Company Number: 2746616

REED ELSEVIER PLC
REPORT AND ACCOUNTS 2001

Board of Directors

M Tabaksblat *	- Chairman	
C H L Davis	- Chief Executive Officer	
M H Armour	- Chief Financial Officer	
G J A van de Aast		
J F Brock*		
D J Haank		
R J Nelissen*		
S Perrick*		
A Prozes		
Lord Sharman of Redlynch *		(appointed 1 January 2002)
Dr R W H Stomberg*		
D G C Webster*		

*Indicates non-executive director

Contents

The directors present their report and the audited accounts for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Results and dividends

Turnover (excluding joint ventures) for the year was £4,513 million (2000 : £3,763 million) and operating profit (including joint ventures) before exceptional items and amortisation of goodwill and intangible assets was £976 million (2000 : £786 million). The operating margin was 21.6%, 0.7 percentage points higher than prior year.

The loss before tax of £79 million (2000 : profit of £31 million) includes net exceptional charges amounting to £106 million (2000 : £24 million) and charges for the amortisation of goodwill and intangible assets of £500 million (2000 : £462 million).

The group loss for the year, after exceptional items, taxation and minority interests, amounted to £172 million (2000 : £177 million). The effective tax rate on profits before exceptional items and amortisation of goodwill and intangible assets was 32.1% (2000 : 30.2%).

The directors do not recommend a final ordinary dividend (2000 : £nil). During the year the company paid £127 million (2000 : £97 million) on the "R" ordinary shares and preference dividends of £7,500 (2000 : £7,500). No dividend (2000 : £291m) was paid on the "E" ordinary shares. Subsidiary undertakings paid a further £62 million (2000 : £94 million) to Elsevier in respect of its holding of special dividend shares in Reed Elsevier Nederland BV. After these dividends and amounts due to minority interests of £1 million (2000 : £73 million) there was a retained loss of £361 million (2000 : £659 million).

At 31 December 2001 gross borrowings of £2,412 million (2000 : £1,173 million) were partially offset by cash and short-term investments of £319 million (2000 : £489 million). In addition, net borrowings from shareholders and Elsevier Reed Finance BV group amounted to £5,332 million (2000 : £3,624 million).

Acquisition of Harcourt

On 12 July 2001, Reed Elsevier plc acquired the entire share capital of Harcourt General, Inc for US$4.45 billion (£3.2billion) 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 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 variation.

The acquisition was financed through a multi-currency multi-tranche global bond offering, under which were issued US$550 million 5 year notes, Euro 500 million 7 year notes swapped to US dollars, and US$550 million 10 year notes as well as increased borrowing from the Elsevier Reed Finance BV Group.

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 plc's reported 2001 figures was less marked than this since July is by far the most significant month for sales and profits 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 plc's accounting policy of amortising goodwill and intangible assets has been increased from 20 years to 40 years.

Operating business review

The results of businesses are reported in four segments: Science & Medical, Legal, Education and Business publishing, which comprise the operations of the group. Adjusted operating profit is presented as an additional performance measure and is shown after share of operating profit in joint ventures and before amortisation of goodwill and intangible assets and exceptional items. Unless otherwise stated, all prior year comparisons quoted in the following commentary refer to percentage movements at constant exchange rates, using the 2000 full year average rates, and exclude intra-affiliate transactions.

Science & Medical

Turnover in the Science & Medical segment at £989 million increased by £301 million and adjusted operating profits at £332 million increased by £81 million, including acquisitions, at appropriate rates of exchange.

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. 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 proforma 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.

Legal

The Legal segment turnover of £1,330 million increased by £129 million whilst adjusted operating profit of £265 million increased by £28 million, including acquisitions, at appropriate rates of exchange.

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 over 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.

Education

The Education segment turnover at £579 million increased by £377 million, whilst adjusted operating profits of £134 million increased by £94 million at appropriate rates of exchange.

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 Education & Professional Publishing business was 8% and 10% respectively at constant exchange rates. On a proforma 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 proforma 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 proforma 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 infrastructures are expected to fund over $20 million of additional investment in e-learning strategies.

Business

Turnover in the Business segment at £1,615 million fell by £57 million, and adjusted operating profits at £245 million fell by £13 million including acquisitions, at appropriate rates of exchange.

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 position 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 £45 million 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 subscription/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 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 encyclopaedia 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.

Future prospects

The board is encouraged by the continued good progress we are making against our strategic and financial milestones and the growing success of the business. 2002 should see further success of the Science & Medical, Legal and Education businesses and the cost actions taken to mitigate revenue weakness in Business to Business. Reed Elsevier plc will also have the full year benefit of the Harcourt acquisition.

In the last two years major effort has been put into reshaping the business and organisation, and in addressing the fundamentals around product, sales and marketing. Reed Elsevier plc is now well placed to see the full impact of this work in the year ahead, and the board has great confidence in Reed Elsevier plc's future and further success.

Treasury policies

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

Financial instruments are used to finance Reed Elsevier plc's businesses and to hedge transactions. Reed Elsevier plc's businesses do not enter into speculative transactions. The main risks faced by Reed Elsevier plc and its subsidiaries are liquidity risk, interest rate risk and foreign currency risk. The board of Reed Elsevier plc agrees overall policy guidelines for managing each of these risks. These policies are summarised below and have not changed significantly since the beginning of 2001.

Funding

Reed Elsevier plc develops and maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. It also obtains a substantial amount of funding from an affiliated company, Elsevier Finance SA. 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 plc maintains a maturity profile to facilitate refinancing. Reed Elsevier plc's policy is that not more than US$1,000 million of long term external debt should mature in any 12 month period. In addition, minimum proportions of net debt with maturities over three years and five years are specified, depending on the level of total borrowings.

Interest rate exposure management

Reed Elsevier plc's interest rate exposure management policy is aimed at reducing the exposure of the business 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 in Reed Elsevier plc, its subsidiaries and affiliates. Reed Elsevier plc uses fixed 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.

Foreign currency exposure management

Translation exposures arise on the earnings and net assets of business operations in countries other than those of Reed Elsevier plc. 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 £536 million.

DIRECTORS

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

No director had, during the year, any interest in the share capital of the company or any other group company. The interests of the directors in the issued share capital of Reed and Elsevier at the beginning and end of the year are shown in the Remuneration Report on pages 8 to 14.

EMPLOYEE INVOLVEMENT AND COMMUNITY RELATIONS

The quality of our people is fundamental to achieving our financial and strategic goals. We have, therefore, made it a key priority to put in place a wide-ranging programme to strengthen the quality of our management team, upgrade talent at every level in the organisation, and introduce a range of initiatives to improve organisational effectiveness and motivation.

In 2001 we made good progress in executing this programme, and achieved the following:

□ After worldwide interaction with employee groups, we have established Reed Elsevier plc's core values and put in place a global programme to take action to make these values central to the way in which we work. The Reed Elsevier plc values, together with our Code of Conduct and Business Ethics, guides the way in which we behave in all aspects of our business activities.

□ We introduced a new Personal Development Programme, including an extensive appraisal and agreement of key personal objectives. The programme, which has already been successfully adopted by our management, gives each employee the opportunity to take on additional or new responsibilities and develop new skills year by year. It will be extended to include all employees during 2002.

□ We introduced an organisational talent review to gauge the organisational strength and the capabilities of key employees throughout the group, and identify key development needs. This review will now take place on an annual basis, enabling us to take specific steps to nurture and develop our organisational strength and talent.

□ We have launched a series of incentive schemes, relating bonuses to achievements, especially for those directly responsible for the progress of revenues and profitability. These schemes set challenging goals, review both revenue and profit growth and reward these achievements accordingly. We also continue to expand our group stock option scheme to bring as many key managers as possible into the scheme.

□ In October we carried out our first global survey of employees, to ascertain their views of the Company's strengths and weaknesses and invite suggestions for improvements. 75 per cent of our 36,700 employees took part in the survey and helped identify areas where we can improve working practices, motivation and personal development. We are responding to their feedback with new approaches designed to address their comments and will measure our progress through further surveys.

□ We upgraded our internal communications by launching a group wide Intranet and introducing regular briefings for all employees on business performance, financial results and strategy from the CEO, as well as company wide news bulletins.

□ We are an equal opportunities employer and firmly believe in the value of a diverse workforce. We are making good initial progress in achieving diversity throughout our workforce; over 15 different nationalities are represented in our senior management group. We also have an increasing number of female managers at this senior level; the group is now 22 per cent female compared to 14 per cent one year ago and 9 per cent two years ago. Overall more than 50 per cent of the total Reed Elsevier plc workforce is now female.

□ We also have a strict equal pay policy throughout the company. Measurement of our remuneration policy in 2001 confirmed that this policy is being executed.

As a global business, we have employees and customers in a large number of communities around the world. We apply the same policy in every location to determine the way we work within these communities. Our primary concern at each location is to maintain good relationships with these communities; to be active participants in them, especially through the personal involvement of our employees, and to make a meaningful contribution to their development. In addition, our businesses make it a priority to mitigate any impact on the environment.

During 2001 we formalised our policy of community involvement, based on the experience of a number of our businesses which have already implemented successful programmes in their localities. The focus of these programmes is to involve employees in working with local organisations that are active in the field of education. Projects that are already underway range from the provision of free access to up to date medical information and services and of schools buildings in some of the world's poorest countries, to the personal involvement of our staff as tutors in literacy programmes in US schools.

We have committed to plans that will actively involve all of our major businesses in community programmes over the course of the next three years and have appointed a new senior manager specifically to lead, co-ordinate and support their efforts.

UNITED KINGDOM CHARITABLE AND POLITICAL DONATIONS

Reed Elsevier plc companies made donations during the year for charitable purposes amounting to £924,000, of which £36,000 was in the United Kingdom. There were no donations for political purposes.

CORPORATE GOVERNANCE

Internal Control Statement

The board of Reed Elsevier plc is responsible for the systems of internal control and for reviewing their effectiveness. 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.

The board of Reed Elsevier plc has 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 approval of the Report and Accounts.

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 reports 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.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are required by UK company law 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 company and its 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.

GOING CONCERN

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

FORWARD-LOOKING STATEMENTS

The Report and Accounts contain forward-looking statements within the meaning of Section 27A of the US Securities Act 1933, as amended, and Section 21E of the US Securities Exchange Act 1934, as amended. These statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently anticipated as reflected in such forward-looking statements. The terms "expect", "should be", "will be", and similar expressions identify forward-looking statements. Factors 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 plc's markets, customers' acceptance of its products and services, the actions of competitors, changes in law and legal interpretation affecting Reed Elsevier plc's intellectual property rights, and the impact of technological change.

PROPOSED NAME CHANGE

A proposal will be submitted to a forthcoming Extraordinary General Meeting to change the company's name to Reed Elsevier Group plc.

PAYMENTS TO SUPPLIERS

The company agrees 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

Stephen J Cowden

20 February 2002

Registered Office:
25 Victoria Street
London
SW1H 0EX

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	2001	2000
Salaries and fees	2,790	2,068
Benefits	75	66
Annual performance-related bonuses	1,056	835
Pension contributions	218	786
Pension to former director	241	230
One-off bonuses	–	461
Compensation and payments in respect of a former director	–	581(i)
Total	4,380	5,027

b) Individual emoluments of executive directors

£	Salary	Benefits	Bonus	Total	2000
M H Armour	415,002	20,123	163,298	598,423	570,543
C H L Davis	810,000	20,324	315,333	1,145,657[1]	1,102,547
D J Haank	333,749	10,790	143,023	487,562	345,145
A Prozes (from 7.8.2000)	555,555	8,731	380,278	944,564	908,547(ii)
G J A van de Aast (from 6.12.2000)	325,000	15,108	54,178	394,286	28,364
Salary, benefits and bonus of a former director					135,772(i)
				3,570,492	3,090,918

(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 as compensation for loss of bonus from his previous employment.

Taking into account gains of £253,777 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
M H Armour	16,497	95,650	176,325
C H L Davis	39,920	89,111	549,662
D J Haank	43,469	119,331	358,574
A Prozes	–	–	–
G J A van de Aast	10,794	11,753	101,756

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
J F Brock	35,404	34,220
R J Nelissen	35,404	34,304
S Perrick	35,404	34,304
R W H Stomberg	35,404	34,220
M Tabaksblat	173,913	168,202
D G C Webster	35,404	34,220
	350,933	339,470

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

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 1.5 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.

REMUNERATION REPORT

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.

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

INDEPENDENT AUDITORS' REPORT
To the members of Reed Elsevier plc

We have audited the financial statements of Reed Elsevier plc 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 31. 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 company's 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 and auditing standards.

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 regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the Report and Accounts 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 of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

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

ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

These financial statements are presented under the historical cost convention and in accordance with applicable accounting standards. Reed Elsevier plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985.

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 plc 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 financial statements are presented in pounds sterling.

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.

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. 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.

STOCKS

Stocks, comprising 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.

ACCOUNTING POLICIES

TURNOVER

Turnover represents the invoiced value of sales less anticipated returns on transactions completed by performance, excluding customer sales taxes and sales between Reed Elsevier plc 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 its estimated useful life.

TAXATION

Deferred taxation is provided in full for timing differences using the liability method. No provision is made for tax which would become payable on the distribution of retained profits by foreign subsidiaries, associates or joint ventures, unless there is an intention to distribute such retained earnings giving rise to a charge. Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term. Deferred taxation balances are not discounted.

PENSIONS

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2001

£ million		2001	2000
Turnover			
Including share of turnover of joint ventures		**4,580**	3,831
Less: share of turnover of joint ventures		**(67)**	(68)
	note 1	**4,513**	3,763
Continuing operations before acquisitions		**3,855**	3,763
Acquisitions		**658**	-
		4,513	3,763
Cost of sales	*note 2*	**(1,605)**	(1,337)
Gross profit		**2,908**	2,426
Operating expenses	*note 2*		
Before amortisation and exceptional items		**(1,947)**	(1,656)
Amortisation of goodwill and intangible assets		**(497)**	(459)
Exceptional items	*notes 2,7*	**(96)**	(110)
Operating profit (before joint ventures)		**368**	201
Continuing operations before acquisitions		**320**	201
Acquisitions		**48**	-
		368	201
Share of operating profit of joint ventures	*note 14*	**12**	13
Operating profit including joint ventures	*notes 1,5*	**380**	214
Non operating exceptional items			
Net (loss)/profit on sale of businesses	*note 7*	**(10)**	86
Profit on ordinary activities before interest		**370**	300
Net interest expense	*note 8*	**(449)**	(269)
(Loss)/profit on ordinary activities before tax		**(79)**	31
Tax on loss/profit on ordinary activities	*note 9*	**(92)**	(135)
Loss on ordinary activities after taxation		**(171)**	(104)
Minority interests and preference dividends		**(1)**	(73)
Loss attributable to the shareholders		**(172)**	(177)
Equity dividends paid and proposed	*note 10*	**(189)**	(482)
Retained loss taken to reserves	*note 28*	**(361)**	(659)

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

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2001

£ million		**2001**	2000
Net cash inflow from operating activities before exceptional items		**1,137**	899
Payments relating to exceptional items charged to operating profit	*note 7*	**(94)**	(89)
Net cash inflow from operating activities	*note 11*	**1,043**	810
Dividends received from joint ventures	*note 14*	**12**	6
Interest and similar income received		**22**	13
Interest and similar charges paid		**(152)**	(74)
Net interest paid to Reed International P.L.C.		**-**	(2)
Net interest paid to Elsevier Reed Finance BV group		**(296)**	(196)
Returns on investments and servicing of finance		**(426)**	(259)
UK corporation tax paid		**(65)**	(54)
Net overseas tax received/(paid)		**47**	(38)
Taxation		**(18)**	(92)
Purchase of tangible fixed assets		**(173)**	(141)
Purchase of fixed asset investments		**(59)**	(53)
Proceeds from sale of tangible fixed assets		**5**	3
Capital expenditure and financial investment		**(227)**	(191)
Acquisitions	*note 11*	**(2,236)**	(861)
Exceptional net proceeds from sale of businesses	*note 7,11*	**58**	(15)
Acquisitions and disposals		**(2,178)**	(876)
Equity dividends paid		**(189)**	(482)
Cash outflow before changes in short term investments and financing		**(1,983)**	(1,084)
Decrease/(increase) in short term investments	*note 11*	**175**	(73)
Increase in financing	*note 11*	**1,814**	1,162
Increase in cash	*note 11*	**6**	5

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 BALANCE SHEET
As at 31 December 2001

£ million		**2001**	2000
Fixed assets			
Goodwill and intangible assets	*note 13*	**6,716**	4,117
Tangible fixed assets	*note 13*	**487**	414
Investments	*note 14*		
Investments in joint ventures:			
Share of gross assets		**121**	119
Share of gross liabilities		**(55)**	(47)
Share of net assets		**66**	72
Other investments		**175**	81
		241	153
		7,444	4,684
Current assets			
Stocks	*note 15*	**487**	114
Debtors: amounts falling due within one year	*note 16*	**1,293**	991
Debtors: amounts falling due after more than one year	*note 17*	**500**	241
Short term investments		**232**	408
Cash at bank and in hand		**87**	81
		2,599	1,835
Creditors: amounts falling due within one year	*note 19*	**(4,322)**	(3,709)
Net current liabilities		**(1,723)**	(1,874)
Total assets less current liabilities		**5,721**	2,810
Creditors: amounts falling due after more than one year	*note 20*	**(6,449)**	(3,258)
Provisions for liabilities and charges	*note 24*	**(242)**	(130)
Minority interests		**(6)**	(8)
Net liabilities		**(976)**	(586)
Capital and reserves			
Called up share capital	*note 26*	**-**	-
Share premium account	*note 27*	**324**	324
Revenue reserves	*note 28*	**(1,300)**	(910)
Shareholders' deficit	*note 28*	**(976)**	(586)

Approved by the board of Reed Elsevier plc, 20 February 2002.

M H Armour
Chief Financial Officer

The balance sheet of Reed Elsevier plc is shown in note 31 on page 43

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAIN AND LOSSES

For the year ended 31 December 2001

£ million	**2001**	2000
Loss attributable to the shareholders	**(172)**	(177)
Exchange translation differences	**(29)**	(42)
Total recognised losses for the financial year	**(201)**	(219)

SHAREHOLDERS' FUNDS RECONCILIATION

For the year ended 31 December 2001

£ million	**2001**	2000
Shareholders' (deficit)/funds at 1 January	(586)	115
Loss attributable to the shareholders	**(172)**	(177)
Equity dividends paid and proposed	**(189)**	(482)
Exchange translation differences	**(29)**	(42)
Shareholders' deficit at 31 December	**(976)**	(586)

1. SEGMENT ANALYSIS

£ million	Turnover 2001	2000	Operating profit 2001	2000	Adjusted operating profit 2001	2000	Capital employed 2001	2000
Business segment								
Science & Medical	**989**	688	**199**	138	**332**	251	**1,513**	293
Legal	**1,330**	1,201	**58**	(4)	**265**	237	**2,514**	2,446
Education	**579**	202	**94**	19	**134**	40	**1,924**	144
Business	**1,615**	1,672	**29**	61	**245**	258	**1,076**	1,200
Total	**4,513**	3,763	**380**	214	**976**	786	**7,027**	4,083
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	**44**	(103)	**478**	328	**6,014**	3,118
United Kingdom	**795**	734	**154**	128	**207**	192	**553**	478
The Netherlands	**416**	399	**128**	127	**163**	137	**(51)**	(57)
Rest of Europe	**405**	356	**46**	57	**100**	101	**481**	516
Rest of the world	**202**	176	**8**	5	**28**	28	**30**	28
Total	**4,513**	3,763	**380**	214	**976**	786	**7,027**	4,083

Geographical market	2001	2000
North America	**2,755**	2,152
United Kingdom	**555**	521
The Netherlands	**223**	234
Rest of Europe	**566**	478
Rest of the world	**414**	378
Total	**4,513**	3,763

Details of business segments are provided in the Directors' Report.

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 of £500m (2000 : £462m) and exceptional items of £96m (2000 : £110m).

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

Turnover is analysed before the £67m (2000 : £68m) share of joint ventures' turnover, of which £17m (2000 : £21m) relates to the Legal segment, principally to Giuffrè, and £50m (2000 : £47m) relates to the Business segment, principally to exhibition joint ventures.

Share of operating profit in joint ventures of £12m (2000 : £13m) comprises £3m (2000 : £4m) relating to the Legal segment and £9m (2000 : £9m) relating to the Business segment.

The Harcourt acquired businesses contributed £535m of turnover by geographic market in North America.

£ million	**2001**	2000
Reconciliation of capital employed to net liabilities		
Capital employed	**7,027**	4,083
Taxation	**(497)**	(321)
Net interest payable	**(75)**	(32)
Net borrowings (including amounts owed to shareholders and Elsevier Reed Finance BV group of £5,332m (2000 : £3,624m))	**(7,425)**	(4,308)
Minority interests	**(6)**	(8)
Net liabilities	**(976)**	(586)

2. COST OF SALES AND OPERATING EXPENSES

£ million	2001 Before amortisation and exceptional items	2001 Amortisation of goodwill and intangible assets	2001 Exceptional items	2001 Total	2000 Before amortisation and exceptional items	2000 Amortisation of goodwill and intangible assets	2000 Exceptional items	2000 Total
Cost of sales								
Continuing operations								
before acquisitions	1,354	-	-	1,354	1,337	-	-	1,337
Acquisitions	251	-	-	251	-	-	-	-
Total	1,605	-	-	1,605	1,337	-	-	1,337
Distribution and selling costs								
Continuing operations								
before acquisitions	892	-	-	892	883	-	-	883
Acquisitions	126	-	-	126	-	-	-	-
	1,018	-	-	1,018	883	-	-	883
Administrative expenses								
Continuing operations								
before acquisitions	797	435	57	1,289	773	459	110	1,342
Acquisitions	132	62	39	233	-	-	-	-
	929	497	96	1,522	773	459	110	1,342
Net operating expenses								
Continuing operations								
before acquisitions	1,689	435	57	2,181	1,656	459	110	2,225
Acquisitions	258	62	39	359	-	-	-	-
Total	1,947	497	96	2,540	1,656	459	110	2,225

3. PERSONNEL

Number of people employed	At 31 December 2001	Average during the year 2001	Average during the year 2000
Business segment			
Science & Medical	6,000	5,000	3,600
Legal	13,300	12,700	11,200
Education	5,600	3,400	1,500
Business	11,800	13,200	12,500
Total	36,700	34,300	28,800
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	3,600	3,500	3,000
Rest of the world	2,600	2,800	2,300
Total	36,700	34,300	28,800

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 value of the schemes' assets at the valuation dates, excluding assets held in respect of members' additional voluntary contributions, were £1,723m, and £266m 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 (2000 : £35m), including a net £nil (2000 : £1m) SSAP24 credit related to the main UK scheme. The net SSAP24 credit on the main scheme comprises a regular cost of £24m (2000 : £23m), offset by amortisation of the net actuarial surplus of £24m (2000 : £24m). Pension contributions made in the year amounted to £39m (2000 : £36m). A prepayment of £128m (2000 : £128m) 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.

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		Assumed rate of return on assets	
	%	£m	%	£m
Equities	7.20%	**991**	7.70%	**1,267**
Bonds	5.00%	**502**	5.50%	**721**
Other	4.00%	**73**	4.00%	**81**
Total fair value of assets		**1,566**		**2,069**
Present value of scheme liabilities		**(1,316)**		**(1,872)**
Surplus		**250**		**197**
Related deferred tax		**(75)**		**(57)**
Net pension asset		**175**		**140**

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

4. PENSION SCHEMES (continued)

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	2.50%	2.50%
Discount rate	5.50%	5.90%

The deficit on reserves as at 31 December 2001 of £1,300m would have been £1,250m had the accounting requirements of FRS17 applied in the 2001 financial year.

5. OPERATING PROFIT

Operating profit is stated after the following:

£ million	**2001**	2000
Hire of plant and machinery	**7**	12
Other operating lease rentals	**87**	71
Depreciation (including £4m (2000 : £4m) in respect of assets held under finance leases)	**131**	118
Amortisation of goodwill and intangible assets	**497**	459
Amortisation of goodwill and intangible assets in joint ventures	**3**	3
Total amortisation	**500**	462
Royalties payable to Elsevier Reed Finance BV group	**7**	7
Auditors' remuneration		
for audit services	**2.4**	1.8
for non audit services (£1.0m relates to UK companies (2000 : £0.8m))	**3.3**	1.9

Non audit fees paid to Deloitte & Touche principally relate to accounting services and tax advice in connection with Harcourt and other acquisitions and disposals.

£ million		**2001**	2000
Staff costs			
Wages and salaries		**1,198**	977
Social security costs		**117**	100
Pensions	*note 4*	**39**	35
Total staff costs		**1,354**	1,112

6. EMOLUMENTS OF DIRECTORS

Information on the remuneration, share options, longer term incentive plans, pension contributions and entitlements, and interests of the directors is set out in the Remuneration Report on pages 8 to 14 and forms part of these financial statements.

EXCEPTIONAL ITEMS

£ million	2001	2000
Reorganisation costs (i)	(33)	(77)
Acquisition related costs (ii)	(63)	(33)
Charged to operating profit	(96)	(110)
Net (loss)/profit on sale of businesses (iii)	(10)	86
Exceptional charge before tax	(106)	(24)
Net tax credit (iv)	84	21
Total exceptional charge	(22)	(3)

Exceptional items comprise the following:

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

(ii) acquisition related costs including employee severance and property rationalisation costs arising on the integration of Harcourt and other recent acquisitions and £9m of exceptional costs relating to the financing of the tender offer;

(iii) the net loss on sale of businesses relating primarily to the disposals of OAG Worldwide, Cahners Travel Group, Bowker and certain training businesses in the Netherlands; and

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

Cash flows in respect of the exceptional items were as follows:

£ million	2001	2000
Reorganisation costs	(38)	(76)
Acquisition related costs	(51)	(4)
Other	(5)	(9)
Exceptional operating cash outflow	(94)	(89)
Net proceeds from sale of businesses	58	(15)
Exceptional cash outflow before tax	(36)	(104)
Exceptional tax cash inflow	155	32
Total exceptional cash inflow/(outflow)	119	(72)

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

NET INTEREST EXPENSE

£ million	2001	2000
Interest payable and similar charges		
On loan capital, promissory notes and bank borrowings		
repayable within 5 years, other than by instalments	(114)	(49)
On finance leases	(2)	(1)
Other interest and similar charges	(52)	(24)
On amounts owed to Reed International P.L.C.	(4)	(6)
On amounts owed to the Elsevier Reed Finance BV group	(318)	(219)
	(490)	(299)
Interest receivable and similar income		
On cash deposits and short term investments	24	15
On amounts owed by Reed International P.L.C.	4	4
On amounts owed by the Elsevier Reed Finance BV group	13	11
	41	30
Total net interest expense	(449)	(269)
Interest cover (times)	2	3

Interest payable and similar charges include £48m of exceptional charges relating to 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.

9. TAX ON LOSS ON ORDINARY ACTIVITIES

£ million		**2001**	2000
Current tax			
United Kingdom		**59**	58
The Netherlands		**62**	50
Rest of World		**45**	28
Total current tax		**166**	136
Deferred tax			
Origination and reversal of timing differences		**25**	(5)
Changes in recoverable amounts of deferred tax assets		**(104)**	-
Sub-total		**87**	131
Share of tax attributable to joint ventures	*note 14*	**5**	4
Total		**92**	135

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:

£ million	2001	2000
(Loss)/profit on ordinary activities before tax	**(79)**	31
Tax at average standard rates	**(51)**	(3)
Net impact of amortisation of goodwill and intangible assets	**120**	101
Permanent differences and other items	**122**	33
Reversal of timing differences	**(25)**	5
Current tax charge	**166**	136

UK corporation tax has been provided at 30.00% (2000 : 30.00%).

10. EQUITY DIVIDENDS PAID AND PROPOSED

	£ per share		*£ million*	
	2001	2000	**2001**	2000
Subsidiary undertakings			**62**	94
Parent				
Ordinary				
Interim to "E" ordinary shareholders	-	29,100	-	291
Interim to "R" ordinary shareholders	**12,700**	9,700	**127**	97
			127	388
Total			**189**	482

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

The dividends to be paid by the company are regulated by the equalisation arrangements between Reed International P.L.C. and Elsevier NV, the company's shareholders. The arrangements have the effect of requiring dividends to be paid by the company according to the respective requirements of the shareholders to enable them to pay dividends on their ordinary shares on an equalised basis. Accordingly, the proportion in which dividends are paid on either class of share will vary from one dividend payment to another.

11. CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

£ million		2001	2000
Operating profit (before joint ventures)		368	201
Exceptional charges to operating profit	*note 7*	96	110
Operating profit before exceptional items		464	311
Amortisation of goodwill and intangible assets	*note 13*	497	459
Depreciation charges	*note 13*	131	118
Net SSAP24 pension credit	*note 4*	-	(1)
Total non cash items		628	576
Increase in stocks		(49)	(3)
Decrease/(increase) in debtors		158	(106)
(Decrease)/increase in creditors		(64)	121
Movement in working capital		45	12
Net cash inflow from operating activities before exceptional items		1,137	899
Payments relating to exceptional items charged to operating profit:	*note 7*	(94)	(89)
Net cash inflow from operating activities		1,043	810

Acquisitions

£ million		2001	2000
Purchase of businesses	*note 12*	(3,222)	(848)
Net proceeds from on-sale of Harcourt Higher Education and Corporate & Professional Services businesses	*note 12*	1,185	-
Payment of Harcourt change of control and other non operating liabilities assumed		(156)	-
Deferred consideration of prior year acquistions		(43)	(13)
Total		(2,236)	(861)

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

Exceptional sale of businesses

£ million	2001	2000
Goodwill and intangible assets	59	19
Net tangible assets	15	1
	74	20
Minority interest in businesses sold	-	(110)
	74	(90)
Net (loss)/profit on sale	(10)	86
Consideration in respect of sales of businesses, net of expenses	64	(4)
Net amounts receivable	(6)	(11)
Net cash inflow/(outflow)	58	(15)

1. CASH FLOW STATEMENT (continued)

Reconciliation of net borrowings

£ million	Cash	Short term investments	Financing	Total	2000
Net borrowings at 1 January	**81**	**408**	**(4,797)**	**(4,308)**	(2,912)
Increase in cash	6	-	-	6	5
(Decrease)/increase in short term investments	-	(175)	-	(175)	73
Increase in borrowings	-	-	(1,814)	(1,814)	(1,162)
Change in net borrowings resulting from cash flows	6	(175)	(1,814)	(1,983)	(1,084)
Borrowings in acquired businesses	-	-	(1,042)	(1,042)	(48)
Inception of finance leases	-	-	(3)	(3)	(3)
Exchange translation differences	-	(1)	(88)	(89)	(261)
Net borrowings at 31 December	**87**	**232**	**(7,744)**	**(7,425)**	(4,308)

Reconciliation of financing

£ million	Long term borrowings	Net borrowings from shareholders and Elsevier Reed Finance BV group	Bank loans and promissory notes	Total Financing	2000
At 1 January	**(407)**	**(3,624)**	**(766)**	**(4,797)**	(3,317)
Issuance of long term loans	(1,068)	-	-	(1,068)	-
Repayment of long term loans	84	-	-	84	167
Repayment of finance leases	4	-	-	4	4
Increase in net borrowings from shareholders and the Elsevier Reed Finance BV group	-	(1,661)	-	(1,661)	(979)
Decrease/(increase) in bank loans and promissory notes		-	827	827	(354)
Change in financing resulting from cash flows	(980)	(1,661)	827	(1,814)	(1,162)
Borrowings in acquired businesses	(603)	-	(439)	(1,042)	(48)
Inception of finance leases	(3)	-	-	(3)	(3)
Exchange translation differences	(1)	(47)	(40)	(88)	(267)
At 31 December	**(1,994)**	**(5,332)**	**(418)**	**(7,744)**	(4,797)

The issuance of other loans relates primarily to the global notes issued on 31 July 2001, comprising US$550m 6.125% notes due in 2006, Euro500m 5.750% notes due in 2008, and US$550m 6.750% notes due in 2011.

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 that year.

During the year finance lease arrangements were entered into in respect of assets with a total capital value at inception of £3m (2000 : £3m).

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

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

12. ACQUISITIONS

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

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.

£ million	Notes	Book value on acquisition	Fair value adjustments	Fair value
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 taxation	(vi)	18	(33)	(15)
Other net liabilities	(vii)	(269)	(19)	(288)
Net assets acquired		300	2,784	3,084

Consideration	(viii)	3,084
Less: amount deferred from prior year		(20)
Net cash flow		3,064

(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 in respect of change of control arrangements and transaction costs incurred by Harcourt General, Inc and £124m in respect of General Cinema lease obligations and other non operating liabilities assumed.
(viii) Consideration is stated after £26m of acquisition costs.

The book values on acquisition are stated under UK GAAP.

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

2. 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 plc's accounting policies and as if the acquisition of Harcourt had taken place on 1 January 2000, are set out below.

£ million	**2001**	2000
Turnover		
STM	**481**	451
Education and Testing	**769**	656
	1,250	1,107
Adjusted operating profit		
STM	**107**	103
Education & Testing	**153**	129
	260	232

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 and operating profit of £41m. For the previous Harcourt General financial year ended 31 October 2000, the businesses reported under US GAAP, operating profit of £182m.

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:

£ million	Book value on acquisition	Fair value adjustments	Fair value
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

13. FIXED ASSETS - INTANGIBLE ASSETS AND TANGIBLE ASSETS

CONSOLIDATED		Goodwill and intangible assets			Tangible assets		
Cost *£ million*		Goodwill	Intangible assets	Total	Land and buildings	Plant, equipment and computer systems	Total
At 1 January 2001		3,729	3,427	7,156	168	820	988
Acquisitions	*note 12*	1,428	1,669	3,097	50	113	163
Capital expenditure		-	-	-	10	167	177
Sales of businesses		(386)	(586)	(972)	-	-	-
Disposals		-	-	-	(15)	(148)	(163)
Exchange translation differences		62	46	108	2	10	12
At 31 December 2001		**4,833**	**4,556**	**9,389**	**215**	**962**	**1,177**
Accumulated amortisation and depreciation *£ million*							
At 1 January 2001		1,477	1,562	3,039	56	518	574
Acquisitions		-	-	-	22	84	106
Sales of businesses		(355)	(558)	(913)	-	-	-
Disposals		-	-	-	(11)	(118)	(129)
Amortisation of goodwill and intangible assets		332	165	497	-	-	-
Depreciation		-	-	-	7	124	131
Exchange translation differences		22	28	50	1	7	8
At 31 December 2001		**1,476**	**1,197**	**2,673**	**75**	**615**	**690**
Net book amount *£ million*							
At 1 January 2001		2,252	1,865	4,117	112	302	414
At 31 December 2001		**3,357**	**3,359**	**6,716**	**140**	**347**	**487**

The net book amount of tangible fixed assets includes £16m (2000 : £17m) in respect of assets held under finance leases.

Land and buildings at cost *£ million*	**2001**	2000
Freehold property	**199**	133
Leasehold property, 50 years or more unexpired	**13**	16
Leasehold property, less than 50 years unexpired	**3**	19
Total	**215**	168

There is no land (2000 : £7m) on which no depreciation has been charged.

14. FIXED ASSETS - INVESTMENTS

£ million		Investments in joint ventures		Other investments		Total
CONSOLIDATED		Share of net assets	Loans	Unlisted	Listed	
At 1 January 2001		71	1	65	16	153
Share of profit before tax		15	-	-	-	15
Amortisation of goodwill and intangible assets		(3)	-	-	-	(3)
		12	-	-	-	12
Share of tax attributable	*note 9*	(5)	-	-	-	(5)
Dividends received from joint ventures		(12)	-	-	-	(12)
Acquisitions		-	-	-	70	70
Additions		-	-	22	37	59
Transfers/disposals		-	-	(19)	(4)	(23)
Provided		-	-	(13)	-	(13)
Exchange translation differences		(1)	-	1	-	-
At 31 December 2001		**65**	**1**	**56**	**119**	**241**

The principal joint venture at 31 December 2001 is Giuffre (an Italian legal publisher in which Reed Elsevier plc has a 40% shareholding).

The cost and net book amount of goodwill and intangible assets in joint ventures were £37m and £24m respectively (2000 £37m and £27m).

The directors' valuation of other investments (unlisted) at 31 December 2001 is £56m (2000 : £65m). The market value of listed investments at 31 December 2001 is £173m (2000 : £16m).

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. The aggregate market value at 31 December 2001 was £25m (2000 : £7m). The EBT purchases Reed International and Elsevier shares which, at the Trustee's discretion, can be used in respect of the exercise of executive share options. Details of the share option schemes are set out in the Remuneration Report on pages 8 to 14.

£ million	Subsidiary undertakings			Associates	Total
PARENT	Shares at cost	Provisions	Net book value	Shares at cost	
At 1 January 2001	901	(4)	897	29	926
Disposals	(4)	-	(4)	-	(4)
At 31 December 2001	897	(4)	893	29	**922**

15. STOCKS

	CONSOLIDATED	
£ million	**2001**	2000
Raw materials	**43**	17
Pre-publication costs	**258**	40
Finished goods	**186**	57
Total	**487**	114

16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		PARENT	
£ million	**2001**	2000	**2001**	2000
Trade debtors	**749**	648	**-**	-
Amounts owed by Elsevier NV	**1**	4	**-**	-
Amounts owed by the Elsevier Reed Finance BV group	**304**	145	**-**	-
Amounts owed by joint ventures	**2**	2	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**50**	36
Other debtors	**99**	76	**-**	-
Prepayments and accrued income	**138**	116	**-**	-
Total	**1,293**	991	**50**	36

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

		CONSOLIDATED	
£ million		**2001**	2000
Trade debtors		**5**	1
Amounts owed by Reed International P.L.C.		**36**	36
Pension prepayment	*note 4*	**128**	128
Prepayments, accrued income and other debtors		**87**	33
Deferred taxation assets	*note 18*	**244**	43
Total		**500**	241

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.

18. DEFERRED TAXATION

£ million		CONSOLIDATED 2001	2000
Deferred taxation liabilities			
Excess of tax allowances over related amortisation		**41**	-
Pension prepayment		**38**	37
Short term timing differences		**1**	2
		80	39
Deferred taxation assets			
Excess of amortisation over related tax allowances		**(6)**	(8)
Short term timing differences		**(200)**	(35)
Tax losses carried forward		**(38)**	-
		(244)	(43)
Total		**(164)**	(4)

Deferred tax (asset)/liability at 1 January		**(4)**	4
Acquisitions		**8**	(2)
Transfers		**(88)**	-
Deferred tax credit in the profit and loss account	*note 9*	**(79)**	(5)
Exchange translation differences		**(1)**	(1)
Deferred tax asset at 31 December		**(164)**	(4)

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million		CONSOLIDATED 2001	2000
Loan capital	*note 21*	**106**	2
Promissory notes and bank loans		**400**	746
Obligations under finance leases	*note 23*	**5**	5
Sub total: Borrowings		**511**	753
Trade creditors		**242**	241
Amounts owed to Reed International P.L.C.		**517**	473
Amounts owed to the Elsevier Reed Finance BV group		**952**	723
Amounts owed to associated undertakings		**6**	-
Other creditors		**339**	240
Taxation		**378**	152
Accruals and deferred income		**1,377**	1,127
Total		**4,322**	3,709

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

		CONSOLIDATED	
£ million		**2001**	2000
Loan capital repayable	*note 21*		
- within one to two years		**91**	3
- within two to five years		**489**	184
- after five years		**1,292**	201
Promissory notes and bank loans repayable			
- within two to five years		**18**	20
Obligations under finance leases	*note 23*	**11**	12
Sub total: Borrowings		**1,901**	420
Amounts owed to Reed International P.L.C.		**40**	40
Amounts owed to the Elsevier Reed Finance BV group		**4,164**	2,573
Other creditors		**21**	27
Taxation		**283**	173
Accruals and deferred income		**40**	25
Total		**6,449**	3,258

21. LOAN CAPITAL

	CONSOLIDATED	
£ million	**2001**	2000
Subsidiary undertakings - unsecured		
$125m 8.5% US Dollar Privately Placed Notes 2003	**86**	83
$150m 6.625% US Dollar Privately Placed Notes 2023	**104**	101
$150m 7% US Dollar Public Notes 2005	**104**	101
$150m 7.5% US Dollar Public Debentures 2025	**104**	101
$550m 6.125% US Dollar Public Notes 2006	**379**	-
$440m 5.75 US Dollar Public Notes 2008	**304**	-
$550m 6.75% US Dollar Public Notes 2011	**379**	-
$150m 8.25% US Dollar Public Notes 2002	**104**	-
$150m 8.875% US Dollar Public Notes 2022	**45**	-
$150m 6.7% US Dollar Public Notes 2007	**110**	-
$200m 7.2% US Dollar Public Notes 2027	**132**	-
$150m 7.3% US Dollar Public Notes 2097	**95**	-
$55m 6.5% US Dollar Convertible Subordinated Debentures 2011	**29**	-
Miscellaneous Dutch Florin	**3**	4
Total	**1,978**	390

2. FINANCIAL INSTRUMENTS

Details of the objectives, policies and strategies pursued by Reed Elsevier plc in relation to financial instruments are set out in the Directors' Report on pages 4 and 5.

For the purpose of the disclosures which follow in this note, short term debtors and creditors, including the current portion of long term inter-affiliate debtors and creditors, have been excluded, as permitted under FRS13.

Currency and interest rate profile of financial liabilities

The currency and interest rate profile of the aggregate financial liabilities of £2,596m (2000 : £3,906m), after taking account of interest rate and cross currency interest rate swaps, is set out below:

CONSOLIDATED

	2001				2000			
			Fixed rate financial liabilities				Fixed rate financial liabilities	
£ million	Floating rate financial liabilities	Fixed rate financial liabilities	Weighted average interest rate	Weighted average duration (years)	Floating rate financial liabilities	Fixed rate financial liabilities	Weighted average interest rate	Weighted average duration (years)
US dollar	**911**	**1,558**	**7.1%**	**17.1**	584	2,850	7.4%	5.1
Sterling	**22**	**-**	**-**	**-**	30	40	9.8%	7.0
Euro	**6**	**11**	**5.7%**	**9.7**	74	254	7.5%	9.1
Other currencies	**88**	**-**	**-**	**-**	66	8	5.5%	1.3
Total	**1,027**	**1,569**	**7.1%**	**17.0**	754	3,152	7.4%	5.5

Included within fixed rate financial liabilities as at 31 December 2001, are £105m (2000 : £nil) of US dollar term debt that matures within one year.

Currency and interest rate profile of financial assets

The currency and interest rate profile of the aggregate financial assets of £536m (2000 : £625m), after taking account of interest rate swaps, is set out in the table and narrative below:

CONSOLIDATED

	2001		2000	
£ million	Floating rate financial assets	Non interest bearing financial assets	Floating rate financial assets	Non interest bearing financial assets
US dollar	**17**	**147**	79	67
Sterling	**66**	**24**	187	16
Euro	**210**	**6**	190	1
Other currencies	**26**	**4**	33	3
Total	**319**	**181**	489	87

In addition to the amounts shown above Reed Elsevier plc has £36m (2000 : £36m) of fixed rate financial assets owed by affiliated companies denominated in sterling, at an interest rate of 10.5% (2000 : 10.5%) and duration of six years (2000 : seven years) and £nil (2000 : £13m) of fixed rate financial assets denominated in US dollars.

Included within non interest bearing financial assets are £175m (2000 : £81m) of investments denominated principally in sterling and US dollars which have no maturity date.

Floating rate interest rates payable on US commercial paper are based on US dollar commercial paper rates. Other financial assets and liabilities with third parties bear interest by reference to LIBOR or other national LIBOR equivalent interest rates.

2. FINANCIAL INSTRUMENTS (continued)

Forward rate agreements are used to fix the interest income on short term investments and short term inter-affiliate loans. At 31 December 2001, the gross notional amount of sterling forward rate agreements totalled £nil (2000 : £100m).

Forward rate agreements are also used to fix the interest expense on borrowings. At 31 December 2001, the gross notional amounts of US dollar forward rate agreements totalled £276m (2000 : £nil), commencing in periods of up to twelve months from 31 December 2001, and for periods of between 181 and 184 days duration, ending on dates between July 2002 and January 2003.

At 31 December 2001, interest rate floors totalling £150m were in place to 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).

At December 2001, forward rate agreements totalling £276m (2000 : £nil) were in place. All of these arrangements 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:

	CONSOLIDATED	
£ million	**2001**	2000
Repayable:		
Within one year	**554**	775
Within one to two years	**149**	774
Within two to five years	**557**	1,880
After five years	**1,336**	477
Total	**2,596**	3,906

Financial liabilities repayable within one year include US 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 (2000 : £4,497m) of committed facilities were available, of which £418m (2000 : £nil) was drawn and is included in financial liabilities repayable within one year. Of the total committed facilities, £248m (2000 : £2,389m) matures within one year, £1,724m (2000 : £nil) within one to two years, and £441m (2000 : £2,108m) within two to three years. Included within the 2000 amount is £3,154m of committed facilities arranged in anticipation of the Harcourt acquisition. These facilities are available to other affiliated businesses as well. Secured borrowings under finance leases were £16m (2000 : £17m).

Currency exposure

As explained in the Directors' Report on page 5, 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 currency of the operating units.

22. FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and liabilities

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

	CONSOLIDATED			
	2001		2000	
£ million	**Book value**	**Fair value**	Book value	Fair value
Primary financial instruments held or issued to finance operations				
Investments	**175**	**175**	81	81
Cash	**87**	**87**	81	81
Short term investments	**232**	**232**	408	408
Amounts due from affiliated companies	**36**	**43**	36	43
Other financial assets	**6**	**6**	19	19
Short term borrowings and current portion of long term borrowings	**(511)**	**(513)**	(753)	(753)
Long term borrowings	**(1,901)**	**(1,896)**	(420)	(398)
Amounts due to affiliated companies	**(4,204)**	**(4,188)**	(2,613)	(2,661)
Other financial liabilities	**(22)**	**(22)**	(34)	(34)
Provisions	**(162)**	**(162)**	(86)	(86)
	(6,264)	**(6,238)**	(3,281)	(3,300)
Derivative financial instruments held to manage interest rate and currency exposure				
Interest rate swaps	**(2)**	**(15)**	-	(43)
Interest rate floors	**-**	**1**	-	-
Forward rate agreements	**-**	**-**	-	-
Forward foreign exchange contracts	**-**	**-**	-	(5)
	(2)	**(14)**	-	(48)
Total financial instruments	**(6,266)**	**(6,252)**	(3,281)	(3,348)

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.

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:

	CONSOLIDATED			
	Unrecognised		Deferred	
£ million	Gains	Losses	Gains	Losses
On hedges at 1 January 2001	2	(50)	17	(24)
Arising in previous years included in the 2001 profit and loss account	(2)	46	-	4
Arising in previous years not included in the 2001 profit and loss account	-	(4)	17	(20)
Arising in 2001 not included in the 2001 profit and loss account	3	(11)	12	(2)
On hedges at 31 December 2001	3	(15)	29	(22)
Of which:				
Expected to be included in the 2002 profit and loss account	2	-	15	(14)
Expected to be included in the 2003 profit and loss account or later	1	(15)	14	(8)

23. OBLIGATIONS UNDER LEASES

Future finance lease obligations are:

£ million		CONSOLIDATED 2001	2000
Repayable:			
Within one year		7	6
Within one and two years		3	4
Within two and five years		2	1
After five years		9	11
		21	22
Less: interest charges allocated to future periods		(5)	(5)
Total		**16**	17
Obligations falling due within one year	*note 19*	5	5
Obligations falling due after more than one year	*note 20*	11	12
Total		**16**	17

Annual commitments under operating leases are:

		2001		2000	
£ million		Land and buildings	Other	Land and buildings	Other
On loans expiring	- within one year	18	1	3	1
	- within one to five years	38	2	30	-
	- after five years	63	-	38	-
Total		119	3	71	1

24. PROVISIONS FOR LIABILITIES AND CHARGES

CONSOLIDATED

£ million	Surplus property	Lease guarantees	Deferred tax liabilities	Other	Total
At 1 January 2001	84	-	39	7	130
Acquisitions	-	104	14	-	118
Transfers	-	-	-	(4)	(4)
Provided	-	-	29	-	29
Utilised	(10)	(18)	(1)	(3)	(32)
Exchange translation differences	2	-	(1)	-	1
At 31 December 2001	76	**86**	**80**	-	**242**

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.

A reconciliation of the movements in deferred tax is included in note 18.

25. FUTURE CAPITAL EXPENDITURE NOT PROVIDED IN THE FINANCIAL STATEMENTS

	CONSOLIDATED	
£ million	**2001**	2000
Contracts placed	**2**	5

26. CALLED UP SHARE CAPITAL

	AUTHORISED	CALLED UP, ISSUED AND FULLY PAID
£ and no. shares	At 31 Dec 2000 and 2001	At 31 Dec 2000 and 2001
Preference shares (cumulative) of £1 each		
- Irredeemable 7.50%	100,000	100,000
Ordinary shares of £1 each		
- "R" ordinary shares	10,000	10,000
- "E" ordinary shares	10,000	10,000
Total	120,000	120,000

The company's Articles of Association set out the rights to the "E" and "R" ordinary shareholders for capital and income purposes. These rights in so far as they relate to distributions are set out in more detail in note 10. The capital rights are intended to enable the "E" and "R" shareholders to be in a position to make capital distributions on their share capital in the same ratio as applies for income purposes.

The "E" share capital is owned by Elsevier NV and the "R" share capital is owned by Reed International P.L.C. Elsevier NV and Reed International P.L.C. jointly own the company.

The 7.50% non-voting cumulative preference shares entitle the holder to receive a fixed cumulative dividend at the rate of 7.50% on the paid up capital and the right to a return of a sum equal to the nominal capital paid up on a winding up.

27. SHARE PREMIUM ACCOUNT

£ million	
At 1 January and 31 December 2001	**324**

28. RECONCILIATION OF SHAREHOLDERS' FUNDS

£ million	Share capital and share premium	Revenue reserves	Consolidated Total	Parent Total
At 1 January 2001	324	(910)	(586)	962
Retained (loss)/profit for the year	-	(361)	(361)	10
Exchange translation differences	-	(29)	(29)	-
At 31 December 2001	**324**	**(1,300)**	**(976)**	**972**

Share capital includes non equity shares of £100,000 (2000 : £100,000).

Parent company reserves comprise the profit and loss account. The profit attributable to shareholders, dealt with in the accounts of the company, is £137m (2000 : £391m).

29. CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT	
£ million	**2001**	2000	**2001**	2000
Contingent liabilities in respect of borrowings of:				
Subsidiary undertakings	**-**	-	**6**	6
Former subsidiary undertakings	**7**	10	**7**	10
	7	10	**13**	16

There are contingent liabilities of £143m in respect of lease guarantees, in excess of provided amounts, given by Harcourt General, Inc in favour of GC Companies, Inc (see note 24).

The company has accepted, in accordance with clause 403 Book 2 of the Dutch Civil Code, responsibility for the liabilities, including trade creditors and external borrowings totalling £64m (2000 : £81m), of subsidiary undertakings registered in the Netherlands.

30. RELATED PARTY TRANSACTIONS

There were no material transactions during the year between the Reed Elsevier plc group and its fellow joint ventures, or its joint venture interests, other than those disclosed in these accounts.

The group's fellow joint ventures are Elsevier Reed Finance BV and its subsidiaries. Elsevier Reed Finance BV is incorporated in The Netherlands and owned by Reed International P.L.C. and Elsevier NV. The Elsevier Reed Finance BV group provides a range of treasury services and funding to the Reed Elsevier plc group.

Foreign exchange contracts entered into during 2001 by Reed Elsevier plc and its subsidiaries with its fellow joint ventures amounted to £562m (2000 : £1,842m).

31. BALANCE SHEET OF REED ELSEVIER PLC AS AT 31 DECEMBER 2001

£ million		**2001**	2000
Fixed assets			
Investments	*note 14*	**922**	926
Current assets			
Debtors: amounts falling due within one year	*note 16*	**50**	36
Net current assets		**50**	36
Net assets		972	962
Capital and reserves			
Called up share capital	*note 26*	-	-
Share premium account	*note 27*	**324**	324
Revenue reserves		**648**	638
Shareholders' funds	*note 28*	972	962

Approved by the board of Reed Elsevier plc, 20 February 2002.

M H Armour
Chief Financial Officer

PRINCIPAL SUBSIDIARY UNDERTAKINGS AT 31 DECEMBER 2001

Holding Companies	
Reed Elsevier (UK) Ltd *	
Reed Elsevier Holdings BV*	(The Netherlands)
Reed Elsevier Nederland BV	(The Netherlands)
Reed Elsevier Overseas BV	(The Netherlands)
Reed Elsevier US Holdings Inc	(USA)
Reed Elsevier Inc	(USA)
Reed Elsevier Capital Inc	(USA)
Harcourt General, Inc.	(USA)
Harcourt, Inc.	(USA)
HGI Investment Trust	(USA)
Science & Medical	
Elsevier Science BV	(The Netherlands)
Elsevier Science Ltd	
Elsevier Science Inc	(USA)
Excerpta Medica Inc	(USA)
Academic Press ϰ	(USA)
Harcourt Health Sciences ϰ	(USA)
Harcourt Publishers International Ltd	
Legal	
Butterworths ~	
Eclipse Group Ltd	
Tolley Publishing ~	
Editions du Juris-Classeur SA	(France)
LEXIS-NEXIS #	(USA)
Matthew Bender and Company, Inc.	(USA)
Elsevier Opleidingen BV	(The Netherlands)
Education	
Reed Educational & Professional Publishing Ltd	
Harcourt School Publishers ϰ	(USA)
Harcourt Education ϰ	(USA)
Holt, Rinehart and Winston ϰ	(USA)
Steck-Vaughn Company	(USA)
The Psychological Corporation	(USA)
Business	
Cahners Business Information #	(USA)
Construction Market Data Group, Inc.	(USA)
Elsevier Bedrijfsinformatie BV	(The Netherlands)
Reed Business Information Ltd	
The Reed Exhibition Companies Ltd	
Reed Exhibition Companies #	(USA)

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

*	Direct subsidiary undertaking of Reed Elsevier plc
#	Division of Reed Elsevier Inc (USA)
~	Division of Reed Elsevier (UK) Ltd
ϰ	Division of Harcourt, Inc. (USA)

PRINCIPAL JOINT VENTURES AT 31 DECEMBER 2001

		Operating in	*Principal place of business*
Dott. A. Giuffrè Editore Spa	40%	Italy	Via Busto Arsizio, Milan