



ELSEVIER LIMITED

Report & Financial Statements

for the year ended

31 December 2005

Registered No: 1982084



REPORT AND FINANCIAL STATEMENTS 2005

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REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H van Campenhout
E N Engstrom
D Lomas
A Moon

SECRETARY

Mawlaw Secretaries Ltd
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London
EC4V 6HD

REGISTERED OFFICE

The Boulevard
Langford Lane
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Oxford
OX5 1GB

BANKERS

National Westminster Bank Plc
1 Princess Street
London
EC2R 8PA

Citibank
PO Box 7247 – 7093
Philadelphia
PA 19170 – 7093

ABN AMRO Bank
London Headquarters
250 Bishopsgate
London
EC2M 4AA

SOLICITORS

Mayer Brown Rowe & Maw
11 Pilgrim Street
London
EC4V 6RW

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

ACTIVITIES, REVIEW OF THE BUSINESS AND OF FUTURE PROSPECTS

The Company is a leading publisher of English Language journals for academic and industrial research workers and professionals in scientific, technical and medical ("STM") fields. These journals cover three main disciplines; life and medical sciences; physical and engineering sciences; and social and behavioural sciences, including economics. A number of journals are published on behalf of learned societies. The Company also publishes a number of books and reference works, covering such subjects as medicine, chemistry, material science and information technology.

The Company has maintained its position as one of the world's leading publishers of research, review and abstract journals, as well as of books and reference works, of academic and industrial research works and works of professionals in technology and medicine.

The journals are the core of the Company's activities and their reputation is sustained, and will continue to be so, by rigorous attention to their scientific quality including the adaptation of existing journal titles to reflect developments and changes in the relevant scientific area.

The directors are satisfied with the performance of the Company in the current year and believe that the business is soundly based for future profitable growth.

At the beginning of January 2005, the Company acquired the journal title Pattern Recognition from the National Biomedical Research Foundation for £2,771,158 (\$5,000,000).

On 12 January 2005, the Company acquired the Journal title Osteopathic Medicine from Blue Water Trust for £110,897 (AUD 269,999).

On 18 March 2005, the Company acquired a number of titles from Kogan Page Limited for £64,000.

In March 2005, the Company acquired Reed Business Information's Healthcare Titles for £3,651,615

During the year on, 29 July 2005, the Company acquired the shares of The Medicine Publishing Group Limited for £5,444,987 (EUR 7,593,421).

FINANCIAL RISKS

The main financial risk faced by Elsevier Limited is foreign exchange risk. Details of the objectives, policies and strategies pursued by Elsevier Limited in relation to foreign currency exposure management are set in note 1. Elsevier Limited does not enter into speculative derivative transactions.

Elsevier Limited seeks to limit foreign exchange risks described above by the use of financial instruments and as a result has a credit risk from the potential non performance by the counterparties to these financial instruments, which are unsecured. The counterparty to all foreign exchange derivatives is Elsevier Finance SA, a company incorporated in Switzerland that is owned by Reed Elsevier PLC and Reed Elsevier NV. The amount of this credit risk is normally restricted to the amounts of any hedge gain and not the principal amount being hedged. Elsevier Limited also has a credit exposure to counterparties for the full principal amount of cash and cash equivalents.

The company is dependant on its parent company Reed Elsevier Group plc for continued financial support and the directors are satisfied that the financial support will be available when required.

The Company's ultimate parent undertaking is Reed Elsevier Group plc.

DIVIDENDS AND TRANSFER TO / FROM RESERVES

The profit for the year after taxation, amounted to £56,454,000 (2004 - £67,846,000).

No dividend was declared and paid during the year (2004 - £nil). The Company's retained profit of £56,454,000 (2004 - £67,846,000) has been transferred to reserves.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND THEIR INTERESTS

The directors of the Company who served throughout the year, except as noted, were as follows:

B Barrett	(resigned 11 April 2006)
H van Campenhout	(appointed 1 January 2005)
E N Engstrom	
C Gibson	(resigned 30 March 2006)
G Howe	(resigned 30 March 2006)
D Lomas	(appointed 30 March 2006)
A Moon	
D Vaughan	(resigned 30 March 2006)

No directors had any interest at any time in the year in the share capital of the Company or any other group company. No director had, at any time during the year, any material interest in a contract with the Company.

EMPLOYEE PARTICIPATION

The Company is fully committed to the concept of employee involvement and participation. Where appropriate, major announcements are communicated to employees through internal briefings. Information on performance, development, organisational changes and other matters of interest is communicated through staff newsletters, magazines and presentations.

The Reed Elsevier Group plc SAYE Share Option Scheme allows employees to participate in the future prosperity of the Company.

DISABLED PERSONS

The Company's policy is to recruit and continue to employ disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities exist for each disabled person.

CREDITOR PAYMENT POLICY

The Company agrees payment terms with each of its major suppliers and abides by these terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled on or before the end of the month following receipt of a valid invoice. Trade creditors at 31 December 2005 were equivalent to 31 days (2004: 26 days) average daily amount invoiced by suppliers during the year.

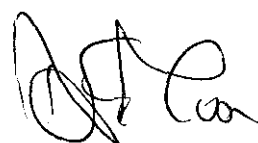
FINANCIAL STATEMENTS

The Company has elected not to lay the financial statements and reports before the Annual General Meeting.

AUDITORS

The Company has passed an elective resolution pursuant to Section 386 of the Companies Act 1985 dispensing with the requirement to appoint auditors annually. Deloitte & Touche LLP are accordingly deemed to continue in office as auditors.

Approved by the Board of Directors on 6th October 2006
and signed on behalf of the Board



Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ELSEVIER LIMITED

We have audited the financial statements of Elsevier Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards. (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion: the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended. The financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

12 October 2006

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2005

	Note	2005 £'000	2004 £'000
TURNOVER	1,2	336,358	342,012
Cost of sales		(91,449)	(91,869)
Gross profit		244,909	250,143
Other operating expenses (net)	3	(156,100)	(146,343)
OPERATING PROFIT		88,809	103,800
Interest receivable and similar income	6	1,475	1,097
Interest payable and similar charges	7	(2,266)	(1,399)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	8	88,018	103,498
Tax charge on profit on ordinary activities	9	(31,564)	(35,652)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED PROFIT FOR THE YEAR		56,454	67,846

All of the Company's operations derive from continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Profit for the year		56,454	67,846
Fair value movements on cash flow hedges	22	(11,061)	-
Net loss recognised directly in equity		(11,061)	-
Transfer to net profit from hedge reserve	22	(11,005)	-
Total recognised gains		<u>34,388</u>	<u>67,846</u>
Transition adjustment in respect of FRS 26		<u>26,634</u>	<u>-</u>

BALANCE SHEET
As at 31 December 2005

	Note	2005 £'000	2004 £'000
FIXED ASSETS			
Intangible assets	10	160,022	164,645
Goodwill	10	13,422	12,210
Tangible assets	11	39,942	34,008
Investments	12	5,822	377
		<u>219,208</u>	<u>211,240</u>
CURRENT ASSETS			
Stocks	13	32,170	31,414
Debtors	14	173,511	165,801
Debtors: amounts falling due after more than one year	15	24,122	24,357
Cash		18,050	30,738
		<u>247,853</u>	<u>252,310</u>
CREDITORS: amounts falling due within one year	16	<u>(199,349)</u>	<u>(256,338)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>48,504</u>	<u>(4,028)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		267,712	207,212
Provisions for liabilities and charges	17	<u>-</u>	<u>(522)</u>
NET ASSETS		<u>267,712</u>	<u>206,690</u>
CAPITAL AND RESERVES			
Called up share capital	20	1,150	1,150
Share premium account	21	59,050	59,050
Hedge Reserve	22	6,757	-
Profit and loss account	21	200,755	146,490
EQUITY SHAREHOLDERS' FUNDS	23	<u>267,712</u>	<u>206,690</u>

The financial statements were approved by the Board of Directors on 6th October 2006

Signed on behalf of the Board of Directors



Director

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES

Basis of accounting

The Company is not required to prepare group accounts under Section 228 of the Companies Act 1985 because its parent undertaking, Reed Elsevier Group plc, is established under the law of a member state of the European Union and the parent undertaking prepares group accounts. Accordingly, these financial statements present information as an individual undertaking and not as a group. Similarly a cash flow statement is not required under Financial Reporting Standard 1 (Revised) (Cash Flow Statements).

These accounts have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards and law. The particular accounting policies adopted are detailed below. They have been applied consistently in the current and preceding year, except for the treatment of financial instruments which is set forth below.

Intangible fixed assets, goodwill and amortisation

Publishing rights are stated at fair value on acquisition less accumulated amortisation. Publishing rights are amortised over their estimated useful economic lives not exceeding 20 years on a straight-line basis. Internally developed intangibles are not carried on the balance sheet. Such costs are written off to the profit and loss account as they are incurred.

On acquisition of a business, the purchase consideration is allocated between the underlying net tangible assets on a fair value basis. Any excess cost or goodwill is capitalised. Capitalised goodwill is amortised over its estimated useful economic life not exceeding 20 years on a straight-line basis.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of all tangible fixed assets includes purchase cost together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Plant and machinery	20
Fixtures, fittings and equipment	
- office machinery and equipment	10 – 20
- computer equipment	20 – 33
- software	33
Motor vehicles	25
Freehold buildings	2½
Leasehold improvements	Over the term of the lease

Freehold land is not depreciated.

Investments

Investments in subsidiary undertakings are stated at cost less provision, if appropriate, for any impairment in value.

NOTES TO THE ACCOUNTS**Year ended 31 December 2005****1. ACCOUNTING POLICIES (continued)****Stocks and work in progress**

Raw materials, stocks and work in progress (including appropriate pre-press costs) are stated at the lower of cost and net realisable value. Cost consists of direct material and labour costs. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of sale or, where appropriate, the cost of conversion from existing state to a finished condition.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the time of the transaction. Any resultant gain or loss on exchange is included in profit or loss from ordinary activities.

Turnover

Turnover, which excludes value added tax, represents the invoiced value of sales, less anticipated returns, on completed transactions. Sales are recognised as follows: subscriptions – over the period of the subscription; circulations – on despatch.

Taxation

Deferred taxation is provided in full for timing differences using the liability method. Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term. Deferred taxation balances are not discounted. Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Pensions

The Reed Elsevier Pension Scheme, which is a defined benefit scheme, is administered on a Reed Elsevier Group plc group basis and total contributions are assessed by a qualified actuary based on the cost of providing pensions across all Reed Elsevier Group plc group companies. Costs are not determined separately for each participating company, hence contributions are charged to the profit and loss account in the period on the basis of amounts payable.

Operating leases

Rentals under operating leases are charged to the profit and loss account in equal annual instalments over the term of the lease.

Financial instruments

Financial instruments comprise trade receivables, cash and cash equivalents, payables and accruals, borrowings and derivative financial instruments. Financial instruments that are classified as held to maturity are recorded in the balance sheet at amortised cost. Other financial instruments that are classified as held for trading are recorded in the balance sheet at fair value, with changes in fair value reported through the profit and loss account.

Derivative financial instruments are used to hedge foreign exchange risks. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity in the hedge reserve. If a hedged firm commitment or forecasted transaction results in the recognition of a non financial asset or liability, then, at the time that the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss. Any ineffective portion of hedges is recognised immediately in the profit and loss account.

NOTES TO THE ACCOUNTS**Year ended 31 December 2005****1. ACCOUNTING POLICIES (continued)**

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is either retained in equity until the firm commitment or forecasted transaction occurs, or, where a hedged transaction is no longer expected to occur, is immediately credited or expensed in the profit and loss account.

In accordance with the transitional provisions of FRS26 – Financial Instruments: Measurement, financial instruments have been accounted for and presented on the previous UK GAAP basis for the year ended 31 December 2004. Under FRS26, with effect from 1 January 2005, financial instruments are stated in the balance sheet at fair value. For the 2004 financial year, gains and losses on foreign exchange hedges were recognised in the profit and loss account on maturity of the underlying transaction.

As at 1 January 2005, adjustments have been made either to the carrying value of hedged items or to equity, as appropriate, to reflect the differences between the previous UK GAAP carrying values of financial instruments and their carrying values required to be reported under FRS26. Any transition gains or losses on financial instruments that qualify for hedge accounting and are reflected in equity will remain in equity until either the forecasted transaction occurs or is no longer expected to occur.

The main financial risk faced by Elsevier Limited is foreign exchange risk. Details of the objectives, policies and strategies pursued by Elsevier Limited in relation to foreign currency exposure management are set out below. Elsevier Limited does not enter into speculative derivative transactions.

Changes in the accounting policies reflected above affect not only financial instruments, but also the treatment of Foreign Exchange differences, as FRS23 and FRS26 are applied at the same time.

Foreign currency exposure management

Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts. Expected future net cash flows may be covered for sales expected for up to the next 50 months up to limits staggered by duration. Cover takes the form of foreign exchange forward contracts.

Derivatives are used to hedge or reduce the risks of exchange rate movements and are not entered into unless such risks exist. Derivatives used by Elsevier Limited for hedging foreign exchange risk are not specialised and are generally available from numerous sources.

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

2. TURNOVER

	2005 £'000	2004 £'000
Geographical area		
United Kingdom	39,876	39,868
Continental Europe	64,847	59,027
USA, Canada and South America	172,147	178,457
Rest of the World	59,488	64,660
	<u>336,358</u>	<u>342,012</u>

All turnover relates to one class of business.

3. OTHER OPERATING EXPENSES (NET)

	2005 £'000	2004 £'000
Distribution costs	11,048	13,370
Administrative expenses	144,066	133,530
	<u>155,114</u>	<u>146,900</u>
Less: Other operating income	986	(557)
	<u>156,100</u>	<u>146,343</u>

4. DIRECTORS' EMOLUMENTS

	2005 £'000	2004 £'000
Emoluments	<u>934</u>	<u>843</u>
	No.	No.
Number of directors who:		
- are members of a defined benefit pension scheme	<u>5</u>	<u>5</u>
Highest paid director's remuneration:	£'000	£'000
Aggregate of emoluments and awards under long-term incentive schemes	<u>334</u>	<u>270</u>

The amount of the accrued pension of the highest-paid director at 31 December 2005 is £nil (2004: £nil).

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

5. EMPLOYEE INFORMATION

The average weekly number of persons (including executive directors) employed during the year was:

	2005 No.	2004 No.
By area:		
Production	185	189
Selling and distribution	192	140
Publishing and administration	1,155	1,130
	<u>1,532</u>	<u>1,459</u>
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	50,969	46,955
Social security costs	4,886	4,768
Other pension costs	410	458
	<u>56,265</u>	<u>52,181</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £'000	2004 £'000
Interest receivable from:		
Elsevier Reed Finance BV group	1,091	353
Bank interest receivable and similar income	384	744
	<u>1,475</u>	<u>1,097</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £'000	2004 £'000
Interest payable to:		
Elsevier Reed Finance BV group	2,184	1,376
Bank interest payable and similar charges	82	23
	<u>2,266</u>	<u>1,399</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible owned fixed assets	9,717	8,350
Amortisation of intangible assets and goodwill	15,636	14,947
Auditors' remuneration for audit services	75	45
Payments under operating leases		
- plant and machinery	759	33
- Land and Buildings	3,428	2,844
Exchange losses / (gains)	5,094	949
	<u> </u>	<u> </u>

Remuneration of the auditors for the provision of non-audit services to the Company was £184,650 (2004: £ 66,975).

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005 £'000	2004 £'000
Current tax		
UK corporation tax	31,329	36,440
Total current tax	<u>31,329</u>	<u>36,440</u>
Deferred tax		
Origination and reversal of timing differences	6	136
Adjustment to recoverable amounts of deferred tax assets	229	(924)
	<u>31,564</u>	<u>35,652</u>

The standard rate of current tax for the year, based on the main UK rate of corporation tax, is 30% (2004: 30%). A reconciliation of the notional current tax charge based on the standard rate to the actual current tax charge is as follows:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	<u>88,018</u>	<u>103,498</u>
Tax at standard rate	26,405	31,050
Non tax deductible amortisation of goodwill and intangible assets	4,691	4,404
Prior year adjustments		-
Non tax deductible expenses	468	1,122
Reversal of timing differences	(235)	(136)
	<u>31,329</u>	<u>36,440</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The Reed Elsevier Group plc group of companies has agreed that to the extent that there are any transfer pricing adjustments relating to inter company balances between group companies in the UK, any resulting income will sheltered by group relief received for £nil consideration.

10. INTANGIBLE FIXED ASSETS AND GOODWILL

	Goodwill	Publishing rights and titles
	£'000	£'000
Cost		
At 1 January 2005	22,277	286,031
Additions	2,824	9,923
Provision released to goodwill	(522)	-
	<hr/>	<hr/>
At 31 December 2005	24,579	295,954
	<hr/>	<hr/>
Accumulated amortisation		
At 1 January 2005	10,067	121,386
Amortisation charge for the year	1,090	14,546
	<hr/>	<hr/>
At 31 December 2005	11,157	135,932
	<hr/>	<hr/>
Net book value		
At 31 December 2005	13,422	160,022
	<hr/>	<hr/>
At 31 December 2004	12,210	164,645
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

Year Ended 31 December 2005

11. TANGIBLE FIXED ASSETS

	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Freehold land and buildings £'000	Leasehold improve- ments £'000	Total £'000
Cost						
At 1 January 2005	729	66,975	1,470	20,536	68	89,778
Additions	69	15,530	-	-	87	15,686
Disposals	-	(47)	(219)	-	-	(266)
At 31 December 2005	798	82,458	1,251	20,536	155	105,198
Depreciation						
At 1 January 2005	549	48,949	1,307	4,956	9	55,770
Charge for the year	49	9,125	79	454	10	9,717
Disposals	-	(21)	(210)	-	-	(231)
At 31 December 2005	598	58,053	1,176	5,410	19	65,256
Net book value						
At 31 December 2005	200	24,405	75	15,126	136	39,942
At 31 December 2004	180	18,026	163	15,580	59	34,008

The cost of the freehold land, which is not depreciated is £2,011,912 (2004: £2,011,912).

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

12. INVESTMENTS

Details of the subsidiary undertakings at 31 December 2005 are set out below:

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2005	10,565
Additions	5,445
At 31 December 2005	16,010
Provisions	
At 1 January 2005 and 31 December 2005	10,188
Net book value	
At 31 December 2005	5,822
At 31 December 2004	377

The Company's subsidiary undertakings are as follows:

	Country of incorporati on	Proportion of shares held	Status
Current Biology Ltd	Great Britain	100%	Dormant
Current Chemistry Ltd	Great Britain	100%	Dormant
Science Forum Ltd	Great Britain	100%	Dormant
BioMedNet Ltd	Great Britain	100%	Dormant
Electronic Press Ltd	Great Britain	100%	Dormant
Physicians Decisions Ltd	Great Britain	100%	Dormant
Medicine Publishing Group Ltd	Great Britain	100%	Publishing

13. STOCKS

	2005 £'000	2004 £'000
Raw materials	666	1,385
Work in progress	1,035	42
Finished goods and goods for resale	30,469	29,987
	32,170	31,414

The directors do not consider that the replacement cost of stocks is materially different from cost.

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

14. DEBTORS

	2005 £'000	2004 £'000
Amounts falling due within one year:		
Trade debtors	37,162	54,172
Amounts owed by fellow subsidiaries	103,908	89,264
Amounts owed by Elsevier Reed Finance BV group	18,596	11,017
VAT recoverable	2,306	2,817
Other debtors	88	6,256
Derivatives	6,396	-
Prepayments and accrued income	5,055	2,275
	<u>173,511</u>	<u>165,801</u>

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

	2005 £'000	2004 £'000
Income receivable from shares in subsidiary undertakings	9,305	9,305
Amounts owed by subsidiary undertakings	9,590	9,590
Deferred taxation (note 18)	5,227	5,462
	<u>24,122</u>	<u>24,357</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £'000	2004 £'000
Bank loans and overdraft	2,855	514
Subscriptions received in advance	104,348	102,228
Trade creditors	11,506	10,433
Amounts owed to fellow subsidiaries	41,839	52,792
Amounts owed to Elsevier Reed Finance BV Group	112	51,970
Corporation tax	13,245	17,446
Other taxation and social security payable	581	749
Other creditors	1,002	3,861
Derivatives	2,321	-
Accruals	21,540	16,345
	<u>199,349</u>	<u>256,338</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

17. PROVISIONS

	Balance at 1 January 2005 £'000	Charged to profit and loss account £'000	Released to Goodwill £'000	Balance at 31 December 2005 £'000
Reorganisation provision	(522)	-	522	-

Following the acquisition of Harcourt Publishers Limited by the company in financial year ended 31 December 2002, the Camden office and Fooks Cray warehouse sites of Harcourt Publishers Limited were closed. The provision was created to cover associated relocation, dilapidation and redundancy costs.

18. DEFERRED TAXATION

Deferred taxation asset in the financial statements (note 15) consists of the following:

	2005 £'000	2004 £'000
Deferred tax assets		
Excess of tax allowances over related amortisation	4,379	4,500
Other timing differences	848	962
Balance at 31 December	5,227	5,462
Movement in deferred tax asset in year		
At 1 January	5,462	4,674
Credited/(charged) to profit and loss account – Current Year	(6)	(136)
Credited/(charged) to profit and loss account – Prior Year	(229)	924
At 31 December	5,227	5,462

19. PENSIONS AND SIMILAR OBLIGATIONS

The Company participates in the Reed Elsevier Pension Scheme. This scheme is of the defined benefit type providing benefits to certain employees within the Reed Elsevier Group plc group and its assets are held separately from the group's assets.

The main UK scheme was subject to a valuation by Watson Wyatt as at 5 April 2003. The actuarial value placed on the assets was sufficient to cover 113% of the benefits that had accrued to the members. The actuarial surplus is being spread as a level amount over the average service lives of employees.

The Company is unable to identify its share of the underlying assets and liabilities of the pension scheme and consequently, under the transitional arrangements of Financial Reporting Standard 17: Retirement Benefits (FRS17) reports contributions paid as if the pension scheme was a defined contribution scheme. Under FRS17 methodologies, the net deficit in the scheme was £12 million (2004 - £43 million). The company has recommended contributions at a rate of 5% of pensionable salaries with effect from 1 January 2005.

Full disclosure of the scheme is given in the financial statements of Reed Elsevier Group plc and the Reed Elsevier Annual Reports and Financial Statements 2005.

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

19. PENSIONS AND SIMILAR OBLIGATIONS (continued)

Details of the Scheme surplus as at 31 December 2005 are disclosed in the ultimate parent undertaking consolidated accounts.

20. CALLED UP SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised, allotted, called up and fully paid:		
1,150,002 (2003: 1,150,002)		
ordinary shares of £1 each	1,150	1,150

21. RESERVES

	Hedge Reserves £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2005	-	59,050	146,490	205,540
Transition Adjustment on adoption of FRS 26	28,823	-	(2,189)	26,634
At 1 st January 2005 as restated	28,823	59,050	144,301	232,174
Fair Value movements on cash flow hedges	(11,061)	-	-	(11,061)
Transfers from hedge reserves to net profit	(11,005)	-	-	(11,005)
Retained profit for the year	-	-	56,454	56,454
At 31 December 2005	6,757	59,050	200,755	266,562

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

22. HEDGE RESERVE

Elsevier enters into one type of cash flow hedge: foreign exchange derivatives which fix the exchange rate on a portion of future currency subscription revenues forecast for up to 50 months.

Movements on the hedge reserve in 2005, comprising gains and losses on cash flow hedging instruments, were as follows:

	2005 £'000	2004 £'000
Hedge reserve at start of year : gains deferred	-	-
Transition adjustment of adoption of FRS26	28,823	-
	<hr/>	<hr/>
Hedge reserve at start of year : gains deferred as restated	28,823	-
Losses arising in 2005	(11,061)	-
Amounts recognised in income statement	(11,005)	-
	<hr/>	<hr/>
Hedge reserve at end of year: gains deferred	<u>6,757</u>	<u>-</u>

All cash flow hedges were highly effective throughout the year ended 31 December 2005

The deferred gains and losses on cash flow hedges at 31 December 2005 are currently expected to be recognised in the income statement in future years as follows:

Year deferred gains and losses expected to be recognised	Hedge Reserve £'000
2006	5,463
2007	1,803
2008	(416)
2009	(93)
	<hr/>
Gains deferred in hedge reserve at end of year	<u>6,757</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

23. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2005 £'000	2004 £'000
Opening equity shareholders' funds	206,690	138,844
Transition adjustment on adoption of FRS26	26,634	-
Opening equity shareholder's funds as restated	233,324	138,844
Total recognised income for the year	34,388	67,846
Net increase in equity shareholders' funds	61,022	67,846
Closing equity shareholders' funds	267,712	206,690

24. COMMITMENTS UNDER OPERATING LEASES

At 31 December the Company had annual commitments under operating leases as follows:

	Other 2005 £'000	Other 2004 £'000
Expiring within one year	-	28
Expiring between two and five years	860	860
Expiring after five years	3,524	2,548
	4,384	3,436

25. FORWARD FOREIGN EXCHANGE COMMITMENTS

The Company has outstanding forward foreign exchange contracts as at the balance sheet date, entered into in the normal course of business. The table below details the Company's currency exposures (that is the transactional exposures that give rise to the net currency gains or losses recognised in the profit and loss account).

As at 31 December 2005, these exposures were as follows:

2005 £'000	2005 £'000	2005 £'000	2005 £'000
US Dollar	Euros	Yen	Total
182,518	108,305	38,743	329,566

As at 31 December 2004, these exposures were as follows:

2004 £'000	2004 £'000	2004 £'000	2004 £'000
US Dollar	Euros	Yen	Total
153,486	86,626	41,355	281,467

NOTES TO THE ACCOUNTS**Year ended 31 December 2005****26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The Company's immediate and ultimate parent undertaking and controlling entity is Reed Elsevier Group plc, a company incorporated in Great Britain. The smallest and largest group into which the accounts of the Company for the year ended 31 December 2005 are consolidated is Reed Elsevier Group plc. Copies of the consolidated accounts may be obtained from its registered office 1-3 Strand, London WC2N 5JR. Reed Elsevier Group plc is jointly owned by Reed Elsevier PLC, a company incorporated in Great Britain, and Reed Elsevier NV, a company incorporated in the Netherlands.

27. RELATED PARTY INFORMATION

The Company has taken advantage of the exemption granted under paragraph 3(c) of FRS 8 not to disclose transactions with entities that are part of the Reed Elsevier Group plc group as the consolidated financial statements of Reed Elsevier Group plc in which the Company is included, are publicly available.