Equity Research
Europe

Industry

Media

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MSCI SECTOR	CONSUMER DISCRETIONARY
Strategists' Recommended Weight	11.1%
MSCI Europe Benchmark Weight	10.2%

COMPANIES FEATURED	
Reed Elsevier Plc/NV (REL.L, 568p; ELSN.AS, €12.80)	Overweight
Wolters Kluwer (WLSNc.AS, €19.00)	Overweight

Industry Overview

September 30, 2002

Scientific Publishing: Knowledge is Power

- **We have an In-Line view of the European Media Industry**
  We believe valuations now provide support, with FCF yields averaging 6% in 2003, on our valuations.
- **Scientific journals have been fastest growing media sub-sector of past 15 years**
  Industry growth has been so good (10% organic revenue CAGR over past 18 years) that the OFT believes "the market for STM (science, technical & medical) journals may not be working well".
- **Recent OFT ruling is good for journal publishers**
  The OFT concluded that "it would not be appropriate for the OFT to intervene in the market, but the position will be kept under review".
- **Journal publishers are unlikely to push a good thing too far**
  Publishers are moderating price increases, while electronic delivery greatly improves value proposition to users.
- **We forecast moderate cyclical slowdown due to funding pressure**
  We forecast industry growth slowing from 8% in 2001 to 3% in 2002 as library budgets come under pressure.
- **Weaker players to bear the brunt of budget cuts**
  Market leader Reed should outperform the market (we estimate 5% growth in 2002 for Reed's science business) as libraries trim peripheral suppliers who can't bundle journals as effectively.
- **Margins to expand for journal publishers as users move to on-line access**
  Libraries will benefit from accessing journals solely on-line, as operating costs are currently US$1.5 for every US$1 of content spend. Publishers should also benefit, we believe the profitability of customers moving to just on-line distribution will improve by 16%.
- **Reed is a key beneficiary of this trend, in our view**
  STM publishing accounts for 37% of Reed's profits and 40% of its cash flows. On our estimates, the stock doesn't look cheap on a 2003 P/E of 16.8, but looks less expensive when margins in the STM and legal publishing divisions are normalised (15.5).

Scientific Publishing: Knowledge is Power

A US$7 billion industry in which Reed is market leader

The global STM (scientific, technical & medical) publishing business is a US$7 billion industry broadly divided into scientific publishing (where academic libraries are the customer) and medical publishing (hospitals and healthcare practitioners are the customer). Reed is the market leader in both components of STM publishing (see Exhibits 1, 2 and 3), although until it acquired Harcourt last year, the company was a weak player in medical publishing.

Scientific publishing is the fastest-growing media sub-sector of the past 15 years

The scientific journal business is characterised by relatively inelastic demand, with individual journals generally having a strong following within their particular niche. As *The Economist* noted last year (*Journal Wars*, May 12, 2001), 'if a company owns a must-read title in say, vibrational spectroscopy, it has a nice little captive market'. Exhibit 15 shows that since 1986 the average price of a journal has risen by 215% while the number of journals purchased has fallen by only 5.1%. The niche nature of the market and the rapid growth in the budgets of academic libraries (see Exhibit 9) have combined to make scientific publishing the fastest growing sub-sector of the media industry over the past 15 years (see Exhibits 6, 7, and 8).

The nature of the industry is highly unlikely to change

The nature of the scientific publishing industry will not change any time soon, in our view, despite the attempts of organisations such as *SPARC* (the Scholarly Publishing and Academic Resources Coalition) to encourage academics to publish their research directly on the internet and to encourage the 'boards' of individual journals (who peer review the scientific articles included in journals) to defect from commercial publishers to not-for-profit publishers. Libraries and academics have been trying for over a decade to develop new ways of disseminating academic knowledge and research, but the barriers to entry enjoyed by the incumbent journals are just too high (loyal readership, brand recognition, 'boards' of academics who peer review research), as are the value proposition (they bring order to an anarchic process — the development of knowledge). Libraries have had some success in forming buyer groups, but to date these initiatives have had limited impact.

But three changes are underway

We believe that three key drivers will affect the industry over the next few years.

1 - *Cyclical slowdown in industry growth rate due to budget cuts.* The economic downturn will lead to budget cuts for many of the academic libraries that purchase the journals. We saw a similar slowdown in 1992 and 1994 (see Exhibit 6).

2 - *Benefits of scale will increasingly accrue to larger players*. Large publishers enjoy economies of scale in an on-line world because they can bundle their portfolio of journals into a single 'product'. For example, a library may decide to switch away from a journal published by a 'society publisher' (such as the Society of American Neurologists)

Exhibit 1

Global Scientific Publishing Market Players, 2001

	2001 Revenues (US$mn)	2001 Market Share (%)
Reed Elsevier (Elsevier Science)	**1,055.3**	**23.3**
American Chemical Society	357.3	7.9
Thomson	259.0	5.7
John Wiley & Sons	243.6	5.4
Inst of Electrical & Electronics Engineers	200.3	4.4
Wolters Kluwer	169.3	3.7
McGraw-Hill	146.2	3.2
Taylor & Francis	144.6	3.2
Springer-Verlag	44.0	1.0
Others	1,916.9	42.3
Total Scientific Market	**4,536.4**	**100.0%**

Source: Simba, Morgan Stanley Research

Exhibit 2

Global Healthcare Publishing Market Players, 2001

	2001 Revenues ($m)	2001 Market Share (%)
Reed Elsevier	**770.0**	**32.2**
Wolters Kluwer	532.8	22.3
Thomson	483.0	20.2
Ingenix	71.4	3.0
McGraw-Hill	70.0	2.9
John Wiley & Sons	27.6	1.2
Others	434.3	18.2
Total Healthcare Market	**2389.2**	**100.0**

Source: Simba, Morgan Stanley Research

Exhibit 3

Publishers of ISI*-Rated STM Journals

Publisher	Type of Publisher	Number of ISI-Rated Journals 1998	Share of Journals 1998 (%)	Share of Articles 1994 to 1998 (%)
Elsevier Science	**Commercial**	**1,347**	**18**	**25**
Wolters Kluwer	Commercial	552	7	7
Blackwell Publishers	Commercial	341	4	4
Bertelsmann	Commercial	326	4	4
Wiley	Commercial	279	4	4
Taylor & Francis	Commercial	275	3	2
Sage	Commercial	123	2	0
Karger	Commercial	101	1	1
Institute of Electrical and Electronics Engineers	Society	93	1	1
Cambridge University Press	University Press	84	1	1
Oxford University Press	University Press	83	1	1
Marcel Dekker	Commercial	76	1	1
Holtzbrinck	Commercial	67	1	1
America Institute of Physics	Society	41	1	2
Scandinavian University Press	University Press	39	1	0
University of Chicago Press	University Press	39	1	1
Mary Ann Liebert Inc	Commercial	34	0	0
IOP Publishing Ltd (Institute of Physics)	Society	32	0	1
American Chemical Society	Society	31	0	2
Havas	Commercial	31	0	0
Others (2,028 Publishers)		3,716	48	40
Grand Total		**7,710**	**100**	**100**

Source: The CC Report, based on ISI data

Note: The market is fragmented with the top six publishers accounting for just 37% of rated journals and 44% of articles

** ISI: Institute for Scientific Information Inc.*

who will often publish just one journal, to a journal in the same niche supplied by a larger publisher who can use bundling strategies. In short, the move to on-line access may result in larger publishers taking share from smaller publishers, as large players enjoy some scale economies. It is noteworthy that Wolters Kluwer recently opted to exit scientific publishing and focus solely on medical publishing citing lack of scale as the reason for its exit (Wolters is the sixth-largest player in the industry by revenues, see Exhibit 1).

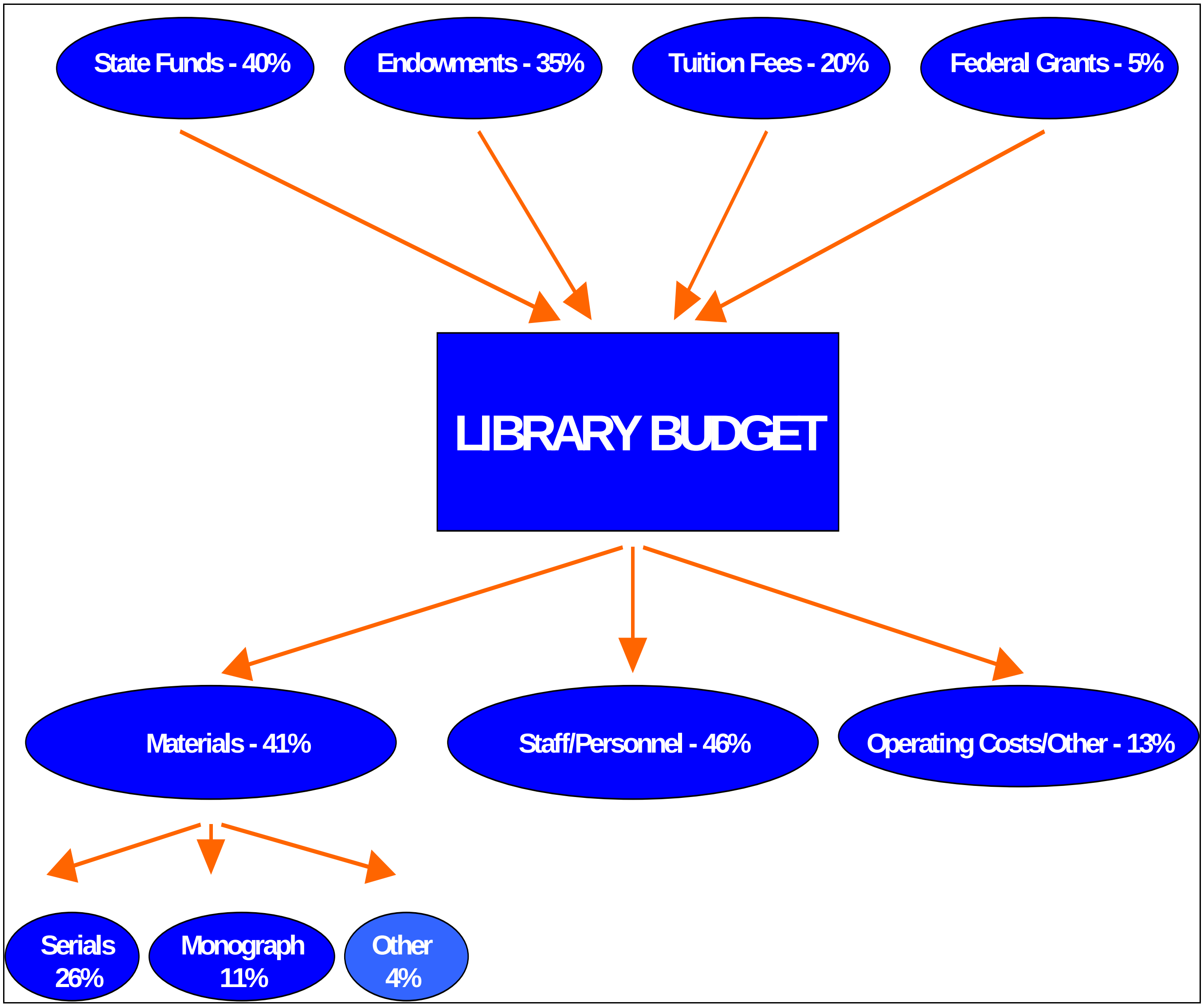
3 - *Margins will expand for those publishers with successful on-line platforms*. Usage has so far shifted from paper to paper and on-line (see Exhibit 20), but over the next four years, we believe there will be a growing trend of moving from paper and on-line to just on-line. This represents a win-win situation for the libraries and the journal publishers (particularly the large ones). Libraries spend US$1.5 on staff costs and other operating expenses for every US$1 they spend on buying content (see Exhibit 10), so moving to purely on-line access to journals opens up the possibility of huge cost savings. Journal publishers will also benefit. We estimate that the profitability of a customer improves by 16% as they transfer from paper and on-line subscriptions (most pay for both currently) and opt for just on-line access.

Slowdown in industry growth rate

Exhibit 4 sets out a schematic of the funding for academic libraries in the US. Funding for libraries in Europe varies from country to country, but the basic structure is not all that different from the US example. Academic libraries usually get their funding from the university they serve. The university is funded by a combination of state funds, endowments (funds built up from the contributions of alumni or corporate gifts), tuition fees, and in some cases, federal grants. The exact split of funding depends on the type of university, with private universities getting almost no state funds and more reliant on endowments and tuition fees. Exhibit 21 sets out our estimates of the split in funding for the US academic libraries, which we estimate account for around 60% of the global market.

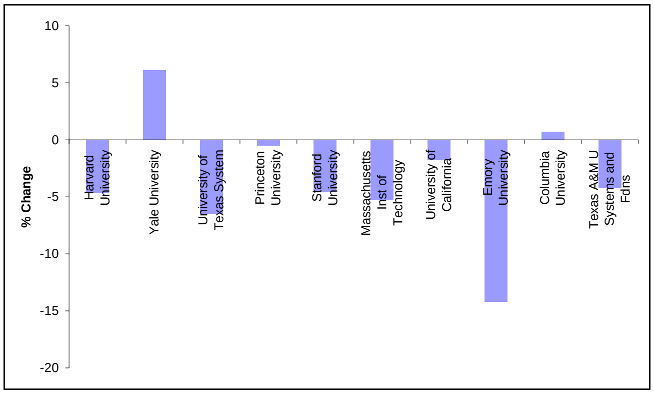
Exhibit 4

Funding for US Academic Libraries



Source: Morgan Stanley Research

Exhibit 5
College and University Endowments Are Declining in 2002



Source: The Chronicle of Higher Education

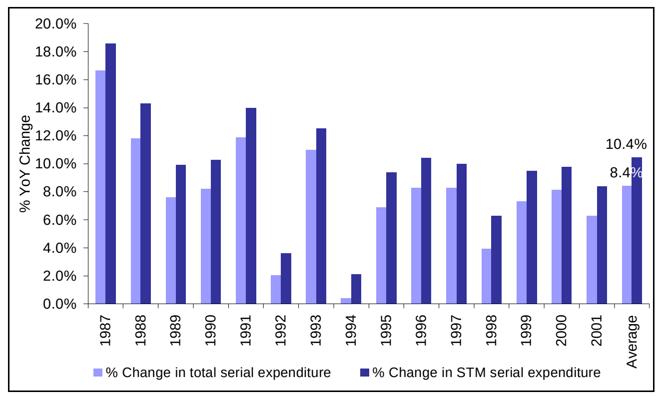
We have carried out a channel check by talking to several institutions all of which are significant purchasers of scientific journals (see Exhibit 17). While few buyers were willing to give exact purchasing intentions, there is no doubt that some will be cutting budgets and cancelling journal subscriptions. Cuts are often greatest at those universities most dependent on state funding, but even endowments are under pressure. We also detect a greater propensity to cut journals in the 'liberal humanities' rather than the 'hard sciences'.

Our over-riding impression is that most universities and institutions hope to protect their library budgets, and as many complained that their budgets wouldn't rise in-line with the 7% price increases of the journals as those that complained about outright cuts. Our industry growth rate forecasts are set out in Exhibit 11.

If there are cuts, where will they be made?
Exhibit 18 sets out the twenty-five most expensive journals on the market, it is worth mentioning that Reed publishes 18 of the 25 most expensive journals. However, just because a journal is expensive doesn't mean it is more likely to be cut. Libraries have developed models to help them choose which journals to cancel, and Exhibits 18 and 19 show that while *Brain Research* is the most expensive in its niche, it is one of the better value periodicals in its niche when journal costs are modified to reflect usage (measured by the number of times they are borrowed and re-shelved). In general, while Reed owns the more expensive journals, this does not mean it is more likely to suffer cuts. Indeed, there are four reasons why Reed is likely to continue to outperform the market:

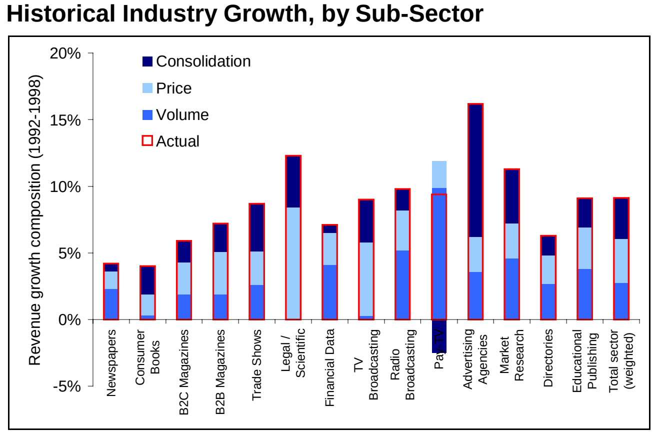
- A significant portion (we estimate 70%) of Reed's revenues are protected by three-year contracts (with price escalators, which we estimate the price escalator at 5%).
- Larger players can bundle their journals into a single 'product' that becomes core to a library's subscription base.
- Reed owns a number of strong titles with large academic followings. Weaker titles are more likely to be cut.
- Reed is successfully tapping into the corporate market (such as pharmaceutical companies) which provides an additional revenue stream (see Exhibit 12).

Exhibit 6
Percentage Change in Total Serial Expenditure and STM Serial Expenditure



Source: ARL (Association of Research Libraries) and STM

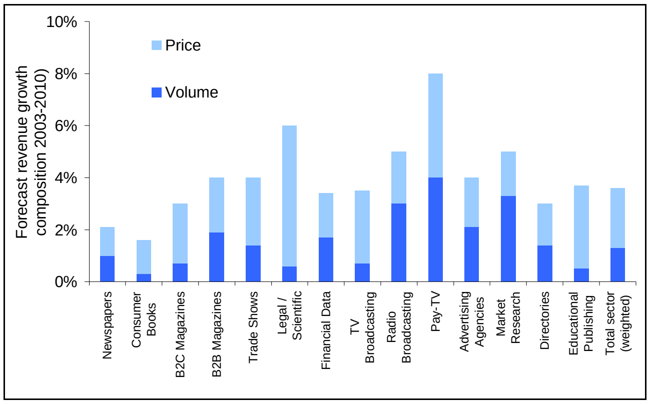
Exhibit 7
Historical Industry Growth, by Sub-Sector



Source: Company data, Morgan Stanley Research

Exhibit 8

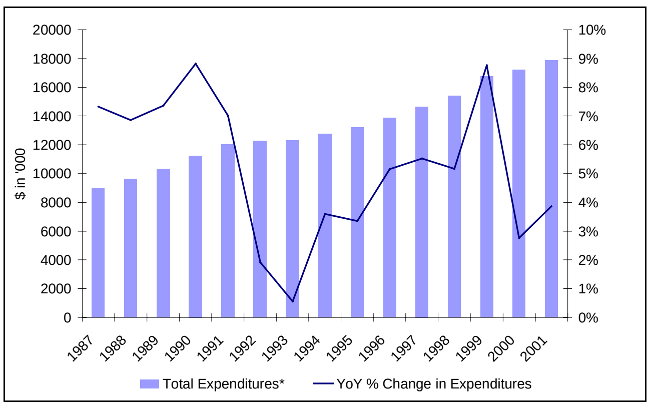
Estimated Industry Growth by Sub-Sector 2003-10E



Source: Morgan Stanley Research Estimates

Exhibit 9

Growth in Library Expenditures



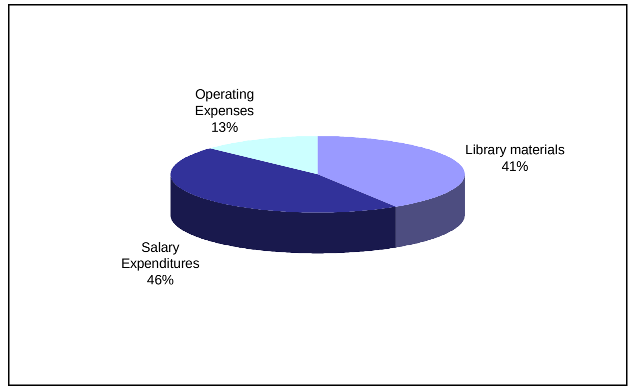
Source: ARL

**This includes expenditures on serials, monographs, sales and operating costs*

Note: The ARL keeps budget data on its 113 member libraries, which include large state universities and private universities in US and Canada

Exhibit 10

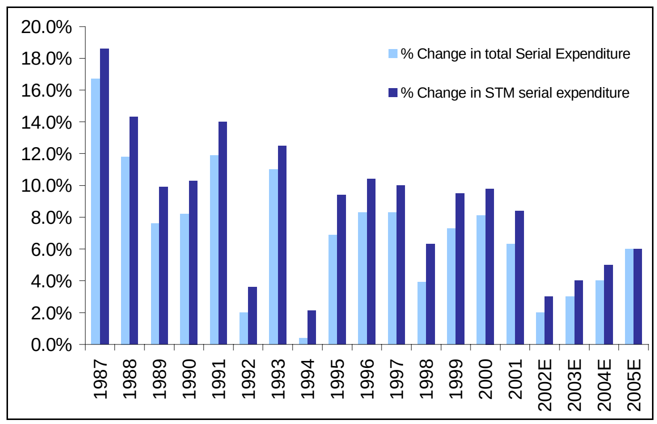
Academic Library Expenditures, by Segment



Source: ARL

Exhibit 11

STM and Total Serial Expenditure Growth, 1987-2005e



Source: ARL, Morgan Stanley Research Estimates

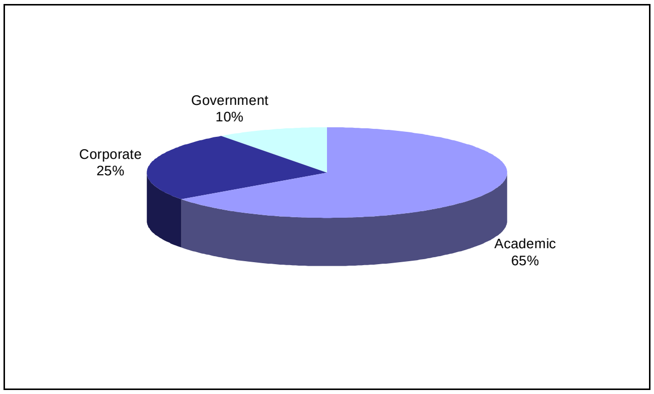
The trend toward on-line only access will not occur overnight, as libraries are concerned about archiving. In particular, it is often difficult for libraries to discontinue archives which are often over a hundred years old.

However, given the cost savings possible for the libraries and the fact that journal publishers are likely to start introducing pricing models that encourage migration to online only, the trend looks likely to begin. Several of the library directors we spoke to said they were considering opting for on-line only access, and Reed management itself has noted that it has started to detect this trend among customers.

Where can margins get to?

Libraries spend US$1.5 on staff costs and other operating expenses for every US$1 they spend on materials (see Exhibit 10), and, likewise, scientific publishers spend significant amounts on printing, binding and distribution. Consequently, moving from the current situation whereby most libraries get both the print and on-line access, to just on-line access represents a win/win opportunity for both publishers and libraries. We estimate that the profitability of a customer as it moves to just on-line access improves by around 16%, taking into account the cost savings the publisher makes and the revenue declines incurred as print subscriptions are cancelled (see Exhibit 13).

Exhibit 12
Reed's Science Customer Base by Type



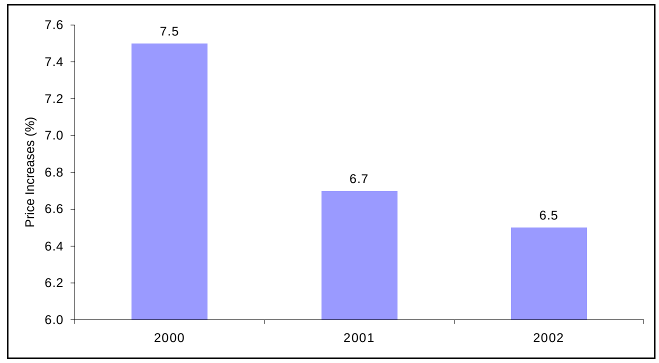
Source: Company data, Morgan Stanley Research

Exhibit 13
Increase in Operating Profit from Moving Online

	Paper and Online	Online Only	Increase in Profitability
Revenues	100	90	
Staff	20	20	
Print/Paper	13	0	
Distribution	5	2	
Property/Overheads	5	5	
IT Support/ Dev't	15	15	
New Launches	5	5	
Operating Profit	**37**	**43**	**16%**

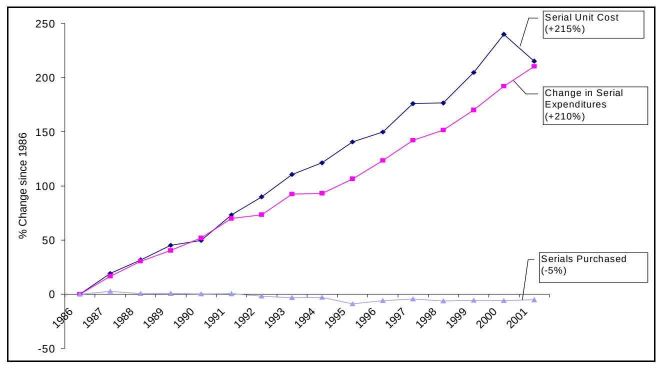
Source: Morgan Stanley Research

Exhibit 14
Reed: Committed to Single Digit Price Increases



Source: Company Data

Exhibit 15
Demand for Journals is Inelastic



Note: The fall in journal prices in 2001 is due to the fact that a number of publishers make available a higher number of journals to libraries as part of bundling strategies via their on-line platforms

Source: ARL (Association of Research Libraries)

The fact that Reed is rapidly putting all its archives on-line will help to accelerate the trend to on-line access. The archives of nine 'modules' (subject areas) out of 23 have so far been transferred to its *ScienceDirect* package and a further five modules will be transferred by year-end. Reed also plans to transfer all of its 62 'major reference works' (series of annually updated reference works) on-line within the next two years.

The risk of regulation

While academic libraries will continue their vociferous campaign against the journal publishers, we believe a number of factors will dampen their cries for change:

- Journal publishers will moderate price increases (see Exhibit 14).
- Journal prices, as measured by the ARL (Association of Research Libraries), may actually start to fall due to bundling. The latest data from the ARL (see Exhibit 15) shows a fall in journal prices because bundling makes a larger number of journals available.
- Subscription costs may fall as libraries opt for on-line only access instead of on-line and paper. Usage of on-line platforms continues to grow at 50% per annum, justifying (in the eyes of some) price increases.

We forecast industry growth of 6% once we are through the current cyclical downturn. This is below the historical growth rate but still represents very healthy growth by the standards of the publishing industry. Given the strong barriers to entry enjoyed by the journal publishers and that the concerns of the libraries are likely to be dampened (for reasons outlined above) the only risk we foresee is that the UK's Office for Fair Trading (OFT) takes action because the profitability of Reed's journal division rises to unprecedented levels (as users opt for on-line only access operating margins will rise). The UK regulator does regulate Yell (the UK yellow pages company) which is the only other publishing business with higher margins in the

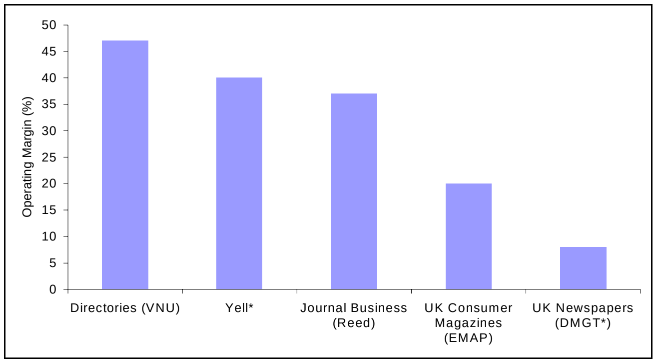
UK (Yell enjoys margins of 40% (see Exhibit 16) and is subject to a RPI -6% pricing structure), but we believe the risk to regulation is small for two reasons:

1. Journal publishing is a global rather than a national business (like yellow pages), and is therefore harder to regulate.

2. Reed's future profitability will be obscured because the acquisition of the Harcourt STM business has much lower margins (22%) compared with the core journal business (37%), as this business is heavily skewed to the lower-margin medical business than the higher-margin journals. We note that Reed's management is already laying the foundations, with CEO Crispin Davis noting in a recent analyst meeting that the margins of the medical business can increase from "the low 20s to the high 20s".

Exhibit 16

Operating Margins in Publishing Sub-Sectors



Source: Company data, Morgan Stanley Research

**Consensus Estimate (Source: Multex)*

Exhibit 17

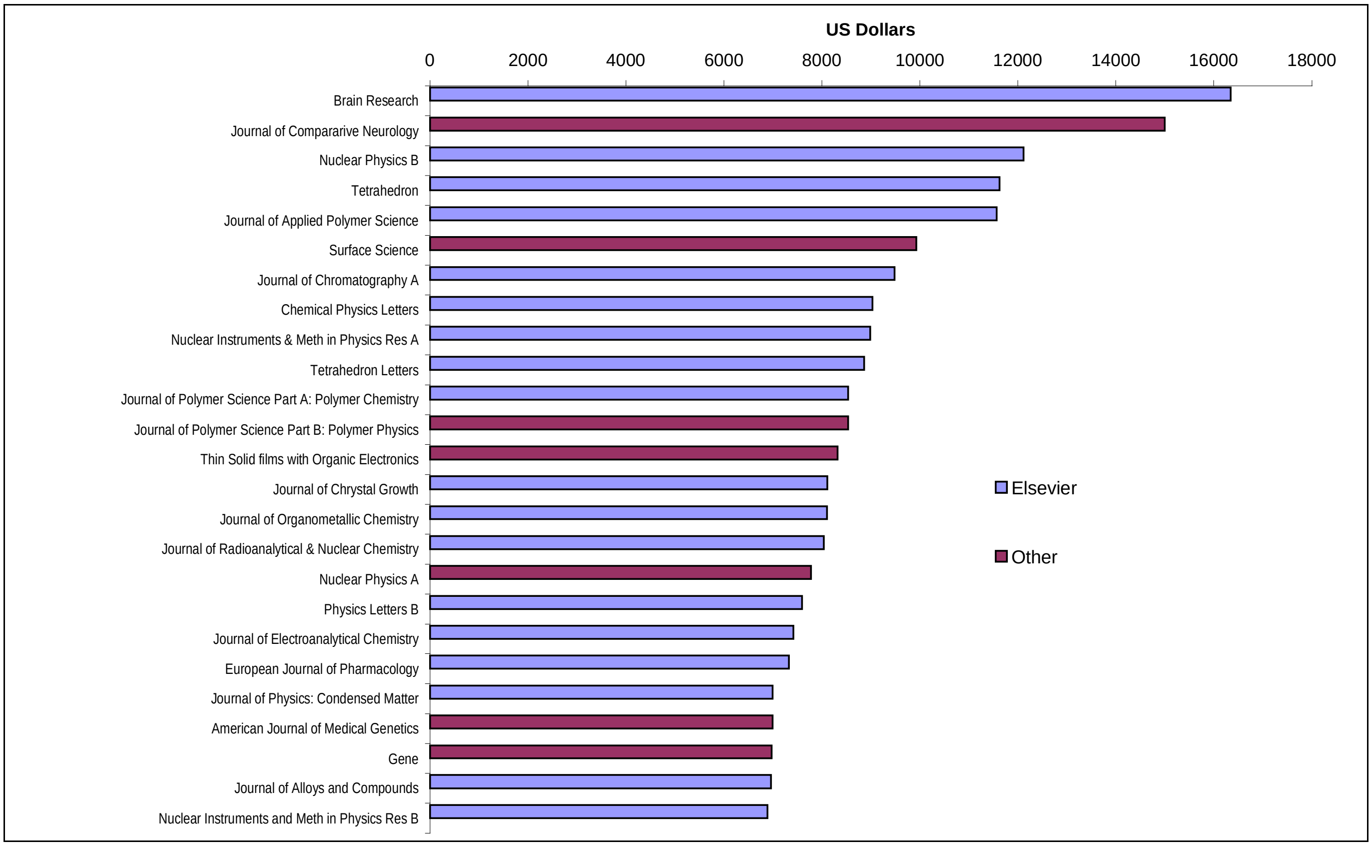
Channel Check: A Selection of Comments from Journal Buyers

Institution	Key Comments
University of Georgia	This year is the 'first large and serious' cutback to the budget Difficulty due to inability to increase budget by same magnitude as journal inflation Actively looking to cut costs (eg cancelling print journals where accessed online) Definitely seeing large increase in co-operation between libraries and sharing of resources
Vanderbilt University	We expect our library budget to rise 5-7% this year as we're not dependent on state money We hope to spend 7% more on scientific journal this year
University of Miami	Expect to see cuts to journal subscription in January 2003 The university's four libraries are increasing co-operation and sharing resources All the libraries are definitely facing squeeze of funds
Boston University	Headcount being cut Noticeable squeeze on funding Expects no growth in funding next year
University of Massachusetts	Definitely scaling back on scientific journals due to high cost Much animosity towards large commercial publisher, seen as taking advantage of monopolistic position Expects no growth in funding next year
University of California, Berkeley	Pressure on budgets No evidence of job cuts, but a highly discussed possibility Definite moving towards reducing print journals and transferring to digital archive
Association of Research Libraries	At a minimum budgets will flatten Libraries are reducing headcount The only decision is who's journals to cut
Yale University	Half of library funding from endowments, which are slowing

Source: Morgan Stanley Research

Exhibit 18

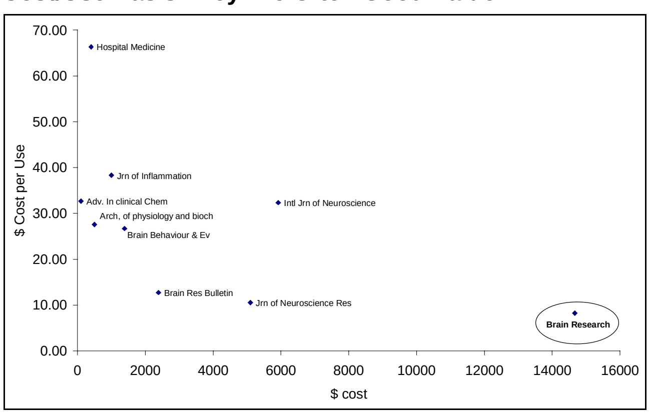
High-Priced Journal Subscription Prices, 2000



Source: ARL (Association of Research Libraries)

Exhibit 19

While Reed's Journals May Appear Expensive, on a Cost/Use Basis They Are Often Good Value

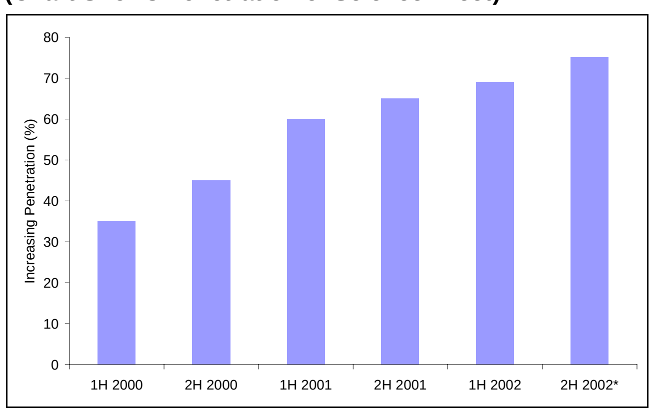


Source: University of Wisconsin-Madison Libraries, Morgan Stanley Research

** For full details of cost and per use information please see Exhibit 25*

Exhibit 20

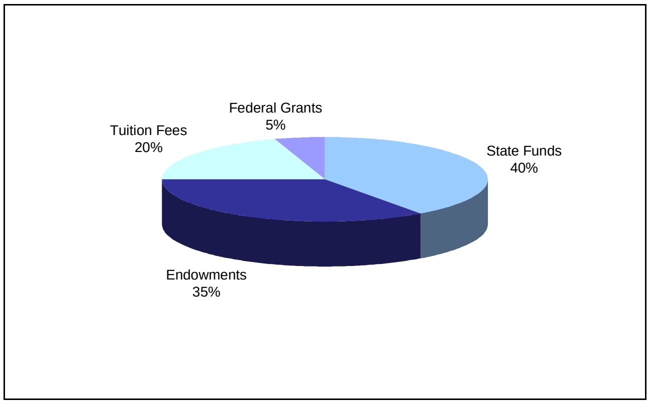
Increasing Penetration of On-Line Distribution Platforms (Chart Shows Penetration of *ScienceDirect*)



Source: Company Data

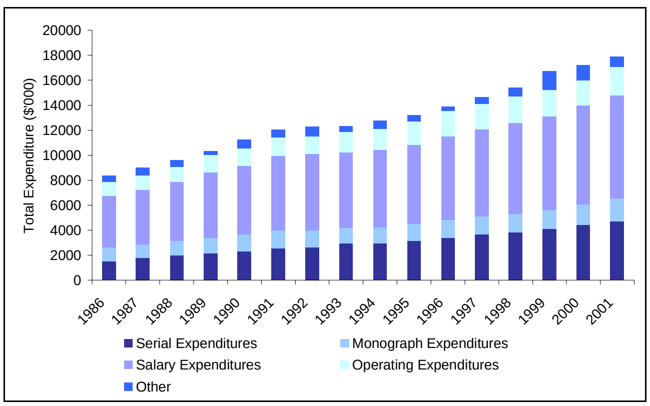
** Company Target*

Exhibit 21
US Research Library Funding Sources



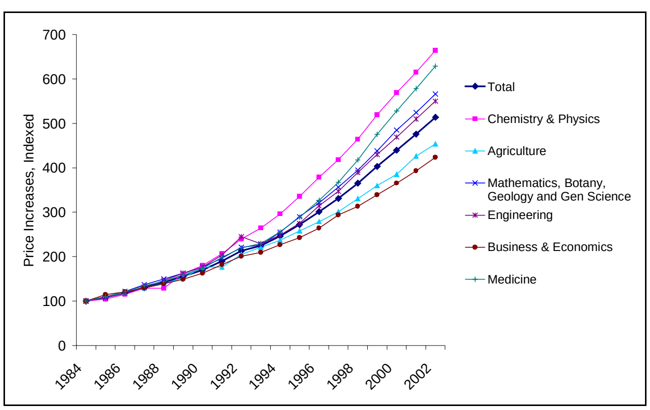
Source: Morgan Stanley Research

Exhibit 22
Growth in Library Expenditures



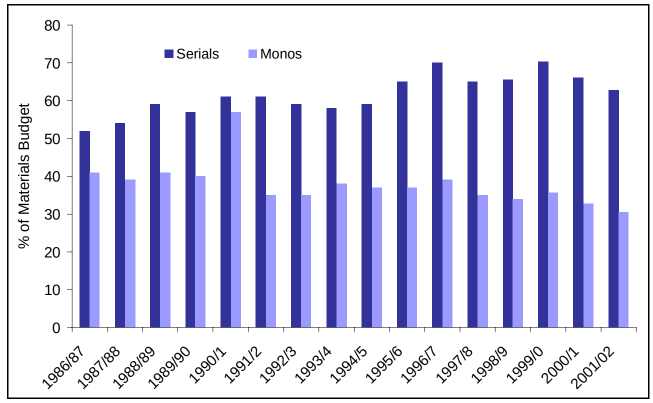
Source:ARL

Exhibit 23
Chemistry, Physics and Medicine Have Experienced the Greatest Increases in Prices



Source: ALA (American Library Association)

Exhibit 24
Serial Price Increases Have Resulted in Serials Accounting for a Greater Share of Content Budget



Source: ARL

Please see the important disclosures at the end of this report.

Exhibit 25

Journal Cost per Use

Journal	Publisher	US$ Cost	No. of Uses	US$/Use
Brain Research Bulletin	ANKHO International	2,385	187	12.75
Hospital Medicine	Mark Allen Pub	398	6	66.33
Journal of Inflammation	Wiley-Liss	996	26	38.31
Advances in Clinical Chemistry	Academic Press	98	3	32.67
International Journal of Neuroscience	Gordon & Breach	5,922	183	32.36
Archives of Physiology and Biochemistry	Swets & Zeitlinger	496	18	27.56
Brain Behaviour and Evolution	S. Karger	1,389	52	26.71
Journal of Neuroscience Research	Liss	5,095	483	10.55
Brain Research	Elsevier/North Holland	14,669	1,777	8.25

Source: University of Wisconsin-Madison Libraries, Morgan Stanley Research

Exhibit 26

Reed Elsevier: Profit and Loss Account, 2000-07e

Yr ending Dec 31 (£mn)	2000	2001	2002e	2003e	2004e	2005e	2006e	2007e
Revenues:								
Scientific & Medical	693	782	821	862	905	951	998	1,048
Harcourt - STM		242	452	469	497	527	558	592
Legal	1,201	1,330	1,347	1,419	1,504	1,596	1,687	1,785
Education	202	203	195	206	220	233	247	262
Harcourt - Education & Testing		376	757	799	857	923	996	1,079
Business	1,672	1,622	1,439	1,480	1,552	1,627	1,705	1,788
Total	**3,768**	**4,555**	**5,011**	**5,235**	**5,534**	**5,855**	**6,191**	**6,553**
Operating Profit:								
Scientific & Medical	252	288	308	324	341	368	396	421
Harcourt - STM		56	104	121	132	145	158	167
Legal	237	267	282	321	355	385	420	452
Education	40	44	42	45	48	51	54	57
Harcourt - Educ & Testing		88	160	172	186	202	217	234
Business	263	247	230	258	295	326	346	366
Total	**793**	**990**	**1,127**	**1,240**	**1,357**	**1,476**	**1,590**	**1,698**
% change	*0*	*25*	*14*	*10*	*9*	*9*	*8*	*7*
Operating Margins (%):								
Scientific (ex-Harcourt)	36.4	36.9	37.6	37.6	37.6	38.7	39.7	40.2
Scientifc (Harcourt only)		22.3	23.0	25.8	26.6	27.4	28.3	28.3
Legal	19.7	20.1	21.0	22.6	23.6	24.1	24.9	25.3
Business	15.8	15.2	16.0	17.4	19.0	20.0	20.3	20.5%
Education (ex-Harcourt)	19.8	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Education (Harcourt only)		19.9	21.2	21.5	21.8	21.9	21.8	21.7
Total	**21.0**	**21.7**	**22.5**	**23.7**	**24.5**	**25.2**	**25.7**	**25.9**
Restructuring/Exceptional Costs	(115)	(98)	30	(10)	(10)	(10)	(10)	(10)
Amortisation of Goodwill	(465)	(498)	(532)	(532)	(532)	(532)	(532)	(532)
Profit on Sale of Fixed Assets	85	26	15	0	0	0	0	0
Total	**(495)**	**(570)**	**(487)**	**(542)**	**(542)**	**(542)**	**(542)**	**(542)**
EBITDA (Post-exceptionals)	**878**	**1,047**	**1,327**	**1,401**	**1,529**	**1,662**	**1,789**	**1,911**
EBIT	295	417	640	698	814	934	1,048	1,155
Net Interest Expense	(103)	(142)	(205)	(199)	(188)	(174)	(158)	(141)
		905	1,122					
Group Pre-tax Profit- Reported	192	278	435	498	627	760	890	1,015
Group Pretax Profit- Adjusted	**690**	**848**	**922**	**1,041**	**1,169**	**1,303**	**1,432**	**1,557**
Reed PreTax Profit-Adjusted	365	448	488	551	618	689	758	824
Tax	(159)	(148)	(240)	(271)	(304)	(339)	(372)	(405)
Attributable Net Profit-As Reported	33	126	195	228	323	422	517	610
Attributable Net Profit-Adjusted	531	624	682	770	865	964	1,060	1,152
Reed International Share (52.9%)	270	330	361	407	458	510	561	610
Ordinary Dividends	(245)	(269)	(266)	(300)	(337)	(376)	(413)	(449)
Retained profit/(loss)	(212)	(143)	(71)	(73)	(15)	46	104	160
Weighted average shares in Issue	1,160	1,266	1,266	1,266	1,266	1,266	1,266	1,266
EPS (p)	**23.3**	**26.07**	**28.52**	**32.19**	**36.16**	**40.29**	**44.30**	**48.16**
% change	**-5**	**12.1**	**9.4**	**13**	**12**	**11**	**10**	**9**

Source: Company data, Morgan Stanley Research *e= Morgan Stanley Research Estimates*

Exhibit 27

Reed Elsevier: Balance Sheet, 2000-07e

Yr ending 31 Dec (£mn)	2000	2001	2002e	2003e	2004e	2005e	2003e	2004e
Property, Plant & Equipment	416	489	529	565	602	639	676	714
Intangible Assets	4,127	6,723	6,206	5,673	5,141	4,608	4,076	3,543
Investments	153	241	241	241	241	241	241	241
Total Fixed Assets	**4,696**	**7,453**	**6,976**	**6,479**	**5,983**	**5,488**	**4,993**	**4,498**
Cash & Equivalent	1,594	435	784	1,169	1,605	2,116	2,683	3,305
Trade debtors	1,024	1,462	1,550	1,627	1,709	1,777	1,848	1,922
Inventories	114	488	532	556	588	622	657	696
Total Current Assets	**2,732**	**2,385**	**2,866**	**3,352**	**3,902**	**4,514**	**5,188**	**5,922**
Total Assets	**7,428**	**9,838**	**9,841**	**9,831**	**9,885**	**10,002**	**10,181**	**10,420**
Current Liabilities								
Trade creditors	225	236	257	264	277	290	305	321
Other	1,729	1,781	1,834	1,889	1,946	2,004	2,064	2,126
ST Debt	1,426	2,118	2,118	2,118	2,118	2,118	2,118	2,118
Long-Term Debt	531	1,546	1,546	1,546	1,546	1,546	1,546	1,546
Other LT Creditors	342	956	956	956	956	956	956	956
Provisions	128	280	280	280	280	280	280	280
Minority Interests	7	5	5	5	5	5	5	5
Total LT debt	1,008	2,787	2,787	2,787	2,787	2,787	2,787	2,787
Total Net Assets	**3,041**	**2,917**	**2,845**	**2,773**	**2,758**	**2,803**	**2,907**	**3,068**
Capital stock	185	184	184	184	184	184	184	184
Additional captial (paid-in)	1,621	1,629	1,629	1,629	1,629	1,629	1,629	1,629
Retained earnings	1,235	1,104	1,033	960	945	991	1,095	1,255
Shareholders' Equity:	**3,041**	**2,917**	**2,846**	**2,773**	**2,758**	**2,804**	**2,908**	**3,068**

Source: Company data, Morgan Stanley Research *e= Morgan Stanley Research Estimate*

Exhibit 28

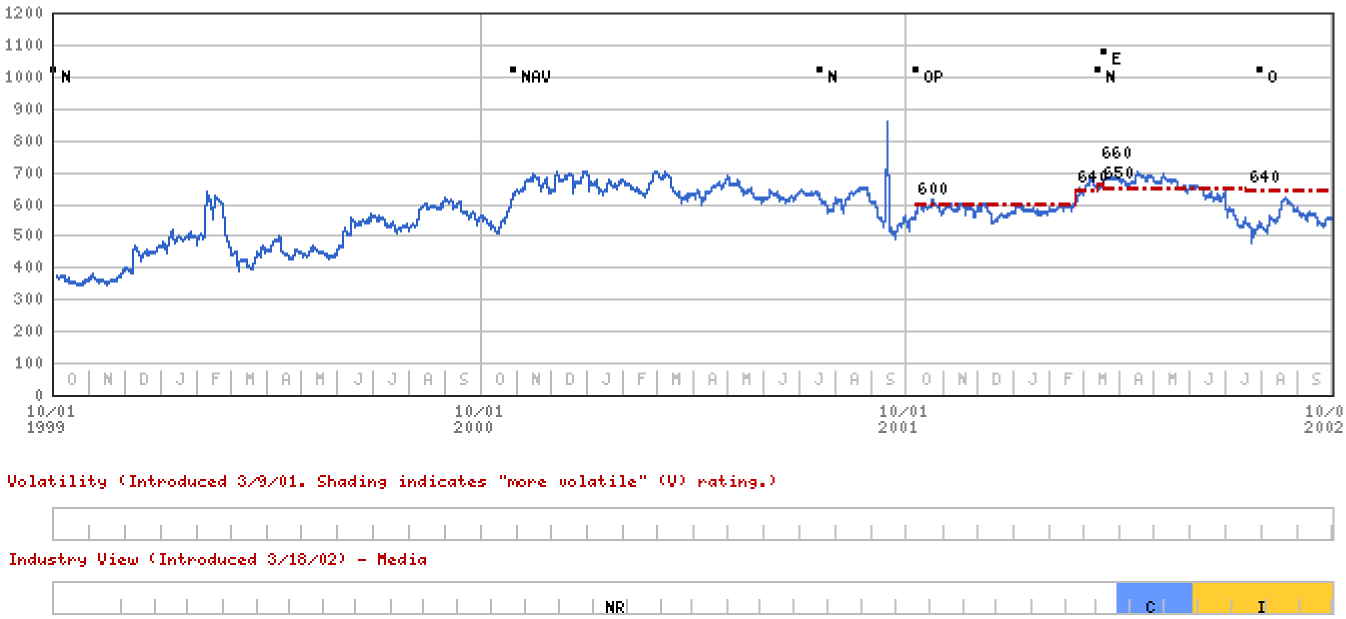
Reed Elsevier, Cash Flow Forecasts, 2002-07e

Yr ending 31 Dec (£mn)	2002e	2003e	2004e	2005e	2006e	2007e
Cash Flow from Operations:						
EBIT(excl divs)	635	692	809	928	1,042	1,148
Profit on sale of assets	(15)	0	0	0	0	0
Amortisation of goodwill/intangibles	532	532	532	532	532	532
Depreciation	155	171	182	195	209	223
Change in Provisions	53	55	57	58	60	62
Change in Working Capital	(111)	(94)	(101)	(89)	(92)	(95)
Cashflow from Operations	1,250	1,356	1,479	1,625	1,751	1,871
Net Interest Paid	(205)	(199)	(188)	(174)	(158)	(141)
Dividends Paid	(266)	(300)	(337)	(376)	(413)	(449)
Dividends Received	5	5	6	6	6	7
Taxation	(240)	(271)	(304)	(339)	(372)	(405)
Cashflow from Operations after Financing	544	591	656	743	813	883
Investing Activities:						
Capex	(195)	(207)	(219)	(232)	(246)	(261)
Cashlow from Investing Activities	(195)	(207)	(219)	(232)	(246)	(261)
Increase/ Decrease in Net Cash	349	385	437	510	567	622
Net Change in Cash	349	385	437	510	567	622
CEPS (Reed Share)	**35.00**	**39.32**	**43.79**	**48.45**	**53.03**	**57.50**

Source: Company data, Morgan Stanley Research *e= Morgan Stanley Research Estimate*

Stock Price, Price Target and Rating History (See Rating Definitions)

Reed Elsevier PLC (REL.L) - As of 9/30/02 in GBp



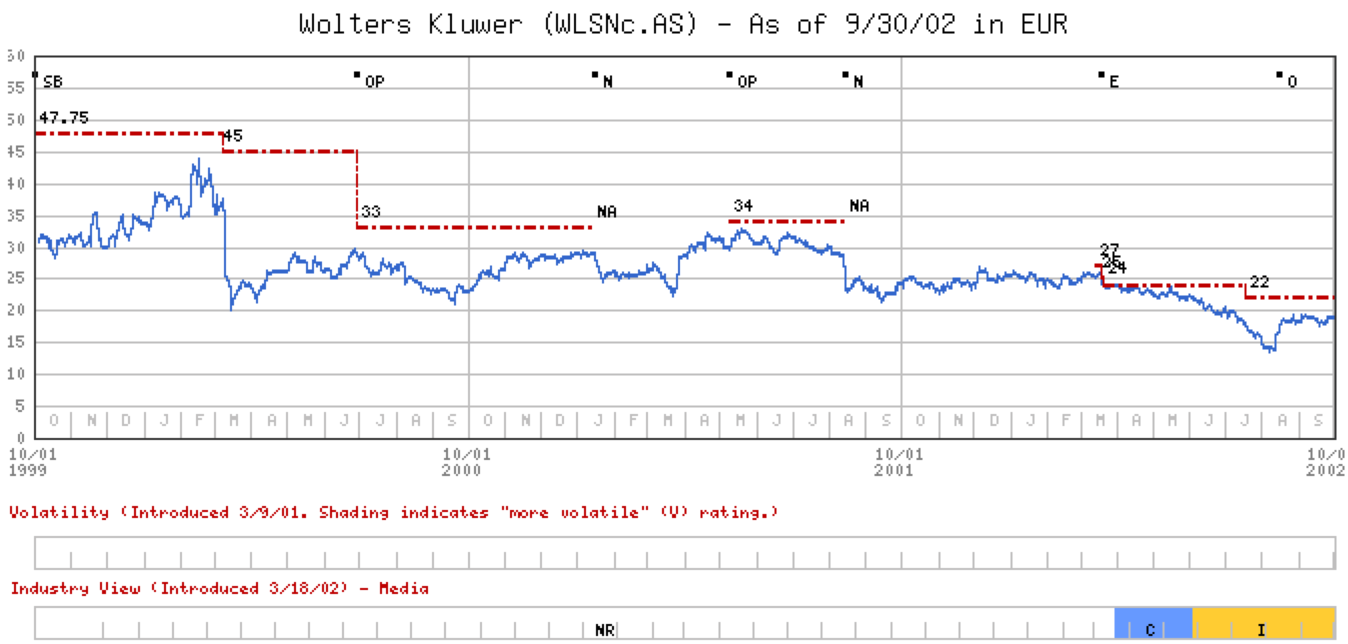
Stock Rating History: 7/3/98 : N; 1/3/00 : NAV; 7/18/01 : N; 1/9/01 : OP; 3/14/02 : N; 3/18/02 : E; 7/3/02 : O

Price Target History: 9/29/98 : NA; 1/9/01 : 600; 2/22/02 : 640; 3/14/02 : 660; 3/18/02 : 650; 7/18/02 : 640

Source: Morgan Stanley Research Date Format : MM/DD/YY Stock Price Price Target No Price Target Available (NA)
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Please see the important disclosures at the end of this report.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 7/5/99 : SB; 6/29/00 : OP; 1/16/01 : N; 5/9/01 : OP; 8/15/01 : N; 3/18/02 : E; 8/16/02 : O

Price Target History: 5/23/99 : 47.75; 3/7/00 : 45; 6/29/00 : 33; 1/16/01 : NA; 5/9/01 : 34; 8/15/01 : NA; 3/14/02 : 27; 3/18/02 : 25; 3/2/02 : 24; 7/18/02 : 22

Source: Morgan Stanley Research Date Format : MM/DD/YY Stock Price Price Target No Price Target Available (NA)
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Please see the important disclosures at the end of this report.

Global Stock Ratings Distribution

(as of August 31, 2002)

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight	695	34%	288	43%	41%
Equal-weight	935	46%	284	42%	30%
Underweight	411	20%	104	15%	25%
Total	2,041		676		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

ANALYST STOCK RATINGS

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Ratings prior to March 18, 2002: SB=Strong Buy; OP=Outperform; N=Neutral; UP=Underperform. For definitions, please go to www.morganstanley.com/companycharts.

ANALYST INDUSTRY VIEWS

Attractive (A). The analyst expects the performance of his or her industry coverage universe to be attractive vs. the relevant broad market benchmark over the next 12-18 months.

In-Line (I). The analyst expects the performance of his or her industry coverage universe to be in line with the relevant broad market benchmark over the next 12-18 months.

Cautious (C). The analyst views the performance of his or her industry coverage universe with caution vs. the relevant broad market benchmark over the next 12-18 months.

Stock price charts and rating histories for companies discussed in this report are also available at www.morganstanley.com/companycharts. You may also request this information by writing to Morgan Stanley at 1585 Broadway, 14th Floor (Attention: Research Disclosures), New York, NY, 10036 USA.

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Company	Ticker	Rating	as of	Price at 09/27/02
Aegis Group	AGS.L	NR	03/18/02	72p
BSkyB	BSY.L	E	07/08/02	531p
Capital Radio	CAP.L	U	06/24/02	485p
Carlton Communications	CCM.L	U	06/24/02	114p
EMAP	EMA.L	O	04/30/02	693p
EMI	EMI.L	U	03/18/02	176p
Eniro	ENRO.ST	O	03/18/02	SKr43.80
Fox Kids Europe	FOXK.AS	NR	03/18/02	€4.45
Future Networks	FNET.L	O–V	03/20/02	50p
Granada	GAA.L	O	09/17/02	75p
Grupo Prisa	PRS.MC	NR	05/10/02	€6.48
Havas	EURC.PA	E	09/23/02	€3.56
Impresa	IPRN.IN	O–V	07/16/02	€1.78
Internationalmedia	IEMG.DE	E–V	07/29/02	€0.62
JCDecaux	JCDX.PA	O	04/23/02	€12.00
Lagardere	LAGA.PA	E	09/25/02	€40.00
M6 - Metropole Television	MMTP.PA	NR	03/18/02	€22.80
Mediaset	MS.MI	O	05/28/02	€6.28
Mondadori	MNDI.MI	E	03/18/02	€5.12
Pearson	PSON.L	O	03/18/02	546p
Pro Sieben	PSMG_p.DE	U–V	08/06/02	€6.57
PT Multimedia	PTMN.IN	U–V	06/21/02	€6.36

Company	Ticker	Rating	as of	Price at 09/27/02
Recoletos	REC.MC	E	03/22/02	€4.31
Reed Elsevier NV	ELSN.AS	O	07/30/02	€12.72
Reed Elsevier PLC	REL.L	O	07/30/02	554p
Reuters Holdings	RTR.L	U–V	07/11/02	238p
RTL Group	RTL.L	NR	03/18/02	€23.00
Seat Pagine Gialle	SPG.MI	U–V	03/18/02	€0.64
SES Global	SESF.LU	O	03/18/02	€5.10
Sogecable	SGC.MC	NR	05/10/02	€7.66
StepStone	STP.OL	NR	03/18/02	€0.01
TeleWest Communications	TWT.L	E–V	07/24/02	1p
TF1	TFFP.PA	O	09/06/02	€21.77
TPI	TPI.MC	O–V	03/18/02	€2.82
United Business Media	UBM.L	O	03/18/02	233p
UPC	UPEC.AS	NR	03/18/02	€0.06
Viva	VVMGn.DE	E–V	06/25/02	€5.18
Vivendi Universal	EAUG.PA	O	06/25/02	€13.01
VNU	VNUN.AS	E	07/18/02	€23.85
Wolters Kluwer	WLSNc.AS	O	08/16/02	€18.76
WPP Group Plc	WPP.L	U	08/02/02	447p

Stock ratings are subject to change. Please see latest research for each company.

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