Company Number: 2746616

Reed Elsevier Group plc
(formerly Reed Elsevier plc)

Annual Report and Financial Statements

For the year ended 31 December 2002

Reed Elsevier Group plc

Directors' Report

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 OBE*

R W H Stomberg*

*Indicates non-executive director

The directors present their report and the audited accounts for the year ended 31 December 2002.

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. In April 2002, the company changed its name from Reed Elsevier plc to Reed Elsevier Group plc.

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Results and dividends

Turnover (excluding joint ventures) for the year was £4,973 million (2001 : £4,513 million) and operating profit (including joint ventures) before exceptional items and amortisation of goodwill and intangible assets was £1,115 million (2001 : £976 million). The operating margin was 22.4%, 0.8 percentage points higher than the prior year.

The profit before tax of £5 million (2001 : loss of £79 million) includes net exceptional charges amounting to £103 million (2001 : £106 million) and charges for the amortisation of goodwill and intangible assets of £525 million (2001 : £500 million).

The group loss for the year, after exceptional items, taxation and minority interests, amounted to £77 million (2001 : £172 million). The effective tax rate on profits before exceptional items and amortisation of goodwill and intangible assets was 34.4% (2001 : 32.1%).

The directors do not recommend a final ordinary dividend (2001 : £nil). During the year the company paid £135 million (2001 : £127 million) on the "R" ordinary shares and preference dividends of £7,500 (2001 : £7,500). No dividend was paid on the "E" ordinary shares (2001 : £nil). Subsidiary undertakings paid a further £94 million (2001 : £62 million) to Reed Elsevier NV 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 (2001 : £1 million) there was a retained loss of £306 million (2001 : £361 million).

At 31 December 2002 gross borrowings of £2,014 million (2001 : £2,412 million) were partially offset by cash and short term investments of £498 million (2001 : £319 million). In addition, net borrowings from shareholders and Elsevier Reed Finance BV group amounted to £5,282 million (2001 : £5,332 million).

Reed Elsevier Group plc

Directors' Report

Operating business review

The results of businesses are reported in four segments: Science & Medical, Legal, Education and Business, 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 2001 full year average rates, and exclude intra-affiliate transactions.

A reconciliation of adjusted operating profit to reported operating profit is set out below:

£ million	**2002**	2001
Adjusted operating profit	**1,115**	976
Amortisation of goodwill and intangible assets	**(525)**	(500)
Exceptional items	**(99)**	(96)
Reported operating profit	**491**	380

Science & Medical

Revenue and adjusted operating profits increased by 29% and 26% respectively at constant exchange rates, or, underlying, by 6% and 11% including the Harcourt STM business on a proforma basis. Both the Science & Technology and Health Sciences divisions saw underlying revenue growth of 6%.

In Science & Technology, this was driven by strong subscription renewals, both for print journals and ScienceDirect, and growing online sales, including newly introduced backfiles and subject collections. Migration to e-only contracts is accelerating, which, whilst generating lower revenue than a combined print and electronic sale, has a positive impact on operational efficiency and provides a good platform for the sale of new electronic services.

In Health Sciences, underlying revenue growth was driven by a successful medical book publishing programme, with strong new publishing and increased demand from the expanding healthcare professions. The online service, MD Consult, saw good growth with a 15% increase in subscribers and expanded content. The Excerpta Medica sponsored communications business serving the pharmaceutical industry also performed well.

The integration of the Harcourt STM businesses within Elsevier is now mostly complete. Publishing operations have been unified, journal production centralised and the Harcourt IDEAL online service migrated to ScienceDirect. Journal distribution has been integrated and warehousing capacity is being rationalised. Offices have been consolidated internationally. Book production and distribution systems will be integrated over the coming year. The annual cost savings target of US$40 million will be exceeded, with close to that amount realised in 2002. More than half of this has been reinvested in new product development.

Operating margins, at 33.1%, are 0.5 percentage points lower than in the prior year, reflecting the inclusion of the lower margin Harcourt STM business for a full year. The underlying margin improvement on a proforma basis was 1.5 percentage points, including in the Health Sciences business as action is taken to improve the efficiency of the acquired business.

The Elsevier business is making good progress against its strategic priorities. We continue to expand our content and make more of it available electronically. During 2002, the number of articles available on the ScienceDirect web service increased from 1.8 million to 3.3 million from new publishing, the progressive loading of backfiles and migration from the IDEAL platform. Additional content came from continued strong publishing in our journals and a very successful medical publishing programme, as well as acquisitions. We acquired Hanley & Belfus, a leading US publisher in the medical student market, and recently established a strong position in Germany through the acquisition of the STM businesses of Holtzbrinck, including Urban & Fischer, a leading medical publisher.

ScienceDirect saw strong growth in the year, with the number of articles downloaded up 70% to 86 million. The percentage of subscribers by value now taking ScienceDirect is 72%, up 6 percentage points in the year with most major customers now taking the service. The majority of those not taking ScienceDirect are able to access web editions of journals as part of their core subscriptions, but without the retrieval, linking and other functionalities of ScienceDirect.

The outlook for the Science & Medical business is good. Although academic institutional and corporate budgets are under pressure, Elsevier continues to see strong subscription renewals and is driving increased demand through new content and online services, adding value and productivity to existing customers and widening distribution. Further margin improvement is expected from increasing operational efficiency, particularly in the Health Sciences business.

Legal

Revenues and adjusted operating profits increased by 5% and 10% respectively at constant exchange rates, or 4% and 11% excluding acquisitions and disposals. LexisNexis North America saw underlying revenue growth of 4%, a very satisfactory result given the pressure in some markets from the economic slowdown, particularly in the corporate sector. Outside the US, International sales growth was 3% held back by the difficult conditions in the corporate sector and Latin America. Operating margins were up 1.2 percentage points to 21.3%, with good operational gearing and improving cost efficiency in part offset by additional investment in new online services and development in Courtlink, the fast growing electronic court access and filing company acquired in 2001.

In US Legal markets, revenues grew by 4%. Online revenue growth was 8%, with continued strong growth in online usage and increasing penetration of the small law firm market. Print and CD sales were flat as the market moves online. The legal directories business again performed well with strong renewals and expanded web services. In US Corporate and Federal markets, revenues increased by 5% with strong growth in risk solutions services more than compensating for the impact of the economic slowdown on the corporate business information market. Underlying operating profit growth at LexisNexis North America was 15%.

The LexisNexis International businesses outside North America saw revenues and adjusted operating profits up 3% and 4% respectively. Online sales grew strongly in all major markets, partly offset by the migration from print and CD product. Underlying sales growth of 3% was held back by weakness in demand from corporate customers and in Latin America. Underlying operating profits grew more slowly at 1% reflecting investment in new online services and expansion of the business in Germany. In part this investment has been funded by rationalisation of editorial and production processes within Europe during the second half of the year.

LexisNexis is continuing to expand its content and online services as well as pushing into new markets. In the US, we have progressively expanded our coverage of annotated codes for individual states and are well advanced in developing modern summaries of all federal and state cases. We continue to add to the functionality of our online services, and are expanding the electronic filing and court access services acquired with Courtlink. We also continue to expand internationally through internal development and acquisition, and the building of our global online delivery platform. The acquisition of Quicklaw gave us the leading position in online legal information in Canada, and MBO Verlag provides an important step up in developing our business in Germany. The organisational structure, management and resources are in place to deliver on our strategy and continue the growth momentum in the business.

The outlook for the LexisNexis business is good, despite the pressure of the economic slowdown on legal markets. Product innovation and the gains in customer productivity offered by our growing online services are stimulating continued growth. The focus on increasing operational efficiency is expected to deliver further margin improvement whilst investment levels are maintained.

Education

Revenues and adjusted operating profits increased substantially with a full year contribution from the acquired Harcourt businesses. Underlying growth in revenues and adjusted operating profits was 2% and 4% respectively at constant exchange rates including the acquired Harcourt businesses on a proforma basis.

The Harcourt US K-12 schools business performed well against a market estimated to be some 5% lower, delivering revenues marginally ahead of the prior year. This market decline is a reflection of the weaker adoptions cycle in 2002 compounded by more cautious spending by US states, with budgets under pressure and deferral of spend in anticipation of the increased funding allocated by the federal government. Adjusted operating profits were up 4% before other acquisitions driven by greater cost efficiency across the supply chain and operating infrastructure, as well as from integration of the supplemental businesses.

Operating margins were lower at 18.4% due to the effect of including the acquired Harcourt businesses for a full year with their seasonally low first half margin. Underlying margins on a proforma basis improved by 0.5 percentage points despite the low revenue growth, due to the greater cost efficiency. The integration savings are higher than initially targeted and have financed additional investment in electronic learning.

Harcourt Education's significant outperformance of the US K-12 market has been driven by strong new publishing against available adoption opportunities and good growth in sales of the backlist and in open territories particularly in the elementary schools market. We won the highest overall market share of 2002 state adoption revenues despite the disappointment of not participating in California elementary reading. The elementary school business was particularly successful in Florida reading, California math, and in science and social studies across a number of states. In secondary, the science and literature and language arts programmes again performed well.

The Harcourt Testing businesses saw underlying revenues 8% ahead, driven by good growth from new and existing state contracts and successful new educational and clinical assessment publishing. Operating margins increased through significant process improvements following relocation of the business to new facilities in the prior year, and underlying operating profits were 25% higher.

The Harcourt Education International business saw flat revenues, before acquisitions. Strong growth from successful new publishing in the UK secondary schools market was offset by a weaker UK primary schools market, following a strong prior year of significant curriculum change, and lower academic publishing sales. The Global Library business grew well with an expanded sales and marketing organisation. Underlying operating profits in the International business were 10% lower, due to the flat sales and investment in new publishing and sales and marketing.

Harcourt Education remains focused on delivering market leading textbook programmes and we are continuing to invest in expanding our curriculum range and in electronic learning resources. In Testing we have now launched a major new edition of the Stanford Achievement Test series which combines the power of well established norm referencing tests with the flexibility to adapt to individual state criteria. Our online testing capabilities are developing well and positioned for market growth.

In 2003, the US schools market is expected to see some recovery despite continuing state budget pressures through the benefit of additional federal funding and more state adoption revenues available. We have strong publishing programmes across our businesses to address these opportunities. In Testing, revenue growth will be held back by the non-renewal of the California state testing contract but this will have only a limited impact on planned profit growth. Our cost savings programmes and continuing integration benefits should deliver further margin improvement whilst we continue to increase investment in new publishing and electronic learning. The longer term growth opportunities in Harcourt Education remain very attractive.

Directors' Report

Business

Underlying revenues were 6% lower than in the prior year reflecting persistent weak advertising markets worldwide, although the rate of decline year on year slowed significantly in the second half. The US business was most affected, whilst, in Europe, subscription revenues to an extent mitigated the advertising decline. The Exhibitions business, although affected by late cycle pressures in its markets, saw revenues only slightly lower than the prior year. Underlying operating profits increased by 2% as a result of the cost actions taken across the businesses. Reported revenues and adjusted operating profits at constant exchange rates were down 14% and 4% respectively reflecting the sale of the travel publishing businesses and other non-core businesses in 2001.

In the US, Reed Business Information saw revenues, excluding disposals, 12% lower than the prior year. Magazine advertising markets in general remained depressed, although the rate of decline slowed considerably across the year. Improvement in some markets, most notably Entertainment, and growth in Construction data subscription services was more than offset by declines in Manufacturing, Electronics and Telecoms. Despite the revenue decline, underlying operating profits have risen by 15% reflecting the significant action taken to reduce costs, both as a response to the current market environment and as part of a longer term drive to improve US margins.

In the UK, Reed Business Information revenues, excluding disposals, were 6% lower with reductions in display and recruitment advertising, particularly in the Technology and Air Transport sectors. The Agricultural titles recovered from the low point last year during the foot and mouth crisis and the Social Services sector performed strongly. Online revenues grew over 20% with the continuing success of subscription services and online directories. Cost actions restricted the decline in underlying profits to 4%, representing a small improvement in operating margin.

In Continental Europe, Reed Business Information saw revenues, excluding acquisitions and disposals, down 2%, whilst underlying operating profits were 6% ahead. Strong market share gains and the resilience of subscription income mitigated to a large extent the decline in advertising markets. Performance in individual sectors was mixed, with the Hospitality, Regulatory and HR sectors in the Netherlands performing particularly well, whereas there were significant declines in Management titles and Training serving the SME market. The operations in Belgium were closed with the pan European Electronics titles relocated to France. Operating margins improved through continuing action to reduce costs.

At Reed Exhibitions, underlying revenues were 1% lower, excluding acquisitions and disposals, whereas operating profits were held to the level of the prior year with some benefit from the cycling of non annual shows and through tight cost management. Growth in Asia Pacific and in the majority of the North American shows was offset by weakness in the US manufacturing sector and in Europe particularly in the international shows. The resilience of the Exhibitions business is a reflection of the market leading positions of our shows and the sector and geographic spread of the business, and we continue to launch new shows exploiting proven concepts across markets.

The outlook for Reed Business in 2003 remains uncertain, with a global economic recovery elusive. A modest decline in underlying revenues might be expected, absent any further marked deterioration in economic conditions, given the drift in advertising markets and the net adverse impact this year of the cycling of non-annual exhibitions. Some further improvement in margins, from tight cost control and the actions taken in 2002, should help mitigate the effect on profitability. The outlook in the longer term remains positive. As economic conditions improve, the business should benefit significantly from the market share gains achieved and gearing off a lower cost base.

Future Prospects

Whilst 2003 can be expected to be another challenging year, our businesses are strongly placed and showing good momentum. We have demonstrated over the last two years that we can deliver good growth in revenues, margin, profit and cash generation despite a tough economic environment, and it is our expectation to deliver again in 2003.

The continuing investment into the business positions us well to grow our revenues ahead of the market. The Science & Medical business is benefiting from growing online take-up and new services, and will see the continued turnaround in Health Sciences. The Legal business should see another year of strong competitive performance. The Education business is expected to see continuing state budget pressures but some benefit from the additional federal funding and more state adoption revenues available. In Business markets, no upturn is assumed, although Reed Business is well positioned should markets recover. The restructuring actions taken in 2002 and continuous tight cost management should enable us to again improve operating margins whilst releasing funds for further investment.

Reed Elsevier Group plc

Directors' Report

Treasury Policies

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

Financial instruments are used to finance Reed Elsevier Group plc's business and to hedge transactions. Reed Elsevier Group plc's businesses do not enter into speculative transactions. The main risks faced by Reed Elsevier Group plc and its subsidiaries are liquidity risk, interest rate risk and foreign currency risk. The board of Reed Elsevier Group plc agrees overall policy guidelines for managing each of these risks. These policies are summarised below and remained broadly unchanged during 2002.

Funding

Reed Elsevier Group 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 Group 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 Group plc maintains a maturity profile to facilitate refinancing. Reed Elsevier Group 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 levels 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 Group 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 Group plc, its subsidiaries and affiliates. Reed Elsevier Group 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 Group 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 and medical 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 £709 million.

DIRECTORS

The Reed Elsevier Group plc board consists of five executive directors and six non-executive directors who bring a wide range of skills and experience to the deliberations of the board. The directors at the date of this Report are shown above. Mr D G C Webster resigned on 9 April 2002. During the year the board of Reed Elsevier Group plc met six times.

The board considers all of the non-executive directors to be independent, with the exception of Steven Perrick, who is a partner in Freshfields Bruckhaus Deringer, an international firm of advisers who provide legal advice to Reed Elsevier. As a general rule, non-executive directors serve on the board for a maximum period of ten years.

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

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 Elsevier PLC and Reed Elsevier NV at the beginning and end of the year are shown in the Directors' Remuneration Report.

Committees

Audit Committee

Reed Elsevier Group plc has established an Audit Committee which comprises only non-executive directors, the majority of whom are independent. The committee, which meets regularly, is chaired by Lord Sharman, the other members being John Brock, Steven Perrick, Rolf Stomberg and Roelof Nelissen. Messrs Brock and Stomberg were appointed to the committee in December 2002. The committee is responsible for reviewing matters relating to the financial affairs of the company, internal control policies and the internal and external audit programmes. This includes, for example, reviewing accounting policies, compliance with accounting standards and other statutory requirements, and matters relating to risk management and the effectiveness of internal controls. The committee is also responsible for the selection of auditors, and making an annual assessment of the effectiveness of the audit and the auditors' independence, prior to making a recommendation to the board in respect of the reappointment of the auditors. The committee approves the fees for the audit and, in addition, now pre-approve the provision of all non-audit services by the auditors. The amounts paid to the auditors, both for audit and non-audit services, together with a description of the services provided, appears in note 5 to the Accounts . The director of internal audit and senior representatives of the external auditors attend meetings of the committee.

Remuneration Committee

Reed Elsevier Group plc has established a Remuneration Committee which comprises only independent non-executive directors. The committee, which meets regularly, is chaired by Rolf Stomberg, the other members being John Brock and Roelof Nelissen. The committee is responsible for recommending to the board the remuneration in all its forms of executive directors of Reed Elsevier Group plc, and provides advice to the Chief Executive Officer on the remuneration of executives at a senior level below the board.

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

Strategy Committee

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

CORPORATE GOVERNANCE

Internal control

The board of Reed Elsevier Group plc is responsible for the system of internal control. The board is also responsible for reviewing the effectiveness of their system of internal control. The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The board has implemented an ongoing process for identifying, evaluating and managing significant risks faced by their businesses. This process has been in place throughout the year ended 31 December 2002 and up to the date of the approval of the Annual Report and Financial Statements.

Reed Elsevier Group 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 Group plc has adopted a schedule of matters that are required to be brought to it for decision.

Risk management and control procedures are embedded into the operations of the business and include the monitoring of progress in areas for improvement that come to management and board attention. Each business group has identified and evaluated its major risks, the controls in place to manage these risks and the level of residual risk accepted. 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 Group 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 Group plc Audit Committee receives regular reports on the management of material risks and reviews these reports with executive management. The Audit Committee also receives regular reports from both internal and external auditors on internal control matters. In addition, each Business Group is required, at the end of the financial year, to review the effectiveness of its internal controls and report its findings on a detailed basis to the management of Reed Elsevier Group plc. These reports are summarised and, as part of the annual review of effectiveness, submitted to the Audit Committee of Reed Elsevier Group plc. The Chairman of the Audit Committee reports to the board on any significant internal control matters arising.

Reed Elsevier Group plc

Directors' Report

Annual review

As part of the year end procedures, the board of Reed Elsevier Group plc has reviewed the effectiveness of the systems of internal control during the last financial year.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors of Reed Elsevier Group plc are required to prepare financial statements as at the end of each financial period, which give a true and fair view of the state of affairs, and of the profit or loss of the 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 Annual Report and Financial Statements contain forward looking statements within the meaning of Section 27A of the Securities Act 1933, as amended, and Section 21E of the Securities Exchange Act 1934, as amended. These statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently being anticipated as reflected in such forward looking statements. The terms 'expect', 'should be', 'will be', and similar expressions identify forward looking statements. Factors which may cause future outcomes to differ from those foreseen in forward looking statements include, but are not limited to: general economic conditions and business conditions in Reed Elsevier Group plc's markets; exchange rate fluctuations; customers' acceptance of its products and services; the actions of competitors; legislative, fiscal and regulatory developments; changes in law and legal interpretation affecting Reed Elsevier Group plc's intellectual property rights; and the impact of technological change.

CORPORATE SOCIAL RESPONSIBILITY

Valuing Our People

Reed Elsevier Group plc strongly believes it can gain competitive advantage by developing the talents and skills of its people through

- continuing to upgrade management by attracting and retaining the very best talent
- developing its people to the fullest potential
- building a winning culture
- communicating and sharing knowledge and experience across the businesses

These are key priorities and we devote significant resources to extensive programmes addressing each of them.

We continue to upgrade our management team with the appointment of Patrick Tierney as CEO of our Education division. We now have in place a high quality management with clear responsibilities and accountabilities.

We extended the Personal Development Programme (PDP) to every employee, enabling our people to develop their fullest potential through appraisal and annual objective setting. Management development is a high priority and we now conduct an Organisation and Talent Review annually. All senior management vacancies are regularly reviewed by our Management Committee to ensure that we identify our best people to fill these roles.

We further embedded a winning culture across Reed Elsevier Group plc with the engagement of all employees in the Reed Elsevier values: customer focus, valuing our people, passion for winning, innovation and boundarylessness. We monitor the progress of each business in establishing the values in their processes. Senior executives were assessed in the way they lead the values through 360^0 assessments.

As part of our enhanced internal communications programme we launched a global intranet, aREna, a platform for text and video news, information and group working forums for all of our staff. aREna hosts "Crispin's Open Door" enabling staff to direct queries to our CEO, whose response is sent directly to them as well as being posted on the site.

Environment

Our environmental policy, for which the CEO is responsible to the board, sets out key principles and responsibilities for reducing the environmental impacts of our operations and activities. Its implementation is supported through a network of individuals at group and business unit level.

Our priorities remain managing energy, water and waste, where we have assessed we can maximise our contribution to reducing the environmental impact of our businesses. We are developing our current processes into an environmental management system and will be publishing our environmental objectives and targets against which we will report future progress.

One of our key group objectives for 2002 was to improve the quality and coverage of our environmental data, a crucial step in being able to monitor group wide environmental performance. This has broadly been achieved, although we are undertaking further work to improve the measurement of waste and transport.

We are also managing our supply chain impact more closely by requiring our key strategic suppliers to have environmental policies that meet standards in regard to human and labour rights.

In the business divisions, improvements in environmental performance include the continuing growth of on-line journals (reducing the environmental impacts associated with paper use, printing and distribution) and an annual reduction in energy consumption of over 2 million kWh in LexisNexis through the introduction of more energy efficient data servers and lighting.

Community

With Reed Elsevier Group plc's strong position in educational publishing, we are now actively focusing our efforts and resources on education for disadvantaged young people and community initiatives of importance to local employees.

With a network of Community Champions spanning the whole of the group and co-ordinated by a Director of Community, we are developing or strengthening on-going reading programmes across the cities in which we operate.

Financial support to charities around the world in 2002 totalled £1,160,000 (of which £46,000 was in the United Kingdom). Our in-kind support includes employee time in building low income housing for Habitat for Humanity, developing jobability.com, a website promoting job opportunities for the disabled, and giving a large donation of legal and educational textbooks to Book Aid International, a charity providing educational books to the developing world. In 2002 we provided approximately £1 million of such in-kind support for charitable organisations.

In January 2003 we introduced Reed Elsevier Cares, a new Reed Elsevier wide community programme comprising voluntary activity, donations and communication, which will encompass new and existing activities.

For our full CSR report with details of our people, environmental performance and community focus, visit www.reedelsevier.com.

POLITICAL DONATIONS

There were no donations made in the European Union for political purposes. In the United States, Reed Elsevier Group plc made contributions of £93,000 to the campaign funds of political parties.

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
19 February 2003

Registered Office
25 Victoria Street
London, SW1H 0EX

Reed Elsevier Group plc

Directors' Remuneration Report

This report has been prepared by the Remuneration Committee (the "Committee") of Reed Elsevier Group plc and approved by the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV. The report complies with the UK Directors' Remuneration Report Regulations 2002. Information relating to the emoluments of the directors on pages 11 to 13 and directors' interests in share options on pages 15 and 16 has been audited.

REMUNERATION COMMITTEE

The Committee is responsible for recommending to the boards 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, and for providing advice to the Chief Executive Officer on major policy issues affecting the remuneration of executives at a senior level below the board.

The Committee is chaired by Rolf Stomberg and throughout 2002 consisted wholly of independent non-executive directors: John Brock, Roelof Nelissen and Rolf Stomberg.

The Committee has appointed Towers Perrin, an external consultancy which has wide experience of executive remuneration in multinational companies, to advise in developing its performance-related remuneration policy. Towers Perrin also provides actuarial and other Human Resources consultancy services direct to some Reed Elsevier companies.

In addition to Towers Perrin, the following provided material advice or services to the Committee during the year: Jean-Luc Augustin, Human Resources Director; Christopher Thomas, Director, Compensation and Benefits; and Crispin Davis, Chief Executive Officer.

COMPLIANCE WITH THE BEST PRACTICE PROVISIONS

The 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"), during 2002.

In relation to disclosure of directors' remuneration, Reed Elsevier PLC, a UK company listed on the London Stock Exchange, has complied with Schedule B of the Combined Code.

REMUNERATION POLICY

The remuneration policy, which also applies to the 2003 financial year and future years, is as follows:

In determining its policy on senior executive remuneration, including that of the directors, the Committee's principal objectives are 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 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 leading multinational companies operating in global markets;

(ii) to provide a consistent approach towards senior executives, including the directors, irrespective of geographical location;

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

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

In order to meet the above objectives, the remuneration of executive directors comprises a balance between "fixed" remuneration and "variable performance-related" incentives. The policy is that target performance-related incentives for executive directors should equate to approximately 70% of total remuneration. Remuneration consists of the following elements:

- Base salary, which is based on comparable positions in leading multinational businesses of similar size and complexity. Salaries are reviewed annually by the Committee.
- A variable annual cash bonus, based on achievement of stretching revenue, profit and cash driven targets and individual performance-related targets. Targets are set at the beginning of the year by the Committee. Effective from January 2003 the Committee has adopted a policy of common levels for both annual and longer term incentives for executive directors, reflecting the global nature of the role of each director. As a consequence, from 2003 the annual bonus payable to a director will be 72% of basic salary at target and 90% at maximum.
- A bonus investment plan, introduced in 2002, under which directors and other senior executives are able to have up to one half of their annual bonus paid in Reed Elsevier PLC/Reed Elsevier NV shares. Subject to remaining in employment, at the end of a three year period, the participants will be awarded an equivalent number of Reed Elsevier PLC/Reed Elsevier NV shares.
- Share options, where the directors and other senior executives are granted options annually over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price at the date of grant. The 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 to 40 senior executives. The options were granted at market value at the date of grant, and are exercisable after five years, subject to the achievement of highly demanding performance conditions.
- Post-retirement benefits, which comprise only pensions, where different retirement schemes 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.

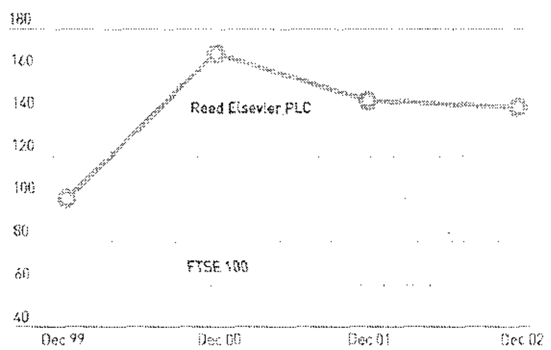
At the forthcoming Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV authority will be sought to implement a new longer term incentive compensation structure for directors and other executives. Subject to approval by shareholders, the new structure will be available for use with effect from 2004. The first part of the proposal relates to a new share option scheme for approximately 1,300 participants, to replace the present scheme which was introduced in 1993. This scheme would grant options annually over shares in Reed Elsevier PLC and Reed Elsevier NV at market value, with the level of shares capable of being granted determined by earnings per share growth in the three years prior to grant. The second part of the proposal relates to a new LTIP for approximately 40 senior executives, including directors, who can most directly affect the performance of Reed Elsevier. Awards under the LTIP would consist of a conditional award of shares and the grant of ten year options at market value, split approximately equally based on implied values. Participation would be dependent on individual performance and the accumulation of a shareholding in Reed Elsevier PLC and/or Reed Elsevier NV in accordance with company guidelines. The exercise of LTIP awards would be subject to the achievement of demanding earnings per share targets. A detailed explanation of the proposal and the reasons for the new longer term incentive structure is set out in the respective Notice of Annual General Meeting of Reed Elsevier PLC and Reed Elsevier NV.

TOTAL SHAREHOLDER RETURN

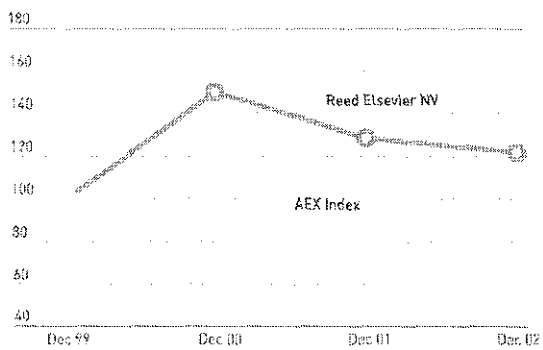
The graphs below show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested. The top two graphs compare the Reed Elsevier PLC performance with the performance achieved by the FTSE 100, of which Reed Elsevier PLC is a member, and the Reed Elsevier NV performance with the performance achieved by the Amsterdam Stock Exchange ("AEX") Index, of which Reed Elsevier NV is a member, for the three years 2000-2002. This period reflects the implementation of the new strategy, announced in February 2000, by the current management team. The other two graphs show the performance over the five years 1998–2002.

For the three year period since 1 January 2000, the total shareholder return for Reed Elsevier PLC was 43%, significantly outperforming the FTSE 100 which saw a negative return of 35%. For Reed Elsevier NV, the total shareholder return in the same three year period was 22%, also significantly outperforming the AEX Index which saw a negative return of 43%.

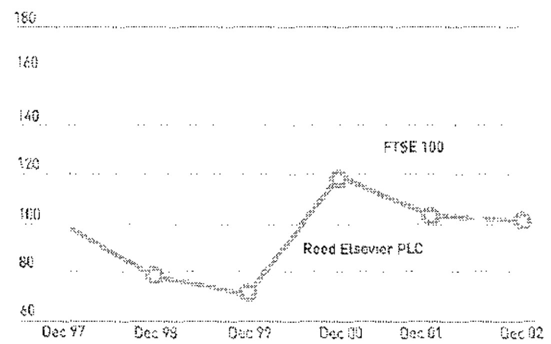
Reed Elsevier PLC total shareholder return v FTSE 100 2000–2002



Reed Elsevier NV total shareholder return v AEX Index 2000–2002

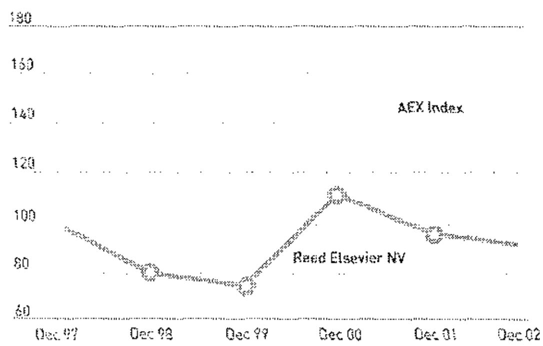


Reed Elsevier PLC total shareholder return v FTSE 100 1998–2002



Source: FTSE International

Reed Elsevier NV total shareholder return v AEX Index 1998–2002



Source: Datastream

The total shareholder return set out above is calculated on the basis of the average share price in the 30 trading days prior to the respective year ends and on the assumption that dividends were reinvested.

SERVICE CONTRACTS

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

M H Armour was appointed a director in July 1996. His service contract, which is dated 7 October 1996, is subject to English law and provides for a notice period of twenty-four months, which reflects the normal practice at the time of his appointment.

C H L Davis was appointed a director in September 1999. His service contract, which is dated 19 July 1999, is subject to English law and provides for a notice period of twelve months.

D J Haank was appointed a director in November 1999. His service contract, which is dated 15 November 1999, is subject to Dutch law and 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.

A Prozes was appointed a director in August 2000. His service contract, which is dated 5 July 2000, is subject to New York law and provides that, in the event of termination without cause by the company, twelve months' base salary would be payable.

G J A van de Aast was appointed a director in December 2000. His service contract, which is dated 15 November 2000, is subject to English law and provides for a notice period of twelve months.

The notice periods in respect of individual directors have been reviewed by the 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.

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 Reed Elsevier can benefit from the broader experience gained by executive directors in such appointments.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is determined by the boards with the aid of external professional advice. Non-executive directors receive an annual fee and are reimbursed expenses incurred in attending meetings. They do not receive any performance related bonuses, pension provisions, share options or other forms of benefit.

The non-executive directors do not have contracts of service.

EMOLUMENTS OF THE DIRECTORS

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

(a) Aggregate emoluments

£000	2002	2001
Salaries and fees	3,009	2,790
Benefits	91	75
Annual performance-related bonuses	1,453	1,056
Pension contributions	267	218
Pension to former director	231	241
Total	5,051	4,380

No compensation payments have been made for loss of office or termination in 2001 and 2002.

(b) Individual emoluments of executive directors

£	Salary	Benefits	Bonus	Total	2001
M H Armour	444,000	23,127	222,000	689,127	598,423
C H L Davis	891,000	30,043	445,500	1,366,543	1,145,657
D J Haank	368,158	11,001	184,081	563,240	487,562
A Prozes	593,333	10,287	427,200	1,030,820	944,564
G J A van de Aast	348,000	16,674	174,000	538,674	394,286
Total	2,644,491	91,132	1,452,781	4,188,404	3,570,492

Benefits include the provision of a company car, medical insurance and life assurance.

C H L Davis was the highest paid director in 2002. He had no gains on the exercise of share options.

(c) Pensions

The 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 Reed Elsevier 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$300,000 per annum, which becomes payable on retirement only if he completes a minimum of seven 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' pensions, after deduction of contributions, is shown below:

£	Transfer value of accrued pension 1 January 2002	Transfer value of Accrued pension 31 December 2002	Increase in transfer value during the period less directors' contributions	Accrued annual pension as at 31 December 2002	Increase in accrued annual pension during the period	Transfer value of increase after deduction of directors' contributions
M H Armour	1,038,761	1,036,652	(5,012)	117,136	21,486	181,377
C H L Davis	1,233,292	1,779,585	543,391	140,015	50,904	636,158
D J Haank	1,366,599	1,353,976	(12,623)	146,814	25,982	239,619
A Prozes	–	–	–	–	–	–
G J A van de Aast	113,891	191,063	74,270	24,185	12,432	94,659

The transfer value in respect of individual directors represents a liability in respect of directors' pensions entitlement, and is not an amount paid or payable to the director. The movement in transfer values during the year includes a restatement of the transfer values based on the methodologies prescribed by the UK Directors' Remuneration Report Regulations 2002.

(d) Individual emoluments of non-executive directors

£	2002	2001
J F Brock	35,849	35,404
R J Nelissen	35,849	35,404
S Perrick	35,849	35,404
Lord Sharman (from 1 January 2002)	35,849	–
R W H Stomberg	35,849	35,404
M Tabaksblat	176,101	173,913
D G C Webster (until 9 April 2002)	8,962	35,404
Total	364,308	350,933

SHARE OPTIONS

Options over shares in Reed Elsevier PLC and Reed Elsevier NV have been granted to executive directors under the Reed Elsevier Group 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 Elsevier PLC and Reed Elsevier NV adjusted EPS (i.e. before amortisation of goodwill and intangible assets, exceptional items 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%.

The terms of the Reed Elsevier Group plc option schemes were approved by the shareholders of Reed Elsevier PLC and Reed Elsevier NV in 1993.

Under arrangements operating until 1999, options to subscribe for Reed Elsevier PLC and Reed Elsevier NV shares have been granted to Dutch based executive directors and 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 executive directors and senior executives granted options during 1999 could elect to take either a five year option at an option exercise 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, as all executive share options have been awarded through the Reed Elsevier Group plc Executive Share Option Scheme since that date.

Options over shares in Reed Elsevier PLC and Reed Elsevier NV have been granted under the Reed Elsevier Group plc Senior Executive Long Term Incentive Scheme ("LTIP"). Implementation of the LTIP was approved by shareholders of Reed Elsevier PLC and Reed Elsevier NV 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 during the year 2000. Grants were 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 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 Elsevier PLC and/or Reed Elsevier NV. At executive director level, the requirement is that they should own shares equivalent to 1½ times salary, to be acquired over a reasonable period.

An option under the LTIP may only be exercised during the period 1 January 2005 and 31 December 2005, and then only if the performance targets noted below have been satisfied. These targets were chosen at the inception of the LTIP in 2000 in order to provide an appropriate balance between operational focus and producing a sustainable improvement in shareholder value over a five year period.

The first performance condition requires the achievement of 20% per annum compound total shareholder return ("TSR") over three years from a base point of 436.5p for a Reed Elsevier PLC share and €10.73 for a Reed Elsevier NV share, being the respective share prices on 2 May 2000. In the event that the required TSR is not achieved in the first test period of 1 January 2003 to 31 December 2003, the TSR test and performance period will be extended by 1 year and, in the event of TSR not being achieved during such extended period, the TSR test and performance period will be extended by a further six months to 30 June 2005. The TSR growth requirement over any such extended performance period will be correspondingly increased by 20% per annum. The second performance condition requires executive directors to achieve individual performance targets.

If the required TSR and individual performance targets are not achieved, the entire option will lapse.

Options have also been granted over shares in Reed Elsevier PLC under the Reed Elsevier Group plc UK SAYE Option 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. No performance targets attach to options granted under this scheme as it is an all employee scheme.

Details of options held by directors in the ordinary shares of Reed Elsevier PLC and Reed Elsevier NV as at 31 December 2002, and movements during the period are shown below:

Directors' Remuneration Report

Over shares in Reed Elsevier PLC

		1 January 2002	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2002	Exercisable from	Exercisable until
M H Armour	– Executive Scheme	59,600(i)		400.75p	20,000(ii)	633.50p	39,600	26 Apr 1998	26 Apr 2005
		30,000(i)		585.25p			30,000	23 Apr 1999	23 Apr 2006
		52,000		565.75p			52,000	21 Apr 2000	21 Apr 2007
		66,900		523.00p			66,900	17 Aug 2001	17 Aug 2008
		33,600		537.50p			33,600	21 Feb 2003	19 Apr 2009
		88,202		436.50p			88,202	2 May 2003	2 May 2010
		62,974		659.00p			62,974	23 Feb 2004	23 Feb 2011
			74,000	600.00p			74,000	22 Feb 2005	22 Feb 2012
	– LTIP	882,016		436.50p			882,016	1 Jan 2005	31 Dec 2005
	– SAYE Scheme	3,924		430.00p			3,924	1 Aug 2004	31 Jan 2005
Total		1,279,216	74,000		20,000		1,333,216		
C H L Davis	– Executive Scheme	160,599		467.00p			160,599	21 Feb 2003	1 Sept 2009
		80,300		467.00p			80,300	1 Sept 2003	1 Sept 2009
		80,300		467.00p			80,300	1 Sept 2004	1 Sept 2009
		171,821		436.50p			171,821	2 May 2003	2 May 2010
		122,914		659.00p			122,914	23 Feb 2004	23 Feb 2011
			148,500	600.00p			148,500	22 Feb 2005	22 Feb 2012
	– LTIP	1,718,213		436.50p			1,718,213	1 Jan 2005	31 Dec 2005
	– Nil cost options	535,332		Nil			535,332	2 Sept 2002	2 Sept 2003
	– SAYE Scheme	5,019		336.20p			5,019	1 Aug 2005	31 Jan 2006
Total		2,874,498	148,500				3,022,998		
D J Haank	– Executive Scheme	18,498(i)		677.25p			18,498	19 Apr 1999	19 Apr 2004
		18,497(i)		537.50p			18,497	19 Apr 1999	19 Apr 2009
		51,368		436.50p			51,368	2 May 2003	2 May 2010
		51,110		659.00p			51,110	23 Feb 2004	23 Feb 2011
			59,843	600.00p			59,843	22 Feb 2005	22 Feb 2012
	– LTIP	513,680		436.50p			513,680	1 Jan 2005	31 Dec 2005
Total		653,153	59,843				712,996		
A Prozes	– Executive Scheme	188,281		566.00p			188,281	9 Aug 2003	9 Aug 2010
		83,785		659.00p			83,785	23 Feb 2004	23 Feb 2011
			103,722	600.00p			103,722	22 Feb 2005	22 Feb 2012
	– LTIP	941,406		566.00p			941,406	1 Jan 2005	31 Dec 2005
	– Nil cost options	20,168		Nil	20,168(ii)	570.00p	–		
		20,170		Nil			20,170	9 Aug 2003	9 Aug 2004
Total		1,253,810	103,722		20,168		1,337,364		
G J A van de Aast	– Executive Scheme	50,940		638.00p			50,940	1 Dec 2003	1 Dec 2010
		49,317		659.00p			49,317	23 Feb 2004	23 Feb 2011
			58,000	600.00p			58,000	22 Feb 2005	22 Feb 2012
	– LTIP	509,404		638.00p			509,404	1 Jan 2005	31 Dec 2005
Total		609,661	58,000				667,661		

(i) Option granted prior to appointment as a director

(ii) Retained an interest in all of the shares

No options lapsed unexercised during the year.

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range 487.5p to 695.5p and at 31 December 2002 was 532p.

Over shares in Reed Elsevier NV

		1 January 2002	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2002	Exercisable from	Exercisable until
M H Armour	– Executive Scheme	20,244		€13.55			20,244	21 Feb 2003	19 Apr 2009
		61,726		€10.73			61,726	2 May 2003	2 May 2010
		44,882		€14.75			44,882	23 Feb 2004	23 Feb 2011
			51,926	€13.94			51,926	22 Feb 2005	22 Feb 2012
	– LTIP	617,256		€10.73			617,256	1 Jan 2005	31 Dec 2005
Total		744,108	51,926				796,034		
C H L Davis	– Executive Scheme	95,774		€12.00			95,774	21 Feb 2003	1 Sept 2009
		47,888		€12.00			47,888	1 Sept 2003	1 Sept 2009
		47,888		E12.00			47,888	1 Sept 2004	1 Sept 2009
		120,245		€10.73			120,245	2 May 2003	2 May 2010
		87,601		E14.75			87,601	23 Feb 2004	23 Feb 2011
			104,204	€13.94			104,204	22 Feb 2005	22 Feb 2012
	– LTIP	1,202,446		€10.73			1,202,446	1 Jan 2005	31 Dec 2005
	– Nil cost options	319,250		Nil			319,250	2 Sept 2002	2 Sept 2003
Total		1,921,092	104,204				2,025,296		
D J Haank	– Executive Scheme	30,000(i)		€14.11	30,000(ii)	€15.93	–		
		30,000(i)		€15.25			30,000	24 Mar 1998	24 Mar 2003
		10,926(i)		€17.07			10,926	19 Apr 1999	19 Apr 2004
		10,925(i)		€13.55			10,925	19 Apr 1999	19 Apr 2009
		35,949		€10.73			35,949	2 May 2003	2 May 2010
		36,426		€14.75			36,426	23 Feb 2004	23 Feb 2011
			41,993	€13.94			41,993	22 Feb 2005	22 Feb 2012
	– LTIP	359,485		€10.73			359,485	1 Jan 2005	31 Dec 2005
	– Convertible Debentures	3,920(iii)		€17.48			–		
Total		517,631	41,993		30,000		525,704		
A Prozes	– Executive Scheme	131,062		€13.60			131,062	9 Aug 2003	9 Aug 2010
		59,714		€14.75			59,714	23 Feb 2004	23 Feb 2011
			72,783	€13.94			72,783	22 Feb 2005	22 Feb 2012
	– LTIP	655,310		€13.60			655,310	1 Jan 2005	31 Dec 2005
	– Nil cost options	14,040		Nil	14,040(iv)	€12.57	–		
		14,040		Nil			14,040	9 Aug 2003	9 Aug 2004
Total		874,166	72,783		14,040		932,909		
G J A van de Aast	– Executive Scheme	35,866		€14.87			35,866	1 Dec 2003	1 Dec 2010
		35,148		€14.75			35,148	23 Feb 2004	23 Feb 2011
			40,699	€13.94			40,699	22 Feb 2005	22 Feb 2012
	– LTIP	358,658		€14.87			358,658	1 Jan 2005	31 Dec 2005
Total		429,672	40,699				470,371		

(i) Option granted prior to appointment as a director

(ii) Retained an interest in 3,000 shares

(iii) Option lapsed unexercised during the year

(iv) Retained an interest in all of the shares

The market price of a Reed Elsevier NV ordinary share during the year was in the range €10.86 to €16.01 and at 31 December 2002 was €11.65.

The aggregate notional pre-tax gain made by the directors on the exercise of Reed Elsevier PLC and Reed Elsevier NV share options during the year was £306,843.

There have been no changes in the options held by directors over Reed Elsevier PLC and Reed Elsevier NV ordinary shares since 31 December 2002.

Interests in shares

The interests of the directors of Reed Elsevier Group plc in the issued share capital of Reed Elsevier PLC and Reed Elsevier NV at the beginning and end of the year are shown below:

	Reed Elsevier PLC ordinary shares		Reed Elsevier NV ordinary shares	
	1 January 2002	1 December 2002	1 January 2002	31 December 2002
M H Armour	2,500	22,500	2,500	2,500
J F Brock	3,000	3,000	–	–
C H L Davis	74,071	115,571	51,953	81,553
D J Haank	–	–	28,880	31,880
R J Nelissen	–	–	5,000	5,000
S Perrick	–	–	972	4,000
A Prozes	43,329	63,497	30,360	44,400
Lord Sharman	–	–	–	–
R W H Stomberg	–	–	–	–
M Tabaksblat	–	–	8,000	8,000
G J A van de Aast	–	–	7,500	12,500

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 potential beneficiary under the EBT, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2002, amounted to 2,840,047 Reed Elsevier PLC ordinary shares and 1,554,381 Reed Elsevier NV ordinary shares.

There have been no changes in the interests of the directors in the share capital of Reed Elsevier PLC or Reed Elsevier NV since 31 December 2002.

Approved by the board of Reed Elsevier Group plc on 19 February 2003

Rolf Stomberg

Chairman of the Remuneration Committee

INDEPENDENT AUDITORS' REPORT

To the members of Reed Elsevier Group plc

We have audited the financial statements of Reed Elsevier Group plc for the year ended 31 December 2002 which comprise the profit and loss account, the cash flow statement, the balance sheets, the statement of total recognised gains and losses, the reconciliation of shareholders' funds and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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 2002 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

19 February 2003

Reed Elsevier Group plc

Accounting Policies

BASIS OF CONSOLIDATION

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

FOREIGN EXCHANGE TRANSLATION

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.

TURNOVER

Turnover represents the invoiced value of sales less anticipated returns on transactions completed by performance, excluding customer sales taxes and intercompany sales.

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 performance against delivery milestones.

DEVELOPMENT SPEND

Development spend incurred on the launch of new products or services is expensed to the profit and loss account as incurred.

The cost of developing application infrastructure and product delivery platforms is capitalised as a tangible fixed asset and written off over the estimated useful life.

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.

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.

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 of 40 years, subject to annual impairment review. For the majority of acquired goodwill and intangible assets, the maximum estimated useful life is 20 years, which is the rebuttable presumption under UK GAAP. In view of the longevity of the goodwill and intangible assets relating to the Harcourt publishing business acquired in July 2001, and of certain previously acquired goodwill and intangible assets within science and medical publishing, similar in nature to the Harcourt assets, this presumption has been rebutted in respect of these assets and a maximum estimated useful life of 40 years adopted. 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.

Reed Elsevier Group plc

Accounting Policies

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 up to a maximum of 50 years. Short leases are written off over the duration of the lease. Plant, equipment and computer systems are depreciated on a straight line basis at rates from 5% - 33%.

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.

INVENTORIES AND PRE-PUBLICATION COSTS

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

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.

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.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002

£ million		**2002**	2001
Turnover			
Including share of turnover of joint ventures		**5,044**	4,580
Less: share of turnover of joint ventures		**(71)**	(67)
	note 1	**4,973**	4,513
Continuing operations before acquisitions		**4,954**	4,513
Acquisitions		**19**	-
		4,973	4,513
Cost of sales	*note 2*	**(1,783)**	(1,605)
Gross profit		**3,190**	2,908
Operating expenses	*note 2*	**(2,716)**	(2,540)
Before amortisation and exceptional items		**(2,095)**	(1,947)
Amortisation of goodwill and intangible assets		**(522)**	(497)
Exceptional items	*notes 2,7*	**(99)**	(96)
Operating profit (before joint ventures)		**474**	368
Continuing operations before acquisitions		**488**	368
Acquisitions		**(14)**	-
		474	368
Share of operating profit of joint ventures	*note 14*	**17**	12
Operating profit including joint ventures	*notes 1,5*	**491**	380
Non operating exceptional items			
Net loss on sale of businesses and fixed asset investments	*note 7*	**(4)**	(10)
Profit on ordinary activities before interest		**487**	370
Net interest expense	*note 8*	**(482)**	(449)
Profit/(loss) on ordinary activities before tax		**5**	(79)
Tax on profit/(loss) on ordinary activities			
Before exceptional items		**(203)**	(176)
Exceptional items		**122**	84
	note 9	**(81)**	(92)
Loss on ordinary activities after taxation		**(76)**	(171)
Minority interests and preference dividends		**(1)**	(1)
Loss attributable to the shareholders		**(77)**	(172)
Equity dividends paid and proposed	*note 10*	**(229)**	(189)
Retained loss taken to reserves	*note 28*	**(306)**	(361)

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 2002

£ million		**2002**	2001
Net cash inflow from operating activities before exceptional items		**1,135**	1,137
Payments relating to exceptional items charged to operating profit	*note 7*	**(119)**	(94)
Net cash inflow from operating activities	*note 11*	**1,016**	1,043
Dividends received from joint ventures	*note 14*	**13**	12
Interest and similar income received		**19**	22
Interest and similar charges paid		**(143)**	(152)
Net interest paid to Elsevier Reed Finance BV group		**(353)**	(296)
Returns on investments and servicing of finance		**(477)**	(426)
UK corporation tax paid		**(66)**	(65)
Net overseas tax (paid)/received		**(16)**	47
Taxation		**(82)**	(18)
Purchase of tangible fixed assets		**(163)**	(173)
Purchase of fixed asset investments		**(9)**	(59)
Proceeds from sale of tangible fixed assets		**6**	5
Exceptional proceeds from disposal of fixed asset investments	*note 7*	**118**	-
Capital expenditure and financial investment		**(48)**	(227)
Acquisitions	*note 11*	**(184)**	(2,236)
Exceptional net (costs)/proceeds from disposal of businesses	*note 7*	**(10)**	58
Acquisitions and disposals		**(194)**	(2,178)
Equity dividends paid		**(229)**	(189)
Cash outflow before changes in short term investments and financing		**(1)**	(1,983)
(Increase)/decrease in short term investments	*note 11*	**(102)**	175
Increase in financing	*note 11*	**168**	1,814
Increase in cash	*note 11*	**65**	6

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 2002

£ million		**2002**	2001
Fixed assets			
Goodwill and intangible assets	*note 13*	**5,808**	6,716
Tangible fixed assets	*note 13*	**483**	487
Investments	*note 14*		
Investments in joint ventures:			
Share of gross assets		**132**	121
Share of gross liabilities		**(70)**	(55)
Share of net assets		**62**	66
Other investments		**78**	175
		140	241
		6,431	7,444
Current assets			
Inventories and pre-publication costs	*note 15*	**500**	487
Debtors: amounts falling due within one year	*note 16*	**1,174**	1,293
Debtors: amounts falling due after more than one year	*note 17*	**357**	500
Short term investments		**342**	232
Cash at bank and in hand		**156**	87
		2,529	2,599
Creditors: amounts falling due within one year	*note 19*	**(3,702)**	(4,322)
Net current liabilities		**(1,173)**	(1,723)
Total assets less current liabilities		**5,258**	5,721
Creditors: amounts falling due after more than one year	*note 20*	**(6,230)**	(6,449)
Provisions for liabilities and charges	*note 24*	**(179)**	(242)
Minority interests		**(7)**	(6)
Net liabilities		**(1,158)**	(976)
Capital and reserves			
Called up share capital	*note 26*	-	-
Share premium account	*note 27*	**324**	324
Profit and loss reserve	*note 28*	**(1,482)**	(1,300)
Shareholders' deficit	*note 28*	**(1,158)**	(976)

Approved by the board of Reed Elsevier Group plc, 19 February 2003.

M H Armour
Chief Financial Officer

The balance sheet of Reed Elsevier Group plc is shown in note 31

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAIN AND LOSSES

For the year ended 31 December 2002

£ million	**2002**	2001
Loss for the financial year	**(77)**	(172)
Exchange translation differences	**124**	(29)
Total recognised gains/(losses) for the financial year	**47**	(201)

SHAREHOLDERS' FUNDS RECONCILIATION

For the year ended 31 December 2002

£ million	**2002**	2001
Shareholders' funds at 1 January	**(976)**	(586)
Loss attributable to the shareholders	**(77)**	(172)
Equity dividends paid and proposed	**(229)**	(189)
Exchange translation differences	**124**	(29)
Shareholders' funds at 31 December	**(1,158)**	(976)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

1. SEGMENT ANALYSIS

	Turnover		Operating profit		Adjusted Operating profit		Capital employed	
£ million	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
Business segment								
Science & Medical	**1,256**	989	**281**	199	**414**	332	**1,377**	1,513
Legal	**1,349**	1,330	**59**	58	**285**	265	**2,196**	2,514
Education	**993**	579	**103**	94	**184**	134	**1,758**	1,924
Business	**1,375**	1,615	**48**	29	**232**	245	**845**	1,076
Total	**4,973**	4,513	**491**	380	**1,115**	976	**6,176**	7,027
Geographical origin								
North America	**3,158**	2,695	**143**	44	**616**	478	**5,184**	6,014
United Kingdom	**782**	795	**130**	154	**191**	207	**501**	553
The Netherlands	**419**	416	**155**	128	**171**	163	**(21)**	(51)
Rest of Europe	**417**	405	**36**	46	**100**	100	**492**	481
Rest of world	**197**	202	**27**	8	**37**	28	**20**	30
Total	**4,973**	4,513	**491**	380	**1,115**	976	**6,176**	7,027

Geographical market		
North America	**3,200**	2,755
United Kingdom	**550**	555
The Netherlands	**208**	223
Rest of Europe	**614**	566
Rest of world	**401**	414
Total	**4,973**	4,513

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 £525m (2001 : £500m) and exceptional items of £99m (2001 : £96m).

Turnover is analysed before the £71m (2001 : £67m) share of joint ventures' turnover, of which £17m (2001 : £17m) relates to the Legal segment, principally to Giuffrè, and £54m (2001 : £50m) relates to the Business segment, principally to exhibition joint ventures.

Share of operating profit in joint ventures of £17m (2001 : £12m) comprises £5m (2001 : £3m) relating to the Legal segment and £12m (2001 : £9m) relating to the Business segment.

£ million	**2002**	2001
Reconciliation of capital employed to net liabilities		
Capital employed	**6,176**	7,027
Taxation	**(459)**	(497)
Net interest payable	**(70)**	(75)
Net borrowings (including amounts owed to shareholders and Elsevier Reed Finance BV group of £5,282m (2001 : £5,332m))	**(6,798)**	(7,425)
Minority interests	**(7)**	(6)
Net liabilities	**(1,158)**	(976)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

2. COST OF SALES AND OPERATING EXPENSES

	2002				2001			
£ million	Before amortisation and exceptional items	Amortisation of goodwill and intangible assets	Exceptional items	Total	Before amortisation and exceptional items	Amortisation of goodwill and intangible assets	Exceptional items	Total
Cost of sales								
Continuing operations								
before acquisitions	1,775	-	-	1,775	1,605	-	-	1,605
Acquisitions	8	-	-	8	-	-	-	-
Total	1,783	-	-	1,783	1,605	-	-	1,605
Distribution and selling costs								
Continuing operations								
before acquisitions	1,109	-	-	1,109	1,018	-	-	1,018
Acquisitions	2	-	-	2	-	-	-	-
	1,111	-	-	1,111	1,018	-	-	1,018
Administrative expenses								
Continuing operations								
before acquisitions	980	505	97	1,582	929	497	96	1,522
Acquisitions	4	17	2	23	-	-	-	-
	984	522	99	1,605	929	497	96	1,522
Net operating expenses								
Continuing operations								
before acquisitions	2,089	505	97	2,691	1,947	497	96	2,540
Acquisitions	6	17	2	25	-	-	-	-
Total	2,095	522	99	2,716	1,947	497	96	2,540

3. PERSONNEL

Number of people employed	At 31 December 2002	At 31 December 2001	Average during the year 2002	Average during the year 2001
Business segment				
Science & Medical	**6,200**	6,000	**6,100**	5,000
Legal	**13,300**	13,300	**13,300**	12,700
Education	**5,600**	5,600	**5,800**	3,400
Business	**10,700**	11,800	**11,200**	13,200
Total	**35,800**	36,700	**36,400**	34,300
Geographical location				
North America	**20,700**	21,400	**21,300**	18,900
United Kingdom	**6,000**	6,200	**6,100**	6,100
The Netherlands	**2,800**	2,900	**2,800**	3,000
Rest of Europe	**3,600**	3,600	**3,500**	3,500
Rest of world	**2,700**	2,600	**2,700**	2,800
Total	**35,800**	36,700	**36,400**	34,300

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 scheme is valued formally every three years, the next valuation being as at 5 April 2003. The main US scheme is valued annually and was subject to a valuation by Towers Perrin as at 1 January 2002.

The principal valuation assumptions for the main UK scheme were:

Actuarial method		Projected unit method
Annual rate of return on investments	:	6.6%
Annual increase in total pensionable remuneration	:	5.0%
Annual increase in present and future pensions in payment	:	3.0%

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 103% of the benefits that had accrued to members of the main UK and US schemes, respectively. Actuarial surpluses are spread as a level amount over the average remaining service lives of current employees. The market values of the schemes' assets at the valuation dates, excluding assets held in respect of members' additional voluntary contributions, were £1,723m and £216m in respect of the UK and US schemes, respectively.

Assessments for accounting purposes in respect of other funded schemes, including the Netherlands scheme, have been carried out by external qualified actuaries using prospective benefit methods. 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 assets of the Netherlands scheme as at 31 December 2002 were sufficient to cover 109% of the actuarial value placed on the benefits that had accrued to the members of the scheme at that date.

The liabilities in respect of unfunded schemes have been determined by actuaries and provided for within creditors. At 31 December 2002, these amounted to £53m (2001 : £49m).

The net pension charge was £59m (2001 : £39m). Pension contributions made in the year amounted to £47m (2001 : £39m). The net SSAP24 charge on the main UK scheme comprises a regular cost of £27m (2001 : £24m), offset by amortisation of the net actuarial surplus of £24m (2001 : £24m). Based on the advice of the scheme actuaries at the time of the last formal valuation in 2000, and with the agreement of the scheme trustees, no employer contributions are currently being made to the main UK scheme.

A prepayment of £125m (2001 : £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.

4. PENSION SCHEMES (CONTINUED)

Pension costs are accounted for in accordance with the UK accounting standard, SSAP24. A new UK financial reporting standard, FRS17: Retirement Benefits, will, with effect from the 2005 financial year, introduce new accounting policies in respect of pension arrangements. FRS17 also requires additional information to be disclosed in the intervening period 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 fair value of those assets and the present value of the scheme liabilities based on the methodologies and presentation prescribed by FRS17 were as follows:

	Main UK Scheme Assumed rate of return on assets		Aggregate of schemes Assumed rate of return on assets	
	%	£m	%	£m
2002				
Equities	**9.0%**	**825**	**9.0%**	**1,068**
Bonds	**4.5%**	**487**	**4.9%**	**670**
Other	**3.8%**	**45**	**3.8%**	**53**
Total fair value of assets		**1,357**		**1,791**
Present value of scheme liabilities		**(1,305)**		**(1,928)**
Net surplus/(deficit)		**52**		**(137)**
Related deferred tax		**(16)**		**50**
Net pension asset/(liability)		**36**		**(87)**
2001				
Equities	7.2%	991	7.7%	1,267
Bonds	5.0%	502	5.5%	721
Other	4.0%	73	4.0%	81
Total fair value of assets		1,566		2,069
Present value of scheme liabilities		(1,316)		(1,872)
Net surplus		250		197
Related deferred tax		(75)		(57)
Net pension asset		175		140

At 31 December 2002, the aggregate net deficit in respect of the defined benefit schemes under FRS17 comprised £66m (2001 : net surplus £263m) in respect of funded scheme and liabilities of £71m (2001 : £66m) in respect of unfunded schemes of which £52m (2001 : £49m) is provided for within creditors under SSA24.

The movement in the net surplus/(deficit) during the year was as follows:

£ million	Main UK Scheme	Aggregate of schemes
Net surplus in schemes at 1 January 2002	**250**	**197**
Total operating charge	**(34)**	**(75)**
Contributions	**-**	**22**
Other finance income	**25**	**30**
Actuarial loss	**(189)**	**(322)**
Exchange translation gains	**-**	**11**
Net surplus/(deficit) in schemes at 31 December 2002	**52**	**(137)**

4. PENSIONS (CONTINUED)

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

	Main UK scheme		Aggregate of Schemes	
	2002	2001	**2002**	2001
Inflation	2.30%	2.50%	2.50%	2.50%
Rate of increase in salaries	4.30%	4.50%	4.20%	4.40%
Rate of increase in pensions	2.30%	2.50%	2.50%	2.50%
Discount rate	5.70%	5.50%	5.90%	5.90%

The consolidated profit and loss deficit as at 31 December 2002 of £1,482m (2001 : £1,300m) would have been £1,695m (2001 : £1,250m) had the accounting requirements of FRS 17 applied in the 2002 and 2001 financial years.

The operating charge, amount credited to other finance income and the amount recognised in the statement of total recognised gains and losses in the 2002 financial year based on the methodologies and presentation prescribed by FRS17 would have been as follows:

	Main UK Scheme £m	Aggregate of schemes £m
Charged to operating profit:		
Current service cost	(34)	(75)
Total operating charge	**(34)**	**(75)**
Credited to other finance income:		
Expected return on pension scheme assets	97	137
Interest on pension scheme liabilities	(72)	(107)
Net return	**25**	**30**
Amounts recognised in the statement of total recognised gains and losses:		
Actuarial return less expected return on pension scheme assets	(254)	(352)
Experience losses arising on the scheme liabilities	(21)	(13)
Changes in assumptions underlying the present value of the scheme liabilities	86	43
Actuarial loss	**(189)**	**(322)**

The difference between the expected and actual return on scheme assets represented 19% and 20% of scheme assets of the main UK scheme and of the aggregate of schemes respectively.

The experience losses arising on the scheme liabilities represented 2% and 1% of the present value of scheme liabilities of the main UK scheme and of the aggregate of schemes respectively.

The total actuarial loss arising in 2002 under FRS17, that would have been recognised in the statement of total recognised gains and losses, represents 14% and 17% of the present value of the scheme liabilities of the main UK scheme and the aggregate of schemes respectively.

5. OPERATING PROFIT

Operating profit is stated after the following:

£ million	**2002**	2001
Hire of plant and machinery	**12**	7
Other operating lease rentals	**87**	87
Depreciation (including £4m (2001 : £4m) in respect of assets held under finance leases)	**135**	131
Amortisation of goodwill and intangible assets	**522**	497
Amortisation of goodwill and intangible assets in joint ventures	**3**	3
Total amortisation	**525**	500
Royalties payable to Elsevier Reed Finance BV group	**5**	7
Auditors' remuneration		
for audit services	**2.2**	2.4
for non audit services (£0.9m relates to UK companies (2001 : £1.0m))	**3.6**	3.3

£ million		**2002**	2001
Staff costs			
Wages and salaries		**1,268**	1,198
Social security costs		**126**	117
Pensions	*note 4*	**59**	39
Total staff costs		**1,453**	1,354

Auditors remuneration for non audit services comprises £0.7m (2001: £1.2m) for audit related services, £1.4m (2001 : £1.4m) for due diligence and other acquisition related services, £0.7m (2001 : £0.6m) for tax compliance and advisory work, and £0.8m (2001 : £0.1m) for other services.

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 Directors' Remuneration Report and forms part of these financial statements.

7. EXCEPTIONAL ITEMS

£ million	**2002**	2001
Reorganisation costs (i)	**(42)**	(33)
Acquisition related costs (ii)	**(57)**	(63)
Charged to operating profit	**(99)**	(96)
Net loss on disposal of businesses and fixed asset investments (iii)	**(4)**	(10)
Exceptional charge before tax	**(103)**	(106)
Net tax credit (iv)	**122**	84
Total exceptional credit/(charge)	**19**	(22)

Exceptional items comprise the following:

(i) reorganisation costs relating to employee severances, including the elimination of over 1,500 positions in 2002, principally in the Business and Legal segments;

(ii) acquisition related costs including employee severance and property rationalisation costs arising on the integration of Harcourt and other recent acquisitions;

(iii) the net loss on disposal of businesses and fixed asset investments relates to the sale and closure of businesses in the Business segment, partly offset by a net gain on disposal of fixed asset investments, comprising a £21m profit on sale of investments acquired on the acquisition of Harcourt General, Inc, less a £17m loss on other fixed asset investments; and

(iv) the net tax credit in 2002 arises principally in respect of prior year disposals.

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

£ million	**2002**	2001
Reorganisation costs	**(56)**	(38)
Acquisition related costs	**(63)**	(51)
Other	**-**	(5)
Exceptional operating cash outflow	**(119)**	(94)
Net proceeds from disposal of businesses and fixed asset investments	**108**	58
Exceptional cash outflow before tax	**(11)**	(36)
Exceptional tax cash inflow	**27**	155
Total exceptional cash inflow	**16**	119

8. NET INTEREST EXPENSE

£ million	**2002**	2001
Interest payable and similar charges		
On loan capital, promissory notes and bank borrowings:		
repayable within 5 years, other than by instalments	**(138)**	(114)
On finance leases	**(1)**	(2)
Other interest and similar charges	**(1)**	(52)
On amounts owed to Reed Elsevier PLC	**(6)**	(4)
On amounts owed to Reed Elsevier NV	**(1)**	-
On amounts owed to the Elsevier Reed Finance BV group	**(366)**	(318)
	(513)	(490)
Interest receivable and similar income		
On cash deposits and short term investments	**19**	24
On amounts owed by Reed Elsevier PLC	**4**	4
On amounts owed by the Elsevier Reed Finance BV group	**8**	13
	31	41
Total net interest expense	**(482)**	(449)
Interest cover (times)	**2.3**	2.2

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

9. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

£ million		**2002**	2001
Current tax			
United Kingdom		**(6)**	59
The Netherlands		**61**	62
Rest of world		**(17)**	45
Total current tax		**38**	166
Deferred tax			
Origination and reversal of timing differences		**36**	25
Changes in recoverable amounts of deferred tax assets		**-**	(104)
Sub-total		**74**	87
Share of tax attributable to joint ventures	*note 14*	**7**	5
Total		**81**	92

The tax charge for the year as a proportion of profit before tax was increased due to non tax-deductible amortisation and reduced by exceptional tax credits arising on prior year disposals.

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	**2002**	2001
Profit/(loss) on ordinary activities before tax	**5**	(79)
Tax credit at average standard rates	**(9)**	(51)
Net impact of amortisation of goodwill and intangible assets	**109**	120
Prior year disposals	**(100)**	-
Permanent differences and other items	74	122
Reversal of timing differences	**(36)**	(25)
Current tax charge	**38**	166

UK corporation tax has been provided at 30% (2001 : 30%).

10. EQUITY DIVIDENDS PAID AND PROPOSED

	£ per share		*£ million*	
	2002	2001	**2002**	2001
Subsidiary undertakings			**94**	62
Parent				
Ordinary				
Interim to "R" ordinary shareholders	**13,460**	12,720	**135**	127
			135	127
Total			**229**	189

The dividends paid by subsidiary undertakings relate to Reed 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 Elsevier PLC and Reed 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		2002	2001
Operating profit (before joint ventures)		**474**	368
Exceptional charges to operating profit	*note 7*	**99**	96
Operating profit before exceptional items		**573**	464
Amortisation of goodwill and intangible assets	*note 13*	**522**	497
Depreciation	*note 13*	**135**	131
Total non cash items		**657**	628
Increase in inventories and pre-publication costs		**(51)**	(49)
Increase in debtors		**(13)**	158
Decrease in creditors		**(31)**	(64)
Movement in working capital		**(95)**	45
Net cash inflow from operating activities before exceptional items		**1,135**	1,137
Payments relating to exceptional items charged to operating profit	*note 7*	**(119)**	(94)
Net cash inflow from operating activities		**1,016**	1,043

Acquisitions

£ million		2002	2001
Purchase of businesses	*note 12*	**(90)**	(3,222)
Net proceeds from on-sale of Harcourt Higher Education and Corporate & Professional Services businesses		-	1,185
Payment of Harcourt change of control and other non operating liabilities assumed		**(76)**	(156)
Deferred consideration of prior year acquistions		**(18)**	(43)
Total		**(184)**	(2,236)

11. CASH FLOW STATEMENT (CONTINUED)

Reconciliation of net borrowings

£ million	Cash	Short term investments	Financing	2002 Total	2001
Net borrowings at 1 January	87	232	(7,744)	(7,425)	(4,308)
Increase in cash	65	-	-	65	6
Increase/(decrease) in short term investments	-	102	-	102	(175)
Increase in borrowings	-	-	(168)	(168)	(1,814)
Change in net borrowings resulting from cash flows	65	102	(168)	(1)	(1,983)
Borrowings in acquired businesses	-	-	-	-	(1,042)
Inception of finance leases	-	-	(16)	(16)	(3)
Exchange translation differences	4	8	632	644	(89)
Net borrowings at 31 December	156	342	(7,296)	(6,798)	(7,425)

Reconciliation of financing

£ million	Long term borrowings	Net borrowings from shareholders and Elsevier Reed Finance BV group	Bank loans and promissory notes	2002 Total Financing	2001
At 1 January	(1,994)	(5,332)	(418)	(7,744)	(4,797)
Issuance of long term loans	-	-	-	-	(1,068)
Repayment of long term loans	180	-	-	180	84
Repayment of finance leases	9	-	-	9	4
Increase in net borrowings from shareholders and the Elsevier Reed Finance BV group	-	(378)	-	(378)	(1,661)
Decrease in bank loans and promissory notes	-	-	21	21	827
Change in financing resulting from cash flows	189	(378)	21	(168)	(1,814)
Borrowings in acquired businesses	-	-	-	-	(1,042)
Inception of finance leases	(16)	-	-	(16)	(3)
Exchange translation differences	172	428	32	632	(88)
At 31 December	(1,649)	(5,282)	(365)	(7,296)	(7,744)

The repayment of long term loans in 2002 relates primarily to US$150m of Public Notes which matured in the year and the repurchase of Public Notes with a nominal value of US$110m. The repayment of long term loans in 2001 related primarily to the repurchase of Public Notes with a nominal value of US$97m.

During the year finance lease arrangements were entered into in respect of assets with a total capital value at inception of £16m (2001 : £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.

12. ACQUISITIONS

During the year a number of acquisitions were made for a total consideration amounting to £99m, after taking account of net cash acquired of £4m. The most significant were MBO Verlag and Quicklaw Inc., in the legal segment.

The net assets of the businesses acquired are incorporated at their fair value to the group's businesses. The fair values of the consideration given and the assets and liabilities acquired are summarised below:

£ million	Book value on acquisition	Fair value adjustments	Fair value
Goodwill	-	37	37
Intangible fixed assets	-	64	64
Tangible fixed assets	2	-	2
Current assets	22	(13)	9
Current liabilities	(12)	(1)	(13)
Net assets acquired	12	87	99

Consideration (after taking account of £4m of net cash acquired)	99
Less: amount paid in prior year and deferred to future years	(9)
Net cash flow	90

The fair value adjustments in relation to the acquisitions made in 2002 relate principally to the valuation of intangible assets and the restatement of current assets to conform with Reed Elsevier Group plc accounting policies in relation to cost capitalisation. Goodwill represents the excess of the consideration over the net tangible and intangible assets acquired. The businesses acquired in 2002 contributed £19m to turnover, £5m to adjusted operating profit, before the amortisation of goodwill and intangible assets and exceptional items, and £3m to net cash inflow from operating activities for the part year under Reed Elsevier Group plc ownership.

13. FIXED ASSETS - INTANGIBLE ASSETS AND TANGIBLE ASSETS

CONSOLIDATED		Goodwill and intangible assets			Tangible assets		
Cost							
£ million		Goodwill	Intangible assets	Total	Land and buildings	Computer systems, plant and equipment	Total
At 1 January 2002		4,833	4,556	9,389	215	962	1,177
Acquisitions	*note 12*	37	64	101	-	2	2
Capital expenditure		-	-	-	5	174	179
Sales of businesses		(2)	(12)	(14)	-	-	-
Disposals		-	-	-	-	(67)	(67)
Exchange translation differences		(343)	(313)	(656)	(14)	(59)	(73)
At 31 December 2002		**4,525**	**4,295**	**8,820**	**206**	**1,012**	**1,218**
Accumulated amortisation and depreciation							
£ million							
At 1 January 2002		1,476	1,197	2,673	75	615	690
Acquisitions		-	-	-	-	-	-
Sales of businesses		(2)	(11)	(13)	-	-	-
Disposals		-	-	-	-	(45)	(45)
Amortisation of goodwill and intangible assets		342	180	522	-	-	-
Depreciation		-	-	-	8	127	135
Exchange translation differences		(101)	(69)	(170)	(6)	(39)	(45)
At 31 December 2002		**1,715**	**1,297**	**3,012**	**77**	**658**	**735**
Net book amount							
£ million							
At 1 January 2002		3,357	3,359	6,716	140	347	487
At 31 December 2002		**2,810**	**2,998**	**5,808**	**129**	**354**	**483**

At 31 December 2002, the weighted average remaining estimated useful life of goodwill and intangible assets was 25 years (2001 : 26 years).

At 31 December 2002 and 2001, all assets were included at cost. The net book amount of tangible fixed assets includes £24m (2001 : £16m) in respect of assets held under finance leases.

Land and buildings at cost

£ million	**2002**	2001
Freehold property	**194**	199
Leasehold property, 50 years or more unexpired	**11**	13
Leasehold property, less than 50 years unexpired	**1**	3
Total	**206**	215

Included in freehold property is £7m (2001 : £7m) of freehold land on which no depreciation was charged.

14. FIXED ASSETS – INVESTMENTS

£ million		Investments in joint ventures		Other investments		Total
		Share of				
CONSOLIDATED		net assets	Loans	Unlisted	Listed	
At 1 January 2002		65	1	56	119	241
Share of profit before tax		20	-	-	-	20
Amortisation of goodwill and intangible assets		(3)	-	-	-	(3)
		17	-	-	-	17
Share of tax attributable	*note 9*	(7)	-	-	-	(7)
Dividends received from joint ventures		(13)	-	-	-	(13)
Additions		-	-	4	5	9
Transfers/disposals		(2)	-	(8)	(75)	(85)
Provided		-	-	(5)	(9)	(14)
Exchange translation differences		1	-	(4)	(5)	(8)
At 31 December 2002		**61**	**1**	**43**	**35**	**140**

The principal joint venture at 31 December 2002 is Giuffrè (an Italian legal publisher in which Reed Elsevier Group plc has a 40% shareholding).

The cost and net book amount of goodwill and intangible assets in joint ventures were £36m (2001 : £37m) and £21m (2001 : £24m) respectively.

The directors' valuation of other investments (unlisted) at 31 December 2002 is £43m (2001 : £56m). The market value of listed investments at 31 December 2002 is £46m (2001 : £173m).

At 31 December 2002, the Reed Elsevier Group plc Employee Benefit Trust ("EBT") held 2,840,047 (2001 : 2,416,207) Reed Elsevier PLC ordinary shares and 1,554,381 (2001 : 1,412,194) Reed Elsevier NV ordinary shares at a book amount of £19m. The aggregate market value at 31 December 2002 was £27m (2001 : £25m). The EBT purchases Reed Elsevier PLC and Reed Elsevier NV 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.

£ million	Subsidiary undertakings			Associates	Total
	Shares	Provisions	Net book	Shares	
PARENT	at cost		value	at cost	
At 1 January 2002	897	(4)	893	29	922
Additions	1	-	1	-	1
At 31 December 2002	898	(4)	894	29	**923**

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

15. INVENTORIES AND PRE-PUBLICATION COSTS

	CONSOLIDATED	
£ million	**2002**	2001
Raw materials	**15**	18
Pre-publication costs	**306**	283
Finished goods	**179**	186
Total	**500**	487

16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		PARENT	
£ million	**2002**	2001	**2002**	2001
Trade debtors	**734**	749	-	-
Amounts owed by Reed Elsevier NV	**1**	1	-	-
Amounts owed by the Elsevier Reed Finance BV group	**261**	304	-	-
Amounts owed by joint ventures	-	2	-	-
Amounts owed by subsidiary undertakings	-	-	**46**	50
Other debtors	**72**	99	-	-
Prepayments and accrued income	**106**	138	-	-
Total	**1,174**	1,293	**46**	50

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

		CONSOLIDATED	
£ million		**2002**	2001
Trade debtors		**9**	5
Amounts owed by Reed Elsevier PLC		**36**	36
Pension prepayment	*note 4*	**125**	128
Prepayments, accrued income and other debtors		**26**	87
Deferred taxation assets	*note 18*	**161**	244
Total		**357**	500

18. DEFERRED TAXATION

	CONSOLIDATED	
£ million	**2002**	2001
Deferred taxation liabilities		
Excess of tax allowances over related amortisation	**46**	41
Pension prepayment	**35**	38
Short term timing differences	**3**	1
	84	80
Deferred taxation assets		
Excess of amortisation over related tax allowances	**(8)**	(6)
Short term timing differences	**(151)**	(200)
Tax losses carried forward	**(2)**	(38)
	(161)	(244)
Total	**(77)**	(164)

		CONSOLIDATED	
£ million		**2002**	2001
Deferred tax asset at 1 January		**(164)**	(4)
Acquisitions		-	8
Provided	*note 9*	**36**	(79)
Transfers		**38**	(88)
Exchange translation differences		**13**	(1)
Deferred tax asset at 31 December		**(77)**	(164)

		CONSOLIDATED	
£ million		**2002**	2001
Included in debtors falling due after more than one year	*note 17*	**(161)**	(244)
Included in provisions for liabilities and charges	*note 24*	**84**	80
Total		**(77)**	(164)

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		CONSOLIDATED		PARENT	
£ million		**2002**	2001	**2002**	2001
Loan capital	*note 21*	**79**	106	**-**	-
Promissory notes and bank loans		**347**	400	**-**	-
Obligations under finance leases	*note 23*	**8**	5	**-**	-
Sub total: Borrowings		**434**	511	**-**	-
Trade creditors		**249**	242	**-**	-
Amounts owed to Reed Elsevier PLC		**531**	517	**-**	-
Amounts owed to the Elsevier Reed Finance BV group		**690**	952	**-**	-
Amounts owed to associated undertakings		**6**	6	**-**	-
Amounts owed to subsidiary undertakings		**-**	-	**1**	-
Other creditors		**183**	339	**-**	-
Taxation		**311**	378	**-**	-
Accruals and deferred income		**1,298**	1,377	**-**	-
Total		**3,702**	4,322	**1**	-

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

		CONSOLIDATED	
£ million		**2002**	2001
Loan capital	*note 21*		
- within one to two years		**2**	91
- within two to five years		**533**	489
- after five years		**1,013**	1,292
Promissory notes and bank loans			
- within two to five years		**18**	18
Obligations under finance leases	*note 23*	**14**	11
Sub total: Borrowings		**1,580**	1,901
Amounts owed to Reed Elsevier PLC		**40**	40
Amounts owed to the Elsevier Reed Finance BV group		**4,319**	4,164
Other creditors		**15**	21
Taxation		**225**	283
Accruals and deferred income		**51**	40
Total		**6,230**	6,449

21. LOAN CAPITAL

£ million	CONSOLIDATED 2002	2001
Subsidiary undertakings - unsecured		
$125m 8.5% US Dollar Privately Placed Notes 2003	**78**	86
$150m 6.625% US Dollar Privately Placed Notes 2023	**94**	104
$150m 7% US Dollar Public Notes 2005	**94**	104
$150m 7.5% US Dollar Public Debentures 2025	**94**	104
$550m 6.125% US Dollar Public Notes 2006	**343**	379
$440m 5.75 US Dollar Public Notes 2008	**275**	304
$550m 6.75% US Dollar Public Notes 2011	**343**	379
$150m 8.25% US Dollar Public Notes 2002	**-**	104
$150m 8.875% US Dollar Public Notes 2022	**40**	45
$150m 6.7% US Dollar Public Notes 2007	**91**	110
$200m 7.2% US Dollar Public Notes 2027	**120**	132
$150m 7.3% US Dollar Public Notes 2097	**31**	95
$55m 6.5% US Dollar Convertible Subordinated Debentures 2011	**24**	29
Miscellaneous Dutch Florin	**-**	3
Total	**1,627**	1,978

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

22. FINANCIAL INSTRUMENTS

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

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 £6,462m (2001 : £2,596m), after taking account of interest rate and cross currency interest rate swaps, is set out below:

	CONSOLIDATED							
	2002				2001			
			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	**567**	**5,246**	**6.8%**	**7.7**	911	1,558	7.1%	17.1
Sterling	**19**	**40**	**9.8%**	**5.0**	22	-	-	-
Euro	**2**	**506**	**7.2%**	**8.3**	6	11	5.7%	9.7
Other currencies	**81**	**1**	**6.7%**	**2.2**	88	-	-	-
Total	**669**	**5,793**	**6.9%**	**7.7**	1,027	1,569	7.1%	17.0

Included within fixed rate financial liabilities as at 31 December 2002, are £78m (2001 : £105m) 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 £632m (2001 : £536m), after taking account of interest rate swaps, is set out in the table and narrative below:

	CONSOLIDATED			
	2002		2001	
£ million	**Floating rate financial assets**	**Non interest bearing financial assets**	Floating rate financial assets	Non interest bearing financial assets
US dollar	**37**	**67**	17	147
Sterling	**198**	**17**	66	24
Euro	**232**	**7**	210	6
Other currencies	**31**	**7**	26	4
Total	**498**	**98**	319	181

At 31 December 2002, there were interest rate floors in place with a principal amount totalling £150m (2001 : £nil) denominated in sterling that mature within one year.

In addition to the amounts shown above Reed Elsevier Group plc has £36m (2001 : £36m) of fixed rate financial assets owed by affiliated companies denominated in sterling, at an interest rate of 10.5% (2001 : 10.5%) and duration of five years (2001 : six years).

Included within non interest bearing financial assets are £78m (2001 : £175m) of investments denominated principally in sterling and US dollars which have no maturity date.

There were no agreements in place to enter into interest rate floors and forward rates agreements at future dates (2001 : £150m and £276m respectively).

22. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity profile of financial liabilities

The maturity profile of financial liabilities at 31 December comprised:

	CONSOLIDATED	
£ million	**2002**	2001
Repayable:		
Within one year	**434**	554
Within one to two years	**391**	149
Within two to five years	**1,885**	557
After five years	**3,752**	1,336
Total	**6,462**	2,596

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 2002, a total of £2,188m (2001 : £2,413m) of committed facilities were available, of which £63m (2001 : £418m) was drawn and is included in financial liabilities repayable within one year. Of the total committed facilities, £1,788m (2001 : £248m) matures within one year, £nil (2001 : £1,724m) within one to two years, and £400m (2001 : £441m) within two to three years. These facilities are available to other affiliated businesses as well. Secured borrowings under finance leases were £22m (2001 : £16m).

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			
	2002		2001	
£ million	Book value	Fair value	Book value	Fair value
Primary financial instruments held or issued to finance operations				
Investments	**78**	**78**	175	175
Cash	**156**	**156**	87	87
Short term investments	**342**	**341**	232	232
Amounts due from affiliated companies	**36**	**42**	36	43
Other financial assets	**20**	**20**	6	6
Short term borrowings and current portion of long term borrowings	**(434)**	**(442)**	(511)	(513)
Long term borrowings	**(1,580)**	**(1,687)**	(1,901)	(1,896)
Amounts due to affiliated companies	**(4,359)**	**(5,128)**	(4,204)	(4,188)
Other financial liabilities	**(18)**	**(18)**	(22)	(22)
Provisions	**(71)**	**(71)**	(162)	(162)
	(5,830)	**(6,709)**	(6,264)	(6,238)
Derivative financial instruments held to manage interest rate and currency exposure				
Interest rate swaps	**(2)**	**(22)**	(2)	(15)
Interest rate floors	**-**	**-**	-	1
Forward foreign exchange contracts	**-**	**1**	-	-
	(2)	**(21)**	(2)	(14)
Total financial instruments	**(5,832)**	**(6,730)**	(6,266)	(6,252)

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 Group plc 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 2002 and 2001. The fair values of all other items have been calculated by discounting expected future cash flows at market rates.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Hedges

The unrecognised and deferred gains and losses on financial instruments used for hedging purposes as at 31 December 2002, 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
Gains/(losses) on hedges:				
At 1 January 2002	3	(15)	29	(22)
Less: arising in previous years included in the 2002 profit and loss account	(3)	5	(15)	14
Arising in previous years not included in the 2002 profit and loss account	-	(10)	14	(8)
Arising in 2002 not included in the 2002 profit and loss account	2	(11)	44	(7)
At 31 December 2002	2	(21)	58	(15)
Of which:				
Are expected to be included in the 2003 profit and loss account	1	(8)	30	(8)
Are expected to be included in the 2004 profit and loss account or later	1	(13)	28	(7)
	2	(21)	58	(15)

23. OBLIGATIONS UNDER LEASES

The future finance lease obligations are:		CONSOLIDATED	
£ million		**2002**	2001
Repayable:			
Within one year		**9**	7
Within one and two years		**6**	3
Within two and five years		**3**	2
After five years		**7**	9
		25	21
Less: interest charges allocated to future periods		**(3)**	(5)
Total		**22**	16
Obligations falling due within one year	*note 19*	**8**	5
Obligations falling due after more than one year	*note 20*	**14**	11
Total		**22**	16

Annual commitments under operating leases are:		**2002**		2001	
£ million		Land and buildings	Other	Land and buildings	Other
On loans expiring	- within one year	**6**	**1**	18	1
	- within one to five years	**33**	**3**	38	2
	- after five years	**59**	**-**	63	-
Total		**98**	**4**	119	3

24. PROVISIONS FOR LIABILITIES AND CHARGES

	CONSOLIDATED			
£ million	Deferred taxation liabilities	Surplus property	Lease guarantees	Total
At 1 January 2002	80	76	86	242
Provided	12	1	-	13
Utilised	(3)	(6)	(49)	(58)
Exchange translation differences	(5)	(8)	(5)	(18)
At 31 December 2002	**84**	**63**	**32**	**179**

The surplus property provision relates to lease obligations for various periods up to 2012 and represents estimated sub-lease shortfalls.

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 FOR IN THE FINANCIAL STATEMENTS

	CONSOLIDATED	
£ million	**2002**	2001
Contracts placed	**9**	2

26. CALLED UP SHARE CAPITAL

	AUTHORISED	CALLED UP, ISSUED AND FULLY PAID
£ and no. shares	At 31 Dec 2001 and 2002	At 31 Dec 2001 and 2002
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 Reed Elsevier NV and the "R" share capital is owned by Reed Elsevier PLC. Reed Elsevier NV and Reed Elsevier PLC 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 2002	**324**

28. RECONCILIATION OF SHAREHOLDERS' FUNDS

£ million	Share capital and share premium	Profit and loss reserve	Consolidated Total	Parent Total
At 1 January 2002	324	(1,300)	(976)	972
Retained loss for the year	-	(306)	(306)	(4)
Exchange translation differences	-	124	124	-
At 31 December 2002	**324**	**(1,482)**	**(1,158)**	**968**

Share capital includes non equity shares of £100,000 (2001 : £100,000).

Parent company total comprises the company profit and loss account and share premium account. The profit attributable to shareholders, dealt with in the accounts of the company, is £131m (2001 : £137m).

29. CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT	
£ million	**2002**	2001	**2002**	2001
Contingent liabilities in respect of borrowings of:				
Former subsidiary undertakings	**3**	7	**3**	7

There are contingent liabilities of £118m (2001 : £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 (2001 : £64m), of subsidiary undertakings registered in the Netherlands.

30. RELATED PARTY TRANSACTIONS

There were no material transactions during the year between the Reed Elsevier Group 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 Elsevier PLC and Reed Elsevier NV. The Elsevier Reed Finance BV group provides a range of treasury services and funding to the Reed Elsevier Group plc group.

Foreign exchange contracts entered into during 2002 by Reed Elsevier Group plc and its subsidiaries with its fellow joint ventures amounted to £835m (2001 : £562m).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

31. BALANCE SHEET OF REED ELSEVIER GROUP PLC AS AT 31 DECEMBER 2002

£ million		**2002**	2001
Fixed assets			
Investments	*note 14*	**923**	922
Current assets			
Debtors: amounts falling due within one year	*note 16*	**46**	50
Creditors: amounts falling due within one year	*note 19*	**(1)**	-
Net current assets		**45**	50
Net assets		**968**	972
Capital and reserves			
Called up share capital	*note 26*	-	-
Share premium account	*note 27*	**324**	324
Revenue reserves		**644**	648
Shareholders' funds	*note 28*	**968**	972

Approved by the board of Reed Elsevier Group plc, 19 February 2003.

M H Armour

Chief Financial Officer

SUPPLEMENTARY INFORMATION

Principal Subsidiary Undertakings at 31 December 2002

Holding Companies	
Reed Elsevier (UK) Limited [1][8]	
Reed Elsevier Holdings B.V.[8]	(The Netherlands)
Reed Elsevier Nederland B.V.	(The Netherlands)
Reed Elsevier Overseas B.V.	(The Netherlands)
Reed Elsevier US Holdings Inc	(USA)
Reed Elsevier Inc. [1]	(USA)
Reed Elsevier Capital Inc.	(USA)
Harcourt, Inc. [1]	(USA)
HGI Investment Trust	(USA)
Reed Elsevier Properties Inc.	(USA)
Science & Medical	
Elsevier Limited	
Elsevier B.V.	(The Netherlands)
Excerpta Medica Medical Communications B.V.	(The Netherlands)
Elsevier Inc.	(USA)
Excerpta Medica, Inc	(USA)
Academic Press [2]	(USA)
Elsevier Health Sciences [2]	(USA)
Mosby, Inc.	(USA)
MDL Information Systems, Inc.	(USA)
Endeavor Information Systems, Inc.	(USA)
MDL Information Systems GmbH	(Germany)
Legal	
LexisNexis Butterworths Tolley [3]	
Eclipse Group Limited	
LexisNexis [4]	(USA)
Matthew Bender and Company, Inc.	(USA)
Martindale-Hubbell [4]	(USA)
Riskwise International L.L.C.	(USA)
Editions du Juris-Classeur SA	(France)
Butterworths Australia [5]	(Australia)
Education	
Harcourt Education Limited	
Harcourt School Publishers [6]	(USA)
Holt, Rinehart and Winston [6]	(USA)
Harcourt Supplemental Publishers Inc.	(USA)
The Psychological Corporation	(USA)
Harcourt Educational Measurement [7]	(USA)
Business	
Reed Business Information Limited	
Reed Exhibitions Limited	
Reed Business Information B.V.	(The Netherlands)
Reed Business Information US [4]	(USA)
Reed Construction Data Inc.	(USA)
Reed Exhibitions [4]	(USA)
Reed Expositions France SA	(France)
Reed Midem Organisation SA	(France)
Groupe Strategies SA	(France)
Reed Exhibitions Japan Limited	(Japan)

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

(1) Holding company, but also trades through one or more operating divisions
(2) Division of Elsevier Inc.
(3) Division of Reed Elsevier (UK) Limited
(4) Division of Reed Elsevier Inc.
(5) Division of Reed International Books Australia Pty Ltd
(6) Division of Harcourt, Inc.
(7) Division of The Psychological Corporation
(8) Direct subsidiary undertaking of Reed Elsevier Group plc

Principal joint ventures at 31 December 2002

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