



SCIENCE & MEDICAL

LEGAL

EDUCATION

BUSINESS

REED ELSEVIER

INTERIM STATEMENT 2001

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

interim

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FOR THE SIX MONTHS ENDED 30 JUNE 2001

REED ELSEVIER COMBINED BUSINESSES

Year ended 31 December			Six months ended 30 June		Six months ended 30 June		Change at constant currencies %
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m	
3,768	6,180	Turnover	2,036	1,795	3,258	2,926	+8%
793	1,301	Adjusted operating profit	438	394	701	642	+7%
690	1,132	Adjusted profit before tax	410	351	656	572	+13%
511	838	Adjusted profit attributable	303	260	485	424	+13%
775	1,271	Adjusted operating cash flow	278	306	445	499	-13%
433	697	Net borrowings	530	1,481	880	2,340	
21%	21%	Operating margin	22%	22%	22%	22%	
98%	98%	Operating cash flow conversion	63%	78%	63%	78%	
8	8	Interest cover (times)	16	9	16	9	

The Reed Elsevier combined businesses encompass the businesses of Reed Elsevier plc and Elsevier Reed Finance BV, together with their two parent companies, Reed International and Elsevier.

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

The percentage change at constant currencies refers to the movements at constant exchange rates, using 2000 full year average rates.

PARENT COMPANIES

Reed International

Year ended 31 December		Six months ended 30 June		Change %
2000 £m		2001 £m	2000 £m	
270	Adjusted profit attributable	160	138	+16%
270	– at reported rates	157	139	+13%
23.3p	Adjusted earnings per share	12.7p	12.0p	+6%
23.3p	– at reported rates	12.4p	12.1p	+3%
10.0p	Dividend per share	3.1p	3.1p	–

Elsevier

Year ended 31 December		Six months ended 30 June		Change %
2000 €m		2001 €m	2000 €m	
419	Adjusted profit attributable	243	212	+15%
419	– at reported rates	244	216	+13%
€0.59	Adjusted earnings per share	€0.31	€0.30	+3%
€0.59	– at reported rates	€0.31	€0.30	+3%
€0.28	Dividend per share	€0.09	€0.09	–

The results of Reed International reflect its shareholders' 52.9% economic interest in the Reed Elsevier combined businesses. The results of Elsevier reflect its shareholders' 50% economic interest in the Reed Elsevier combined businesses. The respective economic interests of the Reed International and Elsevier shareholders take account of Reed International's interest in Elsevier.

The first half of 2001 has seen improving growth trends and continued good progress in the execution of our strategy for growth. Our investment programme is building revenue momentum and we remain on track to deliver on our financial goals of above market revenue growth and double digit earnings growth for 2002 and beyond. The \$4.5 billion acquisition in July of the Harcourt businesses is a major step forward in the development of our strategy and will further accelerate our financial progress.

FINANCIAL RESULTS

The first half results are encouraging and reflect strong performances in Science & Medical, Legal and Education, partly offset by the impact of the economic slowdown on Business to Business. Revenues were up 13% to £2,036 million/11% to €3,258 million whilst adjusted pre-tax profits were up 17% to £410 million/15% to €656 million. At constant exchange rates revenues were up 8% and adjusted pre-tax profits up 13%.

Underlying revenue growth, excluding acquisitions and disposals and currency translation, was 5%. This compares favourably with 4% growth in the first half 2000 and 1% in first half 1999. Underlying operating profits were 6% higher, with the impact on the prior year comparison of the higher investment mitigated by the cost savings achieved. Overall operating margins were broadly flat at 21.5%. Adjusted pre-tax profits included the benefit of last year's share placing proceeds ahead of the Harcourt acquisition less dilution from portfolio changes.

The Science & Medical business had a strong first half. Revenues and operating profits increased by 7% and 12% respectively at constant exchange rates, or 9% and 12% excluding acquisitions and disposals. This good revenue growth reflects the continuing improvement in subscription renewal trends and expansion of the ScienceDirect customer base.

The Legal business continued to make good progress against strategic milestones, with the turnaround in the US business starting to show through in the results. Revenue growth is building and margins stabilising after the major step up in investment last year. Revenues and operating profits increased by 8% and 4% at constant exchange rates, or 5% and 4% excluding acquisitions and disposals. Online revenue growth in US Legal Markets was 9% and in US Corporate and Federal Markets was 7%. This is in marked contrast to the zero growth seen in the first half of 2000. This online growth more than compensates for attrition of print/CD-ROM revenues as business migrates online. Outside the US, in International Markets, the businesses gave a solid performance.

The Education business continued to perform strongly. Revenues and operating profits increased by 13% and 18% respectively at constant

exchange rates, or 11% and 12% on an underlying basis. With gains in market share driven by strong publishing programmes, the US schools supplemental business, Rigby, saw revenues up 19% and the UK schools business increased revenues by 12%.

The Business division saw revenue and operating profit growth held back by the impact of the US economic slowdown on advertising markets in part offset by cost actions and a strong performance in the Exhibitions business. Revenues and operating profits were up 8% and 3% respectively at constant exchange rates, or 3% and 2% excluding acquisitions and disposals. The economic slowdown is expected to have a broader and deeper impact in the second half although cost actions taken, including headcount reductions and a cutback in development spending, are expected to mitigate to a significant extent the effect on profits of lower underlying revenues. The business is performing better than the B2B market overall, reflecting the actions taken and the quality and balance of the portfolio.

ACQUISITION OF HARCOURT

On 12 July, we completed the acquisition of Harcourt General, following a lengthy regulatory review process, and immediately sold on to The Thomson Corporation those Harcourt businesses we did not wish to retain. We have therefore now acquired the Harcourt Science, Technical and Medical (STM) business and the US Education and Testing businesses at a total cost of approximately US\$4.5 billion after taking into account the on-sale, debt assumed and other liabilities.

Financing has principally been from the US\$1.8 billion proceeds of the shares issued in December 2000, US\$0.9 billion of Harcourt public debt assumed on acquisition, and the successful issue in July 2001 of US\$1.5 billion of global bonds to refinance short term borrowings incurred.

The Harcourt STM business will be rapidly integrated within Elsevier Science, with the enlarged business managed through two divisions: Science & Technology and Health Sciences. The US Education and Testing businesses will be managed within their existing, and successful, management organisations, and will report in due course to a new Global CEO of Education.

We have been encouraged by the good progress made over recent months by the acquired Harcourt businesses whilst we awaited regulatory approval. The STM business saw proforma sales growth of 4% in the first six months of 2001 with stronger growth expected in the more important second half which sees the main publishing programme in Health Sciences. The priority now is to refocus the organisation and accelerate growth momentum, particularly in Health Sciences. The Education and Testing businesses are having another successful year. Proforma first half sales growth was 13% with a strong

outlook for the more significant second half. The K-12 business is firmly on track to win the highest overall market share in 2001 state adoptions in both the elementary and secondary school markets and to achieve above market revenue growth on top of a very successful year in 2000.

Plans for the integration of the businesses are well developed and we fully expect to achieve over the next eighteen months the US\$45 million of annual operational cost savings initially targeted. These savings will fund the additional US\$40 million investment, over and above Harcourt's existing planned spending levels, that is targeted to further accelerate growth. The US\$25 million annual costs of the Harcourt General head office will have been eliminated before the end of the year.

PROGRESS ON STRATEGY

Throughout the year, in each of our businesses, we have been executing against the detailed strategic priorities laid down last year. Although revenue development within the Business division has been hampered by the economic slowdown, we are pleased to report a high level of achievement against our objectives.

Significantly upgrade management and organisation effectiveness

The management structure introduced last year – focused on the four divisions with new senior management appointments – now has real traction with quicker more market focused decision making and accountability. Confidence is growing across the business; there is a clear momentum for new initiatives and propensity for action. A culture change programme to embed core values across the organisation is being rolled out, and a comprehensive organisation and talent review is being pushed further into the business.

Major upgrade of products, leveraging internet technology, to deliver superior services to customers

We continue to build on last year's major upgrade in products. We are adding high value added and differentiated content, in services with greater ease of use and functionality, and with increasing customisation. The ScienceDirect service is recognised in its market for online product superiority and is continuing to expand in content, navigation tools and data linkage. Usage is growing strongly. The lexisnexis.com products for US legal, corporate and federal markets have continued to add content and functionality. They are now clearly very competitive, evidenced by the significant progress in online revenue growth. Enterprise solutions are being embedded in major customers. In Business, internet services have continued to develop around key brands with subscriptions and advertising revenues building.

More effective marketing and sales programmes

The significant upgrade in sales and marketing programmes, particularly in Science & Medical and Legal where the sales forces have been dramatically expanded, is having a direct impact in winning important new clients and in penetrating key markets such as small

law firms. Our programmes, underpinned by constant market research, are getting our upgraded product message across.

Significant increase in investment to drive revenue growth

The investment in new and upgraded products, largely electronic, and in marketing and sales has now become part of the natural rhythm of the business. Spending in the first half increased £15 million/€24 million compared to the prior first half reflecting the build up in investment over the past twelve months particularly in Science & Medical and Legal. Within the Business division spending was lower, particularly on internet portals, as investment activities were reappraised to reflect changes in the perceived market opportunity. Overall investment for the year is expected to be similar to last year's level of around £270 million, some £20 million less than initially planned and reflecting the lower spending in Business.

Aggressive cost savings programmes

The cost savings programmes implemented last year are on track to deliver the additional £27 million of annual savings to give a total of £170 million. The savings from these programmes in the first half were approximately £85 million, half the expected annual total, which is £25 million more than in the prior year first half.

The cost savings programmes initiated last year represented a major reallocation of resources from production/infrastructure to revenue facing areas. Although we do not expect further programmes as fundamental as this, the tight management of costs remains a high priority. Further cost reductions, over and above the savings referred to above, have been made particularly in the Business division in response to the weak advertising environment.

Expand geographically to build global capability and leadership positions

Within each business we continue to develop our positions in global markets through organic growth, acquisition and launch. The acquisition of Harcourt accelerates this progress dramatically in Science & Medical and in Education. Within Legal, in addition to pursuing acquisition and alliance opportunities, the business has been rolling out the LexisNexis brand globally as well as implementing global content and technology strategies. In Business we continue to evaluate acquisition and launch opportunities that may meet our growth and financial criteria.

Continue to target acquisitions/alliances to accelerate achievement of strategic goals

Our primary focus this half year has been on closing the acquisition of Harcourt and on preparing for the integration and development of the businesses acquired. A number of minor acquisitions were made, at a total cost of £47 million/€75 million, following the more significant rebalancing of the portfolios last year. The disposals programme is

nearing completion with the sale of OAG Worldwide completed in July and the sale of Cahners Travel Group very advanced. The acquisitions and disposals over the last 18 months have given our portfolio much greater clarity and focus around higher growth sectors.

PARENT COMPANY EARNINGS AND DIVIDENDS

For the parent companies, Reed International and Elsevier, the adjusted earnings per share were up 6% at 12.7p and up 3% at €0.31 respectively. At constant exchange rates this represents an increase of 3%. The reported earnings per share, including exceptional items and the amortisation of goodwill and intangible assets, was for Reed International shareholders 2.9p (2000: 4.5p) and for Elsevier shareholders €0.07 (2000: €0.12).

The Reed International interim dividend is unchanged at 3.1p. The Elsevier interim dividend under the equalisation arrangements is also unchanged at €0.09.


OUTLOOK

In February, we stated that this year would be focused on execution and delivery of our strategy, and that Reed Elsevier, even before taking into account the acquisition of Harcourt, should move very significantly towards our stated goal of above market revenue growth and double digit earnings growth in 2002 and beyond. We also said that although our Business to Business operations will be impacted by the slowdown in the US economy, we believed this to be manageable, and that our Science & Medical, Legal and Education businesses should be largely unaffected.

All of this remains valid and we remain on track to deliver. The slowdown within Business to Business is deeper and more protracted than had been envisaged, but is largely compensated by the actions we have taken and the stronger performance across the rest of the businesses. With the addition of the Harcourt STM and Education and Testing businesses, we believe that double digit earnings per share growth is achievable in 2001. The performance and momentum of the business reaffirms Reed Elsevier's quality and the underlying strength of its assets.



Morris Tabaksblat, Chairman



Crispin Davis, Chief Executive Officer

REVIEW OF OPERATIONS

Year ended 31 December			Six months ended 30 June		Six months ended 30 June		Change at constant currencies %
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m	
		Turnover					
693	1,137	Science & Medical	380	345	608	562	+7%
1,201	1,970	Legal	642	557	1,027	908	+8%
202	331	Education	106	90	170	147	+13%
1,672	2,742	Business	908	803	1,453	1,309	+8%
3,768	6,180	Total	2,036	1,795	3,258	2,926	+8%
		Adjusted operating profit					
252	413	Science & Medical	142	124	227	202	+12%
237	389	Legal	117	105	187	172	+4%
40	66	Education	18	15	29	24	+18%
264	433	Business	161	150	258	244	+3%
793	1,301	Total	438	394	701	642	+7%

Unless otherwise indicated, all percentage movements in the commentary refer to constant currency rates, using 2000 full year average rates, and are stated before the amortisation of goodwill and intangible assets and exceptional items.

Science & Medical

The Science & Medical business had a strong first half, building on the progress made in 2000. Revenue and profit growth momentum was driven by high subscription renewals and the continued success of the ScienceDirect service. The addition of the Harcourt Science, Technical and Medical (STM) business in July presents substantial opportunities for further development and growth of the business.

Revenues and operating profits increased by 7% and 12% respectively at constant exchange rates, or 9% and 12% excluding acquisitions and disposals. The good sales growth was driven by stronger subscription renewals and the increasing contribution of ScienceDirect, which added 3 percentage points to sales growth.

Increased investment spending in new product and marketing initiatives was more than offset by the impact of the cost savings programme initiated last year. This, combined with the strong revenue growth, improved operating margins to 37.4%.

ScienceDirect continues to expand with 60% of subscriptions by value now including the online service and usage is growing rapidly. The year end target of 65% is likely to be exceeded. Monthly page views reached 25 million in June 2001, up 67% from the beginning of the year. The ScienceDirect product line continues to expand with the launch of further customised information services for specific scientific disciplines.

Science & Medical

	Six months ended		Six months ended		Change at constant currencies %
	30 June 2001 £m	30 June 2000 £m	30 June 2001 €m	30 June 2000 €m	
Turnover					
Elsevier Science	336	291	538	474	+12%
Medical Business	44	54	70	88	-21%
Total	380	345	608	562	+7%
Operating profit	142	124	227	202	+12%
Operating margin	37.4%	35.9%	37.4%	35.9%	+1.5pts

Also launched were the archive modules for Organic Chemistry and Inorganic Chemistry, the first in a major three year programme to make all of our scientific research archive available online on ScienceDirect.

The medical publishing and communications businesses saw revenue growth of 8%, excluding the Springhouse business sold in 2000, and operating profit growth of 30% reflecting the revenue growth and increased cost efficiency.

In July, Elsevier Science was significantly expanded by the acquisition of the Harcourt STM business. The business, which is not included in the above results, saw proforma sales growth of 4% in the first six months of 2001 with stronger growth expected in the more important second half which sees the main publishing programme in Health Sciences. The STM business has been more affected than Education by the uncertainties of the extended regulatory review process and there

is work to be done to refocus the organisation and accelerate growth momentum.

The enlarged business will be managed through two divisions: Science & Technology and Health Sciences. The Science & Technology business will largely be managed within the existing Elsevier Science management structure with the Harcourt Academic Press scientific journals business quickly integrated. A new management organisation has been put in place for the Health Sciences business combining the strengths of both Elsevier Science and Harcourt's Health Sciences businesses into one cohesive unit. Over the next few months, the focus will be on integration of the businesses and development of an accelerated growth strategy for the Health Sciences businesses exploiting the considerable breadth and depth of content across clinical disciplines and the fast developing market for internet delivered information and solutions.

Legal

The Legal business has continued to make good progress against its key strategic milestones. The impact of the substantial investment programme in significantly upgraded products, sales and marketing, is starting to show in the results. Revenue growth is building and underlying margins are stabilising.

Revenues and operating profits increased by 8% and 4% respectively at constant exchange rates, or 5% and 4% excluding acquisitions made last year. Operating margins are slightly lower as a result of acquisitions not included in the prior year first half figures and which are in development phase. Increased investment spending was offset by the further planned cost savings. At LexisNexis North America, revenue growth excluding acquisitions was 5%, up from 2% in the prior year first half and 1% in 1999, whilst operating profits grew 6%.

Legal	Six months ended		Six months ended		Change at constant currencies %
	30 June 2001 £m	30 June 2000 £m	30 June 2001 €m	30 June 2000 €m	
Turnover					
LexisNexis North America	507	440	811	717	+7%
LexisNexis International	135	117	216	191	+10%
Total	642	557	1,027	908	+8%
Operating profit	117	105	187	172	+4%
Operating margin	18.2%	18.9%	18.2%	18.9%	-0.7pts

In US Legal Markets, online revenues grew strongly by 9% in part offset by lower print and CD-ROM sales as the business migrates online.

The online sales growth continues the progress made last year and includes a very strong performance in the small law firm market where the tailored web product and marketing and sales campaigns are having significant impact.

Migration from the proprietary online systems to the easier to use and more functional web products is continuing, with usage growing strongly. The success of our web products has been reaffirmed by the most recent independent market research for the Spring 2001 term showing lexis.com to be preferred over competing products in US law schools.

The Martindale Hubbell legal directories business had another good performance with strong renewals and growing lawyer home page sales in the lawyers.com website.

In US Corporate and Federal Markets, nexis.com online revenues grew by 7%, up from 4% growth in 2000 and a decline of 4% in 1999. Growth is driven by the continuing take up of the upgraded nexis.com product and expanding usage. Enterprise sales are being won in major companies which embed our research products within corporate intranets. The successful turnaround of this business has been grounded on getting the fundamentals right in management, product, marketing and sales.

LexisNexis International businesses outside the US reported revenues and operating profits up 10% and 4% respectively, or 5% for both excluding acquisitions, with a solid sales performance and further investment in online services. Strong sales growth in France, South Africa and Asia/Pacific was in part held back by phasing in the UK where the second half is more important in the print market. UK online services continue to grow rapidly with new internet launches and revenues have more than doubled over the last six months. Further good progress has been made in expanding online services in France and Australia.

Education

The Education business continues to perform strongly in markets growing well. The acquisition of the Harcourt US K-12 (kindergarten – 12th grade) Education and Testing businesses in July establishes, with Reed Educational & Professional Publishing, a leading position in the schools markets in the English speaking world and presents significant opportunities for further growth.

Education	Six months ended		Six months ended		Change at constant currencies %
	30 June 2001 £m	30 June 2000 £m	30 June 2001 €m	30 June 2000 €m	
Turnover					
Reed Educational & Professional Publishing	106	90	170	147	+13%
Operating profit	18	15	29	24	+18%
Operating margin	17.0%	16.7%	17.0%	16.7%	+0.3pts

Reed Educational & Professional Publishing reported revenues and operating profit ahead by 13% and 18% at constant exchange rates. Excluding acquisitions, the figures were 11% and 12%, with gains in market share driven by strong publishing programmes in Education.

The US supplemental publisher Rigby saw sales up 19% with continued momentum in K-3 literacy. In UK Schools, sales were up 12% with good performances in both primary and secondary schools markets. Sales growth in Australia was 5% in the absence of curriculum change.

The Harcourt Education and Testing businesses, which are not included in the above results, are having another successful year. Proforma first half sales growth was 13% with a strong outlook for the more significant second half. The K-12 business is firmly on track to win the highest overall market share in 2001 state adoptions in both the elementary and secondary school markets and to achieve above market revenue growth on top of a very successful year in 2000.

The Harcourt businesses will be managed within their existing, and successful, management organisations, reporting initially to Crispin Davis. A Global CEO of Education for Reed Elsevier will be appointed in due course to whom these businesses will report together with the Reed Educational & Professional Publishing business. Much work has been carried out over the last few months on developing plans for the strongly growing US Schools business to take full advantage of the growing market for electronic and online learning materials, capitalising on Harcourt's leadership in launching successful educational programmes.

Business

The Business to Business division has seen sales impacted by the economic slowdown in the US, with knock on effects developing in other markets. Tight management of the cost base has mitigated much of the impact of lower sales in the US. A strong performance from the Exhibitions business in the first half has also offset some of this weakness.

Revenues and operating profits increased by 8% and 3% respectively at constant rates. Excluding acquisitions and disposals, the figures were 3% and 2%. Operating margins at 17.7% were 1 percentage point lower than in the prior first half reflecting the low underlying sales growth and the inclusion of lower margin acquisitions made last year. Cost actions have been taken to mitigate the impact of the market slowdown particularly in the US, with additional headcount reductions over and above the savings made last year. Internet spend has also been reduced in view of this and the lower size of the internet commerce opportunity than perceived a year ago.

In the US, Cahners Business Information reported revenues 4% ahead, or 6% lower before acquisitions and disposals. Revenues were impacted by the slowdown in the US economy, with ad pages down across almost every sector, most particularly in Manufacturing, Electronics and TV/Telecommunications. Underlying operating profits were 2% ahead, with the shortfall in revenues mitigated by reduced investment spending and cost savings from reductions in headcount and discretionary spend.

Business	Six months ended		Six months ended		Change at constant currencies %
	30 June 2001 £m	30 June 2000 £m	30 June 2001 €m	30 June 2000 €m	
Turnover					
Cahners Business Information	339	301	542	491	+4%
Reed Business Information	134	130	214	212	+3%
Elsevier Business Information	138	138	221	225	-2%
Reed Exhibition Companies	251	183	402	298	+32%
OAG Worldwide	33	38	53	62	-16%
Other	13	13	21	21	
Total	908	803	1,453	1,309	+8%
Operating profit	161	150	258	244	+3%
Operating margin	17.7%	18.7%	17.7%	18.7%	-1.0pts

In the UK, Reed Business Information revenues increased by 3%, or 2% excluding acquisitions and disposals, held back by lower revenues in the Computing sector and in Agriculture, affected respectively by the global IT slowdown and the UK foot and mouth crisis. The Property, Air Transport, Science and HR sectors performed well and good growth was seen in revenues from internet services. Underlying operating profits were 13% lower, impacted by the phasing of investment and directory publishing. Totaljobs.com, launched last year, continued to make good progress in the online recruitment market.

Continental Europe saw a strong first half performance with Elsevier Business Information seeing 9% revenue growth, before acquisitions and disposals, led by the Netherlands and France. Reported revenues were lower due in particular to the disposal of tuition businesses. Underlying operating profits were 14% lower reflecting year on year comparison of the investment made in new product development, sales and marketing. The flagship business portal in the Netherlands, zibb.nl, continued to make very good progress in the market. In June, EBI entered into a joint venture with Rabobank to develop zibb.nl's presence in the financial services sector.

Reed Exhibition Companies revenues grew 32%, or 13% excluding acquisitions and disposals, driven by growth in annual exhibitions, particularly in Europe and Asia/Pacific, and the favourable impact of the phasing of non-annual shows which benefits the first half comparison. Underlying operating profits were 17% ahead reflecting the strong revenue growth and tight control of costs. Miller Freeman Europe, acquired in July 2000 and excluded from the underlying figures, is performing well.

The trading environment will be more difficult for the Business to Business division in the second half of the year. Advertising demand in the US has progressively weakened and the impact on European and Asian markets is broadening, whilst the contribution of the exhibitions business is first half weighted. The impact of lower revenues in the

second half will be significantly mitigated by the cost actions already taken, with a likely outcome that, before acquisitions and disposals, overall revenues and profits for the division for the year will be broadly comparable to last year. Although this is clearly disappointing, the division is performing better than the B2B market overall reflecting the strength and balance of the portfolio, its market leading positions and the firm action being taken in building share and reducing costs.

During the first half, many disposals of non core titles and businesses have been completed including Cahners' automotive and metals titles, RBI's retail and hobby electronics titles, EBI's consumer encyclopedia and some of the training businesses, and minor exhibitions. In July, the sale of OAG Worldwide was completed and the sale of the Cahners Travel Group is very advanced. This will represent the substantial completion of the disposal programme with the sale of Bowker and other directories expected in the second half.

REVIEW OF FINANCIAL PERFORMANCE

Adjusted Profit and Loss

Turnover increased by 13% expressed in sterling to £2,036 million, and by 11% expressed in euros to €3,258 million. Underlying revenue growth, excluding the impact of acquisitions and disposals and currency translation effects, was 5%.

Adjusted operating profits, excluding exceptional items and the amortisation of goodwill and intangible assets, were up 11% expressed in sterling to £438 million and up 9% expressed in euros at €701 million. Operating margins at 21.5% were 0.4 percentage points lower against the comparative period, principally reflecting the inclusion of lower margin businesses acquired last year that are in their development phase. Excluding the impact of acquisitions and disposals and currency translation effects, underlying adjusted operating profit growth was 6% representing a small improvement in underlying margin.

Net interest expense, at £28 million/€45 million, was £15 million/€25 million lower than in the corresponding first half principally due to lower average net borrowings following the joint international share offering in December 2000 less the full financing cost of acquisitions made last year. Net interest cover was 16 times.

Adjusted profit before tax at £410 million/€656 million was 17% higher than in 2000 first half expressed in sterling, 15% higher expressed in euros, or 13% higher at constant exchange rates. Approximately 9% of this growth at constant rates arises from the financial benefit of the share proceeds received last year ahead of the funding of the Harcourt acquisition. Dilution from portfolio changes was 4% in the first half due principally to the investment phase of a number of the businesses acquired and the second half weighting of revenues at Miller Freeman Europe.

The effective tax rate on adjusted earnings was little changed at 26%. The adjusted profit attributable to shareholders of £303 million/€485 million compared to £260 million/€424 million in the first half of 2000, 13% higher at constant exchange rates.

Reported Profit and Loss

Exceptional items showed a pre-tax gain of £1 million/€2 million (2000: £33 million/€54 million), the major components of which were net gains on business and fixed asset disposals of £15 million/€24 million (2000: £66 million/€108 million) less acquisition related costs of £14 million/€22 million (2000: £6 million/€10 million), and, in 2000, restructuring costs of £27 million/€44 million relating to the cost savings programme started in 1999.

The amortisation charge for goodwill and intangible assets amounted to £229 million/€367 million, up £37 million/€54 million on the comparative period reflecting acquisitions made in 2000 and currency movements.

The reported profit before tax for the Reed Elsevier combined businesses, including exceptional items and the amortisation of goodwill and intangible assets, was £182 million/€291 million which compares with a reported profit of £192 million/€313 million in the 2000 first half. The reported attributable profit of £71 million/€114 million compares with a reported attributable profit of £102 million/€167 million in the first half of 2000. The movement between the periods principally reflects the larger exceptional gains in 2000 and higher amortisation charges arising from acquisitions.

Cash flows, acquisitions, disposals and debt

Adjusted operating cash flow, before exceptional items, was £278 million/€445 million (2000: £306 million/€499 million). Operating cash flow was lower than the prior first half, reflecting working capital phasing and untypically low capital expenditure in the first half of 2000. The substantial majority of annual operating cash flows normally arises in the second half of the year due, in particular, to the phasing of subscription and other advance receipts and working capital.

Free cash flow – after interest, taxation and dividends but before acquisition spend and exceptional receipts and payments – was £19 million/€30 million (2000: £89 million/€146 million). Due to the phasing of operating cash flows and the timing of dividend payments, the substantial majority of free cash flow normally arises in the second half of the year. The first half of 2000 included a low final dividend payment in May 2000 when the dividend reduction in respect of 1999 was effected.

Exceptional net inflows totalled £36 million/€58 million (2000: £68 million/€110 million). Proceeds of disposals were £78 million/€125 million. Cash payments on restructuring totalled £25 million/€40 million. Spend on acquisitions was £60 million/€96 million, including £30 million/€48 million in deferred payments on prior year acquisitions

less £20 million/€32 million receipts on currency hedges in respect of the Harcourt acquisition. An amount of £44 million/€70 million was capitalised as acquired goodwill and intangible assets.

Net borrowings at 30 June 2001 were £530 million/€880 million, an increase of £97 million/€183 million since 31 December 2000, reflecting acquisition spend and exchange translation effects, less free cash inflow and net exceptional receipts.

PARENT COMPANIES

For the parent companies, Reed International and Elsevier, **adjusted earnings per share**, excluding exceptional items and the amortisation of goodwill and intangible assets, were up 6% to 12.7p (2000: 12.0p) and up 3% to €0.31 (2000: €0.30) respectively, representing an increase of 3% at constant rates of exchange. The **reported earnings per share** for Reed International shareholders was 2.9p (2000: 4.5p) and for Elsevier shareholders €0.07 (2000: €0.12).

The Reed International interim dividend is unchanged at 3.1p per share. The Elsevier interim dividend under the equalisation arrangements is also unchanged at €0.09 per share.

ACQUISITION OF HARCOURT

On 12 July, Reed Elsevier acquired the entire share capital of Harcourt General, Inc for US\$4.45 billion (£3.2 billion/€5.2 billion) following a successful tender offer of US\$59 per share of common stock or share equivalent. Certain businesses – the Harcourt Higher Education business and the Corporate and Professional Services businesses other than educational and clinical testing – were immediately on-sold to The Thomson Corporation for US\$2.06 billion, on which taxes of approximately US\$0.5 billion are payable over the next 12 months. Harcourt General debt on completion was approximately US\$1.5 billion, some US\$0.25 billion higher than last October when the transaction was first announced reflecting principally the seasonality of cash flow, with cash inflows mainly arising in the second half of the year, and some settlement of corporate liabilities.

Reed Elsevier has retained Harcourt's Scientific, Technical and Medical (STM) business and its K-12 (kindergarten – 12th grade) Schools

Education and Testing businesses for an implied total value of approximately US\$4.5 billion, including the assumption of certain corporate liabilities and looking through seasonal cashflow variations.

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

The Harcourt businesses acquired have seasonality in sales, profits and cashflows, most particularly in the K-12 Schools business and to a lesser extent in Health Sciences, which favours the second half of the year. On a calendar basis, in 2000, approximately 55% of sales, 65% of operating profits and all of the operating cash flow arose in the July to December period.

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

A full review of the fair value of the assets and liabilities acquired will be carried out in the second half. A preliminary unaudited estimate of net tangible assets acquired excluding cash and debt is £0.5 billion. Goodwill and intangible assets acquired are estimated at approximately £2.6 billion.

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

FORWARD-LOOKING STATEMENTS

The Interim Statement contains 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 anticipated, as reflected in such forward-looking statements. The terms 'expect', 'should be', 'will be', and similar expressions identify forward-looking statements. Factors which may cause future outcomes to differ from those foreseen in forward-looking statements include, but are not limited to, general economic conditions and business conditions in Reed Elsevier's markets, customers' acceptance of its products and services, the actions of competitors, changes in law and legal interpretation affecting Reed Elsevier's intellectual property rights, and the impact of technological change.

COMBINED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2001

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
		Turnover				
3,836	6,291	Including share of turnover of joint ventures	2,067	1,824	3,308	2,973
(68)	(111)	Less: share of turnover of joint ventures	(31)	(29)	(50)	(47)
3,768	6,180		2,036	1,795	3,258	2,926
3,768	6,180	Continuing operations before acquisitions	2,017	1,795	3,228	2,926
–	–	Acquisitions	19	–	30	–
(1,332)	(2,185)	Cost of sales	(735)	(654)	(1,176)	(1,066)
2,436	3,995	Gross profit	1,301	1,141	2,082	1,860
(2,239)	(3,672)	Operating expenses	(1,115)	(980)	(1,784)	(1,597)
(1,659)	(2,721)	Before amortisation and exceptional items	(874)	(756)	(1,398)	(1,232)
(465)	(762)	Amortisation of goodwill and intangible assets	(227)	(191)	(364)	(311)
(115)	(189)	Exceptional items	(14)	(33)	(22)	(54)
197	323	Operating profit (before joint ventures)	186	161	298	263
197	323	Continuing operations before acquisitions	188	161	301	263
–	–	Acquisitions	(2)	–	(3)	–
13	21	Share of operating profit of joint ventures	9	8	14	12
210	344	Operating profit including joint ventures	195	169	312	275
		Non operating exceptional items				
85	140	Net profit on sale of fixed asset investments and businesses	15	66	24	108
295	484	Profit on ordinary activities before interest	210	235	336	383
(103)	(169)	Net interest expense	(28)	(43)	(45)	(70)
192	315	Profit on ordinary activities before taxation	182	192	291	313
(159)	(261)	Tax on profit on ordinary activities	(111)	(90)	(177)	(146)
33	54	Profit attributable to parent companies' shareholders	71	102	114	167
(245)	(402)	Ordinary dividends paid and proposed	(78)	(68)	(125)	(111)
(212)	(348)	Retained (loss)/profit taken to combined reserves	(7)	34	(11)	56

ADJUSTED FIGURES

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
793	1,301	Adjusted operating profit	438	394	701	642
690	1,132	Adjusted profit before tax	410	351	656	572
511	838	Adjusted profit attributable to parent companies' shareholders	303	260	485	424

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

COMBINED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2001

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
907	1,487	Net cash inflow from operating activities before exceptional items	357	347	571	566
(94)	(154)	Payments relating to exceptional items charged to operating profit	(43)	(53)	(69)	(87)
813	1,333	Net cash inflow from operating activities	314	294	502	479
6	10	Dividends received from joint ventures	6	5	10	8
20	33	Interest received	45	13	72	21
(124)	(204)	Interest paid	(75)	(62)	(120)	(101)
(104)	(171)	Returns on investments and servicing of finance	(30)	(49)	(48)	(80)
(141)	(231)	Taxation before exceptional items	(54)	(45)	(87)	(73)
31	51	Exceptional items	1	5	2	8
(110)	(180)	Taxation	(53)	(40)	(85)	(65)
(141)	(231)	Purchase of tangible fixed assets	(86)	(52)	(138)	(85)
3	5	Proceeds from sale of fixed assets	1	6	2	10
(138)	(226)	Capital expenditure	(85)	(46)	(136)	(75)
(914)	(1,499)	Acquisitions	(60)	(462)	(96)	(753)
153	251	Exceptional net proceeds from sale of fixed asset investments and businesses	78	116	125	189
(761)	(1,248)	Acquisitions and disposals	18	(346)	29	(564)
(196)	(321)	Ordinary dividends paid to shareholders of the parent companies	(175)	(123)	(280)	(200)
(490)	(803)	Cash outflow before changes in short term investments and financing	(5)	(305)	(8)	(497)
(1,137)	(1,865)	Decrease/(increase) in short term investments	236	180	378	293
1,634	2,679	Financing	(201)	138	(322)	225
7	11	Increase in cash	30	13	48	21

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

ADJUSTED FIGURES

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
775	1,271	Adjusted operating cash flow	278	306	445	499
98%	98%	Adjusted operating cash flow conversion	63%	78%	63%	78%

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

COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE SIX MONTHS ENDED 30 JUNE 2001

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
33	54	Profit attributable to parent companies' shareholders	71	102	114	167
113	150	Exchange translation differences	37	77	213	64
146	204	Total recognised gains and losses for the period	108	179	327	231

COMBINED SHAREHOLDERS' FUNDS RECONCILIATION

FOR THE SIX MONTHS ENDED 30 JUNE 2001

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
33	54	Profit attributable to parent companies' shareholders	71	102	114	167
(245)	(402)	Ordinary dividends paid and proposed	(78)	(68)	(125)	(111)
1,285	2,107	Issue of ordinary shares, net of expenses	10	4	16	6
113	150	Exchange translation differences	37	77	213	64
1,186	1,909	Net increase in combined shareholders' funds	40	115	218	126
1,855	2,987	Combined shareholders' funds at the beginning of the period	3,041	1,855	4,896	2,987
3,041	4,896	Combined shareholders' funds at the end of the period	3,081	1,970	5,114	3,113

COMBINED BALANCE SHEET

AS AT 30 JUNE 2001

As at 31 December			As at 30 June		As at 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
4,127	6,644	Goodwill and intangible assets	4,059	3,873	6,738	6,119
569	917	Tangible fixed assets and investments	605	497	1,004	786
4,696	7,561	Fixed assets	4,664	4,370	7,742	6,905
114	184	Stocks	148	120	246	190
860	1,385	Debtors – amounts falling due within one year	818	713	1,357	1,126
164	264	Debtors – amounts falling due after more than one year	169	171	281	270
1,594	2,566	Cash and short term investments	1,369	278	2,273	440
2,732	4,399	Current assets	2,504	1,282	4,157	2,026
(3,379)	(5,441)	Creditors: amounts falling due within one year	(3,021)	(2,700)	(5,015)	(4,266)
(647)	(1,042)	Net current liabilities	(517)	(1,418)	(858)	(2,240)
4,049	6,519	Total assets less current liabilities	4,147	2,952	6,884	4,665
(873)	(1,406)	Creditors: amounts falling due after more than one year	(899)	(867)	(1,492)	(1,370)
(128)	(206)	Provisions for liabilities and charges	(160)	(105)	(266)	(166)
(7)	(11)	Minority interests	(7)	(10)	(12)	(16)
3,041	4,896	Net assets	3,081	1,970	5,114	3,113
433	697	Net borrowings	530	1,481	880	2,340

Approved by the Boards of Reed International P.L.C. and Elsevier NV, 8 August 2001.

NOTES TO THE COMBINED FINANCIAL INFORMATION

1 Basis of preparation

The Reed Elsevier combined financial information ("the combined financial information") represents the combined interests of the Reed International and Elsevier shareholders and encompasses the businesses of Reed Elsevier plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the two parent companies, Reed International and Elsevier ("the combined businesses").

The combined financial information has been prepared on the basis of the accounting policies set out in the Reed Elsevier Annual Reports & Financial Statements 2000, with the exception that the new UK financial reporting standard, FRS19: Deferred Tax, has been adopted with effect from 1 January 2001. The effect of adopting FRS19 is not material to the Reed Elsevier combined financial information.

The combined financial information is unaudited but has been reviewed by the auditors and their report to the Boards of Reed International and Elsevier is set out on page 17.

2 Exchange translation rates

In preparing the combined financial information the following exchange rates have been applied:

Year ended 31 December 2000			Profit and loss		Balance sheet	
Profit and loss	Balance sheet		30 June 2001	30 June 2000	30 June 2001	30 June 2000
1.64	1.61	Euro to sterling	1.60	1.63	1.66	1.58
1.51	1.49	US dollars to sterling	1.44	1.57	1.41	1.52
0.92	0.93	US dollars to euro	0.90	0.96	0.85	0.96

3 Segment analysis**Turnover**

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
		Business segment				
693	1,137	Science & Medical	380	345	608	562
1,201	1,970	Legal	642	557	1,027	908
202	331	Education	106	90	170	147
1,672	2,742	Business	908	803	1,453	1,309
3,768	6,180	Total	2,036	1,795	3,258	2,926
		Geographical origin				
2,098	3,441	North America	1,113	995	1,781	1,622
734	1,204	United Kingdom	388	359	621	585
399	654	The Netherlands	218	196	349	319
356	584	Rest of Europe	217	162	347	264
181	297	Rest of World	100	83	160	136
3,768	6,180	Total	2,036	1,795	3,258	2,926
		Geographical market				
2,152	3,529	North America	1,165	1,021	1,864	1,664
521	855	United Kingdom	285	268	456	437
234	384	The Netherlands	113	114	181	186
478	784	Rest of Europe	269	209	430	341
383	628	Rest of World	204	183	327	298
3,768	6,180	Total	2,036	1,795	3,258	2,926

NOTES TO THE COMBINED FINANCIAL INFORMATION

3 Segment analysis (continued)**Adjusted operating profit (excluding exceptional items and amortisation)**

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
Business segment						
252	413	Science & Medical	142	124	227	202
237	389	Legal	117	105	187	172
40	66	Education	18	15	29	24
264	433	Business	161	150	258	244
793	1,301	Total	438	394	701	642
Geographical origin						
335	549	North America	188	165	301	269
191	313	United Kingdom	99	94	158	153
136	223	The Netherlands	81	66	130	108
102	167	Rest of Europe	59	53	94	86
29	49	Rest of World	11	16	18	26
793	1,301	Total	438	394	701	642

Operating profit (including exceptional items and amortisation)

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
Business segment						
140	230	Science & Medical	86	78	138	127
(8)	(13)	Legal	27	8	43	13
19	31	Education	7	7	11	11
59	96	Business	75	76	120	124
210	344	Total	195	169	312	275
Geographical origin						
(89)	(146)	North America	6	(2)	10	(3)
109	179	United Kingdom	71	57	114	93
127	208	The Netherlands	76	64	121	104
57	93	Rest of Europe	36	39	57	64
6	10	Rest of World	6	11	10	17
210	344	Total	195	169	312	275

4 Exceptional items

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
(77)	(126)	Reorganisation costs	–	(27)	–	(44)
(38)	(63)	Acquisition related costs	(14)	(6)	(22)	(10)
(115)	(189)	Charged to operating profit	(14)	(33)	(22)	(54)
85	140	Net profit on sale of fixed asset investments and businesses	15	66	24	108
(30)	(49)	Total exceptional credit/(charge)	1	33	2	54
20	33	Net tax (charge)/credit	(4)	1	(6)	2

NOTES TO THE COMBINED FINANCIAL INFORMATION

5 Combined cash flow statement**Reconciliation of operating profit to net cash inflow from operating activities**

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
197	323	Operating profit (before joint ventures)	186	161	298	263
115	189	Exceptional charges to operating profit	14	33	22	54
312	512	Operating profit before exceptional items	200	194	320	317
465	762	Amortisation of goodwill and intangible assets	227	191	364	311
118	194	Depreciation	62	55	98	90
(1)	(2)	Net SSAP24 pension credit	–	–	–	–
582	954	Total non cash items	289	246	462	401
13	21	Movement in working capital	(132)	(93)	(211)	(152)
907	1,487	Net cash inflow from operating activities before exceptional items	357	347	571	566
(94)	(154)	Payments relating to exceptional items charged to operating profit	(43)	(53)	(69)	(87)
813	1,333	Net cash inflow from operating activities	314	294	502	479

Reconciliation of net borrowings

Year ended 31 December						Six months ended 30 June	
2000 £m		Cash £m	Short term investments £m	Borrowings £m	2001 £m	2000 £m	
(1,066)	Net borrowings at the beginning of the period	85	1,509	(2,027)	(433)	(1,066)	
7	Increase in cash	30	–	–	30	13	
1,137	(Decrease)/increase in short term investments	–	(236)	–	(236)	(180)	
(347)	Decrease/(increase) in borrowings	–	–	211	211	(134)	
797	Change in net borrowings resulting from cash flows	30	(236)	211	5	(301)	
(48)	Loans in acquired businesses	–	–	–	–	–	
(3)	Inception of finance leases	–	–	(2)	(2)	–	
(113)	Exchange translation differences	(1)	(18)	(81)	(100)	(114)	
(433)	Net borrowings at the end of the period	114	1,255	(1,899)	(530)	(1,481)	

Year ended 31 December						Six months ended 30 June	
2000 €m		Cash €m	Short term investments €m	Borrowings €m	2001 €m	2000 €m	
(1,717)	Net borrowings at the beginning of the period	137	2,429	(3,263)	(697)	(1,717)	
11	Increase in cash	48	–	–	48	21	
1,865	(Decrease)/increase in short term investments	–	(378)	–	(378)	(293)	
(569)	Decrease/(increase) in borrowings	–	–	338	338	(219)	
1,307	Change in net borrowings resulting from cash flows	48	(378)	338	8	(491)	
(79)	Loans in acquired businesses	–	–	–	–	–	
(5)	Inception of finance leases	–	–	(3)	(3)	–	
(203)	Exchange translation differences	4	33	(225)	(188)	(132)	
(697)	Net borrowings at the end of the period	189	2,084	(3,153)	(880)	(2,340)	

NOTES TO THE COMBINED FINANCIAL INFORMATION

6 Adjusted figures

Adjusted profit and cash flow figures are used by the Reed Elsevier businesses as additional performance measures. The adjusted figures are derived as follows:

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
210	344	Operating profit including joint ventures	195	169	312	275
		Adjustments:				
468	768	Amortisation of goodwill and intangible assets	229	192	367	313
77	126	Reorganisation costs	–	27	–	44
38	63	Acquisition related costs	14	6	22	10
793	1,301	Adjusted operating profit	438	394	701	642
192	315	Profit before tax	182	192	291	313
		Adjustments:				
468	768	Amortisation of goodwill and intangible assets	229	192	367	313
77	126	Reorganisation costs	–	27	–	44
38	63	Acquisition related costs	14	6	22	10
(85)	(140)	Net profit on sale of fixed asset investments and businesses	(15)	(66)	(24)	(108)
690	1,132	Adjusted profit before tax	410	351	656	572
33	54	Profit attributable to parent companies' shareholders	71	102	114	167
		Adjustments:				
468	768	Amortisation of goodwill and intangible assets	229	192	367	313
53	86	Reorganisation costs	–	25	–	41
33	55	Acquisition related costs	13	4	20	7
(76)	(125)	Net profit on sale of fixed asset investments and businesses	(10)	(63)	(16)	(104)
511	838	Adjusted profit attributable to parent companies' shareholders	303	260	485	424
813	1,333	Net cash inflow from operating activities	314	294	502	479
6	10	Dividends received from joint ventures	6	5	10	8
(141)	(231)	Purchase of tangible fixed assets	(86)	(52)	(138)	(85)
3	5	Proceeds from sale of fixed assets	1	6	2	10
94	154	Payments in relation to exceptional items charged to operating profit	43	53	69	87
775	1,271	Adjusted operating cash flow	278	306	445	499

7 Post balance sheet events

On 12 July 2001, Reed Elsevier plc acquired, through a US subsidiary, Reed Elsevier Inc., the whole of the common stock and Series A cumulative convertible stock of Harcourt General, Inc ('Harcourt') for US\$4.45 billion. On 13 July 2001, Reed Elsevier Inc. sold the Harcourt Higher Education business and the Corporate and Professional Services businesses (other than educational and clinical testing) to The Thomson Corporation for pre-tax proceeds of US\$2.06 billion. Following the on-sale, Reed Elsevier Inc. has acquired Harcourt's Scientific, Technical and Medical business and its Schools Education and Testing businesses for a net cost of approximately US\$4.5 billion after taking into account Harcourt's net debt of US\$1.5 billion, taxes payable on the on-sale proceeds and the assumption of other corporate liabilities. The net tangible assets of the businesses acquired, excluding cash and debt, were approximately US\$0.7 billion.

In order to refinance the majority of the short term borrowings incurred to fund the Harcourt acquisition, on 31 July 2001 Reed Elsevier Capital Inc., a wholly owned US subsidiary of Reed Elsevier plc, issued US\$1.5 billion equivalent of global notes, comprising US\$550m 6.125% notes due in 2006, €500m 5.750% notes due in 2008, and US\$550m 6.750% notes due in 2011. The notes have been jointly and severally guaranteed by Reed International P.L.C. and Elsevier NV.

INDEPENDENT REVIEW REPORT TO THE DIRECTORS OF REED INTERNATIONAL P.L.C. AND TO THE MEMBERS OF THE SUPERVISORY AND EXECUTIVE BOARDS OF ELSEVIER NV**Introduction**

On the instruction of the Boards of Reed International P.L.C. and Elsevier NV, we have reviewed the combined financial information of Reed International P.L.C., Elsevier NV, Reed Elsevier plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, (together 'the combined businesses') for the six months ended 30 June 2001 which comprises the profit and loss account, balance sheet, cash flow statement, statement of total recognised gains and losses, shareholders' funds reconciliation and the related notes 1 to 7. We have also reviewed the financial information of Reed International P.L.C. for the six months ended 30 June 2001 which comprises the consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement, consolidated statement of total recognised gains and losses, reconciliation of shareholders' funds and the related notes, and the financial information of Elsevier NV for the six months ended 30 June 2001 which comprises the profit and loss account, balance sheet, cash flow statement, reconciliation of shareholders' funds and the related notes. We have read the other information contained in the Reed Elsevier Interim Statement and considered whether it contains any apparent misstatement or material inconsistencies with the financial information.

Directors' responsibilities

The Reed Elsevier Interim Statement, including the financial information contained therein, is the responsibility of, and has been approved by, the directors of Reed International P.L.C. and Elsevier NV. The directors of Reed International P.L.C. and Elsevier NV are responsible for preparing the Reed Elsevier Interim Statement in accordance with the Listings Rules of the UK Financial Services Authority and Generally Accepted Accounting Principles in the UK and the Netherlands which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the UK Auditing Practices Board. A review consists principally of making enquiries of the managements of the Reed Elsevier combined businesses and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2001.

Deloitte & Touche
Chartered Accountants
London
8 August 2001

Deloitte & Touche
Accountants
Amsterdam
8 August 2001

SUMMARY FINANCIAL INFORMATION

BASIS OF PREPARATION

The Reed International share of the Reed Elsevier combined results has been calculated on the basis of the 52.9% economic interest of the Reed International shareholders in the Reed Elsevier combined businesses, after taking account of results arising in Reed International and its subsidiary undertakings. Reed International's 52.9% economic interest in the net assets of the combined businesses has been shown in the balance sheet as interests in joint ventures, net of the assets and liabilities reported as part of Reed International and its subsidiary undertakings.

The interim figures for the six months ended 30 June 2001 and the comparative amounts to 30 June 2000 are unaudited but have been reviewed by the auditors and their report to the Board of Reed International is set out on page 17. The financial information for the year ended 31 December 2000 has been abridged from the financial statements for that year, which have been filed with the UK Registrar of Companies and received an unqualified audit report.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December	2000 £m		Six months ended 30 June	
			2001 £m	2000 £m
	1,994	Share of turnover of joint ventures	1,077	950
(1)		Operating loss (before joint ventures)	–	–
		Share of operating profit of joint ventures:		
	414	Before amortisation and exceptional items	230	207
	(308)	Amortisation and exceptional items	(129)	(119)
	105	Operating profit including joint ventures	101	88
	45	Share of non operating exceptional items of joint ventures	8	35
	(54)	Net interest (including share of joint ventures)	(15)	(23)
	96	Profit on ordinary activities before taxation	94	100
	(85)	Tax on profit on ordinary activities	(58)	(48)
	(2)	UK corporation tax	(3)	(2)
	(83)	Share of tax of joint ventures	(55)	(46)
	11	Profit attributable to ordinary shareholders	36	52
	(123)	Ordinary dividends paid and proposed	(38)	(34)
	(112)	Retained (loss)/profit taken to reserves	(2)	18
	1.0p	Basic earnings per share	2.9p	4.5p
	1.0p	Diluted earnings per share	2.8p	4.5p
	23.3p	Adjusted earnings per share	12.7p	12.0p

Adjusted earnings per share is based upon the Reed International shareholders' 52.9% economic interest in the adjusted profit attributable of the Reed Elsevier combined businesses.

DIVIDENDS

The directors of Reed International have declared an interim dividend of 3.1p per ordinary share (2000 interim: 3.1p per ordinary share). In 2000 the full year dividend was 10.0p per ordinary share.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December	2000 £m		Six months ended 30 June	
			2001 £m	2000 £m
	11	Profit attributable to ordinary shareholders	36	52
	60	Exchange translation differences	20	41
	71	Total recognised gains and losses for the period	56	93

SUMMARY FINANCIAL INFORMATION

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	2000 £m	Six months ended 30 June	
		2001 £m	2000 £m
(1)	Net cash outflow from operating activities	(2)	–
97	Dividends received from Reed Elsevier plc	87	62
4	Returns on investments and servicing of finance	12	–
(1)	Taxation	(1)	–
–	Fixed asset investments	(59)	–
(98)	Ordinary dividends paid	(87)	(62)
1	Cash (outflow)/inflow before changes in short term investments and financing	(50)	–
(431)	Decrease/(increase) in short term investments	63	–
430	Financing	(13)	–
709	Issue of ordinary shares	6	2
(279)	Increase in net funding balances to Reed Elsevier plc group	(19)	(2)
–	Change in net cash	–	–

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

RECONCILIATION OF SHAREHOLDERS' FUNDS

Year ended 31 December	2000 £m	Six months ended 30 June	
		2001 £m	2000 £m
11	Profit attributable to ordinary shareholders	36	52
(123)	Ordinary dividends paid and proposed	(38)	(34)
708	Issue of ordinary shares, net of expenses	6	2
60	Exchange translation differences	20	41
(28)	Equalisation adjustments	(3)	–
628	Net increase in shareholders' funds	21	61
981	Shareholders' funds at the beginning of the period	1,609	981
1,609	Shareholders' funds at the end of the period	1,630	1,042

CONSOLIDATED BALANCE SHEET

As at 31 December	2000 £m	As at 30 June	
		2001 £m	2000 £m
801	Fixed asset investment in joint ventures	818	888
	Current assets		
513	Debtors	531	235
431	Short term investments	368	–
944		899	235
(100)	Creditors: amounts falling due within one year	(51)	(45)
844	Net current assets	848	190
1,645	Total assets less current liabilities	1,666	1,078
(36)	Creditors: amounts falling due after more than one year	(36)	(36)
1,609	Shareholders' funds	1,630	1,042

Approved by the Board of Directors, 8 August 2001.

SUMMARY FINANCIAL INFORMATION

BASIS OF PREPARATION

The results for the six months ended 30 June 2001 reflect Elsevier shareholders' 50% economic interest in the Reed Elsevier combined businesses, accounted for on an equity basis.

The interim figures for the six months ended 30 June 2001 and the comparative amounts to 30 June 2000 are unaudited but have been reviewed by the auditors and their report to the Boards of Elsevier is set out on page 17. The financial information for the year ended 31 December 2000 has been abridged from the statutory accounts of Elsevier for that year and the auditors have confirmed that their opinion on those accounts was unqualified.

PROFIT AND LOSS ACCOUNT

Year ended 31 December		Six months ended 30 June	
		2001 €m	2000 €m
3,091	Share of turnover of joint ventures	1,629	1,463
(3)	Operating loss (before joint ventures)	(1)	(1)
	Share of operating profit of joint ventures:		
654	Before amortisation and exceptional items	352	323
(479)	Amortisation and exceptional items	(195)	(184)
172	Operating profit including joint ventures	156	138
70	Share of non operating exceptional items of joint ventures	12	54
(85)	Net interest (including share of joint ventures)	(23)	(35)
157	Profit on ordinary activities before taxation	145	157
(130)	Tax on profit on ordinary activities	(88)	(73)
27	Profit attributable to ordinary shareholders	57	84
(200)	Ordinary dividends paid and proposed	(64)	(55)
(173)	Retained (loss)/profit taken to reserves	(7)	29
€0.04	Basic earnings per share	€0.07	€0.12
€0.03	Diluted earnings per share	€0.07	€0.12
€0.59	Adjusted earnings per share	€0.31	€0.30

Adjusted earnings per share is based upon the Elsevier shareholders' 50% economic interest in the adjusted profit attributable of the Reed Elsevier combined businesses.

DIVIDENDS

The directors of Elsevier have declared an interim dividend of €0.09 per ordinary share (2000 interim: €0.09 per ordinary share). In 2000 the full year dividend was €0.28 per ordinary share.

SUMMARY FINANCIAL INFORMATION

CASH FLOW STATEMENT

Year ended 31 December		Six months ended 30 June	
		2001 €m	2000 €m
2000	€m		
(2)	Net cash outflow from operating activities	(1)	–
623	Dividends received from joint ventures	50	623
4	Returns on investments and servicing of finance	25	–
4	Taxation	14	–
(533)	Fixed asset investments	–	(533)
(160)	Ordinary dividends paid	(140)	(100)
(64)	Cash outflow before changes in short term investments and financing	(52)	(10)
(952)	(Increase)/decrease in short term investments	(34)	5
1,016	Financing	86	5
956	Issue of ordinary shares	88	3
(2)	Net increase in/(repayment of) debenture loans	1	–
62	(Increase)/decrease in net funding balances to joint ventures	(3)	2
–	Change in net cash	–	–

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

RECONCILIATION OF SHAREHOLDERS' FUNDS

Year ended 31 December		Six months ended 30 June	
		2001 €m	2000 €m
2000	€m		
27	Profit attributable to ordinary shareholders	57	84
(200)	Ordinary dividends paid and proposed	(64)	(55)
947	Issue of ordinary shares, net of expenses	97	3
75	Exchange translation differences	107	32
106	Equalisation adjustments	(88)	–
955	Net increase in shareholders' funds	109	64
1,493	Shareholders' funds at the beginning of the period	2,448	1,493
2,448	Shareholders' funds at the end of the period	2,557	1,557

BALANCE SHEET

As at 31 December		As at 30 June	
		2001 €m	2000 €m
2000	€m		
1,674	Fixed asset investment in joint ventures	1,684	1,583
	Current assets		
5	Debtors	5	61
971	Short term investments	1,005	14
976		1,010	75
(154)	Creditors: amounts falling due within one year	(74)	(57)
822	Net current assets	936	18
2,496	Total assets less current liabilities	2,620	1,601
(6)	Creditors: amounts falling due after more than one year	(7)	(8)
(42)	Provisions	(56)	(36)
2,448	Shareholders' funds	2,557	1,557

Signed by the Boards of Directors, 8 August 2001.

SUMMARY COMBINED FINANCIAL INFORMATION IN US DOLLARS

Highlights of the Reed Elsevier combined financial information in US dollars are given below. This is a simple translation into US dollars at stated rates of exchange (see note 2 to the combined financial information) and does not represent a restatement under US GAAP.

PROFIT AND LOSS ACCOUNT

Year ended 31 December		Six months ended 30 June		Change %
		2001 US\$m	2000 US\$m	
2000 US\$m				
5,690	Net sales – continuing	2,932	2,818	+4%
1,197	Adjusted operating profit	631	619	+2%
1,042	Adjusted profit before tax	590	551	+7%
772	Adjusted profit attributable	436	408	+7%
US\$	Adjusted earnings per American Depository Share (ADS)	US\$	US\$	
1.41	Reed International (Each ADS comprises four ordinary shares)	0.73	0.75	-3%
1.09	Elsevier (Each ADS comprises two ordinary shares)	0.56	0.58	-3%

CASH FLOW

Year ended 31 December		Six months ended 30 June	
		2001 US\$m	2000 US\$m
2000 US\$m			
1,170	Adjusted operating cash flow	400	480

BALANCE SHEET

As at 31 December		As at 30 June	
		2001 US\$m	2000 US\$m
2000 US\$m			
	Capital employed		
6,149	Goodwill and intangible assets	5,723	5,887
848	Other fixed assets	853	755
(714)	Trading working capital	(480)	(538)
(207)	Other working capital	(166)	(147)
6,076	Total	5,930	5,957
	Funded by:		
4,531	Combined shareholders' funds	4,344	2,994
900	Other net liabilities	839	712
645	Net borrowings	747	2,251
6,076	Total	5,930	5,957

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

The combined financial information has been prepared in accordance with UK and Dutch GAAP, which differ in certain significant respects from US GAAP. The principal differences that affect net income and combined shareholders' funds relate to the capitalisation and amortisation of goodwill and other intangible assets, pensions and related deferred tax effects and, with effect from the 2001 fiscal year, derivative instruments. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between UK and Dutch GAAP and US GAAP is set out in the Reed Elsevier Annual Reports & Financial Statements 2000.

The effects on net income and combined shareholders' funds of material differences between UK and Dutch GAAP and US GAAP are set out below:

Year ended 31 December			Six months ended 30 June		Six months ended 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
33	54	Net income under UK and Dutch GAAP	71	102	114	167
		US GAAP adjustments:				
(78)	(128)	Amortisation of goodwill and other intangible assets	(35)	(46)	(56)	(75)
85	139	Deferred taxation	30	40	48	65
22	36	Pensions	22	7	35	11
–	–	Derivative instruments	27	–	43	–
(2)	(3)	Other items	–	3	–	5
60	98	Net income under US GAAP	115	106	184	173
As at 31 December			As at 30 June		As at 30 June	
2000 £m	2000 €m		2001 £m	2000 £m	2001 €m	2000 €m
3,041	4,896	Combined shareholders' funds under UK and Dutch GAAP	3,081	1,970	5,114	3,113
		US GAAP adjustments:				
604	973	Goodwill and other intangible assets	555	581	921	918
(203)	(327)	Deferred taxation	(158)	(196)	(262)	(310)
86	138	Pensions	107	70	178	111
–	–	Derivative instruments	(70)	–	(116)	–
2	3	Other items	2	10	4	16
177	285	Ordinary dividends not declared in the period	78	68	129	107
3,707	5,968	Combined shareholders' funds under US GAAP	3,595	2,503	5,968	3,955

FINANCIAL DIARY FOR 2001

9 August	Announcement of Interim Results for the six months to 30 June 2001
15 August	Ordinary shares and ADSs in Reed International P.L.C. and Elsevier NV go ex-dividend for 2001 interim dividends
17 August	Record date – Reed International P.L.C. ordinary shares and Reed International P.L.C. and Elsevier NV ADSs
10 September	Interim dividends for 2001 paid on Reed International P.L.C. and Elsevier NV ordinary shares
17 September	Interim dividends for 2001 paid on Reed International P.L.C. and Elsevier NV ADSs
6 December	Trading Update issued in relation to the 2001 financial year

FINANCIAL DIARY FOR 2002

21 February	Announcement of Preliminary Results for the year ended 31 December 2001
9 April	Reed International P.L.C. Annual General Meeting
10 April	Elsevier NV Annual General Meeting
8 August	Announcement of Interim Results for the six months to 30 June 2002

AUDITORS**Deloitte & Touche**

Hill House, 1 Little New Street
London EC4A 3TR, United Kingdom

Deloitte & Touche

Orlyplein 50
1043 DP Amsterdam, The Netherlands

STOCKBROKERS**Cazenove & Co. Ltd**

12 Tokenhouse Yard
London EC2R 7AN, United Kingdom

ABN AMRO Bank NV

Gustav Mahlerlaan 10
1082 PP Amsterdam, The Netherlands

ADR DEPOSITARY**Citibank NA**

111 Wall Street
New York, NY 10043, USA

Reed International P.L.C. CUSIP No. 758212872

(Trading Symbol: RUK)

Elsevier NV CUSIP No. 290259100

(Trading Symbol: ENL)

STOCK EXCHANGE QUOTATIONS

Reed International P.L.C. shares and Elsevier NV shares are quoted on the stock exchanges in Amsterdam, London and New York. In addition, Elsevier shares are quoted on the EBS stock exchange in Switzerland and are also traded in the Freiverkehrsmarkt in Frankfurt.

Trading on the New York Stock Exchange is in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs). Each Elsevier ADS represents two Elsevier shares and each Reed International ADS represents four Reed International shares. Enquiries concerning Reed International or Elsevier ADSs should be addressed to Citibank Shareholder Services, PO Box 2502, Jersey City, NJ 07303 2502 or by telephoning +1 877 248 4237 (toll free if dialled from within the United States).

This statement is being mailed to shareholders of Reed International P.L.C. on 9 August 2001 and will be available to the shareholders of Elsevier NV upon request. Copies are available to the public from the registered offices of the respective companies.

Reed International P.L.C.
25 Victoria Street
London SW1H 0EX, United Kingdom
Tel: +44 (0) 20 7222 8420
Fax: +44 (0) 20 7227 5799

Until 20 August 2001:
Elsevier NV
Van de Sande Bakhuyzenstraat 4
1061 AG Amsterdam, The Netherlands
Tel: +31 (0) 20 515 9341
Fax: +31 (0) 20 618 0325

From 20 August 2001:
Elsevier NV
Sara Burgerhartstraat 25
1055 KV Amsterdam, The Netherlands
Tel: +31 (0) 20 485 2434
Fax: +31 (0) 20 618 0325

A copy of this statement in Dutch will be made available on our website. For further information or contact details, please visit:
www.reedelsevier.com

