Company Number: 2746616

Reed Elsevier Group plc

Annual Report and Financial Statements

For the year ended 31 December 2004

Reed Elsevier Group plc

Directors' Report

BOARD OF DIRECTORS

M Tabaksblat *	- Chairman
Sir Crispin Davis	- Chief Executive Officer
M H Armour	- Chief Financial Officer
G J A van de Aast	
J F Brock*	
M W Elliott*	
E Engstrom	appointed 23 August 2004
C J A van Lede*	
A Prozes	
D E Reid*	
Lord Sharman of Redlynch OBE*	
R W H Stomberg*	
P J Tierney	

*Indicates non-executive director

The directors present their report and the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

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

The company is jointly owned and controlled by Reed Elsevier PLC and Reed Elsevier NV.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Results and dividends

Turnover for the year was £4,768 million (2003 : £4,886 million) and operating profit (including joint ventures) before exceptional items and amortisation of goodwill and intangible assets was £1,141 million (2003 : £1,156 million). The operating margin was 23.9%, 0.2 percentage points higher than the prior year.

The group profit before tax of £309 million (2003 : £230 million) includes net exceptional charges amounting to £59 million (2003 : £50 million) and charges for the amortisation of goodwill and intangible assets of £406 million (2003 : £445 million).

The effective tax rate on profits before exceptional items and amortisation of goodwill and intangible assets was 30.7% (2003 : 33.1%). The group profit for the year, after exceptional items, taxation and minority interests, amounted to £77 million (2003 : £70 million).

The directors do not recommend a final ordinary dividend (2003 : £nil). During the year the company paid £154 million (2003 : £144 million) on the "R" *ordinary shares and preference dividends of £7,500 (2003 : £7,500). No dividend was paid on the "E" ordinary shares (2003 : £nil). Subsidiary undertakings* paid a further £150 million (2003 : £138 million) to Reed Elsevier NV in respect of its holding of special dividend shares in Reed Elsevier Nederland BV. After these dividends and amounts due to minority interests of £2 million (2003 : £2 million) there was a retained loss of £227 million (2003 : £212 million).

At 31 December 2004 gross borrowings of £1,576 million (2003 : £1,828 million) were partially offset by cash and short term investments of £160 million (2003 : £521 million). In addition, net borrowings from shareholders and Elsevier Reed Finance BV group amounted to £5,083 million (2003 : £5,053 million).

Operating business review

The results of businesses are reported in four segments: Elsevier, LexisNexis, Harcourt Education and Reed Business (formerly Science & Medical, Legal, Education and Business respectively), which comprise the operations of the group. Adjusted operating profit is presented as an additional performance measure and is shown after share of operating profit in joint ventures and before amortisation of goodwill and intangible assets and exceptional items. Unless otherwise stated, all prior year comparisons quoted in the following commentary refer to percentage movements at constant exchange rates, using the 2003 full year average rates, and exclude intra-affiliate transactions.

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

£ million	**2004**	2003
Adjusted operating profit	**1,141**	1,156
Amortisation of goodwill and intangible assets	**(406)**	(445)
Exceptional items	**(56)**	(72)
Reported operating profit	**679**	639

Elsevier

Revenue and adjusted operating profits were ahead by 4% and 3% respectively at constant exchange rates. Minor acquisitions and disposals had little overall effect. Underlying operating margins were broadly flat as further cost efficiency funded increased development spend on new product and customer service initiatives.

The Science & Technology division saw underlying revenue growth of 3%. Strong journal subscription renewals at 96% and growing online sales through ScienceDirect were tempered by flat academic book sales and weak software sales, including a delay in a significant new MDL software product, Isentris, that was successfully launched in December. Market growth has also been constrained by pressures on institutional library budgets.

The number of research articles published in the year was up 4%. Usage on ScienceDirect continues to grow strongly, with article downloads up 41% to over 240 million before taking into account usage in locally hosted networks in developing markets such as China. New publishing and expansion of the archive increased the number of research articles on ScienceDirect by 25% to 6.7 million. The increasing migration of academic and corporate library customers to electronic subscriptions, is providing a strong platform for further electronic product introduction; those taking e-only contracts now account for some 35% of journal subscriptions by value. E-subscriptions are also providing an important opportunity to widen distribution to smaller and medium sized institutions and expand in geographies such as China.

The Health Sciences division saw underlying growth of 5% with good growth from new book publishing, continued strong backlist sales and journal advertising, and growing online sales. Good journal subscription growth was in part held back by non renewal of some society publishing contracts relating to past performance issues. Revenues from titles and electronic product serving the nursing and allied health professions were particularly strong. The International businesses outside the US saw growth of 6% with the UK and Asia Pacific performing well, and strong growth from pharmaceutical industry sponsored projects and conferences.

The investments that Elsevier has made in new, innovative products and technologies is substantial and ongoing, and is having a significant impact on research productivity for customers. In November, Elsevier launched a major new electronic product, Scopus, which provides scientists with the most comprehensive database and intuitive tool to navigate their way quickly through the world's accumulated scientific research. The Scopus database has nearly 30 million abstracts of scientific research articles, from 14,000 peer reviewed publications. The navigational service was developed in close collaboration with 20 library partners around the world to ensure that the scientific community's emerging needs are well met. The initial demand for Scopus is very encouraging.

During the year there has been considerable public debate surrounding the scientific journal publishing model, focusing on whether the current predominantly subscription 'user-pays' model or alternative models, such as 'author-pays', would best serve the scientific community. We have engaged in this debate and been open to new ideas, and we will continue to experiment and adapt. There is, we believe, increasing recognition that the subscription based 'user-pays' model does serve science well, by providing high quality peer reviewed research articles across the whole spectrum of scientific disciplines, with quality the determining factor in generating subscription demand. This model has also encouraged and enabled substantial investments to be made in applying new technologies to the distribution and navigation of research, significantly enhancing the productivity of scientific endeavour. The UK government's response to the parliamentary science and technology committee review and the recent archiving proposals by the US National Institute of Health both acknowledge the importance of these considerable benefits to science. We firmly believe that the science business will continue its long record of delivering both increasing value to customers and good returns to shareholders.

Despite the challenges we faced in 2004, the outlook for Elsevier is positive. In both Science & Technology and Health Sciences, subscription renewals are strong, book publishing is expanding, new electronic product is developing well in the market, and distribution is widening. Organic revenue growth of at least 5% is targeted for 2005 and beyond.

LexisNexis

Revenues and adjusted operating profits were up by 7% and 11% respectively at constant exchange rates, or 4% and 6% before acquisitions and disposals. LexisNexis North America saw revenues up 7% and adjusted operating profits up 12% at constant exchange rates including good contributions from recently acquired companies, notably Applied Discovery (July 2003) and Seisint (September 2004). Underlying revenue growth improved to 3%, up from 2% in the prior year, and underlying adjusted operating profits were up 4%. Outside the US, the International business grew revenues, before minor disposals, by 7% and adjusted operating profits by 10%. Adjusted operating margins were 1 percentage point ahead on the higher revenue growth with continued cost actions funding increased investment. Applied Discovery achieved a post tax return on capital well in excess of 10% in its first full year of ownership.

In North American Legal, good online growth was seen in the US small law firm market, state and local government, electronic filing and court access services, in Canada, and in electronic discovery tools for large law firms. Underlying revenue growth was 3%, or 5% including Applied Discovery on a proforma basis, with online revenues up 10%, and print and CD broadly flat as the market continues to migrate online. The legal directory business again performed well through further penetration of the small law firm market and expansion of online services. In US Corporate and Federal, underlying revenue growth improved to 4% from flat in the prior year. The risk management business has continued to grow strongly with underlying revenue growth before acquisitions of 20%, whilst the corporate, federal and academic information business was flat, a significant improvement on the prior year 4% decline, as product improvements and marketing initiatives countered continuing pressures on customer budgets and industry consolidation.

The rapid growth in the risk management business is driven by the burgeoning demand for identity authentication, fraud prevention, credit and security risk solutions from legal, commercial, government and law enforcement customers. In September, this business was significantly expanded through the $775m acquisition of Seisint, which has developed leading data technologies for acquiring, processing, linking and querying large public record and related datasets which deliver both product and cost leadership in this market. Seisint is achieving exceptionally strong growth from low cost transactional services driven by these industry leading technologies and products, with proforma 2004 revenues up over 40% on the prior year to $120m, ebitda nearly doubled to $54m, and adjusted operating profits of $45m, all ahead of expectations. The fit with the LexisNexis risk management business is very strong, to provide an outstanding technology and product platform and the leverage of the combined sales forces from which to further expand LexisNexis' fast growing risk solutions business.

The LexisNexis International businesses outside North America saw underlying revenue growth accelerate to 7%, with strong growth from new publishing and the introduction of more powerful online services, with online revenues up 28%. Particularly good growth was seen in the UK, South Africa, Netherlands, Poland, Latin America, Hong Kong and Japan. France saw online legal revenues more than double, albeit from a low base, with the successful launch of the new global online delivery platform. Online news and business services also saw good growth in Europe with significant new content and product improvements and more effective marketing. Adjusted operating profits were 10% ahead whilst increasing investment in Asia Pacific and in the launch of the new online platform.

The investment that LexisNexis has been making in new content and online services, and in expanding into related workflow solutions through both organic development and acquisition, is having a positive impact on revenue momentum. We have added significantly to US case law summaries and annotated state codes and introduced major new content series in a number of jurisdictions; we have expanded content licenses in a number of areas such as with CCH for US tax and with news and business sources; we have acquired an online tax and regulatory publisher in China. The first phase of the global online delivery platform, with its significantly enhanced product functionality and efficiency, was completed and successfully launched in France, Germany, Australia and the UK, with roll out in all our other jurisdictions over the next two years. We built a major new second data centre to safeguard service continuity as our online operations grow. We built new editorial systems and upgraded our infrastructure to support continued growth and improve efficiency. We have also selectively acquired a number of businesses that we can leverage with the assets and customer relationships we already have to accelerate our strategic progress, particularly in the fast growing areas of workflow productivity and risk management, and to deliver good financial returns. These have included law firm practice management, billing and client development tools for which there is strong and sustained growth in demand, and risk management solutions.

The outlook for LexisNexis is good. Revenue momentum is building in the business with the cumulative impact of the ongoing investment programme. New and emerging high growth opportunities in our markets are being successfully targeted, leveraging the LexisNexis asset platform and customer relationships, to further accelerate growth both in the US and internationally. Organic revenue growth of at least 5% is targeted for 2005 and beyond.

Harcourt Education

Revenues and adjusted operating profits increased by 7% and 5% respectively at constant exchange rates, including a part year contribution from the Saxon supplemental math publisher acquired on 30 June. Underlying revenue growth was 2% with adjusted operating profits 1% lower. Adjusted operating margins were 0.5 percentage points lower due to the low revenue growth, additional sales and marketing expense incurred ahead of the strong 2005 adoption year, and investment and a different sales mix in Harcourt Assessment.

The Harcourt US K-12 schools business saw continued market success, gaining the leading overall market share of over 30% in state textbook adoptions, good growth in open territories, and significant new Reading First contracts. Revenues, before acquisitions, were however flat against a market down 2-3% due to the reduction in available adoption opportunities in 2004. Particular successes in the Elementary market adoptions, where Harcourt achieved a clear leadership position, were in Florida math and South Carolina reading. In the Secondary market, strong performances were seen in the science and language arts adoptions but Harcourt's overall position was held back by the lack of a new high school math programme which is due next year. The supplemental businesses saw growth from new frontlist publishing which is starting to come through as the publishing programme is realigned to meet No Child Left Behind Act requirements. Adjusted operating profits, before acquisitions, were 2% lower, reflecting the sales and marketing spend ahead of the 2005 adoptions.

On 30 June, Harcourt Education acquired Saxon Publishers, a leading publisher of skills-based instructional material for pre-kindergarten through high school students in math, phonics and early childhood learning. The strength of Saxon's skills-based math programme fits well with Harcourt's supplemental business with its focus on reading and language arts. Saxon has performed ahead of expectations in the half year of our ownership, with proforma 2004 revenues up over 10% to \$86m and adjusted operating profit up over 40% to \$24m, with Saxon now fully integrated within the business. With the repositioning of Harcourt's supplemental literacy front list and the strength of the Saxon math programme, the business is well placed to take full advantage of the strong market growth expected in these two key areas.

Harcourt Assessment saw underlying revenue growth of 8% driven by new state testing contracts and good growth on existing contracts. Adjusted operating profits were 1% lower due to new product investment and a change in sales mix after the heavy prior year clinical publishing schedule. Good growth was seen in international markets as local language editions of key titles were introduced. Substantial investment is being made in the Stanford Learning First classroom based interim assessment product. The initial early version has been well received and strong demand is expected from the release of further modules later this year.

The Harcourt Education International business saw good growth from new publishing in the UK and southern Africa with revenues and adjusted operating profits up 6% and 8% respectively. Management responsibility for the Greenwood Heinemann and global library businesses has been brought within Harcourt supplemental learning with which they are more closely aligned. The prior year comparatives for the International and US Schools & Testing segments have been restated accordingly.

The outlook for Harcourt Education is very positive. The textbook adoption cycle turns up in 2005 and state budgets are improving. New textbook programmes are expected to perform well and Harcourt is improving its market positioning in open territories. Continued good growth is also expected in assessment and from new publishing in supplemental education. Organic revenue growth of 9-10% is targeted for 2005, and 6-7% over the three years 2005-2007 taking into account the adoption cycle.

Reed Business

Revenues and adjusted operating profits were both up 2% at constant exchange rates before minor acquisitions and disposals. The magazines and information publishing businesses were broadly flat whilst the exhibitions business grew 6%. Adjusted operating margins were largely held despite additional new product investment through further cost actions.

In the US, Reed Business Information saw revenues up 1% for the year for continuing titles, with the first half decline of 3% reversed in the second half. Continued good growth was seen in the media sector and, whilst the manufacturing titles showed some further decline, the electronics sector was up on the prior year. Online revenues grew well with significant website development and marketing initiatives. Adjusted operating profits grew 3% as further action was taken to improve margins.

In the UK, Reed Business Information revenues and adjusted operating profits were both up 5% with revenue growth of 10% or more in the property, personnel and construction sectors, a return to growth in the technology sector, and a continuing strong performance from online recruitment advertising, with print recruitment advertising also ahead. Overall display advertising, having been down in the first half, recovered with good growth in online display to end the year up 2%. Online revenues now account for 28% of UK revenues and grew 26% in the year.

In Continental Europe, Reed Business Information did well to limit underlying revenue and operating profit decline to 3% and 7% respectively, with demand impacted by continued economic weakness in The Netherlands and Germany in particular. The focus on market share performance and yield management mitigated subscription and advertising volume declines. In Asia Pacific underlying revenue growth was 10% with strong performances in Australia, Singapore and Japan.

Reed Exhibitions had a good year, with underlying revenue growth of 6% and adjusted operating profits up 7%. Revenue growth in annual exhibitions and from new launches was 4%, with particularly strong performances in the US security, jewellery and gaming shows, in the international travel and property shows, and in France and Asia Pacific. The net cycling in of non-annual shows contributed 2 percentage points to revenue growth.

Reed Business has continued to expand its investment in further developing its titles and exhibitions and in building its online services to meet the strongly growing demand for internet delivered information and marketing solutions. 2004 saw the launch of 10 titles, including Variety and Interior Design in China through joint ventures with IDG and Chinese partners, strong growth in the recently launched Design News Japan, and the development of Vlife within the Variety portfolio. Online revenues grew by more than 30% to over \$200m with strongly growing advertising and search demand in our title webzines, recruitment sites, data services, and online search engines and directories, including Kellysearch which was launched in the US and Netherlands building on its UK success.

The outlook for Reed Business is good. Markets overall are improving, and innovation in new show and title launches and in building online services is capturing growth in faster growing segments. Organic revenue growth of 4-5% is targeted for 2005, with at least 5% revenue growth targeted in later years, given a reasonable market environment. Significant cost actions over the last four years have positioned the business well to see good operational gearing as revenues increase.

Future Prospects

In education, the US adoption cycle is in an upswing and significant market priority is being given to improving individual academic outcomes; in business to business, business investment is strengthening and feeding through into advertising, search and exhibition demand; in science and medical, there is a strong appetite for new electronic product and new publishing, online distribution is expanding our addressable markets, and there are initial signs of budgetary pressures easing; in legal, there is increasing demand in traditional and developing markets for online information and integrated workflow applications that boost productivity and customer effectiveness.

Reed Elsevier Group plc is very well placed to capitalise on this improving environment, through the quality of our portfolio, the consistent strategic focus, and our investment behind growth initiatives.

TREASURY POLICIES

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

Financial instruments are used to finance Reed Elsevier Group plc's business and to hedge transactions. Reed Elsevier Group plc's businesses do not enter into speculative transactions. The main treasury risks faced by Reed Elsevier Group plc and its subsidiaries are liquidity risk, interest rate risk and foreign currency risk. The board of Reed Elsevier Group plc agrees overall policy guidelines for managing each of these risks. These were updated in 2004, mainly to reflect evolving treasury market practice and in anticipation of International Financial Reporting Standards.

Funding

Reed Elsevier Group plc develops and maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. The significance of Reed Elsevier Group plc's US operations means that the majority of debt is denominated in US dollars and is raised in the US debt markets.

A mixture of short term and long term debt is utilised and Reed Elsevier Group plc maintains a maturity profile to facilitate refinancing. Reed Elsevier Group plc's policy is that no more than US$1,000 million of long term debt should mature in any 12-month period. In addition, minimum levels of net debt with maturities over three years and five years are specified, depending on the level of the total borrowings.

Interest rate exposure management

Reed Elsevier Group plc's interest rate exposure management policy is aimed at reducing the exposure of the business to changes in interest rates. The proportion of interest expense that is fixed on net debt is determined by reference to the level of net interest cover in Reed Elsevier Group plc, its subsidiaries and affiliates. Reed Elsevier Group plc uses fixed rate term debt, interest rate swaps, forward rate agreements and a range of interest rate options to manage the exposure. Interest rate derivatives are used only to hedge an underlying risk and no net market positions are held.

Foreign currency exposure management

Translation exposures arise on the earnings and net assets of business operations in countries other than those of Reed Elsevier Group plc. These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars.

Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts. In addition, recurring transactions and future investment exposures may be hedged, within defined limits, in advance of becoming contractual. The precise policy differs according to the commercial situation of the individual businesses. Expected future net cash flows may be covered for sales expected for up to the next 12 months (50 months for Elsevier science and medical subscription businesses up to limits staggered by duration). Cover takes the form of foreign exchange forward contracts.

At the year end, the amount of outstanding foreign exchange cover in respect of future transactions was £565 million.

DIRECTORS

The Reed Elsevier Group plc board consists of six executive directors. The directors at the date of this Report are shown above. The board met seven times during the year. Mr Tabaksblat was unable to attend two meetings and Lord Sharman and Mr Brock were each unable to attend one meeting, otherwise there was full attendance.

The board of Reed Elsevier Group plc comprises a balance of executive and non-executive directors who bring a wide range of skills and experience to the deliberations of the boards. All non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment.

All directors have full and timely access to the information required to discharge their responsibilities fully and efficiently. They have access to the services of the company secretary, other members of Reed Elsevier Group plc's management and staff, and its external advisors. Directors may take independent professional advice in the furtherance of their duties, at Reed Elsevier Group plc's expense.

On appointment and at regular intervals, directors receive training appropriate to their level of previous experience. This includes the provision of a tailored induction programme, so as to provide newly appointed directors with information about the Reed Elsevier Group plc businesses and other information to assist them in performing their duties. Non-executive directors are encouraged to visit the Reed Elsevier Group plc businesses to meet directors and senior executives.

As a general rule, non-executive directors serve on the board for two, three year terms, although the board may invite individual directors to serve up to one additional three year term.

No director had, during the year, any interest in the share capital of the company or any other group company. The interests of the directors in the issued share capital of Reed Elsevier PLC and Reed Elsevier NV at the beginning and end of the year are shown in the Director's Remuneration Report.

Committees

Audit Committee

Reed Elsevier Group plc has established an Audit Committee. The Committee comprises only non-executive directors, all of whom are independent. The Committee is chaired by Lord Sharman, the other members being John Brock and David Reid. The Committee met five times during the year, and there was full attendance.

The Committee is responsible for reviewing matters relating to the financial affairs of the company, internal control policies and the internal and external audit programmes. This includes, for example, reviewing accounting policies, compliance with accounting standards and other statutory requirements, and matters relating to risk management and the effectiveness of internal controls. The Committee is also responsible for the selection of auditors, and making an annual assessment of the effectiveness of the audit and the auditors' independence, prior to making a recommendation to the board in respect of the reappointment of the auditors. The Committee approves the fees for the audit and pre-approves the provision of all non-audit services by the auditors. The amounts paid to the auditors, both for audit and non-audit services, together with a description of the services provided, appears in note 5 to the Accounts. The chief financial officer, group chief accountant, director of internal audit and senior representatives of the external auditors attend meetings of the Committee.

Remuneration Committee

Reed Elsevier Group plc has established a Remuneration Committee which comprises only independent non-executive directors. The Committee is chaired by Rolf Stomberg, the other members being Mark Elliott and Cees van Lede. The Committee met four times during the year, and there was full attendance.

The Committee is responsible for recommending to the board the remuneration in all its forms of executive directors of Reed Elsevier Group plc, and provides advice to the Chief Executive Officer on the remuneration of executives at a senior level below the board. The fees of non-executive directors are determined by the board of directors. A Directors' Remuneration Report, which has been approved by the board of Reed Elsevier Group plc appears on pages 10 to 20.

Strategy Committee

Reed Elsevier Group plc has established a Strategy Committee, comprising a majority of independent non-executive directors. The Committee is chaired by Morris Tabaksblat, the other members being Sir Crispin Davis, Mark Elliott and David Reid. The Committee met once during the year, and there was full attendance.

The Committee's terms of reference include reviewing the major features of the strategy proposed by the Chief Executive Officer, and subsequently recommending the proposed strategy to the board. The Committee is also responsible for reviewing any acquisition or investment, which would have major strategic or structural implications for Reed Elsevier Group plc.

CORPORATE GOVERNANCE

Internal Control

The board of Reed Elsevier Group plc is responsible for the system of internal control. The board of Reed Elsevier Group plc is also responsible for reviewing the effectiveness of their system of internal control.

The board has implemented an ongoing process for identifying, evaluating, monitoring and managing the significant risks faced by their respective businesses. This process has been in place throughout the year ended 31 December 2004 and up to the date of the approvals of the Annual Report and Financial Statements.

Reed Elsevier Group plc has an established framework of procedures and internal controls, which is set out in a group Policies and Procedures Manual, and with which the management of each business is required to comply. Group businesses are required to maintain systems of internal control, which are appropriate to the nature and scale of their activities and address all significant operational and financial risks that they face. The board of Reed Elsevier Group plc has adopted a schedule of matters that are required to be brought to it for decision.

Reed Elsevier Group plc has a Code of Ethics and Business Conduct that provides a guide for achieving its business goals and encourages officers and employees to behave in an open, honest, ethical and principled manner. The Code also outlines confidential procedures allowing employees to report any concerns about compliance, or about Reed Elsevier's financial reporting practice.

Each Business Group has identified and evaluated its major risks, the controls in place to manage those risks and the level of residual risk accepted. Risk management and control procedures are embedded into the operations of the business and include the monitoring of progress in areas for improvement that come to management and board attention. The major risks identified include business continuity, protection of IT systems and data, challenges to intellectual property rights, management of strategic and operational change, evaluation and integration of acquisitions, and recruitment and retention of personnel.

The major strategic risks facing the Reed Elsevier Group plc businesses are considered by the Strategy Committee. Litigation and other legal and regulatory matters are managed by legal directors in Europe and the United States.

The Reed Elsevier Group plc Audit Committee receives regular reports on the management of material risks and reviews these reports. The Audit Committee also receives regular reports from both internal and external auditors on internal control matters. In addition, each Business Group is required, at the end of the financial year, to review the effectiveness of its internal controls and report its findings on a detailed basis to the management of Reed Elsevier Group plc. These reports are summarised and, as part of the annual review of effectiveness, submitted to the Audit Committee of Reed Elsevier Group plc. The Chairman of the Audit Committee reports to the board on any significant internal control matters arising.

Annual review

As part of the year end procedures, the board of Reed Elsevier Group plc has reviewed the effectiveness of the systems of internal control during the last financial year. The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss. Subject to this, the boards concluded that the systems of internal control and risk management were adequate and effective in the context of the businesses of Reed Elsevier Group plc.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors of Reed Elsevier Group plc are required to prepare financial statements as at the end of each financial period, which give a true and fair view of the state of affairs, and of the profit or loss, of the company and its subsidiaries, joint ventures and associates. They are responsible for maintaining proper accounting records, for safeguarding assets, and for taking reasonable steps to prevent and detect fraud and other irregularities. The directors are also responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgements and estimates that are prudent and reasonable. Applicable accounting standards have been followed and the Reed Elsevier Group plc financial statements are prepared using accounting policies which comply with UK Generally Accepted Accounting Principles.

GOING CONCERN

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

FORWARD LOOKING STATEMENTS

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

CORPORATE SOCIAL RESPONSIBILITY

CSR matters to Reed Elsevier. We are committed to transparency and report regularly on those elements which reflect our CSR activity: namely workplace, marketplace, community, environment and governance. During 2004, we strengthened our CSR performance by: implementing management training plans responding to the results of our second global employee survey; initiating employee training to support our new Code of Ethics and Business Conduct; broadening our RE Cares programme to cover 75% of our business locations; expanding measurement of contractors' compliance with our Vendor Code of Conduct; and working with our Environmental Champions to set, monitor and deliver environmental targets for our key facilities.

Our CSR Forum, led by CEO Sir Crispin Davis, met twice during the year to: review progress against our targets for 2004; review our CSR policies (including our Environmental Management System and our Code of Ethics and Business Conduct); and agree targets and programmes for 2005.

Workplace

Organisational development activities have expanded in response to the results of the second employee survey.

We have launched a pilot graduate recruitment programme to attract, develop and retain the high calibre people we need to drive our business forward. Our Personal Development Programme, now in its fifth year, and our coaching programmes continue to enable all of our people to reach their full potential through annual appraisal and objective setting. The annual organisation and talent review ensures that employees with high potential are identified and succession plans developed.

We increased our regular communications with staff, using posters, email, cascade briefings, videos and aREna, our global intranet, to provide a constant flow of information and news. We consult frequently with our employees on relevant issues both directly and through our staff and works councils.

Businesses across the group have introduced or expanded wellness programmes providing health advice and confidential counselling during the year. The diversity of our senior management group increased and now comprises 16 nationalities, with women occupying 24% of these positions.

As an equal opportunity employer, we value the diversity of our workforce and are encouraged by this improving trend.

Marketplace

Customer focus is one of Reed Elsevier's key values. Our businesses regularly conduct customer satisfaction surveys, run customer service programmes and hold customer conferences to ensure that we understand and respond to customer needs. Programmes like Elsevier's Library Connect programme help keep us abreast of the needs of customers and users. One hundred and thirty six librarians participated, representing 115 institutions in 27 countries. LexisNexis introduced a similar tailored assistance programme, Knowledge Base for law schools, an online and interactive resource.

We use a wide range of initiatives to broaden access to our products by disadvantaged groups. Our Heinemann-Raintree imprint donated 10,000 new non-fiction children's books to two national non-profit literacy foundations in the United States, delivering new, high quality social studies and science books to help strengthen children's reading skills and encourage learning.

We continue to monitor the progress of our UN project, the Health InterNetwork Access to Research Initiative (HINARI) programme which enables researchers in the developing world to conduct more than 200,000 free electronic searches of 700 Elsevier scientific journals.

Community

During the year, we strengthened and expanded Reed Elsevier Cares, which puts into action our goal of playing a positive role in our local and global communities, particularly through employee involvement.

The programme's central focus is furthering education for disadvantaged young people and community initiatives of importance to local employees. Over 95 offices, representing 75% of our businesses throughout the world, have Reed Elsevier Cares programmes helping their local communities. Our second group-wide Cares Month took place in September involving thousands of employees and encompassing over 100 activities including book and school supply drives; library and school renewal efforts; and education fundraising appeals, where possible making use of our business expertise for community good.

Through our network of Cares Champions, we asked our businesses to take on the 2004 Reed Elsevier Cares Challenge which selected five projects for funding awards. In support of community investment, we donated £1.4m cash and the equivalent of £1m in gifts of products, services and staff time in 2004. In response to the tsunami disaster our businesses have donated more than £575,000 to aid relief efforts.

Environment

Research and analysis have identified the key environmental priorities for Reed Elsevier of managing the use of energy and water, waste generation, and our supply chain through paper use and print and production technologies. We are committed to reducing these impacts, whenever possible, by limiting resource use and by efficiently employing sustainable materials and technologies. Across the group in 2004 we increased recycling by 6.4% over the previous year.

Our network of environmental champions are tasked with developing targets for reducing energy, water consumption and waste production.

We require our suppliers and contractors to meet the same objectives. The global CEOs responsible for each of our four business divisions are accountable for compliance with Reed Elsevier's environmental policy and applicable regulation.

Governance

Our Code of Ethics and Business Conduct continues to provide a guide for achieving our business goals and helps us behave in an open, honest and ethical manner. During the year, we initiated Code training programmes, using seminars and online training tools. The CSR Forum approved revisions to the Code in December 2004, ensuring that it follows current best practice and legislation. The Code incorporates the provisions of the UN Global Compact of which Reed Elsevier is a signatory.

We extended our Vendor Code of Conduct to more of our business partners, engaged independent external auditors to ensure our partners meet our standards, and introduced a pilot vendor environmental survey to monitor and minimise our supply chain impacts, that will be implemented more widely in 2005.

Our full CSR report, including full details of our environmental performance, is available at www.reedelsevier.com.

POLITICAL DONATIONS

In the United States, the Reed Elsevier Group plc group contributed £44,000 to political parties. There were no donations made in the European Union for political purposes.

Reed Elsevier Group plc

Directors' Report

Our full CSR report, including full details of our environmental performance, is available at www.reedelsevier.com.

POLITICAL DONATIONS

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PAYMENTS TO SUPPLIERS

The company agrees terms and conditions for business transactions with suppliers and payment is made on these terms. The average time taken to pay suppliers was between 30 and 45 days.

AUDITORS

Resolutions for the reappointment of Deloitte & Touche LLP as auditors of the company and authorising the directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

By order of the board:

Stephen J Cowden
Secretary
16 February 2005

Registered Office
1-3, Strand
London, WC2N 5JR

Reed Elsevier Group plc

Directors' Remuneration Report

This report has been prepared by the Remuneration Committee (the "Committee") of Reed Elsevier Group plc and approved by the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV. The report has been prepared in accordance with the UK Directors' Remuneration Report Regulations 2002 (the "UK Regulations"). It describes how the principles of good governance relating to directors' remuneration have been applied, and meets the requirements of the UK Combined Code of Corporate Governance issued in July 2003 (the "UK Code").

Information relating to the emoluments of the directors on pages 13 to 15 and directors' interests in share options on pages 16 to 19 has been audited.

Remuneration Committee

The Committee is responsible for recommending to the boards the remuneration (in all its forms), and the terms of the service contracts and all other terms and conditions of employment of the executive directors, and for providing advice to the Chief Executive Officer on major policy issues affecting the remuneration of executives at a senior level below the board. A copy of the terms of reference of the Committee is published on the Reed Elsevier website, www.reedelsevier.com.

Throughout 2004 the Committee consisted wholly of independent non-executive directors: Rolf Stomberg (Chairman of the Committee); Mark Elliott; and Cees van Lede. At the invitation of the Chairman, the Chief Executive Officer attends meetings of the Committee, except when his own remuneration is under consideration.

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

In addition to Towers Perrin, the following provided material advice or services to the Committee during the year: Jean-Luc Augustin, Human Resources Director (until June 2004); Phil Wills, Director, Compensation and Benefits; and Sir Crispin Davis, Chief Executive Officer.

Remuneration policy

The remuneration policy is set out below in paragraphs (a) and (b). In accordance with the UK Regulations, a resolution will be submitted to the Annual General Meeting of Reed Elsevier PLC to approve the remuneration policy.

(a) Objectives

The principal objectives of the remuneration policy are to attract, retain and motivate people of the highest calibre and experience needed to shape and execute strategy and deliver shareholder value in the context of an ever more competitive and increasingly global employment market. The Board and the Committee believes that this requires:

(i) a competitive package of pay and benefits, commensurate with comparable packages available within other leading multinational companies operating in global markets; the Committee believes this needs to deliver upper quartile total remuneration for clearly superior levels of performance and to provide a consistent approach toward senior executives, including the directors, irrespective of geographical location;

(ii) to link reward to individual directors' performance, company performance and share price performance so as to align the interests of the directors with those of Reed Elsevier and the shareholders of the parent companies and to avoid rewarding failure; and

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

In order to meet the above objectives, the remuneration of executive directors comprises a balance between "fixed" remuneration and "variable performance-related" incentives. The policy is that the predominant proportion of reward potential should be linked to performance, and the remuneration structure for 2004 shows that for superior performance over 70% of the total remuneration is performance related. Since January 2003 the Committee has operated a policy of common levels, irrespective of geographical location, for both annual and longer term incentives for executive directors, reflecting the global nature of the role of each director.

(b) Remuneration elements

Executive directors' remuneration consists of the following elements:

- Base salary, which is based on comparable positions in leading multinational businesses of similar size and complexity. To reflect the geographical diversity of the business, the Committee reviews market practice in relation to major UK corporations with particular reference to the FTSE 50 for the UK, the AEX top 10 group of companies in the Netherlands and, in the US, the practice of major media companies. Salaries are reviewed annually by the Committee to take into account both market movement and individual performance.

- A variable annual cash bonus, based on achievement of three financial performance measures (revenue, profit and cash flow conversion rate) and individual key performance objectives. Targets are set at the beginning of the year by the Committee and are aligned with the annual budget and strategic business objectives. For 2004, no bonus will become payable in respect of an individual financial performance measure unless 94% of the set target for that measure is achieved. Up to 90% of salary may be earned for the achievement of highly stretching targets set by the Committee. For exceptional performance beyond these stretching targets, the Committee has the discretion to award up to 110% of salary.

- Bonus investment plan ("BIP"), under which directors and other senior executives were able to invest up to half of their annual performance related bonus in Reed Elsevier PLC/Reed Elsevier NV shares. Approximately 100 senior executives participated in the BIP in respect of their 2003 bonus. Subject to continuing to hold the shares and remaining in employment, at the end of a three year period the participants will be awarded an equivalent number of Reed Elsevier PLC/Reed Elsevier NV shares at nil cost. Awards under the BIP are made annually, and in 2004 are subject to a performance condition requiring the achievement of compound growth in the average of the Reed Elsevier PLC and Reed Elsevier NV adjusted EPS (ie before amortisation of goodwill and intangible assets, exceptional items and UK tax credit equalisation) measured at constant exchange rates ("adjusted EPS") of at least 6% per annum compound during the three year vesting period.

- Share options ("ESOS"), where the directors and other senior executives are granted options annually over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price at the date of grant. The Committee approves the grant of any option and sets performance conditions attaching to options. At executive director level grants in 2004 were up to 3 times salary, and the awards are subject to a performance condition requiring the achievement of at least 6% per annum compound growth in adjusted EPS at constant exchange rates during the three years following the grant. There will be no re-testing of the 3 year EPS performance period. The overall size of the annual grant pool is determined by the Committee by reference to the compound annual growth in adjusted EPS over the three years prior to grant, with individual grant size determined by the Committee based on individual performance. At compound growth of between 8% and 10% per annum, the pool of options available for the 2005 grant will be approximately 80% of the 2004 pool.

- Long term incentives ("LTIS"), where the Committee made the first awards to directors and a small number of key senior executives (approximately 40) during 2004. This award covers the period 2004 to 2006 during which time no further awards under the LTIS will be made to existing participants. Approximately 50% of the total implied value of grants took the form of nil cost conditional shares and 50% took the form of conventional market value options. This resulted in a grant to directors of 2.5 times salary in conditional shares and 5.5 times salary in conventional share options. Grants are subject to the achievement of compound annual adjusted EPS growth at constant exchange rates, achieved over a three-year performance period from 2004 to 2006, of between 8% and 12%. At 8% compound annual adjusted EPS growth 25% of the award will vest; at 10% compound annual adjusted EPS growth 100% of the award will vest; and at 12% compound annual adjusted EPS growth 125% of the award would vest. Awards will vest on a straight-line basis between each of these points. There will be no re-testing of the three year performance period. Acceptance of an award under the LTIS by any individual automatically terminated any award under the Senior Executive Long Term Incentive Plan, introduced in 2000 ("LTIP"). Participants in the LTIS are required to build up a significant personal shareholding in Reed Elsevier PLC and/or Reed Elsevier NV. At executive director level, the requirement is that they should own shares equivalent to 1.5 times salary, to be acquired over a three year period. In view of this shareholding obligation, the Committee believes that it is not appropriate to require directors to retain shares acquired under nil cost options for a period of five years after vesting, as required by the Dutch Code. The Committee decided in favour of earnings per share (EPS) as a performance measurement rather than total shareholder return (TSR), as the Committee believes this measure better reflects management's contribution to operational performance, whereas TSR is significantly influenced by market factors outside management's control.

- Post-retirement pensions, where different retirement schemes apply depending on local competitive market practice, length of service and age of the director. The only element of remuneration that is pensionable is base salary. The Committee considers the effect of any salary increases for directors on their pension provisions and on the salaries for other staff in the business and is assessing what, if any, impact the new UK pension legislation will have on its approach to the provision of pensions for UK based executive directors.

No loans, advances or guarantees have been provided on behalf of any director.

The Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in Reed Elsevier's business environment and in remuneration practice. Consequently, the above policy will apply in 2005 but may require to be amended. Any changes in policy will be described in future Directors' Remuneration Reports.

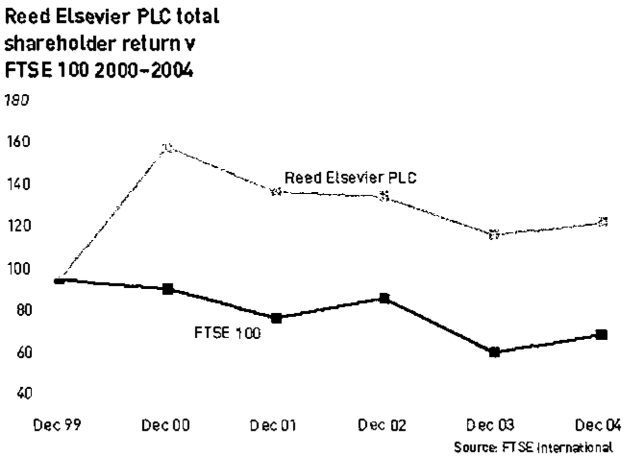
Total shareholder return

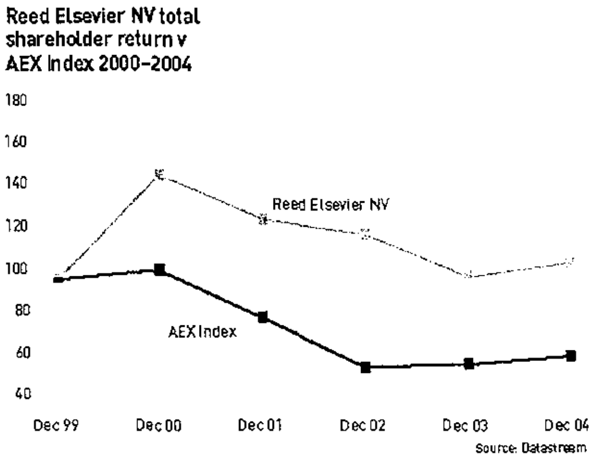
The graphs below show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested. The graphs, which have been prepared in accordance with the UK Regulations, compare the Reed Elsevier PLC performance with the performance achieved by the FTSE 100, and the Reed Elsevier NV performance with the performance achieved by the Euronext Amsterdam ("AEX") Index, over the five years 2000–2004. As Reed Elsevier PLC and Reed Elsevier NV are members of the FTSE 100 and AEX Index respectively, the Committee considers these indices to be appropriate for comparison purposes.

For the five year period since 1 January 2000, the total shareholder return for Reed Elsevier PLC was 27%, significantly outperforming the FTSE 100 which saw a negative return of 18%. For Reed Elsevier NV, in the same five year period total shareholder return was 8%, also significantly outperforming the AEX Index which had a negative return of 37%.

Reed Elsevier Group plc

Directors' Remuneration Report





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

Appointment of executive director

During the year, Mr Engstrom was appointed Chief Executive Officer of the Elsevier division. On appointment Mr Engstrom's remuneration comprised:

- a base salary of $1,000,000 per annum;
- participation in the annual cash bonus plan, with a guaranteed minimum bonus of 80% of salary for 2004 (pro-rated to his period of service) and 2005;
- participation in the Bonus Investment Plan on the same terms as the other executive directors;
- participation in the Executive Share Option Scheme on the same terms as the other executive directors; on 23 August 2004, Mr Engstrom received an award under this scheme for 2004 (pro-rated to his period of service);
- a one off grant under the Long Term Incentive Share Option Scheme of 5.5 times annual salary in conventional market value options and 2.5 times annual salary in nil cost conditional shares, which was awarded on 23 August 2004;
- an annual contribution in respect of pension of 19.5% of annual salary paid in to Mr Engstrom's designated retirement account;
- a one-off grant of restricted shares equal in value to $2,000,000, vesting in three annual tranches, to compensate Mr Engstrom in respect of the loss of long term incentive benefits with his previous employer.

In the event that Mr Engstrom's employment is terminated by Reed Elsevier prior to the second anniversary (other than by reason of his voluntary resignation or dismissal for cause), then the Remuneration Committee may permit Mr Engstrom to retain the options after termination provided that vesting will only be permitted if the performance conditions are met.

Service contracts

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

G J A van de Aast was appointed a director in December 2000. His service contract, which is dated 15 November 2000, is subject to English law and provides for a notice period of 12 months.

M H Armour was appointed a director in July 1996. His service contract, which is dated 7 October 1996, as amended in June 2003 in relation to a reduction in his notice period, is subject to English law and provides for a notice period of 12 months.

Sir Crispin Davis was appointed a director in September 1999. His service contract, which is dated 19 July 1999, is subject to English law and provides for a notice period of 12 months.

E Engstrom was appointed a director of Reed Elsevier Group plc and Reed Elsevier PLC on 23 August 2004. His service contract, which is dated 25 June 2004, is subject to English law and provides for an initial notice period of 24 months, reducing to 12 months after one year's service.

A Prozes was appointed a director in August 2000. His service contract, which is dated 5 July 2000, is subject to New York law and provides that, in the event of termination without cause by the company, 12 months' base salary would be payable.

P Tierney was appointed a director in April 2003. His service contract, which is dated 19 November 2002, is subject to New York law and provides that, in the event of termination without cause by the company, 12 months' base salary would be payable.

The notice periods in respect of individual directors have been reviewed by the Committee. The Committee believes that as a general rule notice period should be twelve months, and that the directors should, subject to practice within the country in which the director is based, be required to mitigate their damages in the event of termination. The Committee will, however, have regard to local market conditions so as to ensure that the terms offered are appropriate to recruit and retain key executives operating in a global business.

As a condition of receiving an award in 2004 under the LTIS, ESOS and BIP, the service contracts of Sir Crispin Davis and Messrs van de Aast, Armour, Prozes and Tierney were amended during the year to incorporate additional restrictive covenants. These covenants prevent a director from working with specified competitors, recruiting Reed Elsevier employees and soliciting Reed Elsevier customers for a period of 12 months after leaving employment. In addition, in the event of a director resigning, he will immediately lose all rights to any options awarded under the LTIS, ESOS and BIP granted from 2004 onwards, whether or not such awards have vested. Furthermore, in the event that a director joins a specified competitor within 12 months of termination, any gains made in the six months prior to termination on the exercise of an LTIS, ESOS and BIP award made in 2004, shall be repayable to the Company. In the case of Mr Engstrom, his service contract dated 25 June 2004 contains identical covenants.

External appointments

Executive directors may, subject to the approval of the Chairman and the Chief Executive Officer, serve as non-executive directors on the boards of up to two non-associated companies (of which only one may be to the board of a major company). The Committee believes that Reed Elsevier can benefit from the broader experience gained by executive directors in such appointments. Directors may retain remuneration arising from such non-executive directorships. Sir Crispin Davis is a non-executive director of GlaxoSmithKline plc, and received a fee of £57,260 during the year from that company in such capacity. Erik Engstrom is a non-executive director of Eniro AB, and received a fee of £8,150 from 23 August 2004 to 31 December 2004 from that company in such capacity.

Remuneration of non-executive directors

The remuneration of the non-executive directors for 2004 was determined by the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV, with the aid of external professional advice from Towers Perrin. Non-executive directors receive an annual fee and are reimbursed expenses incurred in attending meetings. They do not receive any performance related bonuses, pension provisions, share options or other forms of benefit.

With effect from 1 May 2003 the fees paid to the non-executive directors (other than the Chairman) who serve on the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV were reviewed for the first time since 1999 and were increased to £45,000. The respective Chairmen of the Remuneration Committee and Audit Committee also receive an additional fee of £7,000 in respect of those additional duties.

With effect from 1 January 2004 the fees paid to the member of the supervisory board of Reed Elsevier NV, who does not serve on the boards of either Reed Elsevier PLC or Reed Elsevier Group plc, were reviewed and increased to reflect her time commitment to other companies within the Reed Elsevier combined businesses.

The non-executive directors serve under letters of appointment, and do not have contracts of service.

Emoluments of the directors

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

(a) Aggregate emoluments

£000	2004	2003
Salaries and fees	**3,684**	3,473
Benefits	**475**	93
Annual performance-related bonuses	**3,027**	2,254
Pension contributions	**54**	243
Pension to former director	**190**	213
Payment to former directors	**10**	95
Total	**7,440**	6,371

No compensation payments have been made for loss of office or termination in 2003 and 2004.

Details of share options exercised by the directors over shares in Reed Elsevier PLC and Reed Elsevier NV during the year are shown on pages 16 to 19. The aggregate notional pre-tax gain made by the directors on the exercise of share options during the year was £2,001 (2003: £5,201,190).

Reed Elsevier Group plc

Directors' Remuneration Report

(b) Individual emoluments of executive directors

£	Salary	Benefits	Bonus	**Total**	2003
G J A van de Aast	405,900	18,592	410,730	**835,222**	681,009
M H Armour	503,970	23,699	470,733	**998,402**	857,230
Sir Crispin Davis	991,725	31,340	926,370	**1,949,435**	1,718,379
E Engstrom	195,966	388,065	155,701	**739,732**	–
D J Haank (until 18 June 2003)	–	–	–	–	207,131
A Prozes	545,082	7,739	527,531	**1,080,352**	1,022,230
P Tierney (from 8 April 2003)	545,082	5,574	536,415	**1,087,071**	852,399
Total	3,187,725	475,009	3,027,480	**6,690,214**	5,338,378

Benefits include the provision of a company car, medical insurance and life assurance and, in the case of Mr Engstrom, one-off relocation expenses.

Sir Crispin Davis was the highest paid director in 2004. He did not exercise any share options during 2004.

(c) Pensions

The Committee reviews the pension arrangements for the executive directors to ensure that the benefits provided are consistent with those provided by other multinational companies in its principal countries of operation.

Executive directors based in the United Kingdom are provided with pension benefits at a normal retirement age of 60, equivalent to two thirds of base salary in the 12 months prior to retirement, provided they have completed 20 years' service with Reed Elsevier or at an accrual rate of 1/30th of pensionable salary per annum if employment is for less than 20 years. The target pension for Sir Crispin Davis at normal retirement age of 60 is 45% of base salary in the 12 months prior to retirement.

In 1989, the Inland Revenue introduced a cap on the amount of pension that can be provided from an approved pension scheme. The pension benefits of Sir Crispin Davis and Messrs Armour and van de Aast will be provided from a combination of the Reed Elsevier Pension Scheme and the company's unapproved, unfunded pension arrangements.

The target pension for A Prozes, a US based director, is US$300,000 per annum, which becomes payable on retirement only if he completes a minimum of seven years' service. The pension will be reduced in amount by the value of any other retirement benefits payable by the company or which become payable by any former employer, other than those attributable to employee contributions.

The target pension for P Tierney, a US based director, after completion of five years pensionable service is US$440,000 per annum, inclusive of any other retirement benefits from any former employer. In the event of termination of employment before completion of five years' pensionable service, the pension payable will be reduced proportionately, subject to a minimum pension of US$220,000 per annum in the event of termination of employment for reasons other than resignation or dismissal for cause.

The pension arrangements for the above directors include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and a spouse's and/or dependants' pension on death.

The increase in the transfer value of the directors' pensions, after deduction of contributions, is shown below:

£

	Age 31 December 2004	Directors' contributions	Transfer value of accrued pension 31 December 2003	Transfer value of accrued pension 31 December 2004	Increase in transfer value during the period (net of directors' contributions)	Accrued annual pension 31 December 2004	Increase in accrued annual pension during the period	Increase in accrued annual pension during the period (net of inflation)	Transfer value of increase in accrued annual pension during the period (net of inflation and directors' contributions)
G J A van de Aast	47	3,803	333,533	510,134	172,798	55,269	17,324	16,262	146,296
M H Armour	50	3,803	1,378,566	1,722,165	339,796	166,554	26,598	22,688	230,787
Sir Crispin Davis	55	3,803	2,748,864	3,961,740	1,209,073	249,323	56,285	50,880	804,674
A Prozes	58	–	–	–	–	–	–	–	–
P Tierney	59	–	1,325,718	1,427,994	247,163	136,539	24,044	24,044	286,999

Transfer values have been calculated in accordance with the guidance note "GN11" published by the UK Institute of Actuaries and Faculty of Actuaries.

The transfer value in respect of individual directors represents a liability in respect of directors' pensions entitlement, and is not an amount paid or payable to the director.

E Engstrom, a Dutch based director, is not a member of a company pension scheme and the company makes a contribution to Mr Engstrom's designated retirement account, equivalent to 19.5% of his annual salary.

(d) Individual emoluments of non-executive directors

£	2004	2003
G J de Boer-Kruyt	**22,993**	15,758
J F Brock	**44,218**	43,448
M W Elliott (from 8 April 2003)	**45,000**	36,742
C J A van Lede (from 8 April 2003)	**44,218**	36,897
R J Nelissen (until 8 April 2003)	–	10,172[i]
S Perrick (until 8 April 2003)	–	10,172
D E Reid (from 8 April 2003)	**45,000**	36,742
Lord Sharman	**52,000**	48,544
R W H Stomberg	**52,381**	49,655
M Tabaksblat	**190,476**	193,103
Total	**496,286**	481,233

(i) R J Nelissen has served as Chairman of the Supervisory Board of Elsevier Reed Finance BV throughout the year. During the period he received fees of £10,204 in such capacity.

Share options and interests in shares

Shareholders of Reed Elsevier PLC and Reed Elsevier NV approved the introduction of new share option schemes at their respective Annual General Meetings in 2003. The Schemes are the Reed Elsevier Group plc Share Option Scheme, which followed on from the Reed Elsevier Group plc Executive Share Option Scheme adopted by shareholders in 1993 (together "ESOS"); the Reed Elsevier Group plc Bonus Investment Plan, which followed on from the Reed Elsevier Group plc Bonus Investment Plan adopted by the boards in 2002 (together "BIP"); the Reed Elsevier Group plc Long Term Incentive Share Option Scheme ("LTIS"), which followed on from the Reed Elsevier Group plc Senior Executive Long Term Incentive Scheme adopted by shareholders in 2000 ("LTIP"); and the Reed Elsevier Group plc SAYE Share Option Scheme, which followed on from the Reed Elsevier Group plc SAYE Share Option Scheme adopted by shareholders in 1993.

Options granted under ESOS are normally exercisable between three and ten years from the date of grant, at the market price at the date of grant. Until 2003, options granted under ESOS were subject to a performance condition that required the compound growth, at constant exchange rates, in adjusted EPS in the three years immediately preceding vesting to exceed the compound growth in the average of the UK and Dutch retail price indices by a minimum of 6%. From 2004, the number of shares available for grant in any year will be determined by reference to a pool of shares, the size of which will vary according to EPS performance during the three years immediately preceding the grant. Approximately 2,500 executives received an award under ESOS in 2004. In *addition to the pre-grant performance condition, grants made to executive directors incorporate a post-grant performance measure, requiring growth, at* constant exchange rates, in adjusted EPS in the three years following the date of grant of at least 6% p.a. compound.

Options granted under BIP are normally exercisable three years from the date of grant, at nil cost. From 2004, in order for a BIP award to vest growth, at constant exchange rates, in adjusted EPS in the three years following the date of grant must be at least 6% p.a. compound.

Awards under the LTIS take the form of nil cost conditional shares and conventional market price options. The awards normally vest after three years, subject to the achievement of growth, at constant exchange rates, in adjusted EPS. At 8% compound annual adjusted EPS growth 25% of the award would vest, at 10% compound annual adjusted EPS growth 100% of the award would vest, and at 12% compound annual adjusted EPS growth 125% of the award would vest.

In respect of awards made from 2004 onwards under ESOS, BIP and LTIP, there will be no re-testing of the three year post-grant EPS performance measure. The performance conditions applicable to the ESOS, BIP and LTIS were chosen in order to provide an appropriate balance between operational focus and producing a sustainable improvement in shareholder value over the longer term.

All options granted under the LTIP lapsed during the year unexercisable as a condition of accepting an award under the LTIS.

Options under the SAYE scheme, in which all eligible UK employees are invited to participate, are granted at a maximum discount of 20% to the market price at the time of grant, and are normally exercisable after the expiry of three or five years from the date of grant. No performance targets attach to options granted under this scheme, as it is an all employee scheme. Approximately 1,300 employees participated in SAYE during 2004.

Directors' Remuneration Report

Details of options and restricted shares held by directors in Reed Elsevier PLC and Reed Elsevier NV during the period are shown below. There have been no changes in the options or restricted shares held by directors since 31 December 2004.

(a) ***In Reed Elsevier PLC***

	1 January 2004	Granted during the year	Option price	Exercised during the year	Lapsed during the year	Market price at exercise date	31 December 2004	Exercisable from	Exercisable until
G J A van de Aast									
– ESOS	50,940		638.00p				50,940	1 Dec 2003	1 Dec 2010
	49,317		659.00p				49,317	23 Feb 2004	23 Feb 2011
	58,000		600.00p				58,000	22 Feb 2005	22 Feb 2012
	81,728		451.50p				81,728	21 Feb 2006	21 Feb 2013
		124,956	487.25p				124,956	19 Feb 2007	19 Feb 2014
– BIP		31,217	Nil				31,217	26 Mar 2007	26 Mar 2007
– LTIP	509,404[ii]		638.00p		509,404				
– LTIS (options)		229,087	487.25p				229,087	19 Feb 2007	19 Feb 2014
– LTIS (shares)		104,130	Nil				104,130	19 Feb 2007	19 Feb 2007
Total	749,389	489,390			509,404		729,375		
M H Armour									
– ESOS	39,600		400.75p				39,600	26 Apr 1998	26 Apr 2005
	30,000		585.25p				30,000	23 Apr 1999	23 Apr 2006
	52,000		565.75p				52,000	21 Apr 2000	21 Apr 2007
	66,900		523.00p				66,900	17 Aug 2001	17 Aug 2008
	33,600		537.50p				33,600	21 Feb 2003	19 Apr 2009
	88,202		436.50p				88,202	2 May 2003	2 May 2010
	62,974		659.00p				62,974	23 Feb 2004	23 Feb 2011
	74,000		600.00p				74,000	22 Feb 2005	22 Feb 2012
	104,319		451.50p				104,319	21 Feb 2006	21 Feb 2013
		155,147	487.25p				155,147	19 Feb 2007	19 Feb 2014
– BIP	11,327		Nil				11,327	21 Mar 2006	21 Mar 2006
		19,225	Nil				19,225	26 Mar 2007	26 Mar 2007
– LTIP	882,016[ii]		436.50p		882,016				
– LTIS (options)		284,437	487.25p				284,437	19 Feb 2007	19 Feb 2014
– LTIS (shares)		129,289	Nil				129,289	19 Feb 2007	19 Feb 2007
– SAYE	3,924		430.00p	3,924[iii]		481.00p			
		4,329	377.60p				4,329	1 Aug 2009	31 Jan 2010
Total	1,448,862	592,427		3,924	882,016		1,155,349		
Sir Crispin Davis									
– ESOS	160,599		467.00p				160,599	21 Feb 2003	1 Sept 2009
	80,300		467.00p				80,300	1 Sept 2003	1 Sept 2009
	80,300		467.00p				80,300	1 Sept 2004	1 Sept 2009
	171,821		436.50p				171,821	2 May 2003	2 May 2010
	122,914		659.00p				122,914	23 Feb 2004	23 Feb 2011
	148,500		600.00p				148,500	22 Feb 2005	22 Feb 2012
	209,192		451.50p				209,192	21 Feb 2006	21 Feb 2013
		305,303	487.25p				305,303	19 Feb 2007	19 Feb 2014
– BIP	22,731		Nil				22,731	21 Mar 2006	21 Mar 2006
		39,554	Nil				39,554	26 Mar 2007	26 Mar 2007
– LTIP	1,718,213[ii]		436.50p		1,718,213				
– LTIS (options)		559,722	487.25p				559,722	19 Feb 2007	19 Feb 2014
– LTIS (shares)		254,419	Nil				254,419	19 Feb 2007	19 Feb 2007
– SAYE	5,019		336.20p				5,019	1 Aug 2005	31 Jan 2006
Total	2,719,589	1,158,998			1,718,213		2,160,374		

Reed Elsevier Group plc

Directors' Remuneration Report

(a) *In Reed Elsevier PLC continued*

	1 January 2004	Granted during the year	Option price	Exercised during the year	Lapsed during the year	Market price at exercise date	31 December 2004	Exercisable from	Exercisable until
E Engstrom									
– ESOS		63,460[i]	478.00p				63,460	23 Aug 2007	23 Aug 2014
– LTIS (options)		318,398[i]	478.00p				318,398	23 Aug 2007	23 Aug 2014
– LTIS (shares)		144,726[i]	Nil				144,726	23 Aug 2007	23 Aug 2007
– Restricted shares		115,781[i]	Nil				115,781	23 Aug 2005	23 Aug 2007
Total		642,365					642,365		
A Prozes									
– ESOS	188,281		566.00p				188,281	9 Aug 2003	9 Aug 2010
	83,785		659.00p				83,785	23 Feb 2004	23 Feb 2011
	103,722		600.00p				103,722	22 Feb 2005	22 Feb 2012
	132,142		451.50p				132,142	21 Feb 2006	21 Feb 2013
		162,666	487.25p				162,666	19 Feb 2007	19 Feb 2014
– BIP	20,040		Nil				20,040	21 Mar 2006	21 Mar 2006
		20,104	Nil				20,104	26 Mar 2007	26 Mar 2007
– LTIP	941,406[ii]		566.00p		941,406				
– LTIS (options)		298,221	487.25p				298,221	19 Feb 2007	19 Feb 2014
– LTIS (shares)		135,555	Nil				135,555	19 Feb 2007	19 Feb 2007
Total	1,469,376	616,546			941,406		1,144,516		
P Tierney	396,426		451.50p				396,426	21 Feb 2006	21 Feb 2013
– ESOS									
		162,666	487.25p				162,666	19 Feb 2007	19 Feb 2014
– BIP		19,572	Nil				19,572	26 Mar 2007	26 Mar 2007
– LTIP	1,321,420[ii]		451.50p		1,321,420				
– LTIS (options)		298,221	487.25p				298,221	19 Feb 2007	19 Feb 2014
– LTIS (shares)		135,555	Nil				135,555	19 Feb 2007	19 Feb 2007
Total	1,717,846	616,014			1,321,420		1,012,440		

(i) At 23 August 2004, being the date of appointment as a director of Reed Elsevier Group plc and Reed Elsevier PLC.

(ii) Options lapsed unexercised during the year.

(iii) Retained an interest in all of the shares.

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range 450.0p to 542.5p and at 31 December 2004 was 480.5p.

(b) In Reed Elsevier NV

	1 January 2004	Granted during the year	Option price	Exercised during the year	Lapsed during the year	Market price at exercise date	31 December 2004	Exercisable from	Exercisable until
G J A van de Aast									
– ESOS	35,866		€14.87				35,866	1 Dec 2003	1 Dec 2010
	35,148		€14.75				35,148	23 Feb 2004	23 Feb 2011
	40,699		€13.94				40,699	22 Feb 2005	22 Feb 2012
	58,191		€9.34				58,191	21 Feb 2006	21 Feb 2013
		85,805	€10.57				85,805	19 Feb 2007	19 Feb 2014
– BIP	12,057		Nil				12,057	21 Mar 2006	21 Mar 2006
– LTIP	358,658(ii)		€14.87		358,658				
– LTIS (options)		157,309	€10.57				157,309	19 Feb 2007	19 Feb 2014
– LTIS (shares)		71,504	Nil				71,504	19 Feb 2007	19 Feb 2007
Total	540,619	314,618			358,658		496,579		
M H Armour									
– ESOS	20,244		€13.55				20,244	21 Feb 2003	19 Apr 2009
	61,726		€10.73				61,726	2 May 2003	2 May 2010
	44,882		€14.75				44,882	23 Feb 2004	23 Feb 2011
	51,926		€13.94				51,926	22 Feb 2005	22 Feb 2012
	74,276		€9.34				74,276	21 Feb 2006	21 Feb 2013
		106,536	€10.57				106,536	19 Feb 2007	19 Feb 2014
– BIP	8,030		Nil				8,030	21 Mar 2006	21 Mar 2006
		12,842	Nil				12,842	26 Mar 2007	26 Mar 2007
– LTIP	617,256(ii)		€10.73		617,256				
– LTIS (options)		195,317	€10.57				195,317	19 Feb 2007	19 Feb 2014
– LTIS (shares)		88,780	Nil				88,780	19 Feb 2007	19 Feb 2007
Total	878,340	403,475			617,256		664,559		
Sir Crispin Davis									
– ESOS	95,774		€12.00				95,774	21 Feb 2003	1 Sept 2009
	47,888		€12.00				47,888	1 Sept 2003	1 Sept 2009
	47,888		€12.00				47,888	1 Sept 2004	1 Sept 2009
	120,245		€10.73				120,245	2 May 2003	2 May 2010
	87,601		€14.75				87,601	23 Feb 2004	23 Feb 2011
	104,204		€13.94				104,204	22 Feb 2005	22 Feb 2012
	148,946		€9.34				148,946	21 Feb 2006	21 Feb 2013
		209,645	€10.57				209,645	19 Feb 2007	19 Feb 2014
– BIP	16,115		Nil				16,115	21 Mar 2006	21 Mar 2006
		26,421	Nil				26,421	26 Mar 2007	26 Mar 2007
– LTIP	1,202,446(ii)		€10.73		1,202,446				
– LTIS (options)		384,349	€10.57				384,349	19 Feb 2007	19 Feb 2014
– LTIS (shares)		174,704	Nil				174,704	19 Feb 2007	19 Feb 2007
Total	1,871,107	795,119			1,202,446		1,463,780		
E Engstrom									
– ESOS		43,866(i)	€10.30				43,866	23 Aug 2007	23 Aug 2014
– LTIS (options)		220,090(i)	€10.30				220,090	23 Aug 2007	23 Aug 2014
– LTIS (shares)		100,040(i)	Nil				100,040	23 Aug 2007	23 Aug 2007
– Restricted shares		80,032(i)	Nil				80,032	23 Aug 2005	23 Aug 2007
Total		444,028					444,028		

Reed Elsevier Group plc

Directors' Remuneration Report

(c) Shareholdings

The interests of the directors of Reed Elsevier PLC and Reed Elsevier NV in the issued share capital of the respective companies at the beginning and end of the year are shown below. There have been no changes in the interests of the directors since 31 December 2004.

	Reed Elsevier PLC ordinary shares		Reed Elsevier NV ordinary shares	
	1 January 2004	*31 December* 2004	*1 January* 2004	*31 December* 2004
G J A van de Aast	–	18,600	19,684	19,684
M H Armour	31,738	46,926	22,284	29,846
G J de Boer-Kruyt	–	–	–	–
J F Brock	3,000	3,000	–	–
Sir Crispin Davis	450,293	473,467	282,704	298,261
M W Elliott	–	–	–	–
E Engstrom	–(i)	–	–(i)	–
C J A van Lede	–	–	11,100	11,100
A Prozes	96,525	76,808	67,774	63,454
D E Reid	–	–	–	–
Lord Sharman	–	–	–	–
R W H Stomberg	–	–	–	–
M Tabaksblat	–	–	8,000	8,000
P Tierney	12,000	26,692	8,000	17,952

(i) At 23 August 2004, being the date of appointment as a director of Reed Elsevier Group plc and Reed Elsevier PLC.

Any ordinary shares required to fulfil entitlements under nil cost restricted share awards are provided by the Employee Benefit Trust ("EBT") from market purchases. As a potential beneficiary under the EBT in the same way as other employees of Reed Elsevier, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2004, amounted to 8,313,746 Reed Elsevier PLC ordinary shares and 3,708,599 Reed Elsevier NV ordinary shares.

Approved by the board of Reed Elsevier Group plc on 16 February 2005

Rolf Stomberg

Chairman of the Remuneration Committee

Signed on behalf of the Remuneration Committee by Stephen J Cowden, Company Secretary

(b) In Reed Elsevier NV continued

	1 January 2004	Granted during the year	Option price	Exercised during the year	Lapsed during the year	Market price at exercise date	31 December 2004	Exercisable from	Exercisable until
A Prozes									
– ESOS	131,062		€13.60				131,062	9 Aug 2003	9 Aug 2010
	59,714		€14.75				59,714	23 Feb 2004	23 Feb 2011
	72,783		€13.94				72,783	22 Feb 2005	22 Feb 2012
	94,086		€9.34				94,086	21 Feb 2006	21 Feb 2013
		111,699	€10.57				111,699	19 Feb 2007	19 Feb 2014
– BIP	14,552		Nil				14,552	21 Mar 2006	21 Mar 2006
		13,612	Nil				13,612	26 Mar 2007	26 Mar 2007
– LTIP	655,310(ii)		€13.60		655,310				
– LTIS (options)		204,782	€10.57				204,782	19 Feb 2007	19 Feb 2014
– LTIS (shares)		93,083	Nil				93,083	19 Feb 2007	19 Feb 2007
Total	1,027,507	423,176			655,310		795,373		
P Tierney									
– ESOS	282,258		€9.34				282,258	21 Feb 2006	21 Feb 2013
		111,699	€10.57				111,699	19 Feb 2007	19 Feb 2014
– BIP		13,252	Nil				13,252	26 Mar 2007	26 Mar 2007
– LTIP	940,860(ii)		€9.34		940,860				
– LTIS (options)		204,782	€10.57				204,782	19 Feb 2007	19 Feb 2014
– LTIS (shares)		93,083	Nil				93,083	19 Feb 2007	19 Feb 2007
Total	1,223,118	422,816			940,860		705,074		

(i) At 23 August 2004, being the date of appointment as a director of Reed Elsevier Group plc and Reed Elsevier PLC.

(ii) Options lapsed unexercised during the year.

The market price of a Reed Elsevier NV ordinary share during the year was in the range €9.61 to €12.19 and at 31 December 2004 was €10.03.

Reed Elsevier Group plc

Independent auditors' report to the members of Reed Elsevier Group plc

We have audited the financial statements of Reed Elsevier Group plc for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report and the other information contained in the 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 United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

16 February 2005

Reed Elsevier Group plc

Accounting Policies

BASIS OF CONSOLIDATION

These financial statements are presented under the historical cost convention and in accordance with applicable UK Generally Accepted Accounting Principles ("GAAP"). Reed Elsevier Group plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985.

FOREIGN EXCHANGE TRANSLATION

Balance sheet items are translated at year end exchange rates and profit and loss account and cash flow items are translated at average exchange rates. Exchange translation differences on foreign equity investments and the related foreign currency net borrowings and on differences between balance sheet and profit and loss account rates are taken to reserves.

Transactions entered into in foreign currencies are recorded at the exchange rates applicable at the time of the transaction. The results of hedging transactions for profit and loss amounts in foreign currency are accounted for in the profit and loss account to match the underlying transaction.

TURNOVER

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

Revenues are recognised for the various categories of turnover as follows: subscriptions – on periodic despatch of subscribed product or ratably over the period of the subscription where performance is not measurable by despatch; circulation – on despatch; advertising – on publication or period of online display; exhibitions – on occurrence of the exhibition; educational testing contracts – over the term of the contract on percentage completed against delivery milestones.

Where sales consist of two or more independent components, revenue is recognised on each component, as it is completed by performance, based on attribution of relative value.

DEVELOPMENT SPEND

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

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

PENSIONS

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

TAXATION

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

Accounting Policies

GOODWILL AND INTANGIBLE ASSETS

On the acquisition of a subsidiary, associate, joint venture or business, the purchase consideration is allocated between the underlying net tangible and intangible assets on a fair value basis, with any excess purchase consideration representing goodwill.

Acquired goodwill and intangible assets are capitalised and amortised systematically over their estimated useful lives up to a maximum of 40 years, subject to annual impairment review. In view of the longevity of certain of the goodwill and intangible assets relating to acquired science and medical and educational publishing businesses, the presumption under UK GAAP that goodwill and intangible assets have a maximum useful life of 20 years has been rebutted in respect of these assets and a maximum estimated useful life of 40 years determined. The longevity of these assets is evidenced by their long established and well regarded brands and imprints, and their characteristically stable market positions.

Intangible assets comprise publishing rights and titles, databases, exhibition rights and other intangible assets, which are stated at fair value on acquisition and are not subsequently revalued.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. No depreciation is provided on freehold land.

Freehold buildings and long leases are depreciated over their estimated useful lives up to a maximum of 50 years. Short leases are written off over the duration of the lease. Depreciation is provided on other tangible fixed assets on a straight line basis over their estimated useful lives: leasehold improvements – shorter of life of lease and 10 years; plant – 3 to 20 years; office furniture, fixtures and fittings – 5 to 10 years; computer systems, communication networks and equipment – 3 to 7 years.

INVESTMENTS

Fixed asset investments in joint ventures and associates are accounted for under the gross equity and equity methods respectively. Other fixed asset investments are stated at cost, less provision, if appropriate, for any impairment in value. Short term investments are stated at the lower of cost and net realisable value.

INVENTORIES AND PRE-PUBLICATION COSTS

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

FINANCE LEASES

Assets held under leases which confer rights and obligations similar to those attaching to owned assets are capitalised as tangible fixed assets and the corresponding liability to pay rentals is shown net of interest in the accounts as obligations under finance leases. The capitalised values of the assets are written off on a straight line basis over the shorter of the periods of the leases or the useful lives of the assets concerned. The interest element of the lease payments is allocated so as to produce a constant periodic rate of charge.

OPERATING LEASES

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the leases.

FINANCIAL INSTRUMENTS

Payments and receipts on interest rate hedges are accounted for on an accruals basis over the lives of the hedges and included within interest payable and interest receivable in the profit and loss account. Gains and losses on foreign exchange hedges, other than in relation to net currency borrowings hedging equity investments, are recognised in the profit and loss account on maturity of the underlying transaction. Gains and losses on net currency borrowings hedging equity investments are taken to reserves. Gains and losses arising on hedging instruments that are closed out due to the cessation of the underlying exposure are taken directly to the profit and loss account.

Currency swap agreements are valued at exchange rates ruling at the balance sheet date with net gains and losses being included within short term investments or borrowings, as appropriate. Interest payable and receivable arising from these swaps are accounted for on an accruals basis over the life of the swap.

Finance costs associated with debt issuances are charged to the profit and loss account over the life of the related borrowings.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

£ million		2004	2003
Turnover			
Including share of turnover of joint ventures		4,862	4,967
Less: share of turnover of joint ventures		(94)	(81)
	note 1	4,768	4,886
Continuing operations before acquisitions		4,707	4,886
Acquisitions		61	-
		4,768	4,886
Cost of sales	*note 2*	(1,721)	(1,759)
Gross profit		3,047	3,127
Operating expenses	*note 2*	(2,390)	(2,504)
Before amortisation and exceptional items		(1,930)	(1,990)
Amortisation of goodwill and intangible assets		(404)	(442)
Exceptional items	*notes 2,7*	(56)	(72)
Operating profit (before joint ventures)		657	623
Continuing operations before acquisitions		681	623
Acquisitions		(24)	-
		657	623
Share of operating profit of joint ventures	*note 14*	22	16
Operating profit including joint ventures	*notes 1,5*	679	639
Non operating exceptional items			
Net (loss)/profit on disposal of businesses and fixed assets	*note 7*	(3)	22
Profit on ordinary activities before interest		676	661
Net interest expense	*note 8*	(367)	(431)
Profit on ordinary activities before tax		309	230
Tax (charge)/credit on profit on ordinary activities			
Before exceptional items		(243)	(243)
Exceptional items		13	85
	note 9	(230)	(158)
Profit on ordinary activities after taxation		79	72
Minority interests and preference dividends		(2)	(2)
Profit attributable to the shareholders		77	70
Equity dividends paid and proposed	*note 10*	(304)	(282)
Retained loss taken to reserves	*note 28*	(227)	(212)

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

£ million		2004	2003
Net cash inflow from operating activities before exceptional items		**1,207**	1,142
Payments relating to exceptional items charged to operating profit	*note 7*	**(67)**	(98)
Net cash inflow from operating activities	*note 11*	**1,140**	1,044
Dividends received from joint ventures	*note 14*	**17**	14
Interest and similar income received		**15**	13
Interest and similar charges paid		**(85)**	(115)
Net interest paid to Reed Elsevier PLC		**(1)**	(3)
Net interest paid to the Elsevier Reed Finance BV group		**(290)**	(332)
Returns on investments and servicing of finance		**(361)**	(437)
UK corporation tax paid		**(71)**	(63)
Net overseas tax paid		**(128)**	(77)
Taxation		**(199)**	(140)
Purchase of tangible fixed assets		**(192)**	(155)
Purchase of fixed asset investments		**(42)**	(25)
Proceeds from sale of tangible fixed assets		**4**	6
Exceptional proceeds from disposal of fixed assets	*note 7*	**10**	19
Capital expenditure and financial investment		**(220)**	(155)
Acquisitions	*note 11*	**(647)**	(262)
Exceptional net proceeds from disposal of businesses	*note 7*	**2**	77
Acquisitions and disposals		**(645)**	(185)
Equity dividends paid		**(304)**	(282)
Cash outflow before changes in short term investments and financing		**(572)**	(141)
Increase in short term investments	*note 11*	**362**	(117)
Financing	*note 11*	**215**	151
Increase/(decrease) in cash	*note 11*	**5**	(107)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

£ million		2004	2003
Fixed assets			
Goodwill and intangible assets	*note 13*	**5,005**	5,153
Tangible fixed assets	*note 13*	**518**	481
Investments	*note 14*		
Investments in joint ventures:			
Share of gross assets		**115**	118
Share of gross liabilities		**(57)**	(58)
Share of net assets		**58**	60
Other investments		**104**	78
		162	138
		5,685	5,772
Current assets			
Inventories and pre-publication costs	*note 15*	**540**	526
Debtors: amounts falling due within one year	*note 16*	**1,460**	1,134
Debtors: amounts falling due after more than one year	*note 17*	**227**	285
Short term investments		**100**	466
Cash at bank and in hand		**60**	55
		2,387	2,466
Creditors: amounts falling due within one year	*note 19*	**(3,722)**	(3,433)
Net current liabilities		**(1,335)**	(967)
Total assets less current liabilities		**4,350**	4,805
Creditors: amounts falling due after more than one year	*note 20*	**(5,587)**	(5,873)
Provisions for liabilities and charges	*note 24*	**(128)**	(156)
Minority interests		**(13)**	(12)
Net liabilities		**(1,378)**	(1,236)
Capital and reserves			
Called up share capital	*note 26*	**-**	-
Share premium account	*note 27*	**324**	324
Profit and loss reserve	*note 28*	**(1,702)**	(1,560)
Shareholders' deficit	*note 28*	**(1,378)**	(1,236)

Approved by the board of Reed Elsevier Group plc, 16 February 2005.

M H Armour
Chief Financial Officer

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAIN AND LOSSES

For the year ended 31 December 2004

£ million	**2004**	2003
Profit attributable to the shareholders	**77**	70
Exchange translation differences	**85**	134
Total recognised gains and losses for the financial year	**162**	204

SHAREHOLDERS' FUNDS RECONCILIATION

For the year ended 31 December 2004

£ million	**2004**	2003
Shareholders' deficit at 1 January	**(1,236)**	(1,158)
Profit attributable to the shareholders	77	70
Equity dividends paid and proposed	**(304)**	(282)
Exchange translation differences	**85**	134
Shareholders' deficit at 31 December	**(1,378)**	(1,236)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

1. SEGMENT ANALYSIS

£ million	Turnover 2004	Turnover 2003	Operating profit 2004	Operating profit 2003	Adjusted operating profit 2004	Adjusted operating profit 2003	Capital employed 2004	Capital employed 2003
Business segment								
Elsevier	**1,319**	1,342	**371**	360	**444**	451	**1,398**	1,492
LexisNexis	**1,292**	1,318	**109**	92	**307**	298	**2,170**	2,000
Harcourt Education	**868**	898	**90**	91	**164**	174	**1,395**	1,402
Reed Business	**1,289**	1,328	**109**	96	**226**	233	**659**	773
Total	***4,768***	*4,886*	***679***	*639*	***1,141***	*1,156*	***5,622***	*5,667*
Geographical origin								
North America	**2,655**	2,822	**238**	227	**571**	603	**4,632**	4,636
United Kingdom	**846**	823	**156**	169	**205**	211	**528**	469
The Netherlands	**503**	502	**182**	163	**203**	191	**(41)**	4
Rest of Europe	**508**	508	**63**	49	**120**	112	**488**	535
Rest of world	**256**	231	**40**	31	**42**	39	**15**	23
Total	**4,768**	4,886	**679**	639	**1,141**	1,156	**5,622**	5,667

	2004	2003
Geographical market		
North America	**2,774**	2,916
United Kingdom	**544**	550
The Netherlands	**202**	207
Rest of Europe	**708**	675
Rest of world	**540**	538
Total	**4,768**	4,886

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

Adjusted operating profit is presented as an additional performance measure and is shown after share of operating profit of joint ventures and before amortisation of goodwill and intangible assets of £406m (2003 : £445m) and exceptional items of £56m (2003 : £72m).

Turnover is analysed before the £94m (2003 : £81m) share of joint ventures' turnover, of which £19m (2003 : £20m) relates to the LexisNexis segment, principally to Giuffrè, and £75m (2003 : £61m) relates to the Reed Business segment, principally to exhibition joint ventures.

Share of operating profit in joint ventures of £22m (2003 : £16m) comprises £4m (2003 : £5m) relating to the LexisNexis segment and £18m (2003 : £11m) relating to the Reed Business segment.

1. SEGMENT ANALYSIS (CONTINUED)

£ million	**2004**	2003
Reconciliation of capital employed to net liabilities		
Capital employed	**5,622**	5,667
Taxation	**(427)**	(475)
Net interest payable	**(61)**	(56)
Net borrowings (including amounts owed to shareholders and the Elsevier Reed Finance BV group of £5,083m (2003 : £5,053m))	**(6,499)**	(6,360)
Minority interests	**(13)**	(12)
Net liabilities	**(1,378)**	(1,236)

2. COST OF SALES AND OPERATING EXPENSES

	2004				2003			
£ million	***Before* amortis-ation and exceptional items**	***Amortisation* of goodwill and intangible assets**	**Exceptional items**	**Total**	Before amortis-ation and exceptional items	*Amortisation* of goodwill and intangible assets	Exceptional items	Total
Cost of sales								
Continuing operations	**1,702**	**-**	**-**	**1,702**	1,759	-	-	1,759
Acquisitions	**19**	**-**	**-**	**19**	-	-	-	-
Total	**1,721**	**-**	**-**	**1,721**	1,759	-	-	1,759
Distribution and selling costs								
Continuing operations	**1,047**	**-**	**-**	**1,047**	1,086	-	-	1,086
Acquisitions	**13**	**-**	**-**	**13**	-	-	-	-
	1,060	**-**	**-**	**1,060**	1,086	-	-	1,086
Administrative expenses								
Continuing operations	**859**	**381**	**37**	**1,277**	904	442	72	1,418
Acquisitions	**11**	**23**	**19**	**53**	-	-	-	-
	870	**404**	**56**	**1,330**	904	442	72	1,418
Net operating expenses								
Continuing operations	**1,906**	**381**	**37**	**2,324**	1,990	442	72	2,504
Acquisitions	**24**	**23**	**19**	**66**	-	-	-	-
Total	**1,930**	**404**	**56**	**2,390**	1,990	442	72	2,504

3. PERSONNEL

Number of people employed	At 31 December 2004	At 31 December 2003	Average during the year 2004	Average during the year 2003
Business segment				
Elsevier	**6,600**	6,500	**6,500**	6,400
LexisNexis	**13,200**	12,800	**12,900**	13,200
Harcourt Education	**5,400**	5,300	**5,300**	5,400
Reed Business	**10,100**	10,100	**10,100**	10,400
Total	**35,300**	34,700	**34,800**	35,400
Geographical location				
North America	**20,000**	19,600	**19,800**	20,300
United Kingdom	**5,700**	5,900	**5,700**	5,900
The Netherlands	**2,600**	2,700	**2,600**	2,700
Rest of Europe	**3,900**	3,700	**3,800**	3,700
Rest of world	**3,100**	2,800	**2,900**	2,800
Total	**35,300**	34,700	**34,800**	35,400

4. PENSION SCHEMES

A number of pension schemes are operated around the world. The major schemes are of the defined benefit type with assets held in separate trustee administered funds. The two largest schemes, which cover the majority of employees, are in the UK and US. The main UK scheme was subject to a triennial valuation by Watson Wyatt Partners as at 5 April 2003. The main US scheme is valued annually and was subject to a valuation by Towers Perrin as at 1 January 2004.

The principal valuation assumptions for the main UK scheme were:

Actuarial method	Projected unit method
Annual rate of return on investments	6.8%
Annual increase in total pensionable remuneration	4.5%
Annual increase in present and future pensions in payment	2.5%

The principal valuation assumptions used for the US scheme were a rate of return on investments of 7.75%, increase in pensionable remuneration of 4.5%, and increase in present and future pensions in payment of 3.0%, applied under the projected unit method. Assessments for accounting purposes in respect of other funded schemes, including the Netherlands scheme, have been carried out by external qualified actuaries using prospective benefit methods. The principal valuation assumptions for the Netherlands scheme were a rate of return on investments of 6.2%, increase in pensionable remuneration of 2.5%, and increase in present and future pensions in payment of 2.5%.

The actuarial values placed on scheme assets under SSAP24 as at their last valuation date were sufficient to cover 113%, 119% and 90% of the benefits that had accrued to members of the main UK, US and Netherlands schemes respectively. Actuarial surpluses and deficits are spread as a level amount over the average remaining service lives of employees. The actuarial values of the schemes' assets as at the valuation dates, excluding assets held in respect of members' additional voluntary contributions, were £1,350m, £287m and £280m in respect of the UK, US and Netherlands schemes respectively.

The liabilities in respect of unfunded schemes have been determined by actuaries. As at 31 December 2004 £53m (2003 : £52m) has been provided for within creditors.

The net pension charge was £57m (2003 : £59m). Pension contributions made in the year amounted to £79m (2003 : £49m), including £11m in respect of defined contribution schemes. The net SSAP24 charge on the main UK scheme comprises a regular cost of £23m (2003 : £23m), less amortisation of the net actuarial surplus of £13m (2003 : £13m). Based on the advice of the scheme actuaries, and with the agreement of the scheme trustees, employer contributions to the main UK scheme with effect from 1 January 2004, will be made at a rate of 5% of pensionable salaries until the next triennial valuation in 2006.

A prepayment of £115m (2003 : £115m), representing the excess of the net pension credit to the profit and loss account since 1988 and the amounts funded to the main UK scheme, is included in debtors falling due after one year. Other prepayments of £22m (2003 : £nil) are included in debtors falling due within one year.

4. PENSION SCHEMES (CONTINUED)

Pension costs are accounted for in accordance with the UK accounting standard, SSAP24. The UK financial reporting standard, FRS17: Retirement Benefits requires additional information to be disclosed based on methodologies set out in the standard which are different from those used under SSAP24 and by the scheme actuaries in determining funding arrangements.

The assumed rates of return on scheme assets, the fair value of those assets and the present value of the scheme liabilities based on the methodologies and presentation prescribed by FRS17 were as follows:

	Main UK Scheme				Aggregate of Schemes			
	2004		2003		**2004**		2003	
	Assumed rate of return on assets		Assumed rate of return on assets		Assumed rate of return on assets		Assumed rate of return on assets	
	%	£m	%	£m	%	£m	%	£m
Equities	**7.8%**	**1,075**	7.8%	1,050	**7.9%**	**1,404**	8.0%	1,341
Bonds	**4.6%**	**498**	4.8%	442	**4.7%**	**713**	5.0%	639
Other	**4.3%**	**72**	4.3%	38	**4.4%**	**87**	4.6%	50
Total fair value of assets		**1,645**		1,530		**2,204**		2,030
Present value of scheme liabilities		**(1,688)**		(1,588)		**(2,525)**		(2,281)
Net deficit		**(43)**		(58)		**(321)**		(251)
Related deferred tax		**13**		17		**109**		84
Net pension liability		**(30)**		(41)		**(212)**		(167)

At 31 December 2004, the aggregate net deficit in respect of the defined benefit schemes under FRS17 comprised £254m (2003 : £189m) in respect of funded schemes and liabilities of £67m (2003 : £62m) in respect of unfunded schemes, of which £53m (2003 : £52m) is provided for within creditors under SSAP24.

At 31 December 2002, for the aggregate of schemes, the fair value of equities, bonds and other assets, and the related assumed rates of return for those asset classes were £1,068m, £670m and £53m, and 9.0%, 4.9% and 3.8% respectively.

The movement in the net FRS17 deficit before taxation during the year in respect of defined benefit schemes was as follows:

£ million	Main UK Scheme	Aggregate of Schemes
Net deficit in schemes at beginning of the year	**(58)**	**(251)**
Movement in the year:		
Total operating charge	**(41)**	**(83)**
Contributions	**10**	**68**
Finance income	**17**	**12**
Actuarial loss	**29**	**(74)**
Exchange translation differences	**-**	**7**
Net deficit in schemes at end of the year	**(43)**	**(321)**

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

	Main UK Scheme		Aggregate of Schemes	
	2004	2003	**2004**	2003
Inflation	2.8%	2.8%	2.8%	2.9%
Rate of increase in salaries	4.8%	4.8%	4.4%	4.4%
Rate of increase in pensions in payment	2.8%	2.8%	2.8%	2.9%
Discount rate	5.4%	5.5%	5.4%	5.6%

The consolidated profit and loss deficit as at 31 December 2004 of £1,702m (2003 : £1,560m) would have been £1,973m (2003 : £1,772m), had the accounting methodologies of FRS17 been applied.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

4. PENSIONS (CONTINUED)

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

	Main UK Scheme		Aggregate of Schemes	
£ million	**2004**	2003	**2004**	2003
Charged to operating profit				
Current service cost	**(41)**	(32)	**(83)**	(76)
Past service credit	**-**	-	**-**	11
Total operating charge	**(41)**	(32)	**(83)**	(65)
Credited to other finance income				
Expected return on pension scheme assets	**103**	96	**139**	131
Interest on pension scheme liabilities	**(86)**	(73)	**(127)**	(114)
Net return	**17**	23	**12**	17
Amounts recognised in the statement of total recognised gains and losses				
Actual return less expected return on pension scheme assets	**57**	125	**66**	153
Experience losses arising on the scheme liabilities	**-**	(57)	**(18)**	(96)
Changes in assumptions underlying the present value of the scheme laibilities	**(28)**	(169)	**(122)**	(170)
Actuarial gain/(loss)	**29**	(101)	**(74)**	(113)

The difference between the actual and expected returns on scheme assets, the experience losses arising on scheme liabilities, and the total actuarial loss that would have been recognised under FRS17 in the statement of total recognised gains and losses, expressed as a percentage of scheme assets and liabilities as appropriate, were as follows:

	Main UK Scheme			Aggregate of Schemes		
	2004	2003	2002	**2004**	2003	2002
Actual return less expected return on scheme assets, as a percentage of scheme assets	**3%**	8%	-19%	**3%**	8%	-20%
Experience losses arising on scheme liabilities, as a percentage of the present value of scheme liabilities	**-**	4%	2%	**1%**	4%	1%
Total actuarial (gain)/ loss that would have been recognised in the statement of total recognised gains and losses, as a percentage of the present value of the scheme liabilities	**-2%**	6%	14%	**3%**	5%	17%

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

5. OPERATING PROFIT

Operating profit is stated after the following:

£ million	**2004**	2003
Hire of plant and machinery	**9**	9
Other operating lease rentals	**96**	*94*
Depreciation (including £8m (2003 : £7m) in respect of assets held under finance leases)	**126**	134
Amortisation		
Amortisation of goodwill and intangible assets	**404**	442
Amortisation of goodwill and intangible assets in joint ventures	**2**	3
Total amortisation	**406**	445
Royalties payable to the Elsevier Reed Finance BV group	**5**	6
Auditors' remuneration		
For audit services	**2.9**	2.4
For non audit services (£0.1m relates to UK companies (2003 : £0.4m))	**1.2**	2.1

£ million		**2004**	2003
Staff costs			
Wages and salaries		**1,219**	1,247
Social security costs		**128**	134
Pensions	*note 4*	**57**	59
Total staff costs		**1,404**	1,440

Auditors remuneration for non audit services comprises £0.4m (2003: £0.8m) for audit related services, £0.2m (2003 : £0.6m) for due diligence and other transaction related services, £0.6m (2003 : £0.6m) for tax compliance and advisory work, and £nil (2003 : £0.1m) for other non audit services.

6. EMOLUMENTS OF DIRECTORS

Information on the remuneration, share options, longer term incentive plans, pension contributions and entitlements, and interests of the directors is set out in the Directors' Remuneration Report.

7. EXCEPTIONAL ITEMS

£ million	**2004**	2003
Reorganisation costs (i)	**(18)**	(23)
Acquisition related costs (ii)	**(38)**	(49)
Charged to operating profit	**(56)**	(72)
Net (loss)/profit on disposal of businesses and fixed assets (iii)	**(3)**	22
Exceptional charge before tax	**(59)**	(50)
Net tax credit (iv)	***13***	85
Total exceptional (charge)/credit	**(46)**	35

(i) Reorganisation costs relate to employee severance actions taken in the year, principally by Reed Business and Elsevier.

(ii) Acquisition related costs include employee severance and other costs arising on the integration of Seisint, Saxon and other recent acquisitions.

(iii) The net loss relates to minor disposals.

(iv) The net tax credit arises principally in respect of tax relief related to restructuring and acquisition integration costs, and in 2003, additionally in respect of prior year disposals.

Cash flows in respect of exceptional items were as follows:

£ million	**2004**	2003
Reorganisation costs	**(37)**	(51)
Acquisition related costs	**(30)**	(47)
Exceptional operating cash outflow	**(67)**	(98)
Net proceeds from disposal of businesses and fixed assets	**12**	96
Exceptional cash outflow before tax	**(55)**	(2)
Exceptional tax cash inflow	***31***	37
Total exceptional cash (outflow)/inflow	**(24)**	35

8. NET INTEREST EXPENSE

£ million	**2004**	2003
Interest payable and similar charges		
On loan capital, promissory notes and bank borrowings:		
Repayable within 5 years, other than by instalments	**(83)**	(106)
On finance leases	**(1)**	(1)
Other interest and similar charges	**(4)**	(2)
On amounts owed to Reed Elsevier PLC	**(7)**	(6)
On amounts owed to Reed Elsevier NV	**-**	(1)
On amounts owed to the Elsevier Reed Finance BV group	**(295)**	(343)
	(390)	(459)
Interest receivable and similar income		
On cash deposits and short term investments	**14**	14
On amounts owed by Reed Elsevier PLC	**4**	4
On amounts owed by the Elsevier Reed Finance BV group	**5**	10
	23	28
Total net interest expense	**(367)**	(431)
Interest cover (times)	**3.1**	2.7

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

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

£ million		**2004**	2003
Current tax			
United Kingdom		**68**	1
The Netherlands		**51**	56
Rest of world		**58**	56
Total current tax		**177**	113
Deferred tax			
Origination and reversal of timing differences	*note 18*	**46**	39
Sub-total		**223**	152
Share of tax attributable to joint ventures	*note 14*	**7**	6
Total		**230**	158

A reconciliation of the notional current tax charge based on average standard rates of tax (weighted in proportion to accounting profits) to the actual current tax charge is set out below:

£ million	**2004**	2003
Profit on ordinary activities before tax	**309**	230
Tax at average standard rates	**88**	62
Net impact of amortisation of goodwill and intangible assets	**97**	109
Prior year disposals	**-**	(76)
Permanent differences and other items	**38**	57
Origination and reversal of timing differences	**(46)**	(39)
Current tax charge	177	113

UK corporation tax has been provided at 30% (2003 : 30%).

10. EQUITY DIVIDENDS PAID AND PROPOSED

	£ per share		*£ million*	
	2004	2003	**2004**	2003
Subsidiary undertakings			**150**	138
Parent				
Ordinary				
Interim to "R" ordinary shareholders	**15,370**	14,350	**154**	144
Total			**304**	282

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

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

11. CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

£ million		**2004**	2003
Operating profit (before joint ventures)		**657**	623
Exceptional charges to operating profit	*note 7*	**56**	72
Operating profit before exceptional items		**713**	695
Amortisation of goodwill and intangible assets	*note 13*	**404**	442
Depreciation	*note 13*	**126**	134
Total non cash items		**530**	576
Increase in inventories and pre-publication costs		**(39)**	(51)
Increase in debtors		**(63)**	(111)
Increase in creditors		**66**	33
Movement in working capital		**(36)**	(129)
Net cash inflow from operating activities before exceptional items		**1,207**	1,142
Payments relating to exceptional items charged to operating profit	*note 7*	**(67)**	(98)
Net cash inflow from operating activities		**1,140**	1,044

Acquisitions

£ million		**2004**	2003
Purchase of businesses		**(640)**	(223)
Purchase of businesses from the Elsevier Reed Finance Group BV		**-**	(4)
	note 12	**(640)**	(227)
Payment of non operating liabilities assumed on acquisition of Harcourt		**(3)**	(20)
Deferred consideration of prior year acquistions		**(4)**	(15)
Total		**(647)**	(262)

11. CASH FLOW STATEMENT (CONTINUED)

Reconciliation of net borrowings

£ million	Cash	Short term investments	Financing	Total 2004	2003
Net borrowings at 1 January	55	466	(6,881)	(6,360)	(6,798)
Increase/(decrease) in cash	5	-	-	5	(107)
(Decrease)/increase in short term investments	-	(362)	-	(362)	117
Increase in borrowings	-	-	(215)	(215)	(151)
Change in net borrowings resulting from cash flows	5	(362)	(215)	(572)	(141)
Borrowings in acquired businesses	-	-	(2)	(2)	(9)
Inception of finance leases	-	-	(11)	(11)	(13)
Exchange translation differences	-	(4)	450	446	601
Net borrowings at 31 December	60	100	(6,659)	(6,499)	(6,360)

Reconciliation of financing

£ million	Long term borrowings	Net borrowings from shareholders and Elsevier Reed Finance BV group	Bank loans and promissory notes	Total Financing 2004	2003
At 1 January	(1,395)	(5,053)	(433)	(6,881)	(7,296)
Issuance of long term loans	-	-	-	-	(1)
Repayment of long term loans	2	-	-	2	102
Repayment of finance leases	19	-	-	19	11
Increase in net borrowings from shareholders and the Elsevier Reed Finance BV group	-	(349)	-	(349)	(174)
Decrease in bank loans and promissory notes	-	-	113	113	(89)
Change in financing resulting from cash flows	21	(349)	113	(215)	(151)
Borrowings in acquired businesses	(2)	-	-	(2)	(9)
Inception of finance leases	(11)	-	-	(11)	(13)
Exchange translation differences	106	319	25	450	588
At 31 December	(1,281)	(5,083)	(295)	(6,659)	(6,881)

There were no significant repayments of long term loans during 2004.

During the year finance lease arrangements were entered into in respect of assets with a total capital value at inception of £11m (2003 : £13m).

Long term borrowings comprise loan capital, finance leases, promissory notes, and bank and other loans, with an original maturity of over one year which are further analysed in notes 20, 21 and 22.

12. ACQUISITIONS

During the year a number of acquisitions were made for a total consideration amounting to £647m, including £7m deferred to future years, and after taking account of net cash acquired of £17m. The most significant acquisitions were Seisint, a leading risk management business in the US, and Saxon, a supplemental educational publishing business in the US, for net consideration of £414m and £117m respectively.

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

£ million	Book value on acquisition	Fair value adjustments	Fair value
Goodwill	-	277	277
Intangible fixed assets	3	307	310
Tangible fixed assets	17	(3)	14
Investments	5	-	5
Current assets	46	(2)	44
Current liabilities	(24)	(1)	(25)
Deferred tax	-	24	24
Borrowings	(2)	-	(2)
Net assets acquired	**45**	**602**	**647**

Consideration (after taking account of £17m of net cash acquired)	647
Less: deferred to future years	(7)
Net cash flow	**640**

The fair value adjustments in relation to the acquisitions made in 2004 relate principally to the valuation of publishing rights and titles, editorial content, technology and other intangible assets. Goodwill represents the excess of the consideration over the net tangible and intangible assets acquired. The businesses acquired in 2004 contributed £61m to turnover, £18m to adjusted operating profit, before the amortisation of goodwill and intangible assets and exceptional items, and £31m to net cash inflow from operating activities for the part year under Reed Elsevier Group plc ownership.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

13. FIXED ASSETS - INTANGIBLE ASSETS AND TANGIBLE ASSETS

CONSOLIDATED		Goodwill and intangible assets			Tangible assets		
Cost *£ million*		Goodwill	Intangible assets	Total	Land and buildings	Computer systems, plant and equipment	Total
At 1 January 2004		4,254	4,080	8,334	185	1,079	1,264
Acquisitions	*note 12*	277	310	587	7	12	19
Capital expenditure		-	-	-	14	189	203
Disposal of businesses		(5)	(13)	(18)	-	-	-
Disposals		-	-	-	(13)	(88)	(101)
Exchange translation differences		(260)	(235)	(495)	(11)	(60)	(71)
At 31 December 2004		**4,266**	**4,142**	**8,408**	**182**	**1,132**	**1,314**
Accumulated amortisation and depreciation *£ million*							
At 1 January 2004		1,814	1,367	3,181	72	711	783
Acquisitions		-	-	-	1	4	5
Disposal of businesses		(5)	(13)	(18)	-	-	-
Disposals		-	-	-	(3)	(70)	(73)
Amortisation of goodwill and intangible assets		204	200	404	-	-	-
Depreciation		-	-	-	7	119	126
Exchange translation differences		(99)	(65)	(164)	(5)	(40)	(45)
At 31 December 2004		**1,914**	**1,489**	**3,403**	**72**	**724**	**796**
Net book amount *£ million*							
At 1 January 2004		2,440	2,713	5,153	113	368	481
At 31 December 2004		**2,352**	**2,653**	**5,005**	**110**	**408**	**518**

At 31 December 2004, the weighted average remaining estimated useful life of goodwill and intangible assets was 23 years (2003 : 24 years).

At 31 December 2004 and 2003, all assets were included at cost. The net book amount of tangible fixed assets includes £19m (2003 : £29m) in respect of assets held under finance leases.

Land and buildings at cost

£ million	**2004**	2003
Freehold property	**143**	131
Leasehold property, 50 years or more unexpired	**38**	43
Leasehold property, less than 50 years unexpired	**1**	11
Total	**182**	185

Included in freehold property is £nil (2003 : £7m) of freehold land on which no depreciation was charged.

14. FIXED ASSETS – INVESTMENTS

£ million		Investments in joint ventures		Other investments		Total
CONSOLIDATED		Share of net assets	Loans	Unlisted	Listed	
At 1 January 2004		59	1	38	40	138
Share of profit before tax		24	-	-	-	24
Amortisation of goodwill and intangible assets		(2)	-	-	-	(2)
		22	-	-	-	22
Share of tax attributable	*note 9*	(7)	-	-	-	(7)
Dividends received from joint ventures		(17)	-	-	-	(17)
Additions		-	-	13	29	42
Acquisitions		-	-	5	-	5
Transfers/disposals		-	-	(4)	(1)	(5)
Provided		-	-	-	(11)	(11)
Exchange translation differences		-	-	(4)	(1)	(5)
At 31 December 2004		**57**	**1**	**48**	**56**	**162**

The principal joint venture at 31 December 2004 is Giuffrè (an Italian legal publisher in which Reed Elsevier Group plc has a 40% shareholding).

The cost and net book amount of goodwill and intangible assets in joint ventures were £37m (2003 : £37m) and £17m (2003 : £19m) respectively.

The directors' valuation of other investments (unlisted) at 31 December 2004 is £48m (2003 : £38m). The market value of listed investments at 31 December 2004 is £67m (2003 : £45m).

At 31 December 2004, the Reed Elsevier Group plc Employee Benefit Trust ("EBT") held 8,313,746 (2003 : 6,383,333) Reed Elsevier PLC ordinary shares and 3,708,599 (2003 : 1,327,777) Reed Elsevier NV ordinary shares at a book amount of £55m (2003 : £37m). The aggregate market value at 31 December 2004 was £66m (2003 : £39m). The EBT purchases Reed Elsevier PLC and Reed Elsevier NV shares which, at the Trustee's discretion, can be used in respect of the exercise of share options. Details of the share option schemes are set out in the Remuneration Report.

£ million	Subsidiary undertakings			Associates	Total
PARENT	Shares at cost	Provisions	Net book value	Shares at cost	
At 1 January 2004 and					
At 31 December 2004	897	(4)	893	29	**922**

15. INVENTORIES AND PRE-PUBLICATION COSTS

	CONSOLIDATED	
£ million	**2004**	2003
Raw materials	**12**	13
Pre-publication costs	**340**	322
Finished goods	**188**	191
Total	**540**	526

16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		PARENT	
£ million	**2004**	2003	**2004**	2003
Trade debtors	**888**	841	-	-
Amounts owed by Reed Elsevier PLC	**36**	1	**1**	1
Amounts owed by the Elsevier Reed Finance BV group	**346**	107	-	-
Amounts owed by joint ventures	**2**	1	-	-
Amounts owed by subsidiary undertakings	-	-	**467**	54
Other debtors	**62**	81	-	-
Prepayments and accrued income	**126**	103	-	-
Total	**1,460**	1,134	**468**	55

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

		CONSOLIDATED	
£ million		**2004**	2003
Trade debtors		**4**	8
Amounts owed by Reed Elsevier PLC		-	36
Pension prepayment	*note 4*	**115**	115
Prepayments, accrued income and other debtors		**23**	30
Deferred taxation assets	*note 18*	**85**	96
Total		**227**	285

18. DEFERRED TAXATION

£ million	CONSOLIDATED 2004	2003
Deferred taxation liabilities		
Excess of tax allowances over related amortisation	**46**	45
Pension prepayment	**28**	32
Short term timing differences	**2**	4
	76	81
Deferred taxation assets		
Excess of amortisation over related tax allowances	**(9)**	(9)
Short term timing differences	**(30)**	(69)
Tax losses carried forward	**(46)**	(18)
	(85)	(96)
Total	**(9)**	(15)

£ million		CONSOLIDATED 2004	2003
Net deferred tax asset at 1 January		**(15)**	(77)
Acquisitions		**(24)**	-
Deferred tax charge in the profit and loss account	*note 9*	**46**	39
Transfers		**(17)**	19
Exchange translation differences		**1**	4
Net deferred tax asset at 31 December		**(9)**	(15)

£ million		CONSOLIDATED 2004	2003
Included in debtors falling due after more than one year	*note 17*	**(85)**	(96)
Included in provisions for liabilities and charges	*note 24*	**76**	81
Total		**(9)**	(15)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		CONSOLIDATED		PARENT	
£ million		**2004**	2003	**2004**	2003
Loan capital	*note 21*	**78**	1	-	-
Promissory notes and bank loans		**295**	433	-	-
Obligations under finance leases	*note 23*	**8**	16	-	-
Sub total: Borrowings		**381**	450	-	-
Trade creditors		**231**	227	-	-
Amounts owed to Reed Elsevier PLC		**555**	543	-	-
Amounts owed to the Elsevier Reed Finance BV group		**778**	405	-	-
Amounts owed to subsidiary undertakings		-	-	-	1
Other creditors		**167**	165	-	-
Taxation		**245**	308	-	-
Accruals and deferred income		**1,365**	1,335	-	-
Total		**3,722**	3,433	-	1

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

		CONSOLIDATED	
£ million		**2004**	2003
Loan capital	*note 21*		
- within one to two years		**285**	84
- within two to five years		**302**	637
- after five years		**600**	650
Promissory notes and bank loans			
- within two to five years		-	-
Obligations under finance leases	*note 23*	**8**	7
Sub total: Borrowings		**1,195**	1,378
Amounts owed to Reed Elsevier PLC		**40**	40
Amounts owed to the Elsevier Reed Finance BV group		**4,092**	4,209
Other creditors		**7**	9
Taxation		**191**	182
Accruals and deferred income		**62**	55
Total		**5,587**	5,873

21. LOAN CAPITAL

	CONSOLIDATED	
£ million	**2004**	2003
Subsidiary undertakings - unsecured		
\$150m 6.625% US Dollar Privately Placed Notes 2023	**78**	84
\$150m 7% US Dollar Public Notes 2005	**78**	84
\$150m 7.5% US Dollar Public Debentures 2025	**78**	84
\$550m 6.125% US Dollar Public Notes 2006	**285**	309
\$440m 5.75% US Dollar Public Notes 2008	**228**	247
\$550m 6.75% US Dollar Public Notes 2011	**285**	309
\$150m 8.875% US Dollar Public Notes 2022	**33**	36
\$150m 6.7% US Dollar Public Notes 2007	**74**	81
\$200m 7.2% US Dollar Public Notes 2027	**100**	108
\$150m 7.3% US Dollar Public Notes 2097	**26**	29
Miscellaneous Sterling	**-**	1
Total	**1,265**	1,372

22. FINANCIAL INSTRUMENTS

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

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

Currency and interest rate profile of financial liabilities

The currency and interest rate profile of the aggregate financial liabilities of £5,759m (2003 : £6,141m), after taking account of interest rate and cross currency interest rate swaps, is set out below:

CONSOLIDATED

	2004				2003			
			Fixed rate financial liabilities				Fixed rate financial liabilities	
£ million	Floating rate financial liabilities	Fixed rate financial liabilities	Weighted average interest rate	Weighted average term (years)	Floating rate financial liabilities	Fixed rate financial liabilities	Weighted average interest rate	Weighted average term (years)
US dollar	537	4,749	5.5%	4.7	893	4,650	5.4%	5.9
Sterling	1	40	9.8%	3.0	5	40	9.8%	4.0
Euro	3	362	7.3%	5.1	2	481	7.2%	6.0
Other currencies	56	11	5.7%	5.9	70	-	-	-
Total	597	5,162	5.7%	4.7	970	5,171	5.6%	5.9

Included within fixed rate financial liabilities as at 31 December 2004 are £78m (2003 : £nil) of US dollar term debt and £181m (2003 : £84m) of US dollar interest rate swaps that mature within one year.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Currency and interest rate profile of financial assets

The currency and interest rate profile of the aggregate financial assets of £223m (2003 : £658m), after taking account of interest rate swaps, is set out in the table and narrative below:

	CONSOLIDATED			
	2004		2003	
£ million	**Interest bearing financial assets**	**Non interest bearing financial assets**	Interest bearing financial assets	Non interest bearing financial assets
US dollar	**30**	**49**	38	54
Sterling	**37**	**5**	320	37
Euro	**59**	**3**	134	6
Other currencies	**34**	**6**	29	4
Total	***160***	***63***	*521*	*101*

At 31 December 2004 there were interest rate swaps in place with a principal amount totalling £100m (2003 : £100m) and interest rate floors in place with a principal amount totalling £nil (2003 : £50m) denominated in sterling that mature within one year.

Included within non interest bearing financial assets are £50m (2003 : £78m) of investments denominated principally in sterling and US dollars which have no maturity date.

At 31 December 2004 agreements totalling £596m (2003 : £100m) were in place to enter into interest rate swaps at future dates to fix the interest expense on US dollar borrowings (2003 : interest income on sterling short term investments) commencing in 2005 and 2006 for periods of up to 42 months, at a weighted average interest rate of 3.89%.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity profile of financial liabilities

The maturity profile of financial liabilities at 31 December comprised:

	CONSOLIDATED	
£ million	**2004**	2003
Repayable:		
Within one year	**381**	450
Within one to two years	**618**	786
Within two to five years	**2,855**	2,139
After five years	**1,905**	2,766
Total	**5,759**	6,141

Financial liabilities repayable within one year include US commercial paper. Short term borrowings are supported by committed facilities and by centrally managed cash and short term investments. As at 31 December 2004, a total of £1,555m (2003 : £1,684m) of committed facilities was available, of which £41m (2003 : £51m) was drawn and is included in financial liabilities repayable within one year. Of the total committed facilities, £389m (2003 : £421m) matures within one year, £1,166m (2003 : £nil) within three to four years and £nil (2003 : £1,263m) within four to five years. These facilities are available to other affiliated businesses as well. Secured borrowings under finance leases were £16m (2003 : £23m).

Currency exposure

As explained in the Directors' Report on page 5, the business policy is to hedge all significant transaction exposures on monetary assets and liabilities fully and consequently there are no material currency exposures that would give rise to gains and losses in the profit and loss account in the functional currency of the operating units.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities

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

	CONSOLIDATED			
	2004		2003	
£ million	**Book value**	**Fair value**	Book value	Fair value
Primary financial instruments held or issued to finance operations				
Investments	**50**	**50**	78	78
Cash	**60**	**60**	55	55
Short term investments	**100**	**100**	466	466
Amounts due from affiliated companies	**-**	**-**	36	36
Other financial assets	**13**	**13**	23	23
Short term borrowings and current portion of long term borrowings	**(381)**	**(382)**	(450)	(450)
Long term borrowings	**(1,195)**	**(1,233)**	(1,378)	(1,469)
Amounts due to affiliated companies	**(4,132)**	**(4,534)**	(4,249)	(4,833)
Other financial liabilities	**(11)**	**(11)**	(13)	(13)
Provisions	**(40)**	**(40)**	(51)	(51)
	(5,536)	**(5,977)**	(5,483)	(6,158)
Derivative financial instruments held to manage interest rate and currency exposure				
Interest rate swaps	**-**	**(6)**	(1)	(13)
Forward foreign exchange contracts	**-**	**-**	-	(1)
	-	**(6)**	(1)	(14)
Total financial instruments	**(5,536)**	**(5,983)**	(5,484)	(6,172)

The amounts shown as the book value of derivative financial instruments represent accruals or deferred income arising from these financial instruments. The fair value of long term debt has been based on current market rates offered to Reed Elsevier Group plc for debt of the same remaining maturities. The fair values for interest rate swaps, interest rate options and forward rate agreements represent the replacement cost calculated using market rates of interest at 31 December 2004 and 2003. The fair values of all other items have been calculated by discounting expected future cash flows at market rates.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Hedges

The unrecognised and deferred gains and losses on financial instruments used for hedging purposes as at 31 December 2004, and before taking into account gains and losses arising in the year and included in the profit and loss account, are as follows:

	CONSOLIDATED			
	Unrecognised		Deferred	
£ million	Gains	Losses	Gains	Losses
On hedges at 1 January 2004	5	(18)	69	(25)
Arising in previous years included in 2004 profit and loss account	(2)	9	(44)	14
Arising in previous years not included in 2004 profit and loss account	3	(9)	25	(11)
Arising in 2004 not included in 2004 profit and loss account	(1)	1	32	(6)
On hedges at 31 December 2004	2	(8)	57	(17)
Of which:				
Expected to be included in 2005 profit and loss account	-	(6)	37	(12)
Expected to be included in 2006 profit and loss account or later	2	(2)	20	(5)
	2	(8)	57	(17)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

23. OBLIGATIONS UNDER LEASES

Future finance lease obligations are:

		CONSOLIDATED	
£ million		**2004**	2003
Repayable:			
Within one year		**9**	17
Within one and two years		**6**	4
Within two and five years		**2**	4
Less: interest charges allocated to future periods		**(1)**	(2)
Total		***16***	*23*
Obligations falling due within one year	*note 19*	**8**	16
Obligations falling due after more than one year	*note 20*	**8**	7
Total		**16**	23

Annual commitments under operating leases are:		**2004**		2003	
£ million		Land and buildings	Other	Land and buildings	Other
On leases expiring	- within one year	**6**	**1**	8	1
	- within one to five years	**38**	**7**	32	5
	- after five years	**53**	**-**	59	-
Total		**97**	**8**	99	6

24. PROVISIONS FOR LIABILITIES AND CHARGES

	CONSOLIDATED		
£ million	Deferred taxation liabilities	Property lease obligations	Total
At 1 January 2004	81	75	156
Provided	5	-	5
Utilised	(5)	(19)	(24)
Exchange translation differences	(5)	(4)	(9)
At 31 December 2004	**76**	**52**	**128**

The provision for property lease obligations relates to estimated sub-lease shortfalls and guarantees given by Harcourt General, Inc. in favour of a former subsidiary for certain property leases for various periods up to 2016.

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

25. FUTURE CAPITAL EXPENDITURE NOT PROVIDED FOR IN THE FINANCIAL STATEMENTS

	CONSOLIDATED	
£ million	**2004**	2003
Contracts placed	7	6

26. CALLED UP SHARE CAPITAL

	AUTHORISED	CALLED UP, ISSUED AND FULLY PAID
£ and no. shares	At 31 Dec 2003 and 2004	At 31 Dec 2003 and 2004
Preference shares (cumulative) of £1 each		
- Irredeemable 7.50%	100,000	100,000
Ordinary shares of £1 each		
- "R" ordinary shares	10,000	10,000
- "E" ordinary shares	10,000	10,000
Total	120,000	120,000

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

The "E" share capital is owned by Reed Elsevier NV and the "R" share capital is owned by Reed Elsevier PLC. Reed Elsevier NV and Reed Elsevier PLC jointly own the company.

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

27. SHARE PREMIUM ACCOUNT

£ million	
At 1 January and 31 December 2004	**324**

28. RECONCILIATION OF SHAREHOLDERS' FUNDS

£ million	Share capital and share premium	Profit and loss reserve	Consolidated Total	Parent Total
At 1 January 2004	324	(1,560)	(1,236)	976
Retained (loss)/profit for the year	-	(227)	(227)	414
Exchange translation differences	-	*85*	*85*	-
At 31 December 2004	**324**	**(1,702)**	**(1,378)**	**1,390**

Share capital includes non equity shares of £100,000 (2003 : £100,000).

Parent company total comprises the company profit and loss account and share premium account. The profit attributable to shareholders, dealt with in the accounts of the company, is £568m (2003 : £152m).

29. CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT	
£ million	**2004**	2003	**2004**	2003
Contingent liabilities in respect of borrowings of:				
Former subsidiary undertakings	-	3	-	3

There are contingent liabilities amounting to £57m (2003 : £77m) in respect of property lease guarantees given by Harcourt General, Inc. *in favour of a former* subsidiary (see note 24).

The company has accepted, in accordance with clause 403 Book 2 of the Dutch Civil Code, responsibility for the liabilities, including trade creditors and external borrowings totalling £70m (2003 : £80m), of subsidiary undertakings registered in the Netherlands.

30. RELATED PARTY TRANSACTIONS

The company is jointly owned and controlled by Reed Elsevier PLC and Reed Elsevier NV.

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

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

Foreign exchange contracts entered into during 2004 by Reed Elsevier Group plc and its subsidiaries with its fellow joint ventures amounted to £758m (2003 : £622m).

31. BALANCE SHEET OF REED ELSEVIER GROUP PLC AS AT 31 DECEMBER 2004

£ million		**2004**	2003
Fixed assets			
Investments	*note 14*	**922**	922
Current assets			
Debtors: amounts falling due within one year	*note 16*	**468**	55
Creditors: amounts falling due within one year	*note 19*	**-**	(1)
Net current assets		**468**	54
Net assets		**1,390**	976
Capital and reserves			
Called up share capital	*note 26*	**-**	-
Share premium account	*note 27*	**324**	324
Revenue reserves		**1,066**	652
Shareholders' funds	*note 28*	**1,390**	976

Approved by the board of Reed Elsevier Group plc, 16 February 2004.

M H Armour

Chief Financial Officer

Principal Subsidiary Undertakings at 31 December 2004

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

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

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

Principal joint ventures at 31 December 2004

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