying revenues were 3% lower. Good growth was seen in Property, Social Services and Science titles and in online services, mitigating to some extent the revenue decline in IT and other advertising markets. Overall market share was increased significantly. Underlying operating profits were 10% lower reflecting a combination of reduced revenues and increased funding for successfully growing online services, in particular totaljobs.com.

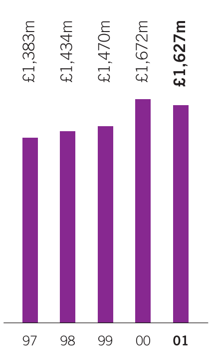
In Continental Europe, Elsevier Business Information saw underlying revenues up 4% driven by growth in subscriptions/circulation particularly in Regulatory, Human Resources and Healthcare, whilst advertising was generally weaker in the second half of the year reflecting the economic slowdown. Underlying operating profits were 16% lower as investment was made in upgrading product, new online initiatives and sales and marketing, as well as additional costs associated with systems changes.

Reed Exhibition Companies performed strongly despite the tough economic environment. Revenues and operating profits grew by 9% and

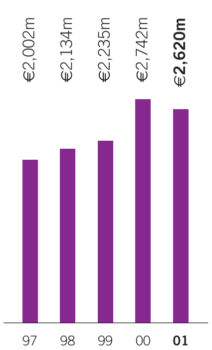
Revenue by business



Turnover £ sterling



Turnover € euro



6% respectively excluding acquisitions and disposals. This was driven by strong performances in annual shows, particularly in Europe at the international Midem shows and in Asia Pacific, and some benefit from the phasing of non annual shows. Revenues in the US were particularly impacted by the cancellation of a number of shows immediately following September 11, although the profit impact was mitigated by insurance recoveries. The Miller Freeman Europe shows, acquired in July 2000 and not included in the underlying growth figures, had an excellent year.

During the year a significant number of disposals were made of non core titles, shows and businesses. These included the travel publishing businesses, OAG Worldwide and Cahners Travel Group, the Bowker bibliographic business, Cahners' automotive and metals titles, RBI's retail and hobby electronics titles, EBI's consumer encyclopedia and certain training businesses, and minor exhibitions. This substantially completes the disposal programme started in 2000 and, with the acquisitions also made, represents a major reshaping of the Business division. We have exited sectors which were non core, lower growth or where we did not have leading positions, to focus on sectors with more sustainable growth and quality.

The outlook for the Business division in 2002 is clearly challenging given the progressive slowdown in the global economic environment in 2001 and uncertainties as to the timing and speed of a recovery. Whilst global advertising markets have been particularly affected by the slowdown, circulation revenues and the exhibitions business are proving more resilient. Revenues may be a little lower in 2002, with the first half suffering particularly in comparison against a strong first half in 2001, however margins have largely been protected by the aggressive cost actions already taken. The outlook for the longer term is positive as economic conditions improve with a more sharply focused business around attractive, higher growth sectors.

REED ELSEVIER COMBINED BUSINESSES

	2001 £m	2000 £m	**2001 €m**	2000 €m	Change at constant currencies %
Reported figures					
Turnover	**4,560**	3,768	**7,342**	6,180	18%
Operating profit	**391**	210	**630**	344	84%
Profit before taxation	**275**	192	**442**	315	44%
Net borrowings	**3,229**	433	**5,296**	697	
Adjusted figures					
Operating profit	**990**	793	**1,594**	1,301	22%
Operating margin	**22%**	21%	**22%**	21%	1pt
Profit before taxation	**848**	690	**1,365**	1,132	20%
Operating cash flow	**1,006**	775	**1,620**	1,271	26%
Operating cash flow conversion	**102%**	98%	**102%**	98%	
Interest cover (times)	**7**	8	**7**	8	

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

REED ELSEVIER COMBINED BUSINESSES

Profit & 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 £275m/€442m, which compares with a reported profit of £192m/€315m in 2000. The increase reflects higher underlying operating profits, partly offset by lower gains on disposals and by acquisitions after taking into account financing, goodwill and intangible asset amortisation, and exceptional integration and related costs. The **reported attributable profit** of £126m/€202m compares with £33m/€54m in 2000.

Turnover increased by 21% expressed in sterling to £4,560m, and by 19% expressed in euros to €7,342m, including the contribution from the Harcourt businesses acquired in July 2001. Underlying revenue growth, excluding the impact of acquisitions and disposals and currency translation effects, was 3%, or 6% before taking into account the decline in Business division revenues driven by the global economic downturn. The Harcourt businesses saw revenue growth of 8% on a pro forma calendar year basis.

Adjusted operating profits, excluding exceptional items and the amortisation of goodwill and intangible assets, were up 25% expressed in sterling at £990m, and up 23% expressed in euros at €1,594m, including the part year contribution of Harcourt. Underlying operating profit growth was 5%, or 10% excluding the Business division. Additionally the Harcourt businesses saw pro forma operating profit growth of 8%. Operating margins improved by 0.7 percentage points to 21.7% reflecting the pick up in revenue growth across most businesses, coupled with the levelling off of investment spend and the cost savings programmes. Acquisitions and disposals were broadly neutral to the overall margin.

The **amortisation charge** for intangible assets and goodwill amounted to £501m/€806m, up £33m/€38m, principally reflecting the mid year acquisition of the Harcourt businesses. The goodwill and intangible assets of these businesses are being amortised over periods up to 40 years. The useful lives of the goodwill and intangible assets relating to previously acquired science and medical publishing businesses have been reassessed and extended to conform with

Review of 2001 financial performance

those of the Harcourt assets with which they are being integrated. This has had the effect of reducing the annual amortisation charge by £20m/€32m.

Exceptional items showed a pre-tax charge of £72m/€117m, comprising £63m/€102m of Harcourt and other acquisition integration and related costs, and £35m/€56m in respect of restructuring actions taken particularly in the Business division in response to the global economic downturn, less £26m/€41m gain on sale of businesses. After a tax credit of £81m/€130m arising on restructuring and disposals, exceptional items showed a post-tax gain of £9m/€13m. This compares with a net post-tax charge on exceptional items in 2000 of £10m/€16m.

Net interest expense, at £142m/€229m, was £39m/€60m higher than in the previous year principally due to the financing of the Harcourt acquisition, less the benefit of the share placing in December 2000. Net interest cover was 7 times.

Adjusted profit before tax at £848m/€1,365m was up 23% expressed in sterling, 21% expressed in euros, or 20% at constant exchange rates. Approximately 9% of this growth at constant rates arises from the financial benefits of the share proceeds received in December 2000 ahead of the Harcourt acquisition and 8% from the contribution post financing of the Harcourt acquisition. Dilution from disposals was 2% with a further 2% expected in 2002.

The **effective tax rate** on adjusted earnings was slightly higher at 26.3% (2000 25.9%). The **adjusted profit attributable** to shareholders of £624m/€1,005m compared to £511m/€838m in 2000, 20% higher 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 investment in systems infrastructure to support electronic publishing activities.

Total capital expenditure in the year amounted to £178m/€287m, up £34m/€51m from the prior year level reflecting greater spending on IT systems and the inclusion of the Harcourt businesses. Depreciation in the year was £132m/€213m. Working capital requirements are negative overall, due to the substantial proportion of revenues received through subscription and similar advanced receipts.

Adjusted operating cash flow, before exceptional items, was £1,006m/€1,620m representing a conversion rate of operating profit into cash flow of 102%, up 4 percentage points on 2000. The conversion rate is flattered by the seasonality of the Harcourt operating cash flows which favour the second half. Excluding that effect, the conversion rate was approximately 85% reflecting higher capital spend in 2001 and movements in working capital.

Free cash flow – after interest, taxation and dividends but before acquisition spend and exceptional receipts and payments – was £459m/€738m compared to £334m/€548m in 2000. Net exceptional cash inflows of £140m/€225m include £96m/€154m proceeds from sale of businesses and £141m/€227m of reduced tax payments less exceptional acquisition related costs and restructuring.

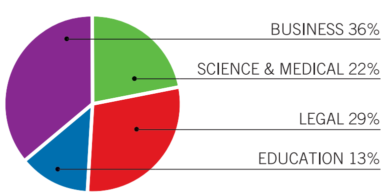
In 2001, **acquisitions** were made for a total consideration of £3,242m/€5,219m, of which the Harcourt STM and Education and Testing businesses amounted £3,065m/€4,934m, including debt on completion of £1,040m/€1,674m. An amount of £3,097m/€4,986m was capitalised as goodwill and intangible assets. The 2001 acquisitions contributed £149m/€240m to adjusted operating profit in the year and added £286m/€460m to operating cash flow.

Net borrowings at 31 December 2001 were £3,229m/€5,296m, an increase of £2,796m/€4,599m on the prior year end, which principally reflects the spend on acquisitions, less free cash flow.

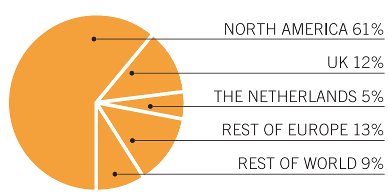
Gross borrowings at 31 December 2001 amounted to £3,664m/€6,009m, denominated mostly in US dollars, and were partly offset by cash balances totalling £435m/€713m invested in short term deposits and marketable securities. Approximately 93% of cash balances were held in sterling, euros and US dollars. A total of 78% of Reed Elsevier's gross borrowings were at fixed rates, including £1,528m/€2,506m of floating rate debt fixed through the use of interest rate swaps. At 31 December 2001, the fixed rate debt had a weighted average interest coupon of 6.8% and an average remaining life of 10.5 years. The net interest expense also reflects the interest yield differentials between short term investments and long term fixed rate borrowings.

ACQUISITION OF HARCOURT
On 12 July 2001, Reed Elsevier acquired the entire share capital of Harcourt General, Inc for US$4.45 billion (£3.2 billion/€5.2 billion) following a successful tender offer of US$59 per share of common stock or share equivalent. Certain businesses – the Harcourt Higher Education business and the Corporate & Professional Services businesses other than

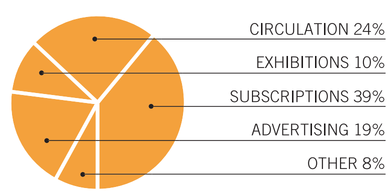
Turnover by business segment



Turnover by geographical market



Turnover by Source



educational and clinical testing – were immediately on-sold to The Thomson Corporation for US$2.06 billion, on which taxes of approximately US$0.5 billion were payable over 12 months. Harcourt General debt on completion was approximately US$1.5 billion.

Reed Elsevier retained Harcourt's Scientific, Technical and Medical (STM) business and its K-12 (Kindergarten – 12th grade) Schools Education and Testing businesses for an implied total value of approximately US$4.5 billion, including the assumption of certain corporate liabilities and looking through seasonal cashflow variations.

The acquisition was financed initially from the US$1.8 billion of cash proceeds of the joint international share offering in December 2000, the assumption of US$0.9 billion of Harcourt General public debt, and from short term commercial paper borrowings. In July 2001, US$1.5 billion of short term borrowings were refinanced through a multi-currency multi-tranche global bond offering, under which were issued US$550 million 5 year notes, €500 million 7 year notes swapped to US dollars, and US$550 million 10 year notes. Taking into account the funding mix and interest rate hedging undertaken on signing of the definitive purchase agreement, the average annual funding cost is approximately 7.2% for the incremental debt.

The Harcourt businesses acquired have seasonality in sales, profits and cashflows, most particularly in the K-12 Schools business and to a lesser extent in Health Sciences, which favours the second half of the year. On a calendar basis, in 2001, approximately 55% of sales, 65% of operating profits and all of the operating cash flow arose in the July to December period.

The benefits of this second half phasing to Reed Elsevier's reported 2001 figures was less marked than this since July is by far the most significant month for sales and profit and the Harcourt businesses are accounted for from 12 July.

A review of the goodwill and intangible assets of the Harcourt businesses indicated that an expected useful life of up to 40 years would be appropriate for these assets. Accordingly, the maximum estimated useful life under Reed Elsevier's accounting policy of amortising goodwill and intangible assets has been increased from 20 years to 40 years.

TREASURY POLICIES

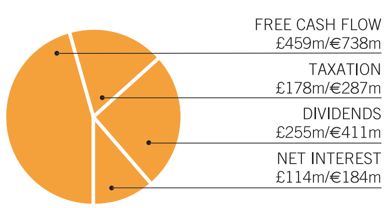
The Boards of Reed International and Elsevier have requested that Reed Elsevier plc and Elsevier Finance BV have due regard to the best interests of Reed International and Elsevier shareholders in the formulation of treasury policies.

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 2001.

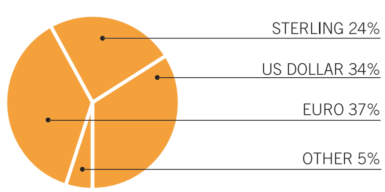
Funding

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 US$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.

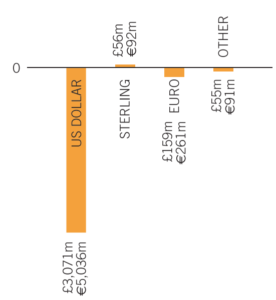
Use of adjusted operating cash flow



Currency profile – 2001 adjusted pre-tax profit



Currency profile – 2001 net cash/borrowings



Review of 2001 financial performance

During 2001, the debt maturity profile of Reed Elsevier was lengthened considerably following the Harcourt acquisition, with the assumption of US$0.9 billion of Harcourt General public term debt and the US$1.5 billion global bond offering in July. After taking account of the maturity of committed bank facilities that back short term borrowings, at 31 December 2001, all debt had a maturity beyond one year, with 24% maturing in December of the second year, 14% in the third year, 15% in the fourth and fifth years, 32% in five to ten years, and 15% beyond ten years.

Security of funding for the acquisition of Harcourt General was provided by a US$8.5 billion credit facility arranged in October 2000 and syndicated in December 2000. On completion in July 2001, this facility had been substantially reduced following the successful renegotiation of US$1.0 billion of other committed facilities, receipt of the US$1.8 billion share placement proceeds, assumption of the US$0.9 billion Harcourt General public debt and receipt of the Thomson on-sale proceeds. Following the US$1.5 billion term debt issue later in July, the facility was cancelled down to its 31 December 2001 level of US$2.5 billion.

At 31 December 2001, Reed Elsevier had access to US$3.5 billion of committed bank facilities which principally provide back up for short term debt but also security of funding for future acquisition spend in the event that commercial paper markets are not available.

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 net debt is determined by reference to the level of net interest cover. Reed Elsevier uses fixed rate term debt, interest rate swaps, forward rate agreements and a range of interest rate options to manage the exposure. Interest rate derivatives are used only to hedge an underlying risk and no net market positions are held.

At 31 December 2001, approximately 95% of Reed Elsevier's net debt is denominated in US dollars on which approximately 80% of forecast net interest expense absent acquisitions is capped for the next three years. This capped percentage reduces thereafter over time, with all interest rate derivatives and over two thirds of fixed rate term debt having matured by 2009 and 2011 respectively.

At 31 December 2001, fixed rate term debt (not swapped back to floating rate) amounted to US$1.9 billion and had a weighted average life remaining of 19.7 years (31 December 2000 13.4 years). Interest rate derivatives in place at 31 December 2001 which fix or cap the interest cost on an additional US$2.0 billion of variable rate US dollar debt, have a weighted average maturity of 3 years.

On launch of the US$1.5 billion multi currency global bond offering in July 2001, Reed Elsevier managed its fixed to floating rate mix to comply with policy limits by simultaneously swapping the fixed rate euro notes into variable rate dollars and by swapping the five year fixed rate US dollar notes into variable rate dollars. In this way, Reed Elsevier secured term funding whilst retaining its preferred balance of fixed rate and variable rate debt.

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 £0.5 billion/€0.8 billion.

European Economic and Monetary union

On 1 January 2002, the euro fully replaced the local currencies of the 12 European countries now participating in European Economic and Monetary Union ("EMU"). The Netherlands is a participant; the United Kingdom is not.

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 price in the local currency of the country in which they operate and have limited cross border trade. As a result, the most significant issue arising was the timing of euro based marketing and invoicing and the transfer to euro denominated business and financial systems. In this respect, during 2001, Reed Elsevier businesses had 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 US$2.5 billion were made, of which US$2.2 billion was to finance the acquisition of Harcourt General, Inc. Additional loans to Reed Elsevier plc businesses in Europe of €0.1 billion were made. To fund this additional lending and to provide capacity to meet new lending requests, ERF raised US$1.3 billion by means of a rights issue to which both Reed International and Elsevier subscribed and the funds were contributed to EFSA. A US$3 billion US commercial paper programme had been established by EFSA in December 2000 in anticipation of the new loans. Following this increase in debt, EFSA is developing alternative routes for issuing term debt outside of the Swiss domestic public market to diversify its sources of funding.

EFSA continued to advise Reed Elsevier plc businesses on the treasury implications of the introduction of the euro and all euro transfer programmes progressed according to plan, with no major issues arising following the conversion in January 2002. EFSA also organised bank tenders in several European and Asian countries and implemented cash-pooling arrangements. It also advised Reed Elsevier plc companies in Europe on the establishment of collection mechanisms for payments arising from internet portal services. The volume of foreign exchange dealt by EFSA during 2001 amounted to approximately US$0.8 billion equivalent.

The average balance of cash under management, on behalf of Reed Elsevier plc and its parent companies, was approximately US$1.1 billion.

Liabilities and assets

At the end of 2001, 91% (2000 87%) of ERF's gross assets were held in US dollars, including US$6.8 billion in loans to Reed Elsevier plc subsidiaries. The euro currency block represented 9% of total assets (2000 12%).

Liabilities included US$1.2 billion in US dollars and US$0.6 billion equivalent in euro currencies, borrowed under the US and euro commercial paper programmes, the Swiss domestic bond and committed bank credit facilities.

Review of 2001 financial performance

PARENT COMPANIES

	Reed International			Elsevier		
	2001 £m	2000 £m	% change	**2001 €m**	2000 €m	% change
Reported profit attributable	**61**	11		**101**	27	
Adjusted profit attributable	**330**	270	22%	**503**	419	20%
Average exchange rate €:£	**1.61**	1.64		**1.61**	1.64	
Reported earnings per share	**4.8p**	1.0p		**€0.13**	€0.04	
Adjusted earnings per share	**26.1p**	23.3p	12%	**€0.64**	€0.59	8%
Dividend per share	**10.5p**	10.0p	5%	**€0.30**	€0.28	7%

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.

PARENT COMPANIES

Profit and loss account

Adjusted earnings per share for Reed International were 26.1p, up 12% on the previous year, and for Elsevier were €0.64, an increase of 8%. The difference in percentage change is entirely attributable to the impact of currency movements on the translation of reported results. At constant rates of exchange, the adjusted earnings per share of both companies would have shown an increase of 10% 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 4.8p and €0.13, compared to 1.0p and €0.04 respectively in 2000.

The Reed International and Elsevier annual reports and financial statements are presented on pages 56 to 81.

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 7.4p, giving a total dividend of 10.5p for the year, up 5% on 2000. The Boards of Elsevier, in accordance with the dividend equalisation arrangements, have proposed a final dividend of €0.21. This results in a total dividend of €0.30 for the year, 7% higher than in 2000. The difference in percentage growth is attributable to currency movements.

Dividend cover for Reed International, using adjusted earnings, was 2.5 times. For Elsevier, the adjusted dividend cover was 2.1 times. Measured for the combined businesses, dividend cover was 2.3 times compared with 2.1 times in 2000.

Structure and corporate governance

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 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.

Proposed name changes

Following the harmonisation of the Boards of Reed International, Elsevier and Reed Elsevier plc during 1999, and in recognition of the benefits of this management structure and the equivalence of economic interests, a proposal will be submitted to the forthcoming Annual General Meeting of Reed International to change that company's name to Reed Elsevier PLC. Similarly, a proposal will be submitted to the forthcoming Annual General Meeting of Elsevier to change that company's name to Reed Elsevier NV. The existing company that owns the publishing and information businesses, currently named Reed Elsevier plc, will, in turn, change its name to Reed Elsevier Group plc.

The above changes will not affect the equalisation ratio or the economic interests that Reed International and Elsevier shareholders have in Reed Elsevier.

Equalisation arrangements

Reed International and Elsevier each hold 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 – the Principles of Good Governance and Code of Best Practice, issued by the UK Financial Services Authority ("the Combined Code"), and corporate governance best practice in the Netherlands such as 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 practicable and not in conflict, also be observed by the other. Reed International, which has its primary listing on the London Stock Exchange, has complied throughout the period under review with the provisions of Section 1 of the Combined Code, other than in relation to the designation of a senior independent non-executive director other than the Chairman. Although such a designation had not been made at the commencement of the period under review, the Board designated Dr Stomberg as the senior independent non-executive director during the period. Elsevier, which has its primary listing on Euronext in Amsterdam, has complied throughout the period under review with the listing rules of Euronext in Amsterdam, and best custom and practice appropriate to internationally focused Dutch companies.

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 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 individual shareholders. The Chairman, Chief Executive Officer,

Structure and corporate governance

Chairman of the Remuneration Committee and other directors are available to answer questions from shareholders. The interim and annual results announcements and presentations, together with other important announcements concerning Reed Elsevier, are made available on the Reed Elsevier website (www.reedelsevier.com).

BOARDS

The Boards of Reed International, Elsevier, Reed Elsevier plc and Elsevier Reed Finance BV each comprise a balance of executive and non-executive directors who bring a wide range of skills and experience to the deliberations of the Boards. Each of the Boards meet regularly.

The Boards of Reed International, Elsevier and Reed Elsevier plc are harmonised. Subject to approval by the respective shareholders, all the directors of Reed Elsevier plc are also directors of Reed International and of Elsevier. No individual may be appointed to the Boards of Reed International, Elsevier or Reed Elsevier plc unless recommended by the joint Nominations Committee, although the Reed International and Elsevier shareholders maintain their rights to appoint individuals to their respective Boards, in accordance with the provisions of the Articles of Association of those companies.

Lord Sharman was appointed a non-executive director of Reed International and Reed Elsevier plc on 1 January 2002. A resolution will be proposed at the forthcoming Elsevier Annual General Meeting to appoint Lord Sharman as a member of the Elsevier Supervisory Board.

On appointment, directors receive training appropriate to their level of previous experience. All directors have access to the services of the Company Secretaries and may take independent professional advice in the furtherance of their duties, at the company's expense.

All Reed International and Elsevier directors are subject to retirement at least every three years, and are able then to make themselves available for re-election by shareholders at their respective Annual General Meetings. At the Reed International Annual General Meeting to be held on 9 April 2002, Messrs Brock, Davis and Haank will retire by rotation. Lord Sharman, having been appointed a director since the last Annual General Meeting, will also retire. At the Elsevier Annual General Meeting to be held on 10 April 2002, Messrs Brock, Davis and Haank will retire by rotation. Being eligible, these directors of Reed International and Elsevier will offer themselves for re-election. David Webster, who has served on the Reed International Board since 1992, the Reed Elsevier plc Board since 1993 and the Elsevier Board since 1999, will also retire by rotation at the conclusion of the 2002 Annual General Meetings and will not be seeking re-election.

The Boards of Reed International and Elsevier comprise a majority of independent non-executive directors, none of whom is 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 of Reed International and members of the Elsevier Supervisory Board serve on the respective Board for a maximum period of ten years.

The non-executive directors meet on an annual basis to review the performance of individual directors and the functioning and constitution of the Boards as a whole.

Reed International

The Reed International Board consists of executive directors: Crispin Davis (Chief Executive Officer), Mark Armour (Chief Financial Officer), Gerard van de Aast, Derk Haank and Andrew Prozes, and non-executive directors: Morris Tabaksblat (Chairman), John Brock, Roelof Nelissen, Steven Perrick, Lord Sharman, Rolf Stomberg (senior independent non-executive director) and David Webster.

Elsevier

Elsevier has a two-tier board structure comprising a Supervisory Board, all of whom are non-executives and an Executive Board. The members of the Supervisory Board are Morris Tabaksblat (Chairman), Dien de Boer-Kruyt, John Brock, Roelof Nelissen, Steven Perrick, Rolf Stomberg and David Webster. The Executive Board comprises Crispin Davis (Chief Executive Officer), Mark Armour (Chief Financial Officer), Gerard van de Aast, Derk Haank and Andrew Prozes.

Reed Elsevier plc

The Reed Elsevier plc Board consists of five executive directors and seven non-executive directors. Biographical information in respect of the members of the Board appears on page 31 of the Annual Review and Summary Financial Statements. Biographical information in respect of Dien de Boer-Kruyt, the member of the Elsevier Supervisory Board who does not serve on the Reed International and Reed Elsevier plc Boards, appears on page 41 of the Annual Review and Summary Financial Statements.

Elsevier Reed Finance BV

The Supervisory Board of Elsevier Reed Finance BV comprises Roelof Nelissen (Chairman), Mark Armour, Dien de Boer-Kruyt and Steven Perrick, with the Management Board consisting of Cornelis Alberti, Willem Boellaard and Jacques Billy. Appointments to the Supervisory and Management Boards are made by the shareholders, in accordance with the company's Articles of Association.

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. Lord Sharman also became a member of the Reed International and Reed Elsevier plc committees, following his appointment as a director of those companies in January 2002. 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 relating to risk management and 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. The Director of Internal Audit and senior representatives of 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.

The fees of non-executive directors are determined by each of the Boards as a whole.

A report prepared by the Remuneration Committee, and approved by the Boards of Reed International, Elsevier and Reed Elsevier plc, appears on pages 17 to 23. This report also serves as disclosure of the directors' remuneration and interests in shares of the two parent companies, Reed International and Elsevier.

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 Reed Elsevier plc.

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. The Boards of Reed International and Elsevier have each adopted a schedule of matters which are required to be brought to the respective Board for decision. 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 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 Boards of Reed Elsevier plc and Elsevier Reed Finance BV are also responsible for reviewing the effectiveness of their system of internal control. The objective of these systems 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 significant risks faced by their respective businesses. This process has been in place throughout the year ended 31 December 2001 and up to the date of the approvals 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 that 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. Risk management and control procedures have been further embedded into the operations of the business, including the monitoring of progress in areas of improvement which came to management and Board attention. The major risks identified include business continuity, 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 and regulatory 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 that 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 major risks affecting the finance group have been identified and evaluated and are subject to regular review. The internal control system of Elsevier Reed Finance BV is reviewed each year by its external auditors. The controls in place to manage these risks and the level of residual risk accepted are monitored by the Boards.

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 the directors 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 report

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 – the Principles of Good Governance and Code of Best Practice, issued by the UK Financial Services Authority ("the Combined Code").

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.

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 shape and execute the strategy and deliver shareholder value in the context of an ever more competitive and increasingly global employment market.

The Remuneration 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 director's 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 60% 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 between 10 and 20 times salary was made during 2000. 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 that 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, which is subject to English law, provides for a notice period of twenty-four months.

(ii) C H L Davis was appointed a director in September 1999. His service contract, which is subject to English law, 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, twelve months' base salary would be payable.

(v) G J A van de Aast was appointed a director in December 2000 and his service contract, which is subject to English law, 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 notice period should be 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 Officer, serve as non-executive directors on the boards of up to two non-associated companies and may retain remuneration arising from such non-executive directorships. The committee believes that the Reed Elsevier plc group can benefit 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	
	2001	2000	**2001**	2000
Salaries and fees	**2,790**	2,068	**4,492**	3,391
Benefits	**75**	66	**121**	108
Annual performance-related bonuses	**1,056**	835	**1,700**	1,368
Pension contributions	**218**	786	**351**	1,289
Pension to former director	**241**	230	**388**	377
One-off bonuses	**–**	461	**–**	757
Compensation and payments in respect of a former director	**–**	581(i)	**–**	953(i)
Total	**4,380**	5,027	**7,052**	8,243

b) Individual emoluments of executive directors

	£					€				
	Salary	Benefits	Bonus	**Total**	2000	Salary	Benefits	Bonus	**Total**	2000
M H Armour	415,002	20,123	163,298	**598,423**	570,543	668,153	32,398	262,910	**963,461**	935,690
C H L Davis	810,000	20,324	315,333	**1,145,657**	1,102,547	1,304,100	32,722	507,686	**1,844,508**	1,808,177
D J Haank	333,749	10,790	143,023	**487,562**	345,145	537,336	17,373	230,267	**784,976**	566,037
A Prozes (from 7.8.2000)	555,555	8,731	380,278	**944,564**	908,547(ii)	894,444	14,057	612,248	**1,520,749**	1,490,016(ii)
G J A van de Aast (from 6.12.2000)	325,000	15,108	54,178	**394,286**	28,364	523,250	24,324	87,227	**634,801**	46,516
Salary, benefits and bonus of a former director					135,772(i)					222,665(i)
				3,570,492	3,090,918				**5,748,495**	5,069,101

(i) Details of salary, benefits, bonus and compensation payments to a former director were set out in the 2000 Remuneration Report.

(ii) Includes a one – off bonus of £461,391 (€756,681) as compensation for loss of bonus from his previous employment.

Taking into account gains of £253,777 (€408,581) on the exercise of share options, A Prozes was the highest paid director in 2001.

c) Pensions

The Remuneration Committee reviews the pension arrangements for the executive directors to ensure that the benefits provided are consistent with those provided by other multinational companies in 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 1/30th 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 dependents, 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 dependents' 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 31.12.2001	Transfer value increase after deduction of directors' contributions	Increase in accrued annual pension during the period	Total accrued annual pension as at 31.12.2001	Transfer value increase after deduction of directors' contributions
M H Armour	16,497	95,650	176,325	26,560	153,996	283,883
C H L Davis	39,920	89,111	549,662	64,271	143,469	884,956
D J Haank	43,469	119,331	358,574	69,985	192,123	577,304
A Prozes	–	–	–	–	–	–
G J A van de Aast	10,794	11,753	101,756	17,378	18,922	163,827

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.

d) Individual emoluments of non-executive directors

	£		€	
	2001	2000	**2001**	2000
J F Brock	**35,404**	34,220	**57,000**	56,120
R J Nelissen	**35,404**	34,304	**57,000**	56,258
S Perrick	**35,404**	34,304	**57,000**	56,258
R W H Stomberg	**35,404**	34,220	**57,000**	56,120
M Tabaksblat	**173,913**	168,202	**280,000**	275,851
D G C Webster	**35,404**	34,220	**57,000**	56,120
	350,933	339,470	**565,000**	556,727

G J de Boer-Kruyt, a member of the Supervisory Board of Elsevier, received emoluments of £13,354 (€21,500) during the year (2000 £9,832, €16,125).

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 intangible 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, and 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.

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 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 to be made to executive directors and a limited number of key executives, over Reed International and Elsevier ordinary shares. Grants have been made to 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 grant to any one individual ranged from 10 to a maximum 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 1½ 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.

Details of options held by directors in the ordinary shares of Reed International and Elsevier as at 31 December 2001, and movements during the period are shown below:

Over shares in Reed International

		1 January 2001	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2001	Exercisable
M H Armour	– Executive Scheme	59,600		400.75p			59,600	2002-2005
		30,000		585.25p			30,000	2002-2006
		52,000		565.75p			52,000	2002-2007
		66,900		523.00p			66,900	2002-2008
		33,600		537.50p			33,600	2002-2009
		88,202		436.50p			88,202	2003-2010
			62,974	659.00p			62,974	2004-2011
	– LTIP	882,016		436.50p			882,016	2005
	– SAYE Scheme	3,924		430.00p			3,924	2004
Total		1,216,242	62,974				1,279,216	
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
			122,914	659.00p			122,914	2004-2011
	– 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		2,751,584	122,914				2,874,498	
D J Haank	– Executive Scheme	18,498		677.25p			18,498	2002-2004
		18,497		537.50p			18,497	2002-2009
		51,368		436.50p			51,368	2003-2010
			51,110	659.00p			51,110	2004-2011
	– LTIP	513,680		436.50p			513,680	2005
Total		602,043	51,110				653,153	
A Prozes	– Executive Scheme	188,281		566.00p			188,281	2003-2010
			83,785	659.00p			83,785	2004-2011
	– LTIP	941,406		566.00p			941,406	2005
	– Nil cost options	60,507		Nil	20,169[(i)]	636.50	40,338	2002-2003
Total		1,190,194	83,785		20,169		1,253,810	
G J A van de Aast	– Executive Scheme	50,940		638.00p			50,940	2003-2010
			49,317	659.00p			49,317	2004-2011
	– LTIP	509,404		638.00p			509,404	2005
Total		560,344	49,317				609,661	

(i) Retained an interest in all of the shares

The middle market price of a Reed International ordinary share during the year was in the range 492p to 700p and at 31 December 2001 was 570p.

Over shares in Elsevier

	1 January 2001	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2001	Exercisable
M H Armour – Executive Scheme	20,244		€13.55			20,244	2002-2009
	61,726		€10.73			61,726	2003-2010
		44,882	€14.75			44,882	2004-2011
– LTIP	617,256		€10.73			617,256	2005
Total	699,226	44,882				744,108	
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
		87,601	€14.75			87,601	2004-2011
– LTIP	1,202,446		€10.73			1,202,446	2005
– Nil cost options	319,250		Nil			319,250	2002
Total	1,833,491	87,601				1,921,092	
D J Haank – Executive Scheme	35,000		€11.93	35,000(i)	€15.35		
	30,000		€14.11			30,000	2002
	30,000		€15.25			30,000	2002-2003
	10,926		€17.07			10,926	2002-2004
	10,925		€13.55			10,925	2002-2009
	35,949		€10.73			35,949	2003-2010
		36,426	€14.75			36,426	2004-2011
– LTIP	359,485		€10.73			359,485	2005
– Convertible Debentures	6,540		€16.71(ii)			3,920(iii)	2002
Total	518,825	36,426		35,000		517,631	
A Prozes – Executive Scheme	131,062		€13.60			131,062	2003-2010
		59,714	€14.75			59,714	2004-2011
– LTIP	655,310		€13.60			655,310	2005
– Nil cost options	42,120		Nil	14,040(iv)	€14.38	28,080	2002-2003
Total	828,492	59,714		14,040		874,166	
G J A van de Aast – Executive Scheme	35,866		€14.87			35,866	2003-2010
		35,148	€14.75			35,148	2004-2011
– LTIP	358,658		€14.87			358,658	2005
Total	394,524	35,148				429,672	

(i) Retained an interest in 8,000 shares

(ii) Average price

(iii) 2,620 options, at an average option price of €15.56, lapsed unexercised during the year

(iv) Retained an interest in all of the shares

The market price of an Elsevier ordinary share during the year was in the range €10.92 to €15.64 and at 31 December 2001 was €13.28.

The aggregate notional pre-tax gain made by the directors on the exercise of Reed International and Elsevier share options during the year was £328,125 (€528,280).

There have been no changes in the options held by directors over Reed International and Elsevier ordinary shares since 31 December 2001.

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 2001	31 December 2001	1 January 2001	31 December 2001
M H Armour	2,500	2,500	2,500	2,500
J F Brock	3,000	3,000	–	–
C H L Davis	44,778	74,071	31,099	51,953
D J Haank	–	–	10,880	28,880
R J Nelissen	–	–	5,000	5,000
S Perrick	–	–	–	972
A Prozes	–	43,329	–	30,360
R W H Stomberg	–	–	–	–
M Tabaksblat	–	–	8,000	8,000
G J A van de Aast	–	–	–	7,500
D G C Webster	5,000	5,000	–	–

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 a beneficiary under the EBT, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2001, amounted to 2,416,207 Reed International ordinary shares and 1,412,194 Elsevier ordinary shares.

There have been no changes in the interests of the directors in the share capital of Reed International or Elsevier since 31 December 2001.

On behalf of the Board of Reed Elsevier plc

Rolf Stomberg

Chairman of the Remuneration Committee

Combined financial statements

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 81. 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 tangible fixed assets, but before exceptional payments and proceeds.

Two new UK financial reporting standards have been adopted in the 2001 financial statements: FRS17: Retirement Benefits and FRS19: Deferred Tax. FRS17 requires additional disclosures until full implementation is mandatory in 2003. Although not mandatory for Reed Elsevier until 2002, FRS19 has been adopted early and balance sheet presentation has been restated accordingly.

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 on 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 27.

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.

Acquired goodwill and intangible assets are capitalised and amortised systematically over their estimated useful lives up to a maximum period of 40 years, subject to impairment review. For financial years prior to the year ended 31 December 2001, a maximum period of 20 years was applied. In view of the longevity of the intangible assets and goodwill relating to the Harcourt publishing businesses acquired in the year, the maximum period has been extended to 40 years and has been applied in respect of these assets. The useful lives of the intangible assets and goodwill relating to previously acquired businesses have been re-assessed and those relating to science and medical publishing have been extended to conform with those of the Harcourt assets with which they are being integrated, with the effect of reducing annual amortisation by £20m/€32m. The longevity of these assets is evidenced by their long established and well regarded brands and imprints, and their characteristically stable market positions.

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, equipment and computer systems are depreciated on a straight line basis at rates from 5%–33%. Short leases are written off over the duration of the lease.

Finance leases

Assets held under leases which confer rights and obligations similar to those attaching to owned assets are capitalised as tangible fixed assets and the corresponding liability to pay rentals is shown net of interest in the accounts as obligations under finance leases. The capitalised values of the assets are written off on a straight line basis over the shorter of the periods of the leases or the useful lives of the assets concerned. The interest element of the lease payments is allocated so as to produce a constant periodic rate of charge.

Operating leases

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

ACCOUNTING POLICIES (continued)

Inventories and pre-publication costs

Inventories and pre-publication costs are stated at the lower of cost, including appropriate attributable overheads, and estimated net realisable value. Pre-publication costs, representing costs incurred in the origination of content prior to publication, are expensed systematically over the economic lives of the related products, generally up to five years.

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 less anticipated returns on transactions completed by performance, excluding customer sales taxes and sales between the combined businesses.

Sales are recognised for the various revenue sources as follows: subscriptions – over the period of the subscription; circulation – on despatch; advertising – on publication or period of online display; exhibitions – on exhibition date; educational testing contracts – on delivery milestones.

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 application infrastructure and product delivery platforms is capitalised as a tangible fixed asset and written off over the 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 financial statements

COMBINED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 £m	2000 £m	2001 €m	2000 €m
Turnover					
Including share of turnover of joint ventures		**4,627**	3,836	**7,449**	6,291
Less: share of turnover of joint ventures		**(67)**	(68)	**(107)**	(111)
	1	**4,560**	3,768	**7,342**	6,180
Continuing operations before acquisitions		**3,902**	3,768	**6,283**	6,180
Acquisitions		**658**	–	**1,059**	–
Cost of sales	2	**(1,611)**	(1,332)	**(2,594)**	(2,185)
Gross profit		**2,949**	2,436	**4,748**	3,995
Operating expenses	2	**(2,570)**	(2,239)	**(4,138)**	(3,672)
Before amortisation and exceptional items		**(1,974)**	(1,659)	**(3,178)**	(2,721)
Amortisation of goodwill and intangible assets		**(498)**	(465)	**(802)**	(762)
Exceptional items	6	**(98)**	(115)	**(158)**	(189)
Operating profit (before joint ventures)		**379**	197	**610**	323
Continuing operations before acquisitions		**331**	197	**533**	323
Acquisitions		**48**	–	**77**	–
Share of operating profit of joint ventures		**12**	13	**20**	21
Operating profit including joint ventures	1,5	**391**	210	**630**	344
Non operating exceptional items					
Net profit on sale of businesses	6	**26**	85	**41**	140
Profit on ordinary activities before interest		**417**	295	**671**	484
Net interest expense	7	**(142)**	(103)	**(229)**	(169)
Profit on ordinary activities before taxation		**275**	192	**442**	315
Tax on profit on ordinary activities	8	**(148)**	(159)	**(238)**	(261)
Profit on ordinary activities after taxation		**127**	33	**204**	54
Minority interests		**(1)**	–	**(2)**	–
Profit attributable to parent companies' shareholders	26	**126**	33	**202**	54
Equity dividends paid and proposed	9	**(269)**	(245)	**(432)**	(402)
Retained loss taken to combined reserves		**(143)**	(212)	**(230)**	(348)

ADJUSTED FIGURES

	Note	2001 £m	2000 £m	2001 €m	2000 €m
Adjusted operating profit	1,10	**990**	793	**1,594**	1,301
Adjusted profit before tax	10	**848**	690	**1,365**	1,132
Adjusted profit attributable to parent companies' shareholders	10	**624**	511	**1,005**	838

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 2001

	Note	**2001 £m**	2000 £m	**2001 €m**	2000 €m
Net cash inflow from operating activities before exceptional items	11	**1,163**	907	**1,873**	1,487
Payments relating to exceptional items charged to operating profit	6	**(97)**	(94)	**(156)**	(154)
Net cash inflow from operating activities		**1,066**	813	**1,717**	1,333
Dividends received from joint ventures	15	**12**	6	**19**	10
Interest and similar income received		**113**	20	**181**	33
Interest and similar charges paid		**(227)**	(124)	**(365)**	(204)
Returns on investments and servicing of finance		**(114)**	(104)	**(184)**	(171)
Taxation before exceptional items		**(178)**	(141)	**(287)**	(231)
Exceptional items		**141**	31	**227**	51
Taxation		**(37)**	(110)	**(60)**	(180)
Purchase of tangible fixed assets		**(175)**	(141)	**(282)**	(231)
Purchase of fixed asset investments		**(59)**	(53)	**(95)**	(87)
Proceeds from sale of tangible fixed assets		**6**	3	**10**	5
Capital expenditure and financial investment		**(228)**	(191)	**(367)**	(313)
Acquisitions	11	**(2,236)**	(861)	**(3,599)**	(1,412)
Exceptional net proceeds from sale of businesses	6,11	**96**	153	**154**	251
Acquisitions and disposals		**(2,140)**	(708)	**(3,445)**	(1,161)
Equity dividends paid to shareholders of the parent companies		**(255)**	(196)	**(411)**	(321)
Cash outflow before changes in short term investments and financing		**(1,696)**	(490)	**(2,731)**	(803)
Decrease/(increase) in short term investments	11	**1,169**	(1,137)	**1,882**	(1,865)
Financing	11	**537**	1,634	**865**	2,679
Increase in cash	11	**10**	7	**16**	11

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	**2001 £m**	2000 £m	**2001 €m**	2000 €m
Adjusted operating cash flow	10	**1,006**	775	**1,620**	1,271
Adjusted operating cash flow conversion		**102%**	98%	**102%**	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 tangible 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 financial statements

COMBINED BALANCE SHEET

AS AT 31 DECEMBER 2001

	Note	2001 £m	2000 £m	2001 €m	2000 €m
Fixed assets					
Goodwill and intangible assets	13	**6,723**	4,127	**11,026**	6,644
Tangible fixed assets	14	**489**	416	**802**	670
Investments	15	**241**	153	**395**	247
Investments in joint ventures:					
Share of gross assets		**121**	137	**198**	221
Share of gross liabilities		**(55)**	(65)	**(90)**	(105)
Share of net assets		**66**	72	**108**	116
Other investments		**175**	81	**287**	131
		7,453	4,696	**12,223**	7,561
Current assets					
Inventories and pre-publication costs	16	**488**	114	**801**	184
Debtors – amounts falling due within one year	17	**999**	860	**1,638**	1,385
Debtors – amounts falling due after more than one year	18	**463**	206	**759**	331
Cash and short term investments	19	**435**	1,594	**713**	2,566
		2,385	2,774	**3,911**	4,466
Creditors: amounts falling due within one year	20	**(4,134)**	(3,379)	**(6,780)**	(5,441)
Net current liabilities		**(1,749)**	(605)	**(2,869)**	(975)
Total assets less current liabilities		**5,704**	4,091	**9,354**	6,586
Creditors: amounts falling due after more than one year	21	**(2,502)**	(873)	**(4,103)**	(1,406)
Provisions for liabilities and charges	24	**(280)**	(170)	**(459)**	(273)
Minority interests		**(5)**	(7)	**(8)**	(11)
Net assets		**2,917**	3,041	**4,784**	4,896
Capital and reserves					
Combined share capitals		**184**	185	**302**	298
Combined share premium accounts		**1,629**	1,621	**2,672**	2,610
Combined reserves		**1,104**	1,235	**1,810**	1,988
Combined shareholders' funds	26	**2,917**	3,041	**4,784**	4,896

Approved by the Boards of Reed International P.L.C. and Elsevier NV, 20 February 2002.

COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £m	2000 £m	2001 €m	2000 €m
Profit attributable to parent companies' shareholders	126	33	202	54
Exchange translation differences	(3)	113	83	150
Total recognised gains and losses for the year	**123**	146	**285**	204

COMBINED SHAREHOLDERS' FUNDS RECONCILIATION

FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £m	2000 £m	2001 €m	2000 €m
Profit attributable to parent companies' shareholders	126	33	202	54
Equity dividends paid and proposed	(269)	(245)	(432)	(402)
Issue of ordinary shares, net of expenses	22	1,285	35	2,107
Exchange translation differences	(3)	113	83	150
Net (decrease)/increase in combined shareholders' funds	**(124)**	1,186	**(112)**	1,909
Combined shareholders' funds at 1 January	3,041	1,855	4,896	2,987
Combined shareholders' funds at 31 December	**2,917**	3,041	**4,784**	4,896

Combined financial statements

Notes to the combined financial statements

1 SEGMENT ANALYSIS

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Business segment								
Science & Medical	**1,024**	693	**210**	140	**344**	252	**1,506**	286
Legal	**1,330**	1,201	**59**	(8)	**267**	237	**2,512**	2,443
Education	**579**	202	**95**	19	**132**	40	**1,921**	144
Business	**1,627**	1,672	**27**	59	**247**	264	**1,075**	1,205
Total	**4,560**	3,768	**391**	210	**990**	793	**7,014**	4,078
Included above in respect of the Harcourt acquired businesses:								
Science & Medical	**242**	–	**29**	–	**56**	–	**1,245**	–
Education	**376**	–	**61**	–	**88**	–	**1,760**	–
Geographical origin								
North America	**2,695**	2,098	**47**	(89)	**482**	335	**6,021**	3,128
United Kingdom	**795**	734	**154**	109	**207**	191	**553**	476
The Netherlands	**416**	399	**129**	127	**163**	136	**(53)**	(62)
Rest of Europe	**445**	356	**51**	57	**108**	102	**460**	506
Rest of World	**209**	181	**10**	6	**30**	29	**33**	30
Total	**4,560**	3,768	**391**	210	**990**	793	**7,014**	4,078

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2001 €m	2000 €m	**2001 €m**	2000 €m	**2001 €m**	2000 €m	**2001 €m**	2000 €m
Business segment								
Science & Medical	**1,649**	1,137	**338**	230	**554**	413	**2,470**	460
Legal	**2,141**	1,970	**95**	(13)	**430**	389	**4,120**	3,933
Education	**932**	331	**153**	31	**212**	66	**3,150**	232
Business	**2,620**	2,742	**44**	96	**398**	433	**1,763**	1,941
Total	**7,342**	6,180	**630**	344	**1,594**	1,301	**11,503**	6,566
Included above in respect of the Harcourt acquired businesses:								
Science & Medical	**390**	–	**47**	–	**90**	–	**2,042**	–
Education	**605**	–	**98**	–	**142**	–	**2,886**	–
Geographical origin								
North America	**4,339**	3,441	**76**	(146)	**776**	549	**9,874**	5,036
United Kingdom	**1,280**	1,204	**248**	179	**333**	313	**907**	766
The Netherlands	**670**	654	**208**	208	**262**	223	**(87)**	(100)
Rest of Europe	**716**	584	**82**	93	**174**	167	**754**	815
Rest of World	**337**	297	**16**	10	**49**	49	**55**	49
Total	**7,342**	6,180	**630**	344	**1,594**	1,301	**11,503**	6,566

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.

The Harcourt acquired businesses contributed £565m/€910m of turnover, £95m/€153m of operating profit and £136m/€219m of adjusted operating profit originating in North America.

Turnover is analysed before the £67m/€107m (2000 £68m/€111m) share of joint ventures' turnover, of which £17m/€27m (2000 £21m/€34m) relates to the Legal segment, principally to Giuffrè, and £50m/€80m (2000 £47m/€77m) relates to the Business segment, principally to exhibition joint ventures.

Share of operating profit in joint ventures of £12m/€20m (2000 £13m/€21m) comprises £3m/€5m (2000 £4m/€6m) relating to the Legal segment and £9m/€15m (2000 £9m/€15m) relating to the Business segment.

1 SEGMENT ANALYSIS (continued)

	2001 £m	2000 £m	2001 €m	2000 €m
Analysis of turnover by geographical market				
North America	**2,765**	2,152	**4,452**	3,529
United Kingdom	**557**	521	**897**	855
The Netherlands	**224**	234	**361**	384
Rest of Europe	**587**	478	**945**	784
Rest of World	**427**	383	**687**	628
Total	**4,560**	3,768	**7,342**	6,180

The Harcourt acquired businesses contributed £535m/€861m of turnover by geographical market in North America.

	2001 £m	2000 £m	2001 €m	2000 €m
Reconciliation of capital employed to combined shareholders' funds				
Capital employed	**7,014**	4,078	**11,503**	6,566
Taxation	**(634)**	(427)	**(1,041)**	(688)
Dividends and net interest	**(229)**	(170)	**(374)**	(274)
Net borrowings	**(3,229)**	(433)	**(5,296)**	(697)
Minority interests	**(5)**	(7)	**(8)**	(11)
Combined shareholders' funds	**2,917**	3,041	**4,784**	4,896

	Depreciation		Amortisation		Capital expenditure	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Business segment						
Science & Medical	**23**	17	**106**	98	**35**	26
Legal	**62**	60	**191**	168	**89**	72
Education	**7**	3	**35**	14	**14**	3
Business	**40**	38	**169**	188	**40**	43
Total	**132**	118	**501**	468	**178**	144
Included above in respect of the Harcourt acquired businesses:						
Science & Medical	**2**	–	**14**	–	**2**	–
Education	**4**	–	**21**	–	**10**	–

	Depreciation		Amortisation		Capital expenditure	
	2001 €m	2000 €m	2001 €m	2000 €m	2001 €m	2000 €m
Business segment						
Science & Medical	**37**	28	**171**	161	**56**	43
Legal	**100**	98	**308**	276	**143**	118
Education	**11**	5	**56**	23	**23**	5
Business	**65**	63	**272**	308	**65**	70
Total	**213**	194	**807**	768	**287**	236
Included above in respect of the Harcourt acquired businesses:						
Science & Medical	**3**	–	**23**	–	**3**	–
Education	**6**	–	**34**	–	**16**	–

2 COST OF SALES AND OPERATING EXPENSES

	2001 Before amortisation and exceptional items £m	2001 Amortisation of goodwill and intangible assets £m	2001 Exceptional items £m	2001 Total £m	2000 Before amortisation and exceptional items £m	2000 Amortisation of goodwill and intangible assets £m	2000 Exceptional items £m	2000 Total £m
Cost of sales								
Continuing operations	1,361	–	–	1,361	1,332	–	–	1,332
Acquisitions	250	–	–	250	–	–	–	–
Total	1,611	–	–	1,611	1,332	–	–	1,332
Distribution and selling costs								
Continuing operations	902	–	–	902	884	–	–	884
Acquisitions	126	–	–	126	–	–	–	–
	1,028	–	–	1,028	884	–	–	884
Administrative expenses								
Continuing operations	813	436	59	1,308	775	465	115	1,355
Acquisitions	133	62	39	234	–	–	–	–
	946	498	98	1,542	775	465	115	1,355
Operating expenses								
Continuing operations	1,715	436	59	2,210	1,659	465	115	2,239
Acquisitions	259	62	39	360	–	–	–	–
Total	1,974	498	98	2,570	1,659	465	115	2,239

	2001 Before amortisation and exceptional items €m	2001 Amortisation of goodwill and intangible assets €m	2001 Exceptional items €m	2001 Total €m	2000 Before amortisation and exceptional items €m	2000 Amortisation of goodwill and intangible assets €m	2000 Exceptional items €m	2000 Total €m
Cost of sales								
Continuing operations	2,191	–	–	2,191	2,185	–	–	2,185
Acquisitions	403	–	–	403	–	–	–	–
Total	2,594	–	–	2,594	2,185	–	–	2,185
Distribution and selling costs								
Continuing operations	1,453	–	–	1,453	1,450	–	–	1,450
Acquisitions	202	–	–	202	–	–	–	–
	1,655	–	–	1,655	1,450	–	–	1,450
Administrative expenses								
Continuing operations	1,309	702	95	2,106	1,271	762	189	2,222
Acquisitions	214	100	63	377	–	–	–	–
	1,523	802	158	2,483	1,271	762	189	2,222
Operating expenses								
Continuing operations	2,762	702	95	3,559	2,721	762	189	3,672
Acquisitions	416	100	63	579	–	–	–	–
Total	3,178	802	158	4,138	2,721	762	189	3,672

3 PERSONNEL

NUMBER OF PEOPLE EMPLOYED	At 31 December 2001	Average during the year 2001	Average during the year 2000
Business segment			
Science & Medical	**6,200**	**5,200**	3,700
Legal	**13,300**	**12,700**	11,200
Education	**5,600**	**3,400**	1,500
Business	**11,900**	**13,300**	12,500
Total	**37,000**	**34,600**	28,900
Included above in respect of the Harcourt acquired businesses:			
Science & Medical	**2,000**	**1,000**	–
Education	**4,100**	**1,900**	–
Geographical location			
North America	**21,400**	**18,900**	14,800
United Kingdom	**6,200**	**6,100**	5,700
The Netherlands	**2,900**	**3,000**	3,000
Rest of Europe	**3,800**	**3,700**	3,000
Rest of World	**2,700**	**2,900**	2,400
Total	**37,000**	**34,600**	28,900

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 2001.

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 3%.

The actuarial values placed on scheme assets were sufficient to cover 121% and 114% 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/€2,826m, and £266m/€437m 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 these other 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 £39m/€63m (2000 £35m/€57m), including a net £nil/€nil (2000 £1m/€2m) SSAP24 credit related to the main UK scheme. The net SSAP24 credit on the main UK scheme comprises a regular cost of £24m/€39m (2000 £23m/€38m), offset by amortisation of the net actuarial surplus of £24m/€39m (2000 £24m/€40m). Pension contributions made in the year amounted to £39m/€63m (2000 £36m/€59m). A prepayment of £128m/€210m (2000 £128m/€206m) 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.

4 PENSION SCHEMES (continued)

Pension costs are accounted for in accordance with the UK accounting standard, SSAP24. A new UK financial reporting standard, FRS17: Retirement Benefits, will, with effect from the 2003 financial year, introduce new accounting policies in respect of pension arrangements. FRS17 also requires additional information to be disclosed in the intervening period on pension assets and liabilities (with effect from the 2001 financial year), as set out below, and pension expense (with effect from the 2002 financial year) based on methodologies set out in the standard which are different from those used by the scheme actuaries in determining funding arrangements.

The assumed rates of return on scheme assets, the market value of those assets and the present value of the scheme liabilities at 31 December 2001 based on the methodologies and presentation prescribed by FRS17 were as follows:

	Main UK Scheme			Aggregate of Schemes		
	Assumed rate of return on assets %	£m	€m	Assumed rate of return on assets %	£m	€m
Equities	7.20%	**991**	**1,625**	7.70%	**1,267**	**2,078**
Bonds	5.00%	**502**	**823**	5.50%	**721**	**1,182**
Other	4.00%	**73**	**120**	4.00%	**81**	**133**
Total fair value of assets		**1,566**	**2,568**		**2,069**	**3,393**
Present value of scheme liabilities		**(1,316)**	**(2,158)**		**(1,872)**	**(3,070)**
Surplus		**250**	**410**		**197**	**323**
Related deferred tax		**(75)**	**(123)**		**(57)**	**(93)**
Net pension asset		**175**	**287**		**140**	**230**

The net pension asset is stated after deducting liabilities in respect of unfunded schemes.

The principal assumptions made in valuing pension scheme liabilities for the purposes of FRS17 are:

	Main UK Scheme	Aggregate of Schemes
Inflation	2.50%	2.50%
Rate of increase in salaries	4.50%	4.40%
Rate of increase in pensions in payment	2.50%	2.50%
Discount rate	5.50%	5.90%

The combined profit and loss reserves as at 31 December 2001 of £1,104m/€1,810m would have been £1,154m/€1,892m had the accounting requirements of FRS17 applied in the 2001 financial year.

5 OPERATING PROFIT

Operating profit is stated after the following:

	Note	**2001 £m**	2000 £m	**2001 €m**	2000 €m
Hire of plant and machinery		**7**	12	**11**	20
Other operating lease rentals		**87**	71	**140**	116
Depreciation (including £4m/€6m (2000 £4m/€7m) in respect of assets held under finance leases)		**132**	118	**213**	194
Amortisation of goodwill and intangible assets		**498**	465	**802**	762
Amortisation of goodwill and intangible assets in joint ventures		**3**	3	**4**	6
Total amortisation		**501**	468	**806**	768
Staff costs					
Wages and salaries		**1,207**	979	**1,943**	1,606
Social security costs		**119**	100	**192**	164
Pensions	4	**39**	35	**63**	57
Total staff costs		**1,365**	1,114	**2,198**	1,827
Auditors' remuneration					
For audit services		**2.5**	1.9	**4.0**	3.1
For non audit services		**3.4**	2.6	**5.5**	4.3

Included in auditors' remuneration for non audit services is £1.0m/€1.6m (2000 £1.5m/€2.5m) paid to Deloitte & Touche and its associates in the UK. Non audit fees paid to Deloitte & Touche principally relate to accounting services and tax advice in connection with Harcourt and other acquisitions and disposals.

Information on directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Reed Elsevier plc Remuneration Report on pages 17 to 23 and forms part of these financial statements.

6 EXCEPTIONAL ITEMS

	Note	2001 £m	2000 £m	2001 €m	2000 €m
Reorganisation costs	(i)	**(35)**	(77)	**(56)**	(126)
Acquisition related costs	(ii)	**(63)**	(38)	**(102)**	(63)
Charged to operating profit		**(98)**	(115)	**(158)**	(189)
Net profit on sale of businesses	(iii)	**26**	85	**41**	140
Exceptional charge before tax		**(72)**	(30)	**(117)**	(49)
Net tax credit	(iv)	**81**	20	**130**	33
Total exceptional credit/(charge)		**9**	(10)	**13**	(16)

(i) Reorganisation costs relate to headcount reduction, principally in the Business division, and comprise employee severance. Reorganisation costs in 2000 related to the major programme of reorganisation commenced in 1999.

(ii) Acquisition related costs include employee severance and property rationalisation costs arising on the integration of Harcourt and other recent acquisitions, and £9m/€14m of exceptional costs relating to the financing of the tender offer.

(iii) The net profit on sale of businesses relates primarily to the disposals of OAG Worldwide, Cahners Travel Group, Bowker and certain training businesses in the Netherlands.

(iv) The net tax credit includes taxes recoverable in respect of disposals and prior period reorganisation costs.

Cash flows in respect of exceptional items were as follows:

	2001 £m	2000 £m	2001 €m	2000 €m
Reorganisation costs	**(41)**	(76)	**(66)**	(125)
Acquisition related costs	**(51)**	(9)	**(82)**	(15)
Other	**(5)**	(9)	**(8)**	(14)
Exceptional operating cash outflow	**(97)**	(94)	**(156)**	(154)
Net proceeds from sale of businesses	**96**	153	**154**	251
Exceptional cash (outflow)/inflow before tax	**(1)**	59	**(2)**	97
Exceptional tax cash inflow	**141**	31	**227**	51
Total exceptional cash inflow	**140**	90	**225**	148

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

7 NET INTEREST EXPENSE

	2001 £m	2000 £m	2001 €m	2000 €m
Interest receivable and similar income	**107**	26	**172**	43
Interest payable and similar charges				
Promissory notes and bank loans	**(102)**	(83)	**(164)**	(136)
Other loans	**(90)**	(45)	**(145)**	(74)
Other interest and similar charges	**(57)**	(1)	**(92)**	(2)
Total	**(142)**	(103)	**(229)**	(169)
Interest cover (times)	**7**	8	**7**	8

Interest receivable and payable include offsetting exceptional amounts of £48m/€77m principally arising on interest rate and currency hedging arrangements in respect of the Harcourt transaction.

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

	2001 £m	2000 £m	2001 €m	2000 €m
Current tax				
United Kingdom	**62**	60	**100**	98
The Netherlands	**79**	54	**127**	89
Rest of World	**81**	46	**130**	75
Total current tax	**222**	160	**357**	262
Deferred tax				
Origination and reversal of timing differences	**25**	(5)	**40**	(8)
Changes in recoverable amounts of deferred tax assets	**(104)**	–	**(167)**	–
Sub-total	**143**	155	**230**	254
Share of tax attributable to joint ventures	**5**	4	**8**	7
Total	**148**	159	**238**	261

The current tax charge for the year is high as a proportion of profit before tax principally due to non tax-deductible amortisation. A reconciliation of the notional current tax charge based on average standard rates of tax (weighted in proportion to accounting profits) to the actual current tax charge is set out below:

	2001 £m	2000 £m	2001 €m	2000 €m
Profit on ordinary activities before tax	**275**	192	**442**	315
Tax at average standard rates	**62**	49	**100**	80
Net impact of amortisation of goodwill and intangible assets	**119**	102	**192**	167
Permanent differences and other items	**66**	4	**106**	7
Reversal of timing differences	**(25)**	5	**(41)**	8
Current tax charge	**222**	160	**357**	262

9 EQUITY DIVIDENDS PAID AND PROPOSED

	2001 £m	2000 £m	2001 €m	2000 €m
Reed International	**132**	123	**211**	202
Elsevier	**137**	122	**221**	200
Total	**269**	245	**432**	402

Dividends comprise the total dividend for Reed International of 10.5p (2000 10.0p) per ordinary share and the total dividend for Elsevier of €0.30 (2000 €0.28) per ordinary share.

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:

	2001 £m	2000 £m	**2001 €m**	2000 €m
Operating profit including joint ventures	**391**	210	**630**	344
Adjustments:				
Amortisation of goodwill and intangible assets	**501**	468	**806**	768
Reorganisation costs	**35**	77	**56**	126
Acquisition related costs	**63**	38	**102**	63
Adjusted operating profit	**990**	793	**1,594**	1,301
Profit before tax	**275**	192	**442**	315
Adjustments:				
Amortisation of goodwill and intangible assets	**501**	468	**806**	768
Reorganisation costs	**35**	77	**56**	126
Acquisition related costs	**63**	38	**102**	63
Net profit on sale of businesses	**(26)**	(85)	**(41)**	(140)
Adjusted profit before tax	**848**	690	**1,365**	1,132
Profit attributable to parent companies' shareholders	**126**	33	**202**	54
Adjustments:				
Amortisation of goodwill and intangible assets	**507**	468	**816**	768
Reorganisation costs	**3**	53	**5**	86
Acquisition related costs	**33**	33	**54**	55
Net profit on sale of businesses	**(45)**	(76)	**(72)**	(125)
Adjusted profit attributable to parent companies' shareholders	**624**	511	**1,005**	838
Net cash inflow from operating activities	**1,066**	813	**1,717**	1,333
Dividends received from joint ventures	**12**	6	**19**	10
Purchase of tangible fixed assets	**(175)**	(141)	**(282)**	(231)
Proceeds from sale of tangible fixed assets	**6**	3	**10**	5
Payments in relation to exceptional items charged to operating profit	**97**	94	**156**	154
Adjusted operating cash flow	**1,006**	775	**1,620**	1,271

11 CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

	Note	2001 £m	2000 £m	2001 €m	2000 €m
Operating profit (before joint ventures)		**379**	197	**610**	323
Exceptional charges to operating profit	6	**98**	115	**158**	189
Operating profit before exceptional items		**477**	312	**768**	512
Amortisation of goodwill and intangible assets		**498**	465	**802**	762
Depreciation		**132**	118	**213**	194
Net SSAP24 pension credit	4	**–**	(1)	**–**	(2)
Total non cash items		**630**	582	**1,015**	954
Increase in inventories and pre-publication costs		**(48)**	(3)	**(77)**	(5)
Decrease/(increase) in debtors		**156**	(110)	**251**	(181)
(Decrease)/increase in creditors		**(52)**	126	**(84)**	207
Movement in working capital		**56**	13	**90**	21
Net cash inflow from operating activities before exceptional items		**1,163**	907	**1,873**	1,487
Payments relating to exceptional items charged to operating profit	6	**(97)**	(94)	**(156)**	(154)
Net cash inflow from operating activities		**1,066**	813	**1,717**	1,333

Acquisitions

	Note	2001 £m	2000 £m	2001 €m	2000 €m
Purchase of businesses	12	**(3,222)**	(848)	**(5,187)**	(1,391)
Net proceeds from on-sale of Harcourt Higher Education and Corporate & Professional Services businesses	12	**1,185**	–	**1,908**	–
Payment of Harcourt change of control and other non operating liabilities assumed		**(156)**	–	**(251)**	–
Deferred consideration of prior year acquisitions		**(43)**	(13)	**(69)**	(21)
Total		**(2,236)**	(861)	**(3,599)**	(1,412)

The Harcourt businesses, acquired on 12 July 2001 (see note 12), contributed £283m/€456m to net cash inflow from operating activities and paid £12m/€19m in respect of capital expenditure for the part year under Reed Elsevier ownership. Other acquisitions contributed £3m/€5m to net cash inflow from operating activities.

Exceptional sale of businesses

	2001 £m	2000 £m	2001 €m	2000 €m
Goodwill and intangible assets	**61**	35	**98**	57
Net tangible assets	**15**	44	**24**	73
	76	79	**122**	130
Net profit on sale	**26**	85	**41**	140
Consideration in respect of sale of businesses, net of expenses	**102**	164	**163**	270
Net amounts receivable	**(6)**	(11)	**(9)**	(19)
Net cash inflow	**96**	153	**154**	251

11 CASH FLOW STATEMENT (continued)

Financing

	2001 £m	2000 £m	2001 €m	2000 €m
Net movement in promissory notes and bank loans	**(454)**	304	**(731)**	499
Repayment of other loans	**(84)**	(155)	**(135)**	(254)
Issuance of other loans	**1,069**	202	**1,721**	331
Repayment of finance leases	**(5)**	(4)	**(8)**	(7)
	526	347	**847**	569
Issue of ordinary shares	**11**	1,287	**18**	2,110
Total	**537**	1,634	**865**	2,679

The issuance of other loans relates primarily to global notes issued by a wholly owned US subsidiary of Reed Elsevier plc, comprising US$550m 6.125% notes due in 2006, €500m 5.750% notes due in 2008, and US$550m 6.750% notes due in 2011. The issuance of other loans in 2000 related to a US$300m Swiss Domestic Bond.

The repayment of other loans relates primarily to the repurchase of Public Notes with a nominal value of US$97m. The repayment of other loans in 2000 related primarily to US$100m of Private Placements and US$150m of Medium Term Notes which matured in the year.

Reconciliation of net borrowings

	Cash £m	Short term investments £m	Borrowings £m	2001 £m	2000 £m
Net borrowings at 1 January	**85**	**1,509**	**(2,027)**	**(433)**	(1,066)
Increase in cash	**10**	**–**	**–**	**10**	7
(Decrease)/increase in short term investments	**–**	**(1,169)**	**–**	**(1,169)**	1,137
Increase in borrowings	**–**	**–**	**(526)**	**(526)**	(347)
Change in net borrowings resulting from cash flows	**10**	**(1,169)**	**(526)**	**(1,685)**	797
Borrowings in acquired businesses	**–**	**–**	**(1,042)**	**(1,042)**	(48)
Inception of finance leases	**–**	**–**	**(3)**	**(3)**	(3)
Exchange translation differences	**1**	**(1)**	**(66)**	**(66)**	(113)
Net borrowings at 31 December	**96**	**339**	**(3,664)**	**(3,229)**	(433)

	Cash €m	Short term investments €m	Borrowings €m	2001 €m	2000 €m
Net borrowings at 1 January	**137**	**2,429**	**(3,263)**	**(697)**	(1,717)
Increase in cash	**16**	**–**	**–**	**16**	11
(Decrease)/increase in short term investments	**–**	**(1,882)**	**–**	**(1,882)**	1,865
Increase in borrowings	**–**	**–**	**(847)**	**(847)**	(569)
Change in net borrowings resulting from cash flows	**16**	**(1,882)**	**(847)**	**(2,713)**	1,307
Borrowings in acquired businesses	**–**	**–**	**(1,677)**	**(1,677)**	(79)
Inception of finance leases	**–**	**–**	**(5)**	**(5)**	(5)
Exchange translation differences	**4**	**9**	**(217)**	**(204)**	(203)
Net borrowings at 31 December	**157**	**556**	**(6,009)**	**(5,296)**	(697)

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

The borrowings in acquired businesses principally comprise the public term debt with a nominal value totalling US$842m and other borrowings assumed of Harcourt General, Inc. Of the Harcourt General, Inc public term debt at acquisition, US$150m matured within one year, US$192m between five and ten years and US$500m after more than ten years, with coupon rates of between 6.5% and 8.875%.

12 ACQUISITIONS

During the year a number of acquisitions were made for a total consideration amounting to £3,242m/€5,219m, after taking account of borrowings of £1,042m/€1,677m and net cash acquired of £4m/€6m.

On 12 July 2001, Reed Elsevier plc acquired, through a US subsidiary, Reed Elsevier Inc., the whole of the common stock and Series A cumulative convertible stock of Harcourt General, Inc for US$4.45 billion. On 13 July 2001, Reed Elsevier Inc. sold the Harcourt Higher Education business and the Corporate & Professional Services businesses (other than educational and clinical testing) to The Thomson Corporation for US$2.06 billion before estimated tax payable of US$0.5 billion. Following the on-sale, Reed Elsevier Inc. has acquired Harcourt's Science, Technical & Medical (STM) business and its Schools Education and Testing businesses.

A summary of the estimated fair value of the consideration paid for Harcourt General, Inc and the assets and liabilities acquired is set out below.

	Notes	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Goodwill	(i)	493	758	1,251
Intangible fixed assets	(ii)	25	1,633	1,658
Tangible fixed assets		54	–	54
Investments		70	–	70
Business held for resale	(iii)	523	536	1,059
Current assets	(iv)	702	(56)	646
Current liabilities		(311)	–	(311)
Borrowings	(v)	(1,005)	(35)	(1,040)
Current and deferred tax	(vi)	18	(33)	(15)
Other net liabilities	(vii)	(269)	(19)	(288)
Net assets acquired		300	2,784	3,084
Consideration	(viii)			3,084
Less: amounts deferred from prior year				(20)
Net cash flow				3,064

	Notes	Book value on acquisition €m	Fair value adjustments €m	Fair value €m
Goodwill	(i)	794	1,220	2,014
Intangible fixed assets	(ii)	40	2,629	2,669
Tangible fixed assets		87	–	87
Investments		113	–	113
Business held for resale	(iii)	842	863	1,705
Current assets	(iv)	1,130	(90)	1,040
Current liabilities		(501)	–	(501)
Borrowings	(v)	(1,618)	(56)	(1,674)
Current and deferred tax	(vi)	29	(53)	(24)
Other net liabilities	(vii)	(433)	(31)	(464)
Net assets acquired		483	4,482	4,965
Consideration	(viii)			4,965
Less: amounts deferred from prior year				(32)
Net cash flow				4,933

(i) The fair value of goodwill reflects the excess of the consideration paid over the fair value of the net tangible and intangible assets acquired.
(ii) The fair value of intangible assets acquired is based on a valuation exercise carried out by independent qualified valuers.
(iii) The businesses held for resale relate to those on-sold to The Thomson Corporation and are stated at the estimated net realisable proceeds after taxes payable and separation and other expenses.
(iv) The fair value adjustment to current assets relates to a conforming of accounting practices across the businesses, principally with respect to the level of internal labour deferred in pre-publication costs.
(v) The Harcourt General, Inc publicly traded debt has been restated at market based value on acquisition.
(vi) The fair value adjustment for current and deferred tax balances relates to the recognition of deferred tax assets at amounts considered recoverable in the short term.
(vii) The other net liabilities on acquisition include £103m/€166m in respect of change of control arrangements and transaction costs incurred by Harcourt General, Inc and £124m/€200m in respect of General Cinema lease obligations and other non operating liabilities assumed.
(viii) Consideration is stated after £26m/€42m of acquisition costs.

The fair values included above represent estimates following a preliminary valuation exercise. Final values will be incorporated into the 2002 financial statements.

12 ACQUISITIONS (continued)

Proforma turnover and adjusted operating profit for the Harcourt STM and Education and Testing businesses for the two years ended 31 December 2001, which have been prepared on the basis of Reed Elsevier's accounting policies and as if the acquisition of Harcourt had taken place on 1 January 2000, are set out below.

	2001 £m	2000 £m	2001 €m	2000 €m
Turnover				
STM	481	451	774	740
Education and Testing	769	656	1,238	1,076
	1,250	1,107	2,012	1,816
Adjusted operating profit				
STM	107	103	172	169
Education and Testing	153	129	246	212
	260	232	418	381

From the beginning of the Harcourt General, Inc financial year, 1 November 2000, to 12 July 2001, the Harcourt STM business and Education and Testing businesses together reported, on the basis of Harcourt's US GAAP accounting policies, turnover of £746m/€1,209m and operating profit of £41m/€66m. For the previous Harcourt General financial year ended 31 October 2000, the businesses reported under US GAAP operating profit of £182m/€295m.

The fair values of the consideration paid for other acquisitions in the year, the most significant of which were Courtlink and Classroom Connect, and the assets and liabilities acquired, which are provisional pending the completion of fair value assessments in 2002, are summarised below:

	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Goodwill	–	177	177
Intangible fixed assets	–	11	11
Tangible fixed assets	8	(2)	6
Current assets	10	–	10
Current liabilities	(27)	–	(27)
Borrowings	(2)	–	(2)
Net assets acquired	(11)	186	175
Consideration (after taking account of £4m net cash acquired)			175
Less: transferred from investments			(13)
Less: deferred to future years			(4)
Net cash flow			158

	Book value on acquisition €m	Fair value adjustments €m	Fair value €m
Goodwill	–	285	285
Intangible fixed assets	–	18	18
Tangible fixed assets	13	(3)	10
Current assets	16	–	16
Current liabilities	(44)	–	(44)
Borrowings	(3)	–	(3)
Net assets acquired	(18)	300	282
Consideration (after taking account of €6m net cash acquired)			282
Less: transferred from investments			(21)
Less: deferred to future years			(7)
Net cash flow			254

13 GOODWILL AND INTANGIBLE ASSETS

	Goodwill £m	Intangible assets £m	Total £m	Goodwill €m	Intangible assets €m	Total €m
Cost						
At 1 January 2001	3,730	3,508	7,238	6,005	5,648	11,653
Acquisitions	1,428	1,669	3,097	2,299	2,687	4,986
Sale of businesses	(384)	(654)	(1,038)	(618)	(1,053)	(1,671)
Exchange translation differences	61	50	111	243	218	461
At 31 December 2001	4,835	4,573	9,408	7,929	7,500	15,429
Accumulated amortisation						
At 1 January 2001	1,478	1,633	3,111	2,380	2,629	5,009
Sale of businesses	(355)	(622)	(977)	(572)	(1,001)	(1,573)
Charge for the year	332	166	498	535	267	802
Exchange translation differences	23	30	53	81	84	165
At 31 December 2001	1,478	1,207	2,685	2,424	1,979	4,403
Net book amount						
At 1 January 2001	2,252	1,875	4,127	3,625	3,019	6,644
At 31 December 2001	3,357	3,366	6,723	5,505	5,521	11,026

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 2001	168	826	994	270	1,330	1,600
Acquisitions	50	115	165	81	185	266
Capital expenditure	10	168	178	16	271	287
Disposals	(17)	(149)	(166)	(27)	(240)	(267)
Exchange translation differences	2	9	11	9	43	52
At 31 December 2001	213	969	1,182	349	1,589	1,938
Accumulated depreciation						
At 1 January 2001	56	522	578	90	840	930
Acquisitions	22	83	105	35	134	169
Disposals	(11)	(119)	(130)	(18)	(191)	(209)
Charge for the year	7	125	132	11	202	213
Exchange translation differences	1	7	8	5	28	33
At 31 December 2001	75	618	693	123	1,013	1,136
Net book amount						
At 1 January 2001	112	304	416	180	490	670
At 31 December 2001	138	351	489	226	576	802

At 31 December 2001 and 2000, all assets were included at cost. No depreciation was provided on freehold land. The net book amount of tangible fixed assets includes £16m/€26m (2000 £17m/€27m) in respect of assets held under finance leases.

15 FIXED ASSET INVESTMENTS

	Investments in joint ventures £m	Other investments £m	Total £m	Investments in joint ventures €m	Other investments €m	Total €m
At 1 January 2001	**72**	**81**	**153**	**116**	**131**	**247**
Share of attributable profit	**10**	**–**	**10**	**16**	**–**	**16**
Amortisation of goodwill and intangible assets	**(3)**	**–**	**(3)**	**(4)**	**–**	**(4)**
Dividends received from joint ventures	**(12)**	**–**	**(12)**	**(19)**	**–**	**(19)**
Acquisitions	**–**	**70**	**70**	**–**	**113**	**113**
Additions	**–**	**59**	**59**	**–**	**95**	**95**
Transfers/disposals	**–**	**(23)**	**(23)**	**–**	**(37)**	**(37)**
Provided	**–**	**(13)**	**(13)**	**–**	**(21)**	**(21)**
Exchange translation differences	**(1)**	**1**	**–**	**(1)**	**6**	**5**
At 31 December 2001	**66**	**175**	**241**	**108**	**287**	**395**

The principal joint venture at 31 December 2001 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/€61m and £24m/€39m respectively (2000 £37m/€60m and £27m/€43m).

At 31 December 2001, the Reed Elsevier plc Employee Benefit Trust ("EBT") held 2,416,207 (2000 590,257) Reed International ordinary shares and 1,412,194 (2000 320,000) Elsevier ordinary shares at a book amount of £18m/€30m. The aggregate market value at 31 December 2001 was £25m/€41m (2000 £7m/€12m). 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. Details of the share option schemes are set out in the Reed Elsevier plc Remuneration Report on pages 17 to 23.

16 INVENTORIES AND PRE-PUBLICATION COSTS

	2001 £m	2000 £m	**2001 €m**	2000 €m
Raw materials	**43**	17	**71**	27
Pre-publication costs	**258**	40	**423**	64
Finished goods	**187**	57	**307**	93
Total	**488**	114	**801**	184

17 DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £m	2000 £m	**2001 €m**	2000 €m
Trade debtors	**760**	652	**1,246**	1,050
Amounts owed by joint ventures	**2**	3	**3**	5
Other debtors	**98**	89	**161**	143
Prepayments and accrued income	**139**	116	**228**	187
Total	**999**	860	**1,638**	1,385

18 DEBTORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	**2001 £m**	2000 £m	**2001 €m**	2000 €m
Trade debtors		**5**	1	**8**	2
Pension prepayment	4	**128**	128	**210**	206
Prepayments, accrued income and other debtors		**86**	35	**141**	56
Deferred taxation assets	24	**244**	42	**400**	67
Total		**463**	206	**759**	331

A new financial reporting standard, FRS19: Deferred tax, has been adopted during the year. Under the previously applicable accounting standard, certain deferred taxation assets could be set off against deferred taxation liabilities. Under FRS19 these balances are required to be shown as debtors falling due after more than one year. Comparatives have been restated accordingly.

19 CASH AND SHORT TERM INVESTMENTS

	2001 £m	2000 £m	2001 €m	2000 €m
Cash at bank and in hand	**96**	85	**157**	137
Short term investments	**339**	1,509	**556**	2,429
Total	**435**	1,594	**713**	2,566

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	2001 £m	2000 £m	2001 €m	2000 €m
Borrowings					
Promissory notes and bank loans		**1,443**	1,395	**2,367**	2,246
Other loans		**108**	4	**177**	6
Obligations under finance leases	23	**5**	5	**8**	8
		1,556	1,404	**2,552**	2,260
Trade creditors		**246**	245	**403**	394
Other creditors		**330**	213	**541**	343
Taxation		**429**	193	**704**	311
Proposed dividends		**190**	177	**312**	285
Accruals and deferred income		**1,383**	1,147	**2,268**	1,848
Total		**4,134**	3,379	**6,780**	5,441

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2001 £m	2000 £m	2001 €m	2000 €m
Borrowings					
Loans repayable:					
Within one to two years		**91**	4	**149**	6
Within two to five years		**506**	205	**830**	330
After five years		**1,500**	402	**2,460**	648
Obligations under finance leases	23	**11**	12	**18**	19
		2,108	623	**3,457**	1,003
Other creditors		**21**	27	**34**	43
Taxation		**331**	197	**543**	317
Accruals and deferred income		**42**	26	**69**	43
Total		**2,502**	873	**4,103**	1,406

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 2001 Financial Performance on pages 2 to 12.

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 £3,848m/€6,310m (2000 £2,147m/€3,457m), 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)
2001						
US dollar	**629**	**2,703**	**1,032**	**4,433**	6.8%	10.7
Sterling	**22**	**–**	**36**	**–**	–	–
Euro	**268**	**138**	**440**	**226**	5.6%	5.2
Other currencies	**88**	**–**	**143**	**–**	–	–
Total	**1,007**	**2,841**	**1,651**	**4,659**	6.8%	10.5

	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

Included within fixed rate financial liabilities as at 31 December 2001 are £105m/€172m (2000 £nil/€nil) of US dollar term debt and £397m/€651m of interest rate swaps denominated principally in US dollars that mature within one year (2000 £73m/€118m denominated principally in US dollars).

Currency and interest rate profile of financial assets

The currency and interest rate profile of the aggregate financial assets of £616m/€1,010m (2000 £1,694m/€2,727m), 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
2001				
US dollar	**87**	**147**	**143**	**241**
Sterling	**74**	**24**	**121**	**39**
Euro	**244**	**6**	**400**	**10**
Other currencies	**30**	**4**	**49**	**7**
Total	**435**	**181**	**713**	**297**

	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

At 31 December 2001, there were fixed rate financial assets of £nil/€nil (2000 £13m/€21m denominated in US dollars).

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 £175m/€287m (2000 £81m/€130m) of investments denominated principally in sterling and US dollars which have no maturity date.

22 FINANCIAL INSTRUMENTS (continued)

At 31 December 2001, agreements totalling £357m/€585m (2000 £1,767m/€2,845m) were in place to enter into interest rate swaps and interest rate floors at future dates. Of these, individual agreements totalling £207m/€339m (2000 £946m/€1,523m) were to fix the interest expense on US dollar borrowings commencing in 2002 for periods of between five and six years, at a weighted average interest rate of 6.28% (2000 interest rate options totalling £671m/€1,080m). Interest rate floors with principal amounts totalling £150m/€246m and starting in 2002 protect the interest income on sterling short term investments for periods of up to a year, at a minimum rate of 4.85% (2000 interest rate swaps totalling £150m/€242m).

At 31 December 2001, forward rate agreements totalling £276m/€453m (2000 £885m/€1,425m) were in place. All of these agreements (2000 £537m/€865m) were to fix the interest expense on short term US dollar borrowings commencing in 2002 for periods of six months, at a weighted average interest rate of 2.82%.

Maturity profile of financial liabilities

The maturity profile of financial liabilities at 31 December comprised:

	2001 £m	2000 £m	**2001 €m**	2000 €m
Repayable:				
Within one year	**1,598**	1,426	**2,621**	2,296
Within one to two years	**149**	54	**244**	87
Within two to five years	**557**	237	**914**	382
After five years	**1,544**	430	**2,531**	692
Total	**3,848**	2,147	**6,310**	3,457

Financial liabilities repayable within one year include US commercial paper and euro commercial paper. Short term borrowings are supported by committed facilities and by centrally managed cash and short term investments. As at 31 December 2001, a total of £2,413m/€3,957m (2000 £4,497m/€7,240m) of committed facilities were available, of which £418m/€686m was drawn and is included in financial liabilities repayable within one year. Of the total committed facilities, £248m/€407m (2000 £2,389m/€3,846m) matures within one year, £1,724m/€2,827m (2000 £nil/€nil) within one to two years, and £441m/€723m (2000 £2,108m/€3,394m) within two to three years. Included within the 2000 amount is £3,154m/€5,078m of committed facilities arranged in anticipation of the Harcourt acquisition. Secured borrowings under finance leases were £16m/€26m (2000 £17m/€27m).

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.

22 FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and liabilities

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

	2001 Notional amount £m	2001 Book value £m	2001 Fair value £m	2000 Notional amount £m	2000 Book value £m	2000 Fair value £m
Primary financial instruments held or issued to finance operations						
Investments		175	175		81	81
Cash		96	96		85	85
Short term investments		339	338		1,509	1,512
Other financial assets		6	6		19	19
Short term borrowings and current portion of long term borrowings		(1,556)	(1,555)		(1,404)	(1,398)
Long term borrowings		(2,108)	(2,104)		(623)	(614)
Other financial liabilities		(22)	(22)		(34)	(34)
Provisions		(162)	(162)		(86)	(86)
		(3,232)	(3,228)		(453)	(435)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	1,233	(9)	(43)	1,612	(1)	(49)
Interest rate options	690	(4)	(48)	671	–	(17)
Interest rate floors	275	–	1	–	–	–
Forward rate agreements	276	–	–	885	–	(1)
Forward foreign exchange contracts	917	–	(2)	1,776	–	(38)
Foreign exchange options	–	–	–	50	–	(1)
	3,391	(13)	(92)	4,994	(1)	(106)
Total financial instruments	3,391	(3,245)	(3,320)	4,994	(454)	(541)

22 FINANCIAL INSTRUMENTS (continued)

	2001			2000		
	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		287	287		130	130
Cash		157	157		137	137
Short term investments		556	554		2,429	2,434
Other financial assets		10	10		31	31
Short term borrowings and current portion of long term borrowings		(2,552)	(2,550)		(2,260)	(2,251)
Long term borrowings		(3,457)	(3,451)		(1,003)	(987)
Other financial liabilities		(36)	(36)		(55)	(55)
Provisions		(265)	(265)		(139)	(139)
		(5,300)	(5,294)		(730)	(700)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	2,022	(15)	(71)	2,595	(2)	(79)
Interest rate options	1,132	(7)	(79)	1,080	–	(27)
Interest rate floors	451	–	2	–	–	–
Forward rate agreements	453	–	–	1,425	–	(2)
Forward foreign exchange contracts	1,503	–	(3)	2,859	–	(61)
Forward foreign exchange options	–	–	–	81	–	(2)
	5,561	(22)	(151)	8,040	(2)	(171)
Total financial instruments	5,561	(5,322)	(5,445)	8,040	(732)	(871)

The amounts shown as the book value of derivative financial instruments represent accruals or deferred income arising from these financial 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 2001 and 2000. The fair values of all other items have been calculated by discounting expected future cash flows at market rates.

22 FINANCIAL INSTRUMENTS (continued)

Hedges

The unrecognised and deferred gains and losses on financial instruments used for hedging purposes as at 31 December 2001, and before taking into account gains and losses arising in the year and included in the profit and loss account, are derived as follows:

	Unrecognised		Deferred	
	Gains £m	Losses £m	Gains £m	Losses £m
On hedges at 1 January 2001	2	(108)	17	(24)
Arising in previous years included in 2001 profit and loss account	(2)	93	–	4
Arising in previous years not included in 2001 profit and loss account	–	(15)	17	(20)
Arising in 2001 not included in 2001 profit and loss account	3	(67)	11	(2)
On hedges at 31 December 2001	3	(82)	28	(22)
Of which:				
Expected to be included in 2002 profit and loss account	2	(6)	15	(14)
Expected to be included in 2003 profit and loss account or later	1	(76)	13	(8)

	Unrecognised		Deferred	
	Gains €m	Losses €m	Gains €m	Losses €m
On hedges at 1 January 2001	3	(174)	27	(39)
Arising in previous years included in 2001 profit and loss account	(3)	151	–	7
Arising in previous years not included in 2001 profit and loss account	–	(23)	27	(32)
Arising in 2001 not included in 2001 profit and loss account	5	(111)	19	(4)
On hedges at 31 December 2001	5	(134)	46	(36)
Of which:				
Expected to be included in 2002 profit and loss account	3	(10)	25	(23)
Expected to be included in 2003 profit and loss account or later	2	(124)	21	(13)

23 OBLIGATIONS UNDER LEASES

Future finance lease obligations are:

	Note	**2001 £m**	2000 £m	**2001 €m**	2000 €m
Repayable:					
Within one year		**7**	6	**11**	10
Within one to two years		**3**	4	**5**	6
Within two to five years		**2**	1	**3**	2
After five years		**9**	11	**15**	18
Less: interest charges allocated to future periods		**(5)**	(5)	**(8)**	(9)
Total		**16**	17	**26**	27
Obligations falling due within one year	20	**5**	5	**8**	8
Obligations falling due after more than one year	21	**11**	12	**18**	19
Total		**16**	17	**26**	27

Annual commitments under operating leases are:

	2001 £m	2000 £m	**2001 €m**	2000 €m
On leases expiring:				
Within one year	**19**	4	**31**	6
Within two to five years	**41**	31	**67**	50
After five years	**63**	38	**104**	62
Total	**123**	73	**202**	118

Of the above annual commitments, £119m/€195m relates to land and buildings (2000 £71m/€115m) and £4m/€7m to other leases (2000 £2m/€3m).

24 PROVISIONS FOR LIABILITIES AND CHARGES

	Surplus property £m	Deferred taxation liabilities £m	Lease guarantees £m	Other £m	Total £m
At 1 January 2001	84	79	–	7	170
Acquisitions	–	14	104	–	118
Transfers	–	(6)	–	(4)	(10)
Provided	–	29	–	–	29
Utilised	(10)	(1)	(18)	(3)	(32)
Exchange translation differences	2	3	–	–	5
At 31 December 2001	**76**	**118**	**86**	**–**	**280**

	Surplus property €m	Deferred taxation liabilities €m	Lease guarantees €m	Other €m	Total €m
At 1 January 2001	135	127	–	11	273
Acquisitions	–	23	167	–	190
Transfers	–	(10)	–	(6)	(16)
Provided	–	47	–	–	47
Utilised	(16)	(2)	(29)	(5)	(52)
Exchange translation differences	6	9	2	–	17
At 31 December 2001	**125**	**194**	**140**	**–**	**459**

A new financial reporting standard, FRS19: Deferred tax, has been adopted during the year. Under the previously applicable accounting standard, certain deferred taxation assets could be set off against deferred taxation liabilities. Under FRS19 these balances are required to be shown as debtors falling due after more than one year. Comparatives have been restated accordingly.

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.

The provision for lease guarantees represents amounts provided in respect of guarantees given by Harcourt General, Inc in favour of a former subsidiary, GC Companies, Inc. for certain property leases for various periods up to 2016.

The net provision for deferred taxation comprises:

	Note	**2001 £m**	2000 £m	**2001 €m**	2000 €m
Deferred taxation liabilities					
Excess of tax allowances over related amortisation		**41**	–	**67**	–
Pension prepayment		**38**	37	**62**	60
Short term timing differences		**39**	42	**65**	67
		118	79	**194**	127
Deferred taxation assets					
Excess of amortisation over related tax allowances		**(6)**	(8)	**(10)**	(13)
Short term timing differences		**(201)**	(34)	**(330)**	(54)
Tax losses carried forward		**(37)**	–	**(60)**	–
	18	**(244)**	(42)	**(400)**	(67)
Total		**(126)**	37	**(206)**	60
Net provision at 1 January		**37**	36	**60**	58
Acquisitions		**8**	(2)	**13**	(3)
Transfers		**(96)**	7	**(155)**	11
Deferred tax credit in profit and loss account	8	**(79)**	(5)	**(127)**	(8)
Exchange translation differences		**4**	1	**3**	2
Net provision at 31 December		**(126)**	37	**(206)**	60

25 CONTINGENT LIABILITIES

There are contingent liabilities amounting to £7m/€11m (2000 £10m/€16m) in respect of borrowings of former subsidiaries and £143m/€235m in respect of lease guarantees, in excess of provided amounts, given by Harcourt General, Inc in favour of GC Companies, Inc. (see note 24).

26 COMBINED SHAREHOLDERS' FUNDS

	Combined share capitals £m	Combined share premium accounts £m	Combined reserves £m	Total £m
At 1 January 2001	185	1,621	1,235	3,041
Profit attributable to parent companies' shareholders	–	–	126	126
Equity dividends paid and proposed	–	–	(269)	(269)
Issue of ordinary shares, net of expenses	–	22	–	22
Exchange translation differences	(1)	(14)	12	(3)
At 31 December 2001	184	1,629	1,104	2,917

	Combined share capitals €m	Combined share premium accounts €m	Combined reserves €m	Total €m
At 1 January 2001	298	2,610	1,988	4,896
Profit attributable to parent companies' shareholders	–	–	202	202
Equity dividends paid and proposed	–	–	(432)	(432)
Issue of ordinary shares, net of expenses	–	35	–	35
Exchange translation differences	4	27	52	83
At 31 December 2001	302	2,672	1,810	4,784

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

Combined reserves include a £4m/€7m (2000 £4m/€6m) capital redemption reserve following the redemption of non equity shares in Reed International in 1999.

27 EXCHANGE RATES

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

	Profit and loss		Balance sheet	
	2001	2000	**2001**	2000
Euro to sterling	**1.61**	1.64	**1.64**	1.61
US dollars to sterling	**1.44**	1.51	**1.45**	1.49
Euro to US dollars	**1.12**	1.09	**1.13**	1.08
US dollars to euro	**0.89**	0.92	**0.88**	0.93

Combined financial statements

INDEPENDENT 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, associates and joint ventures (together "the combined businesses") for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the shareholders' funds reconciliation and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the directors of Reed International P.L.C. and Elsevier NV are responsible for the preparation of the combined financial statements 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 Report and Financial Statements, as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the combined financial statements. We are not required to consider whether the boards' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the combined businesses' corporate governance procedures or their risk and control procedures.

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 adequacy of the 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 2001, and of their profits for the year then ended.

Deloitte & Touche
Chartered Accountants and
Registered Auditors
London
20 February 2002

Deloitte & Touche
Accountants
Amsterdam
20 February 2002

Reed International P.L.C.

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

REED ELSEVIER

Reed International P.L.C.

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED 31 DECEMBER

	1997 £m	1998 £m	1999 £m	2000 £m	**2001 £m**
PROFIT AND LOSS ACCOUNT					
Adjusted profit before tax	435	409	376	365	**449**
Adjusted profit attributable to shareholders	322	302	279	270	**330**
Profit before tax	45	552	57	102	**146**
Profit/(loss) attributable to shareholders	(7)	408	(33)	17	**67**
PER SHARE INFORMATION					
Adjusted earnings per ordinary share	28.3p	26.4p	24.4p	23.3p	**26.1p**
Net dividend per ordinary share	14.60p	15.00p	10.00p	10.00p	**10.50p**
Dividend cover	1.8	1.7	2.4	2.1	**2.5**
Earnings/(loss) per ordinary share	(0.6)p	35.7p	(2.9)p	1.5p	**5.3p**
Ordinary share prices – high	648p	716p	630p	700p	**700p**
– low	507p	428p	344p	391p	**493p**
Market capitalisation (£m)	6,956	5,379	5,310	8,837	**7,210**

(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 2001 are £140m, £61m and 4.8p 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 year ended 31 December 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) 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.

(v) 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 2001.

As a consequence of the merger of the company's businesses with those of Elsevier, described on page 13, 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.

Proposed name change

Following the harmonisation of the Boards of Reed International, Elsevier and Reed Elsevier plc during 1999, it is now felt that a common corporate name for the three companies would reflect the benefits of this management structure and the equivalence of economic interests. Accordingly, a resolution will be submitted to the 2002 Annual General Meeting to change Reed International's name to Reed Elsevier PLC. A proposal will also be submitted to the Annual General Meeting of Elsevier NV to change that company's name to Reed Elsevier NV. Upon the above name changes becoming effective, the company that owns the publishing and information businesses, currently named Reed Elsevier plc, will change its name to Reed Elsevier Group plc.

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 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 2001 was £6m (2000 £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 company's share of the operating profits of Reed Elsevier plc was £202m, up from £106m in 2000, reflecting strong performances in the Science & Medical, Legal and Education divisions, partly offset by the impact of the global economic downturn on the Business division. The company's share of the charge for amortisation of goodwill and intangible assets was £265m, up £17m from 2000, reflecting acquisitions made in the year, particularly the acquisition in July of the STM and Education and Testing businesses of Harcourt General, Inc. The company's share of operating exceptional items was £52m (2000 £60m), principally comprising its share of Harcourt integration costs and employee severance costs incurred in response to of the economic downturn. The share of operating exceptional items in 2000 comprised reorganisation costs of £40m and acquisition related costs of £20m. The profit for the year also included the share of profits on sale of businesses of £14m. The reported attributable profit for Reed International was £61m (2000 £11m). The adjusted profit attributable to shareholders – before exceptional items and the amortisation of goodwill and intangible assets – was £330m (2000 £270m).

DIRECTORS' REPORT (continued)

Adjusted earnings per share increased by 12% to 26.1p (2000 23.3p). 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 4.8p (2000 1.0p).

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 2001 amounted to £1,543m (2000 £1,609m). The £66m decrease in net assets principally reflects Reed International's share in the attributable profits of Reed Elsevier plc and Elsevier Reed Finance BV, less dividends paid and payable.

Dividends

The Board is recommending a final dividend of 7.4p per ordinary share to be paid on 13 May 2002 to shareholders on the Register on 12 April 2002 which, when added to the interim dividend already paid on 10 September 2001 amounting to 3.1p per ordinary share, makes the total dividend for the year 10.5p (2000 10.0p).

The total dividend on the ordinary shares for the financial year will amount to £132m (2000 £123m), leaving a retained loss of £71m (2000 £112m).

Directors

The following served as directors during the year:

M Tabaksblat (Chairman)
CHL Davis (Chief Executive Officer)
MH Armour (Chief Financial Officer)
G J A van de Aast
JF Brock
DJ Haank
RJ Nelissen
S Perrick
A Prozes
RWH Stomberg (Senior independent non-executive director)
DGC Webster

Lord Sharman of Redlynch was appointed a non-executive director on 1 January 2002. In accordance with the company's Articles of Association, he will retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election.

Brief biographical details of the directors at the date of this Report are given on page 31 of the Annual Review and Summary Financial Statements.

Messrs Brock, Davis, Haank and Webster will retire by rotation at the forthcoming Annual General Meeting. Being eligible, Messrs Brock, Davis and Haank, will each offer themselves for re-election. Mr Webster, having served on the Board since 1992, will not be seeking re-election.

The notice period applicable to the service contracts of Messrs Davis and Haank is set out in the Reed Elsevier plc Remuneration Report on page 18. Mr Brock and Lord Sharman do not have a service contract with the company or Reed Elsevier plc.

Details of directors' remuneration and their interests in the share capital of the company are provided in the Reed Elsevier plc Remuneration Report on pages 17 to 23.

Share capital

During the period 2,426,463 ordinary shares in the company were issued in connection with the following share option schemes:

621,699 under a UK SAYE share option scheme at prices between 320p and 500p per share.
1,804,764 under Executive share option schemes at prices between 208.75p and 611p per share.

DIRECTORS' REPORT (continued)

At 19 February 2002, the company had received notification of the following substantial interests in the company's issued ordinary share capital:

T Rowe Price	52,034,364 shares	4.11%
Prudential plc	49,903,031 shares	3.94%
Oechsle	42,907,149 shares	3.39%

At the 2001 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 2001, this authority remained unutilised. A resolution to further extend the authority is to be put to the 2002 Annual General Meeting.

Charitable and political donations

Reed Elsevier companies made donations during the year for charitable purposes amounting to £927,000 of which £36,000 was in the United Kingdom. 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 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 UK Financial Services Authority ("the Combined Code"), other than in relation to the designation of a senior independent non-executive director other than the Chairman. Although such a designation had not been made at the commencement of the period under review, the Board designated Dr Stomberg as the senior independent non-executive director during the period.

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 13 to 16.

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
Stephen J Cowden
Secretary
20 February 2002

Registered Office:
25 Victoria Street
London
SW1H 0EX

ACCOUNTING POLICIES

Basis of preparation

These statutory financial statements report the profit and loss account, cash flow and financial position of Reed International, and have been prepared in accordance with UK generally accepted accounting principles. A new accounting standard, FRS19: Deferred Tax has been adopted in the year and balance sheet presentation has been restated accordingly. Unless otherwise indicated, all amounts shown in the financial statements are in millions of pounds.

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

The basis of the merger of the businesses of Reed International and Elsevier is set out on page 13.

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 on dividends paid by Reed International to its shareholders and reduces the attributable earnings of the company by 47.1% of the total amount of the tax credit.

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

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 2001

	Note	2001 £m	2000 £m
Turnover			
Including share of turnover of joint ventures		**2,412**	1,994
Less: share of turnover of joint ventures		**(2,412)**	(1,994)
		–	–
Administrative expenses		**(1)**	(1)
Operating loss (before joint ventures)	3	**(1)**	(1)
Share of operating profit of joint ventures			
Before amortisation and exceptional items	1	**519**	414
Amortisation of goodwill and intangible assets		**(265)**	(248)
Exceptional items		**(52)**	(60)
		202	106
Operating profit including joint ventures		**201**	105
Share of non operating exceptional items of joint ventures	1	**14**	45
		14	45
Net interest income/(expense)			
Group	6	**12**	5
Share of net interest of joint ventures		**(87)**	(59)
		(75)	(54)
Profit on ordinary activities before taxation		**140**	96
Tax on profit on ordinary activities	7	**(79)**	(85)
UK corporation tax		**(3)**	(2)
Share of tax of joint ventures		**(76)**	(83)
Profit attributable to ordinary shareholders		**61**	11
Equity dividends paid and proposed	8	**(132)**	(123)
Retained loss taken to reserves		**(71)**	(112)

ADJUSTED FIGURES

	Note	2001 £m	2000 £m
Profit before tax	9	**449**	365
Profit attributable to ordinary shareholders	9	**330**	270

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	2001 pence	2000 pence
Basic EPS	10	**4.8**	1.0
Diluted EPS	10	**4.8**	1.0
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses	10	**5.3**	1.5
Adjusted EPS	10	**26.1**	23.3

The above amounts derive from continuing activities.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 £m	2000 £m
Net cash outflow from operating activities	11	**(3)**	(1)
Dividends received from Reed Elsevier plc		**127**	97
Interest received		**13**	4
Returns on investments and servicing of finance		**13**	4
Taxation		**(3)**	(1)
Fixed asset investments	11	**(406)**	–
Acquisitions and disposals		**(406)**	–
Equity dividends paid		**(126)**	(98)
Cash (outflow)/inflow before changes in short term investments and financing		**(398)**	1
Decrease/(increase) in short term investments	11	**431**	(431)
Issue of ordinary shares		**10**	709
Increase in net funding balances to Reed Elsevier plc group	11	**(43)**	(279)
Financing		**(33)**	430
Change in net cash		**–**	–

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.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £m	2000 £m
Profit attributable to ordinary shareholders	**61**	11
Exchange translation differences	**(2)**	60
Total recognised gains and losses for the year	**59**	71

Recognised gains and losses include gains of £65m (2000 £75m) in respect of joint ventures.

RECONCILIATION OF SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2001

	Consolidated		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Profit attributable to ordinary shareholders	**61**	11	**136**	95
Equity dividends paid and proposed	**(132)**	(123)	**(132)**	(123)
Issue of ordinary shares, net of expenses	**10**	708	**10**	708
Exchange translation differences	**(2)**	60	**–**	–
Equalisation adjustments	**(3)**	(28)	**–**	4
Net (decrease)/increase in shareholders' funds	**(66)**	628	**14**	684
Shareholders' funds at 1 January	**1,609**	981	**1,735**	1,051
Shareholders' funds at 31 December	**1,543**	1,609	**1,749**	1,735

BALANCE SHEETS

AS AT 31 DECEMBER 2001

	Note	Consolidated 2001 £m	Consolidated 2000 £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Investment in joint ventures:	12				
Share of gross assets		**5,241**	3,556	**–**	–
Share of gross liabilities		**(4,113)**	(2,755)	**–**	–
Share of net assets		**1,128**	801	**–**	–
Investments	13	**–**	–	**1,411**	1,005
		1,128	801	**1,411**	1,005
Current assets					
Debtors	14	**555**	513	**555**	513
Short term investments		**–**	431	**–**	431
		555	944	**555**	944
Creditors: amounts falling due within one year	15	**(104)**	(100)	**(181)**	(178)
Net current assets		**451**	844	**374**	766
Total assets less current liabilities		**1,579**	1,645	**1,785**	1,771
Creditors: amounts falling due after more than one year	16	**(36)**	(36)	**(36)**	(36)
Net assets		**1,543**	1,609	**1,749**	1,735
Capital and reserves					
Called up share capital	17	**158**	158	**158**	158
Share premium account	19	**936**	926	**936**	926
Capital redemption reserve	19	**4**	4	**4**	4
Profit and loss reserve	19	**445**	521	**651**	647
Shareholders' funds		**1,543**	1,609	**1,749**	1,735

The financial statements were approved by the Board of Directors, 20 February 2002.

M Tabaksblat
Chairman

M H Armour
Chief Financial Officer

Reed International P.L.C.

Notes to the financial statements

1 INCOME FROM INTERESTS IN JOINT VENTURES

	Note	2001 £m	2000 £m
Share of operating profit before amortisation and exceptional items			
(based on 52.9% economic interest in the Reed Elsevier combined businesses)		**524**	419
Effect of tax credit equalisation on distributed earnings	2	**(6)**	(6)
Items consolidated within Reed International group		**1**	1
		519	414
Share of non operating exceptional items			
Reed Elsevier combined results (52.9%)		**14**	45
Items consolidated within Reed International group		**–**	–
		14	45

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 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 £278,000 (2000 £255,000) paid in the year to Reed Elsevier plc under a contract for the services of directors and administrative support. The company has no employees (2000 nil).

4 AUDITORS' REMUNERATION

Audit fees payable for the group were £23,000 (2000 £22,000).

5 DIRECTORS' EMOLUMENTS

Information on directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Reed Elsevier plc Remuneration Report on pages 17 to 23 and forms part of these financial statements.

6 NET INTEREST

	2001 £m	2000 £m
Interest receivable and similar income		
On short term investments	**11**	2
On loans to Reed Elsevier plc group	**1**	3
Net interest income	**12**	5

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £m	2000 £m
UK corporation tax	**3**	2
Share of tax arising in joint ventures:		
Before amortisation and exceptional items	**116**	94
On amortisation and exceptional items	**(40)**	(11)
Total	**79**	85

UK corporation tax has been provided at 30% (2000 30%).

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.

8 DIVIDENDS

	2001 pence	2000 pence	2001 £m	2000 £m
Ordinary shares of 12.5 pence each				
Interim	**3.10**	3.10	**38**	35
Final (2001 proposed)	**7.40**	6.90	**94**	88
Total	**10.50**	10.00	**132**	123

9 ADJUSTED FIGURES

	2001 £m	2000 £m
Profit before tax	**140**	96
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	**146**	102
Adjustments:		
Amortisation of goodwill and intangible assets	**265**	248
Exceptional items	**38**	15
Adjusted profit before tax	**449**	365
Profit attributable to ordinary shareholders	**61**	11
Effect of tax credit equalisation on distributed earnings	**6**	6
Profit attributable to ordinary shareholders based on 52.9% economic interest in the Reed Elsevier combined businesses	**67**	17
Adjustments:		
Amortisation of goodwill and intangible assets	**268**	248
Exceptional items	**(5)**	5
Adjusted profit attributable to ordinary shareholders	**330**	270

	2001 pence	2000 pence
Basic earnings per ordinary share	**4.8**	1.0
Effect of tax credit equalisation on distributed earnings	**0.5**	0.5
Earnings per share based on 52.9% economic interest in the Reed Elsevier combined businesses	**5.3**	1.5
Adjustments:		
Amortisation of goodwill and intangible assets	**21.2**	21.4
Exceptional items	**(0.4)**	0.4
Adjusted earnings per ordinary share	**26.1**	23.3

10 EARNINGS PER ORDINARY SHARE (EPS)

	Note	2001 Earnings £m	2001 Weighted average number of shares (millions)	2001 EPS pence
Basic EPS		**61**	**1,262.6**	**4.8**
Diluted EPS		**61**	**1,273.3**	**4.8**
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses		**67**	**1,262.6**	**5.3**
Adjusted EPS	9	**330**	**1,262.6**	**26.1**

	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

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

	2001 £m	2000 £m
Operating loss	**(1)**	(1)
Net movement in debtors and creditors	**(2)**	–
Net cash outflow from operating activities	**(3)**	(1)

Reconciliation of net borrowings

	Short term investments £m	Net funding balances to Reed Elsevier plc group £m	Total £m
At 1 January 2001	**431**	**476**	**907**
Cash flow	**(431)**	**43**	**(388)**
At 31 December 2001	**–**	**519**	**519**

Fixed asset investments

On 12 April 2001, Reed Holding BV, a wholly owned subsidiary of Reed International, subscribed for 629,298 R-shares in Elsevier at a cost of £59m, so as to maintain Reed International's 5.8% indirect equity interest in Elsevier. Reed Holding BV issued shares to Reed International for equivalent amount to fund the transaction.

On 11 July 2001, Reed International took up its rights in a rights issue by Elsevier Reed Finance BV and subscribed for 32 R-shares in the company at a cost of £347m.

12 FIXED ASSET INVESTMENTS – CONSOLIDATED

INVESTMENT IN JOINT VENTURES

	2001 £m	2000 £m
Share of operating profit	202	106
Share of non operating exceptional items	14	45
Share of net interest payable	(87)	(59)
Share of profit before tax	129	92
Share of taxation	(76)	(83)
Share of profit after tax	53	9
Dividends received	(127)	(97)
Fixed asset investments (see note 11)	406	–
Exchange translation differences	(2)	60
Equalisation adjustments	(3)	(28)
Net movement in the year	327	(56)
At 1 January	801	857
At 31 December	1,128	801

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

	2001 £m	2000 £m
Fixed assets	3,943	2,484
Current assets	1,298	1,072
Creditors: amounts falling due within one year	(2,638)	(2,200)
Creditors: amounts falling due after more than one year	(1,324)	(462)
Provisions	(148)	(90)
Minority interests	(3)	(3)
Total	1,128	801

Included within share of current assets and creditors are cash and short term investments of £230m (2000 £412m) and borrowings of £1,938m (2000 £1,072m) respectively.

13 FIXED ASSET INVESTMENTS – COMPANY

	Subsidiary undertakings £m	Joint ventures £m	Total £m
At 1 January 2001	244	761	1,005
Additions (see note 11)	59	347	406
At 31 December 2001	303	1,108	1,411

14 DEBTORS

	Consolidated		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts owed by Reed Elsevier plc group	555	512	555	512
Other debtors	–	1	–	1
Total	555	513	555	513

Amounts falling due after more than one year are £40m (2000 £40m). These amounts are denominated in sterling and earn interest at a fixed rate of 9.8% (2000 9.8%) for a duration of six years (2000 seven years). At 31 December 2001 these amounts had a fair value of £49m (2000 £49m).

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Other creditors	–	2	–	2
Proposed dividend	94	88	94	88
Taxation	10	10	10	10
Amounts owed to group undertakings	–	–	77	78
Total	104	100	181	178

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £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% (2000 10.5%) for a duration of four years (2000 five years). At 31 December 2001 these amounts had a fair value of £43m (2000 £43m).

17 CALLED UP SHARE CAPITAL

	Authorised		Issued and fully paid			
			2001		2000	
	No. of shares	£m	**No. of shares**	**£m**	No. of shares	£m
Ordinary shares of 12.5p each	1,264,877,118	158	**1,264,877,118**	**158**	1,262,450,655	158
Unclassified shares of 12.5p each	206,576,058	26	**–**	**–**	–	—
Total		184		**158**		158

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

18 SHARE OPTION SCHEMES

During the year a total of 2,426,463 ordinary shares in the company, having a nominal value of £0.3m, were allotted in connection with the exercise of share options. The consideration received by the company was £10.4m. Options were granted during the year under the Reed Elsevier plc Executive Share Option Scheme to subscribe for 9,488,809 ordinary shares, at prices between 519p and 693p per share. Options were also granted during the year under the Reed Elsevier plc SAYE Share Option Scheme to subscribe for 873,282 ordinary shares at a price of 500p per share. Options to subscribe for 2,407,771 ordinary shares in the company lapsed.

Options outstanding at 31 December 2001 over the company's ordinary share capital were:

	Number of ordinary shares	Range of subscription prices	Exercisable
UK and overseas executive share option schemes	30,616,086	321.75p – 700p	2002–2011
Senior Executive Long Term Incentive Scheme	13,350,904	436.50p – 700p	2005
UK SAYE share option scheme	4,032,003	336.20p – 500p	2002–2007

The above entitlements are expected, upon exercise, to be met principally 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 580,902 nil cost options granted to certain directors and senior executives of Reed Elsevier plc, details of which are shown in the Reed Elsevier plc Remuneration Report on pages 17 to 23, and 2,352,974 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 2001	**926**	**4**	**521**	**1,451**
Issue of ordinary shares, net of expenses	**10**	**–**	**–**	**10**
Profit attributable to ordinary shareholders	**–**	**–**	**61**	**61**
Equity dividends paid and proposed	**–**	**–**	**(132)**	**(132)**
Exchange translation differences	**–**	**–**	**(2)**	**(2)**
Equalisation adjustments	**–**	**–**	**(3)**	**(3)**
At 31 December 2001	**936**	**4**	**445**	**1,385**

19 RESERVES (continued)

	Company			
	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2001	926	4	647	1,577
Issue of ordinary shares, net of expenses	10	–	–	10
Profit attributable to ordinary shareholders	–	–	136	136
Equity dividends paid and proposed	–	–	(132)	(132)
At 31 December 2001	936	4	651	1,591

Reed International's share of the revenue reserves of the Reed Elsevier combined businesses is £582m (2000 £651m).

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:

	2001 £m	2000 £m
Guaranteed jointly and severally with Elsevier	3,086	1,827

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 46 to 51.

21 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 7½% cumulative preference non voting shares	100%
Holding company for operating businesses involved in science & medical, legal, educational and business publishing	Equivalent to a 50% equity interest	
Elsevier Reed Finance BV		
Incorporated in the Netherlands	101 ordinary "R" shares	100%
Sara Burgerhartstraat 25	154 ordinary "E" shares	–
1055 KV Amsterdam, The Netherlands		
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.

22 PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertaking is:

		% holding
Reed Holding BV		
Incorporated in the Netherlands	41 ordinary shares	100%
Sara Burgerhartstraat 25		
1055 KV Amsterdam, The Netherlands		

Reed Holding BV owns 4,679,249 shares of a separate class in Elsevier, giving Reed International a 5.8% indirect equity interest in Elsevier.

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

We have audited the financial statements of Reed International P.L.C. ("the financial statements") for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of shareholders' funds and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

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 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 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 directors' report and the other information contained in the Annual Report for the above year as described in the contents section and 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 considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 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
20 February 2002

Elsevier NV

ELSEVIER NV ANNUAL REPORT AND FINANCIAL STATEMENTS

REED ELSEVIER

Elsevier NV

FIVE YEAR FINANCIAL SUMMARY

(in €m, unless otherwise indicated)	1997	1998	1999	2000	**2001**
PROFIT					
Adjusted profit attributable	440	425	401	419	**503**
PER SHARE INFORMATION (in €)					
Adjusted EPS	0.62	0.60	0.57	0.59	**0.64**
Cash dividend per ordinary share	0.43	0.39	0.27	0.28	**0.30**
Pay-out	69%	66%	47%	47%	**47%**
Share price, high	17.88	17.83	15.25	16.07	**15.66**
Share price, low	12.03	9.94	8.95	9.30	**10.92**
Share price, closing	14.88	11.93	11.86	15.66	**13.28**
OTHER DATA					
Average number of shares outstanding (in millions)	707	708	708	715	**780**
Number of shares outstanding at year end (in millions)	707	708	709	776	**784**
Market capitalisation	10,526	8,447	8,409	12,152	**10,412**
Price/earnings ratio	24	20	21	27	**21**

(i) Financial information for 1997 and 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.

(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
RJ Nelissen
S Perrick
RWH Stomberg
DGC Webster

Executive Board
CHL Davis, Chairman
MH Armour, Chief Financial Officer
GJA van de Aast
DJ Haank
A Prozes

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 the financial statements for the financial year ended 31 December 2001 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 2001 and the Reed Elsevier Annual Reports and Financial Statements 2001. These reports explain the business results of 2001, the financial state of the company at the end of 2001, 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 2001 Financial Performance on page 12.

As explained on page 13, a proposal will be put to shareholders at the forthcoming Annual General Meeting to change the company's name to Reed Elsevier NV.

A proposal will be put to shareholders at the forthcoming Annual General Meeting to appoint Lord Sharman of Redlynch as a member of the Supervisory Board, to replace DGC Webster, who will not be seeking re-election.

The Supervisory Board
20 February 2002

Registered office
Sara Burgerhartstraat 25
1055 KV 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 2001 and the Reed Elsevier Annual Reports and Financial Statements 2001. These reports explain the business results of 2001, the financial state of the company at the end of 2001, and the key strategic issues.

The share of profits attributable to the shareholders of Elsevier was €101m (2000 €27m). Net assets at 31 December 2001, principally representing the investments in Reed Elsevier plc and Elsevier Reed Finance BV, were €2,392m (2000 €2,448m).

The Executive Board
20 February 2002

Registered office
Sara Burgerhartstraat 25
1055 KV Amsterdam

REED ELSEVIER

Elsevier NV

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 €m	2000 €m
Turnover			
Including share of turnover of joint ventures		**3,671**	3,091
Less: share of turnover of joint ventures		**(3,671)**	(3,091)
		–	–
Administrative expenses		**(3)**	(3)
Operating loss (before joint ventures)	1	**(3)**	(3)
Share of operating profit of joint ventures			
Before amortisation and exceptional items		**800**	654
Amortisation of goodwill and intangible assets		**(403)**	(384)
Exceptional items		**(79)**	(95)
		318	175
Operating profit including joint ventures		**315**	172
Share of non operating exceptional items of joint ventures		**20**	70
		20	70
Net interest income/(expense)			
Group	2	**63**	7
Share of net interest of joint ventures		**(177)**	(92)
		(114)	(85)
Profit on ordinary activities before taxation		**221**	157
Tax on profit on ordinary activities		**(120)**	(130)
Profit attributable to ordinary shareholders		**101**	27
Equity dividends paid and proposed		**(221)**	(200)
Retained loss taken to reserves		**(120)**	(173)

ADJUSTED FIGURES

	Note	2001 €m	2000 €m
Profit before tax	3	**683**	566
Profit attributable to ordinary shareholders	3	**503**	419

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	2001 €	2000 €
Basic EPS	3	**0.13**	0.04
Diluted EPS		**0.13**	0.03
Adjusted EPS	3	**0.64**	0.59

The above amounts derive from continuing activities.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 €m	2000 €m
Net cash outflow from operating activities		**(3)**	(2)
Dividends received from joint ventures		**100**	623
Interest received		**62**	4
Returns on investments and servicing of finance		**62**	4
Taxation		**17**	4
Investment in joint venture	4	**(916)**	(533)
Acquisitions and disposals		**(916)**	(533)
Equity dividends paid		**(204)**	(160)
Cash outflow before changes in short term investments and financing		**(944)**	(64)
Decrease/(increase) in short term investments		**946**	(952)
Issue of shares, net of expenses		**92**	956
Net repayment of debenture loans		**(1)**	(2)
(Increase)/decrease in funding balances to joint ventures		**(93)**	62
Financing		**(2)**	1,016
Change in net cash		**–**	–

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.

RECONCILIATION OF SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 €m	2000 €m
Profit attributable to ordinary shareholders	**101**	27
Equity dividends paid and proposed	**(221)**	(200)
Issue of shares, net of expenses	**110**	947
Exchange translation differences	**42**	75
Equalisation adjustments	**(88)**	106
Net (decrease)/increase in shareholders' funds	**(56)**	955
Shareholders' funds at 1 January	**2,448**	1,493
Shareholders' funds at 31 December	**2,392**	2,448

Elsevier NV

BALANCE SHEET

AS AT 31 DECEMBER 2001

	Note	2001 €m	2000 €m
Fixed assets	4	**2,506**	1,674
Current assets			
Debtors	5	**94**	5
Short term investments		**25**	971
		119	976
Creditors: amounts falling due within one year	6	**(169)**	(154)
Net current (liabilities)/assets		**(50)**	822
Total assets less current liabilities		**2,456**	2,496
Creditors: amounts falling due after more than one year	7	**(5)**	(6)
Provisions	8	**(59)**	(42)
Net assets		**2,392**	2,448
Share capital issued		**47**	47
Paid-in surplus		**1,438**	1,328
Legal reserves		**387**	432
Other reserves		**520**	641
Shareholders' funds	9	**2,392**	2,448

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.

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

The basis of the merger of the businesses of Reed International and Elsevier is set out on page 13.

As a consequence of the merger of the company's businesses with those of Reed International, described on page 13, 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 26 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 normally 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

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

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 gross 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 (2000 €0.2m) 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

	2001 €m	2000 €m
Interest on receivables from joint ventures	6	2
Other interest	57	5
Net interest income	**63**	7

3 ADJUSTED FIGURES

	2001 €m	2000 €m
Profit before tax	221	157
Adjustments:		
Amortisation of goodwill and intangible assets	403	384
Exceptional items	59	25
Adjusted profit before tax	**683**	566
Profit attributable to ordinary shareholders	101	27
Adjustments:		
Amortisation of goodwill and intangible assets	408	384
Exceptional items	(6)	8
Adjusted profit attributable to ordinary shareholders	**503**	419

	2001 €	2000 €
Earnings per ordinary share	0.13	0.04
Adjustments:		
Amortisation of goodwill and intangible assets	0.52	0.54
Exceptional items	(0.01)	0.01
Adjusted earnings per ordinary share	**0.64**	0.59

4 FIXED ASSETS

Investments in joint ventures

	2001 €m	2000 €m
At 1 January	1,674	1,559
Investment in joint venture	916	533
Share in profits	62	24
Dividends received	(100)	(623)
Currency translation	42	75
Equalisation (see note 9)	(88)	106
At 31 December	**2,506**	1,674

4 FIXED ASSETS (continued)

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

	2001 €m	2000 €m
Fixed assets	**6,112**	3,781
Current assets	**1,837**	1,263
Creditors: amounts falling due within one year	**(3,221)**	(2,572)
Creditors: amounts falling due after more than one year	**(2,047)**	(697)
Provisions	**(171)**	(95)
Minority interests	**(4)**	(6)
Total	**2,506**	1,674

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

In addition, Elsevier holds €0.14m par value in shares with special dividend rights in Reed Elsevier Overseas BV and Reed Elsevier Nederland BV, 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.

On 11 July 2001, Elsevier took up its rights in a rights issue by Elsevier Reed Finance BV and subscribed for 51 E-shares in the company at a cost of €916m.

5 DEBTORS

	2001 €m	2000 €m
Joint ventures	**88**	–
Other accounts receivable	**6**	5
Total	**94**	5

The accounts receivable from joint ventures bear interest.

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 €m	2000 €m
Proposed dividend	**157**	140
Joint ventures	**–**	5
Taxation	**11**	–
Accounts payable and other debts	**1**	9
Total	**169**	154

7 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001 €m	2000 €m
Debenture loans	**5**	6

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 €227 par value debenture loans qualifies for the acquisition of 20-50 Elsevier ordinary shares.

8 PROVISIONS

	2001 €m	2000 €m
Deferred taxation	**58**	41
Pension	**1**	1
Total	**59**	42

9 SHAREHOLDERS' FUNDS

	Share capital issued €m	Paid-in surplus €m	Legal reserves €m	Other reserves €m	Total €m
Balance as at 1 January 2000	43	385	847	218	1,493
Profit attributable to ordinary shareholders	–	–	27	–	27
Equity dividends paid and proposed	–	–	–	(200)	(200)
Issue of shares, net of expenses	4	943	–	–	947
Dividends from joint ventures	–	–	(623)	623	–
Exchange translation differences	–	–	75	–	75
Equalisation adjustments	–	–	106	–	106
Balance as at 1 January 2001	**47**	**1,328**	**432**	**641**	**2,448**
Profit attributable to ordinary shareholders	**–**	**–**	**101**	**–**	**101**
Equity dividends paid and proposed	**–**	**–**	**–**	**(221)**	**(221)**
Issue of shares, net of expenses	**–**	**110**	**–**	**–**	**110**
Dividends from joint ventures	**–**	**–**	**(100)**	**100**	**–**
Exchange translation differences	**–**	**–**	**42**	**–**	**42**
Equalisation adjustments	**–**	**–**	**(88)**	**–**	**(88)**
Balance as at 31 December 2001	**47**	**1,438**	**387**	**520**	**2,392**

The authorised share capital consists of 2,100m ordinary shares and 30m registered R-shares. As at 31 December 2001, the issued share capital consisted of 736,575,369 (2000 735,717,794) ordinary shares of €0.06 par value and 4,679,249 (2000 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.

On 12 April 2001, Elsevier issued 629,298 R-shares to Reed Holding BV, a wholly owned subsidiary of Reed International, for €91.3m before capital taxes, so as to maintain Reed International's 5.8% indirect equity interest in Elsevier.

Within paid-in surplus, an amount of €1,261m (2000 €1,151m) is free of tax.

On 31 December 2001, there were options outstanding for the purchase of 28.4m (2000 24.3m) shares at an average price of €11.90 (2000 €11.78).

The average term of these options is four years (2000 four 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:

	2001 €m	2000 €m
Guaranteed jointly and severally with Reed International	**5,061**	2,941

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 46 to 51.

The financial statements were signed by the Boards of Directors, 20 February 2002.

M Tabaksblat
Chairman

M H Armour
Chief Financial Officer

AUDITORS' REPORT TO THE MEMBERS OF ELSEVIER NV

We have audited the 2001 financial statements of Elsevier NV, Amsterdam which comprise the profit and loss account, cash flow statement, reconciliation of shareholders' funds, balance sheet and the related notes 1 to 10. These financial statements have been prepared under the accounting policies set out therein and include the Reed Elsevier combined financial statements for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the shareholders' funds reconciliation and the related notes 1 to 27, having been prepared under the accounting policies set out therein, dated 20 February 2002. 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 2001 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
20 February 2002

PROPOSAL FOR ALLOCATION OF PROFIT

	2001 €m	2000 €m
Interim dividend on ordinary shares	**64**	60
Final dividend on ordinary shares	**157**	140
Dividend on R-shares	**–**	–
Retained loss	**(120)**	(173)
	101	27

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

REED ELSEVIER

Additional information for US investors

Reed Elsevier combined businesses

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

	2001 US$	2000 US$
Sterling		
Profit and loss and cash flow	**1.44**	1.51
Balance sheet	**1.45**	1.49
Euro		
Profit and loss and cash flow	**0.894**	0.921
Balance sheet	**0.884**	0.925

Profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 2001	**2001 US$m**	2000 US$m
Net sales – continuing	**6,566**	5,690
Adjusted operating profit	**1,426**	1,197
Profit before tax	**396**	290
Profit attributable	**181**	50
Adjusted profit before tax	**1,221**	1,042
Adjusted profit attributable	**899**	772

Cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2001	**2001 US$m**	2000 US$m
Net cash inflow from operating activities	**1,535**	1,228
Dividends received from joint ventures	**17**	9
Returns on investments and servicing of finance	**(164)**	(157)
Taxation (including US$203m (2000 US$47m) exceptional net inflow)	**(53)**	(166)
Capital expenditure and financial investment	**(328)**	(288)
Acquisitions and disposals	**(3,082)**	(1,069)
Equity dividends paid to the shareholders of the parent companies	**(367)**	(297)
Cash outflow before changes in short term investments and financing	**(2,442)**	(740)
Decrease/(increase) in short term investments	**1,683**	(1,717)
Financing	**773**	2,468
Increase in cash	**14**	11
Adjusted operating cash flow	**1,449**	1,170
Adjusted operating cash flow conversion	**102%**	98%

SUMMARY FINANCIAL INFORMATION IN US DOLLARS (continued)

Balance sheet

AS AT 31 DECEMBER 2001	**2001 US$m**	2000 US$m
Capital employed		
Goodwill and intangible assets	**9,748**	6,149
Other fixed assets	**1,059**	848
Trading working capital	**(347)**	(714)
Other working capital	**(290)**	(207)
Total	**10,170**	6,076
Funded by:		
Combined shareholders' funds	**4,230**	4,531
Other net liabilities	**1,258**	900
Net borrowings	**4,682**	645
Total	**10,170**	6,076

Additional information for US investors

Reed Elsevier combined businesses

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 1998, Reed Elsevier adopted the new UK financial reporting standard FRS10: Goodwill and Intangible Assets, and accordingly changed its accounting policy for goodwill and intangible assets. Under this policy, for the fiscal years ended 31 December 1998 to 31 December 2000, and retrospectively for prior years, goodwill and intangible assets were 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 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 increased the periodic amortisation charge, as the unamortised value of existing assets, which were previously being amortised over periods up to 40 years, were amortised over shorter periods.

As explained in the Accounting Policies, on pages 26 and 27, the maximum estimated useful life of goodwill and intangible assets has been reassessed as 40 years for the 2001 financial statements under UK and Dutch GAAP. Under the new US accounting standard SFAS 142: Goodwill and Other Intangible Assets, no amortisation has been charged on goodwill arising on the Harcourt acquisition and other acquisitions completed after 30 June 2001. Other goodwill and intangible assets are being amortised over periods up to 40 years, consistently with the periods adopted under UK and Dutch GAAP.

The gross cost under US GAAP, as at 31 December 2001, of goodwill is £4,860m (2000 £3,757m) and of other intangible assets is £5,583m (2000 £3,900m). Accumulated amortisation under US GAAP, as at 31 December 2001, of goodwill is £1,414m (2000 £1,497m) and of other intangible assets is £1,131m (2000 £1,402m).

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 most significant adjustment to apply SFAS 109 arises on acquired intangible assets for which amortisation is not tax deductible. Under the timing difference approach applied under UK and Dutch GAAP, no such liability would be recognised.

Pensions

The combined businesses account for pension costs under the rules set out in SSAP24: Accounting for Pension Costs. 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 assets, liabilities and 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 and Dutch 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.

Stock based compensation

Under US GAAP, the combined businesses apply the accounting requirements of Accounting Principle Board Opinion No. 25: Accounting for Stock Issued to Employees ("APB 25") and related interpretations in accounting for stock based compensation. Under APB 25 compensatory plans with performance criteria qualify as variable plans, for which total compensation cost must be recalculated each period based on the current share price. The total compensation cost is amortised over the vesting period. Under UK and Dutch GAAP, compensation cost is determined using the share price on the date of grant.

Also under US GAAP, 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 but, where APB 25 is applied, the proforma effect on net income must be 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 £22m in 2001 (2000 £23m).

Derivative instruments

Under US GAAP, SFAS 133: Accounting for Derivative Instruments and Hedging Activities requires all derivative instruments to be carried at fair value on 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. Certain derivative instruments used by Reed Elsevier have not been designated as qualifying hedge instruments under SFAS 133 and, accordingly, a charge to net income is recorded under US GAAP for the changes in the fair value of those derivative instruments. Under UK and Dutch GAAP, derivative instruments intended as hedges are recorded at appropriate historical cost amounts, with fair values shown as a disclosure item. SFAS 133 was effective from 1 January 2001, resulting in a cumulative transition adjustment of £1m loss to US GAAP net income and £86m loss in other comprehensive income.

Equity 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.

Acquisition accounting

Under UK and Dutch GAAP, severance and integration costs in relation to acquisitions are expensed as incurred and, depending on their size and incidence, these costs may be 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.

Employee Benefit Trust shares

Under UK and Dutch GAAP, shares held by the Reed Elsevier Employee Benefit Trust ("EBT") are classified as fixed asset investments. Under US GAAP, shares held by the EBT are treated as a reduction in shareholders' funds.

Available for sale investments

Under UK and Dutch GAAP, investments in marketable securities are recorded at historical cost less provision for any impairment in value. Under US GAAP, investments classified as available for sale are reported at fair value, with unrealised gains or losses reported as a separate component of shareholders' funds.

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 2001 of £1,551m (2000 £1,101m) would thus be excluded from current liabilities under US GAAP and shown as long term obligations.

Recently issued accounting pronouncements

During 2001 the UK standard FRS17: Retirement Benefits was introduced. FRS17 requires additional disclosures until full implementation is mandatory in 2003. The additional disclosures for 2001 are given in note 4 to the financial statements. The net impact on the profit and loss account, were the accounting requirements of FRS17 to be applied for 2002, is not expected to be material and would not affect cash flow. FRS17 differs from US GAAP which does not require the immediate recognition of actuarial gains and losses, but instead allows the amortisation of actuarial gains and losses to be recognised in net income.

SFAS 141: Business Combinations and SFAS 142: Goodwill and Other Intangible Assets were issued in June 2001. SFAS 141 eliminates the pooling-of-interests method and addresses the accounting for negative goodwill. It is effective for business combinations completed after 30 June 2001 and, subject to transitional provisions, retrospectively to prior business combinations. Adoption of the standard has had no material impact on the accounting for business combinations completed prior to 1 July 2001. SFAS 142 states that goodwill should not be amortised but should be tested for impairment at least annually at a reporting unit level. The statement is effective for financial years beginning after 15 December 2001, except for goodwill and intangible assets acquired after 30 June 2001, which should be accounted for in accordance with the provisions of SFAS 142. The goodwill and intangible assets arising on the Harcourt and other acquisitions completed after 30 June 2001 have been accounted for under US GAAP in accordance with the transitional provisions of SFAS 142. The impact of full adoption of the standard cannot be reasonably estimated at this time.

Additional information for US investors

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 2001

	2001 £m	2000 £m	2001 €m	2000 €m
Net income under UK and Dutch GAAP	**126**	33	**202**	54
US GAAP adjustments:				
Amortisation of goodwill and other intangible assets	**(74)**	(78)	**(119)**	(128)
Deferred taxation	**(43)**	85	**(69)**	139
Pensions	**46**	22	**74**	36
Stock based compensation	**(15)**	–	**(24)**	–
Derivative instruments	**(56)**	–	**(90)**	–
Other items	**(4)**	(2)	**(6)**	(3)
Net (loss)/income under US GAAP	**(20)**	60	**(32)**	98

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

AS AT 31 DECEMBER 2001

	2001 £m	2000 £m	2001 €m	2000 €m
Combined shareholders' funds under UK and Dutch GAAP	**2,917**	3,041	**4,784**	4,896
US GAAP adjustments:				
Goodwill and other intangible assets	**1,151**	604	**1,888**	973
Deferred taxation	**(860)**	(203)	**(1,410)**	(327)
Pensions	**132**	86	**216**	138
Derivative instruments	**(79)**	–	**(130)**	–
Unrealised gains on available for sale investments	**36**	1	**59**	2
Equity dividends not declared in the period	**190**	177	**312**	285
Other items	**(20)**	1	**(33)**	1
Combined shareholders' funds under US GAAP	**3,467**	3,707	**5,686**	5,968

Additional information for US investors

Reed International P.L.C.

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 2001	**2001 US$m**	2000 US$m
Profit attributable to ordinary shareholders: statutory	**88**	17
Profit attributable to 52.9% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	**475**	408
Amortisation of goodwill and intangible assets	**(386)**	(374)
Exceptional items	**7**	(8)
	96	26

Data per American Depositary Share	**2001 US$**	2000 US$
Earnings per American Depositary Share based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	**$1.50**	$1.41
Basic	**$0.31**	$0.09
Net dividend per American Depositary Share	**$0.60**	$0.60

Balance sheet

AS AT 31 DECEMBER 2001	**2001 US$m**	2000 US$m
Shareholders' funds	**2,237**	2,397

Exchange rates for translation of sterling	**2001 US$:£**	2000 US$:£
Profit and loss	**1.44**	1.51
Balance sheet	**1.45**	1.49

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 is the ADS Depositary.)

Additional information for US investors

Reed International P.L.C.

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, pensions 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 2001 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 2001	**2001 £m**	2000 £m
Net income under UK GAAP	**61**	11
Impact of US GAAP adjustments to combined financial statements	**(77)**	16
Net (loss)/income under US GAAP	**(16)**	27
(Loss)/earnings per ordinary share under US GAAP	**(1.3)p**	2.3p

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

AS AT 31 DECEMBER 2001	**2001 £m**	2000 £m
Shareholders' funds under UK GAAP	**1,543**	1,609
Impact of US GAAP adjustments to combined financial statements	**197**	264
Equity dividends not declared in the period	**94**	88
Shareholders' funds under US GAAP	**1,834**	1,961

Additional information for US investors

Elsevier NV

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 2001	**2001 US$m**	2000 US$m
Adjusted profit attributable	**450**	386

Data per American Depositary Share	**2001 US$**	2000 US$
Earnings per American Depositary Share based on 50% interest in Reed Elsevier combined businesses		
Adjusted	**$1.14**	$1.09
Basic	**$0.23**	$0.07
Net dividend per American Depositary Share	**$0.54**	$0.52

Balance sheet

AS AT 31 DECEMBER 2001	**2001 US$m**	2000 US$m
Shareholders' funds	**2,115**	2,264

Exchange rates for translation of euros	**2001 €:US$**	2000 €:US$
Profit and loss	**1.118**	1.086
Balance sheet	**1.131**	1.081

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 is 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, pensions 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 2001 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 2001	**2001 €m**	2000 €m
Net income under Dutch GAAP	**101**	27
Impact of US GAAP adjustments to combined financial statements	**(106)**	31
Net (loss)/income under US GAAP	**(5)**	58
(Loss)/earnings per share under US GAAP	**€(0.01)**	€0.08

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

AS AT 31 DECEMBER 2001	**2001 €m**	2000 €m
Shareholders' funds under Dutch GAAP	**2,392**	2,448
Impact of US GAAP adjustments to combined financial statements	**294**	396
Equity dividends not declared in the period	**157**	140
Shareholders' funds under US GAAP	**2,843**	2,984

Principal operating locations

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

Sara Burgerhartstraat 25
1055 KV Amsterdam
Tel: +31 (0)20 485 2434
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
Sara Burgerhartstraat 25
1055 KV Amsterdam
Tel: +31 (0)20 485 2434
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
The Boulevard, Langford Lane
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Design: Corporate Edge www.corporateedge.com
Print: Pillans & Wilson Greenaway. ISO14001 accredited

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