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INFORMATION

Reed Elsevier

ANNUAL REPORTS AND FINANCIAL STATEMENTS 2003

For the Reed Elsevier Combined Businesses,
Reed Elsevier PLC and Reed Elsevier NV

Reed Elsevier

SCIENCE & MEDICAL

LIFE SCIENCES → NEUROSCIENCE → CHEMISTRY → MATHEMATICS → PHYSICS → DECISION SCIENCES → SOCIAL AND BEHAVIOURAL SCIENCES → MEDICINE → NURSING → DENTISTRY → VETERINARY SCIENCE

Reed Elsevier

LEGAL

STATUTES → CASE LAW → COMMENTARIES → CITATIONS → TAX INFORMATION → DIRECTORIES → COURT RECORDS → LEGAL DISCOVERY → BUSINESS INFORMATION → RISK SOLUTIONS → CONGRESSIONAL INFORMATION

Reed Elsevier

EDUCATION

ELEMENTARY → SECONDARY → SUPPLEMENTAL → ASSESSMENT → E-LEARNING → PROFESSIONAL DEVELOPMENT → TEACHING SUPPORT → LIBRARY MATERIALS → CLINICAL TESTING

Reed Elsevier

BUSINESS

AEROSPACE → COMMUNICATIONS → MEDIA AND ENTERTAINMENT → IT → BUILDING AND CONSTRUCTION → LOGISTICS AND DISTRIBUTION → SOCIAL CARE → SPORT AND LEISURE → FOOD AND HOSPITALITY → AGRICULTURE → MANUFACTURING

Contents

This document contains Annual Reports information and the Financial Statements in respect of the Reed Elsevier combined businesses and the two parent companies, Reed Elsevier PLC and Reed Elsevier NV. This, together with the separate summary document Reed Elsevier Annual Review and Summary Financial Statements 2003, forms the Annual Reports and Financial Statements of Reed Elsevier PLC and Reed Elsevier NV for the year ended 31 December 2003 and the two documents should be read together.

Financial highlights

For the year ended 31 December 2003

Reed Elsevier combined businesses

	2003 £m	2002 £m	2003 €m	2002 €m	Change at constant currencies %
Reported figures					
Turnover	**4,925**	5,020	**7,141**	7,982	1%
Operating profit	**661**	507	**958**	806	29%
Profit before taxation	**519**	289	**752**	460	75%
Net borrowings	**2,372**	2,732	**3,368**	4,180	
Adjusted figures					
Operating profit	**1,178**	1,133	**1,708**	1,801	6%
Profit before taxation	**1,010**	927	**1,465**	1,474	10%
Operating cash flow	**1,028**	1,010	**1,491**	1,606	3%
Operating margin	**24%**	23%	**24%**	23%	
Operating cash flow conversion	**87%**	89%	**87%**	89%	
Interest cover (times)	**7.0**	5.5	**7.0**	5.5	

Parent companies

	Reed Elsevier PLC			Reed Elsevier NV			Change at constant currencies %
	2003 £m	2002 £m	% change	2003 €m	2002 €m	% change	
Reported profit attributable	**169**	89	90%	**242**	144	68%	
Adjusted profit attributable	**394**	361	9%	**540**	542	–	10%
Average exchange rate €:£	**1.45**	1.59		**1.45**	1.59		
Reported earnings per share	**13.4p**	7.0p	91%	**€0.31**	€0.18	72%	
Adjusted earnings per share	**31.2p**	28.5p	9%	**€0.69**	€0.69	–	10%
Dividend per share	**12.0p**	11.2p	7%	**€0.30**	€0.30	–	

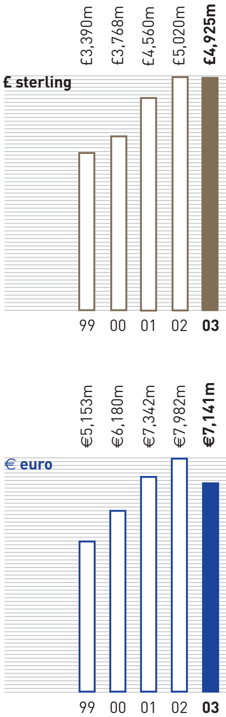
The Reed Elsevier combined businesses encompass the businesses of Reed Elsevier Group plc and Elsevier Reed Finance BV, together with their two parent companies, Reed Elsevier PLC and Reed Elsevier NV (the "Reed Elsevier combined businesses"). The results of Reed Elsevier PLC reflect its shareholders' 52.9% economic interest in the Reed Elsevier combined businesses. The results of Reed Elsevier NV reflect its shareholders' 50% economic interest in the Reed Elsevier combined businesses. The respective economic interests of the Reed Elsevier PLC and Reed Elsevier NV shareholders take account of Reed Elsevier PLC's 5.8% interest in Reed Elsevier NV.

The financial highlights presented refer to "adjusted" profit and cash flow figures. These figures are used by the Reed Elsevier businesses as additional performance measures and are stated before the amortisation of goodwill and intangible assets, exceptional items and related tax effects. A reconciliation between the reported and adjusted figures is provided in the notes to the financial statements.

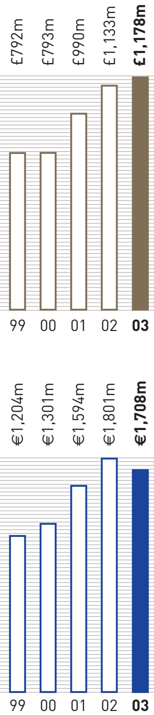
The percentage change at constant currencies refers to the movements at constant exchange rates, using 2002 full year average rates.

Reed Elsevier combined businesses

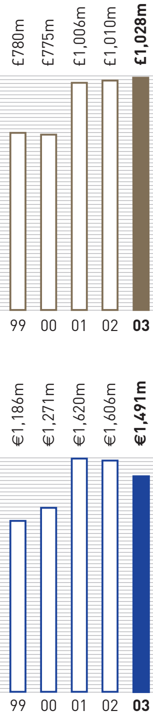
Turnover



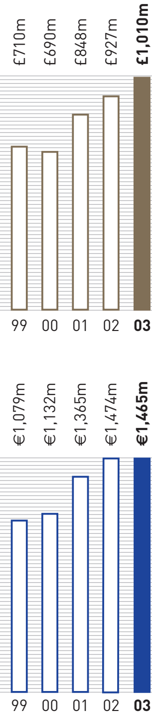
Adjusted operating profit



Adjusted operating cash flow

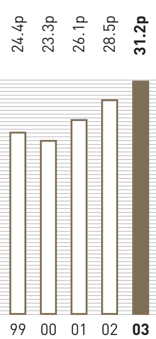


Adjusted pre-tax profit

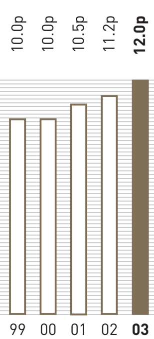


Reed Elsevier PLC

Adjusted earnings per share

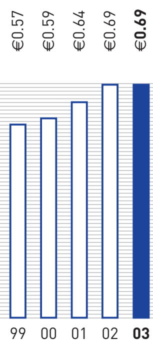


Full year dividend

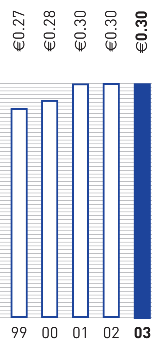


Reed Elsevier NV

Adjusted earnings per share



Full year dividend



Operating and financial review

This review provides a commentary on the operating and financial performance of the Reed Elsevier combined businesses for the year ended 31 December 2003. It includes a description of the operating business, a review of performance and a financial review, including consideration of accounting policies, as well as a review of the finance activities and the financial performance and dividends of the parent companies.

DESCRIPTION OF BUSINESS

Reed Elsevier

Reed Elsevier is one of the world's leading publishers and information providers. The principal operations are in North America and Europe and include science and medical, legal, education and business publishing. Total revenues for the year ended 31 December 2003 were £4,925 million/€7,141 million, principally derived from subscriptions, circulation and copy sales, advertising sales and exhibition fees.

Reed Elsevier is well positioned in long term attractive markets and has a clear investment led growth strategy which has delivered significant market outperformance in recent years.

Long term growth in our markets is expected to be sustained by the continuing demand for professional information. The increasing levels of scientific, medical, legal and business activity, as well as the commitment to improved educational standards, are generating more demand for high quality, specialist information. In addition, professionals are looking for significant improvements in productivity through access to highly functional online services and associated workflow tools.

Our strategy is aimed at delivering good sales growth in these markets through the development of innovative, superior products and strong sales and marketing capabilities. We expect to see sustainable growth in our core information offerings and to develop these further in new geographical and commercial markets. Additionally we are expanding through investment and acquisition into new and faster growing contiguous markets. Our commitment to our ongoing major investment programmes is aimed at delivering highly functional information based products and services that deliver greater productivity and success for our business and professional customers.

Our strategy to deliver good top line growth is accompanied by continued commitment to outstanding execution built on strong management, organisational effectiveness and tight cost control.

We have established long term financial targets which are to achieve above market revenue growth and double digit adjusted earnings per share growth at constant currencies. The business is strongly cash generative.

Science & Medical

The science and medical business, Elsevier, comprises worldwide scientific, technical and medical publishing and communications businesses. Total revenues for the year ended 31 December 2003 were £1,381 million/€2,002 million.

Growth in the scientific information market is driven by ever increasing scientific research and discovery and

FORWARD LOOKING STATEMENTS

The Reed Elsevier Annual Reports & Financial Statements 2003 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'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's intellectual property rights and internet communications; and the impact of technological change.

the demands for greater efficiency and productivity in the research process. In healthcare, advances in medical science and procedures and the demand for improved medical outcomes drive the need for high quality specialist information and associated online tools.

The Science & Technology division of Elsevier supplies scientific and technical information for libraries, scientists and professionals serving a wide range of research fields. It is a leading global academic journal publisher and each year publishes over 150,000 new research articles in some 1,200 journals and 1,000 new book titles. Elsevier also publishes secondary material in the form of supporting bibliographic data, indexes and abstracts, and tertiary information in the form of review and reference works. Its flagship electronic product, ScienceDirect, is a full text online research service holding over 5 million scientific articles and 15 major reference works. The fully searchable database is used by over 5 million researchers each year and has provided significant improvements in productivity through quicker and easier access to high quality content.

The Health Sciences division of Elsevier comprises an international network of nursing, health professions and medical publishing and communications businesses. The division supplies healthcare and medical information to medical researchers, practising professionals and students. It publishes over 8,000 textbooks and clinical reference works and over 500 journals. Elsevier is also accelerating the development of electronic products. These include multimedia products for use by both medical faculties and students to support core textbooks as well as online products for continuing practitioner education. Internationally, Elsevier is leveraging both its print and online content into new markets through adaptation and translation. The Excerpta Medica communications business publishes customised information for healthcare professionals, medical societies and pharmaceutical companies.

Legal

The legal business, LexisNexis, provides legal, tax, regulatory and business information to professional, business and government customers internationally. Total revenues for the year ended 31 December 2003 were £1,318 million/€1,911 million.

Legal and regulatory markets worldwide are seeing continuing expansion in legislative activity and increasing demand for legal services, together with a focus on improved efficiency and productivity. Additional opportunities are developing beyond the core research market, through the delivery of online workflow support services. Increasingly legal information and services are being delivered online, with considerable potential to deliver such products in markets outside the United States where online penetration is lower than in the US legal market. In recent years, LexisNexis has, with its comprehensive US public records databases, expanded in the market for risk solutions. This is growing strongly in the face of increasing credit card fraud and identity theft.

LexisNexis North America offers legal information products in electronic and print formats to law firms and practitioners, law schools and state and local governments in the United States and Canada. Its North American Legal Markets division provides statutes and case law for all 50 US states and Canada as well as research, analysis and citation services from Matthew Bender, Michie and Shepard's. The Martindale Hubbell Law Directory, including the martindale.com databases, provides access to the qualifications and credentials of over one million lawyers and law firms worldwide. LexisNexis also operates in fast growing areas beyond its core research product. These include electronic filing of documents with courts and electronic access and monitoring of court records as well as electronic legal discovery applications. The Corporate and Federal Markets division offers LexisNexis products and services to corporations, federal government agencies and academic institutions together with news, business, financial and public records content. Its risk management applications are designed to assist customers in managing risk through fraud detection and prevention, identity verification, pre-employment screening and due diligence.

Outside North America, LexisNexis International serves markets in Europe, Africa, Asia Pacific and Latin America with a range of local and international legal, tax, regulatory and business information solutions.

Education

The education business, Harcourt Education, publishes school textbooks and related instructional and assessment materials, principally in the United States, the United Kingdom, Australia, New Zealand and southern Africa. Total revenues for the year ended 31 December 2003 were £898 million/€1,302 million.

The long standing commitment across the world to improving educational standards remains strong and there is a continuing requirement to deliver proven educational programmes to support this. In recent years, there has also been a developing trend for the measurement of the educational results of students, both to monitor and assist improvement in individual educational outcomes and to improve accountability. Overall funding for education is expected to continue to increase.

In the United States, Harcourt School Publishers is a publisher of print and technology enabled instructional materials for students in kindergarten to 6th grade. Holt, Rinehart and Winston offers educational textbooks and related instructional materials for students in middle and secondary schools. Harcourt Achieve is a publisher of supplemental school and adult education materials as well as providing professional development services for teachers. Greenwood-Heinemann publishes monograph and reference lists and professional resources for teachers. Harcourt Education has achieved good performances in recent years both in the adoption states and in open territories based on strong curriculum product in key subjects such as reading and literature, science and health and elementary maths and social studies.

Harcourt Assessment develops assessment products and services for elementary, secondary and higher education as well as tests for practising and research psychologists. In educational testing, it provides a range of achievement, aptitude and guidance testing services for measuring student progress. It is well known for the Stanford Achievement Test, now in its 10th edition, which is used in school districts in every US state. In clinical testing, it provides psychologists with assessment tests for many aspects of human behaviour, intelligence and development. The Wechsler products, including the Wechsler Preschool and Primary Scale of Intelligence, are licensed for publication in over 30 countries.

Outside the United States, Harcourt Education International is a provider of textbooks and related instructional materials to the UK primary and secondary schools market through the Heinemann, Rigby and Ginn imprints and other English language markets in Australia, New Zealand and southern Africa. The Global Library business publishes reference materials for school libraries.

Business

The business division, Reed Business, provides information and marketing solutions, including trade shows, to business professionals in the United States, the United Kingdom, continental Europe, Australia and Asia. Total revenues for the year ended 31 December 2003 were £1,328 million/ €1,926 million.

Business to business magazines and exhibitions provide an effective marketing channel through which buyers and sellers are connected, increasingly through leading brands in each sector. Alongside print magazines, demand is growing for online products which provide improvements in productivity through quicker and easier access to more comprehensive and searchable data. Business to business marketing spend has been driven historically by levels of corporate profitability, which itself has followed overall GDP growth. Over the economic cycle, growth in marketing spend has historically at least equalled growth in GDP.

Reed Business Information publishes over 500 trade magazines, directories, newsletters and loose leaf publications. Important magazine titles include Variety and Publishers Weekly in the United States, Computer Weekly, Estates Gazette, Flight International and New Scientist in the United Kingdom, and Elsevier and FEM in the Netherlands. Reed Business Information also publishes directories in selected markets, including the industrial directory Kelly's and The Bankers' Almanac. Through its Reed Construction Data business, it provides nationwide coverage of construction project information for the United States.

The majority of Reed Business Information's magazines drive further value through companion websites. In addition, Reed Business Information has been particularly successful in developing online products and services, which have been growing at well over 20% per annum and at $140 million now represent 7% of the division's total revenues. These products include totaljobs.com, a major online recruitment site in the UK; ICIS-LOR, a global information and pricing service for the petrochemicals sector; zibb.nl, a business information service in the Netherlands; and an online version of the Kelly's directory which is being launched internationally.

Reed Exhibitions organises trade exhibitions and conferences internationally, with over 430 events in

34 countries, attracting over 85,000 exhibitors and more than 4.5 million visitors annually. Its exhibitions and conferences encompass a wide range of sectors, including IT, manufacturing, aerospace, defence, leisure, electronics, food and hospitality, travel and entertainment.

Further information on the performance of the individual businesses in 2003 is set out in the Review of Operations below.

Risks

The key risks facing Reed Elsevier arise from the highly competitive and rapidly changing nature of our markets, the increasingly technological nature of our products and services, the international nature of our operations, and legal and regulatory uncertainties. Certain businesses are also affected by the impact on publicly funded customers of changes in funding and by cyclical pressures on advertising and promotional spending.

Reed Elsevier has an established risk management system that is embedded into the operations of the businesses and is reviewed by the Boards and Audit Committees. Specific risks that have been identified and are continuously addressed include:

- Reed Elsevier's businesses are dependent on the continued acceptance by our customers of our products and services and the prices which we charge for them. We cannot predict whether there will be changes in the future, either in market demand or from the actions of competitors, which will affect the acceptability of products, services and prices to our customers.
- We are investing significant amounts to develop and promote electronic products and platforms. The provision of these products and services is very competitive and is to some extent subject to factors outside our control such as competition from new technologies. There is no assurance that this investment will produce satisfactory long term returns.
- Reed Elsevier's businesses are increasingly dependent on electronic platforms and distribution systems, primarily the internet, for delivery of their products and services. Although plans and procedures are in place to reduce such risks, our businesses could be adversely affected if their electronic delivery platforms experience a significant failure, interruption, or security breach.
- Our products and services are largely comprised of intellectual property content delivered through a variety of media. We rely on trademark, copyright, patent and other intellectual property laws to establish and protect our proprietary rights in these products and services. However, there is a risk that our proprietary rights could be challenged, limited, invalidated or circumvented.
- Our businesses operate in over 100 locations worldwide and our earnings are subject to taxation in many differing jurisdictions and at differing rates. We seek to organize our affairs in a tax efficient manner, taking account of the jurisdictions in which we operate. However, tax laws that apply to Reed Elsevier businesses may be amended by the relevant authorities. Such amendments, or their application to Reed Elsevier businesses, could adversely affect our reported results.

Further details on risk management and internal control procedures are set out in the Structure and Corporate Governance description on pages 22 to 26.

REVIEW OF OPERATIONS

	2003 £m	2002 £m	2003 €m	2002 €m	% change at constant currencies
Turnover					
Science & Medical	**1,381**	1,295	**2,002**	2,059	8%
Legal	**1,318**	1,349	**1,911**	2,145	3%
Education	**898**	993	**1,302**	1,579	–3%
Business	**1,328**	1,383	**1,926**	2,199	–4%
Total	**4,925**	5,020	**7,141**	7,982	1%
Adjusted operating profit					
Science & Medical	**467**	429	**677**	682	8%
Legal	**301**	287	**437**	456	10%
Education	**174**	183	**252**	291	2%
Business	**236**	234	**342**	372	–
Total	**1,178**	1,133	**1,708**	1,801	6%

Adjusted figures are used by Reed Elsevier as additional performance measures and are stated before amortisation of goodwill and intangible assets and exceptional items.

The Review of Operations refers to adjusted operating profit performance. Adjusted figures are used by Reed Elsevier as additional performance measures and are stated before amortisation of goodwill and intangible assets and exceptional items. Reported operating results, including amortisation of goodwill and intangible assets and exceptional items, are analysed in note 1 to the combined financial statements and discussed further below in the Financial Review, and are reconciled to the adjusted figures in note 10 to the combined financial statements.

Unless otherwise indicated, all percentage movements in the following commentary refer to constant currency rates, using 2002 full year average rates, and are stated before the amortisation of goodwill and intangible assets and exceptional items.

SCIENCE & MEDICAL

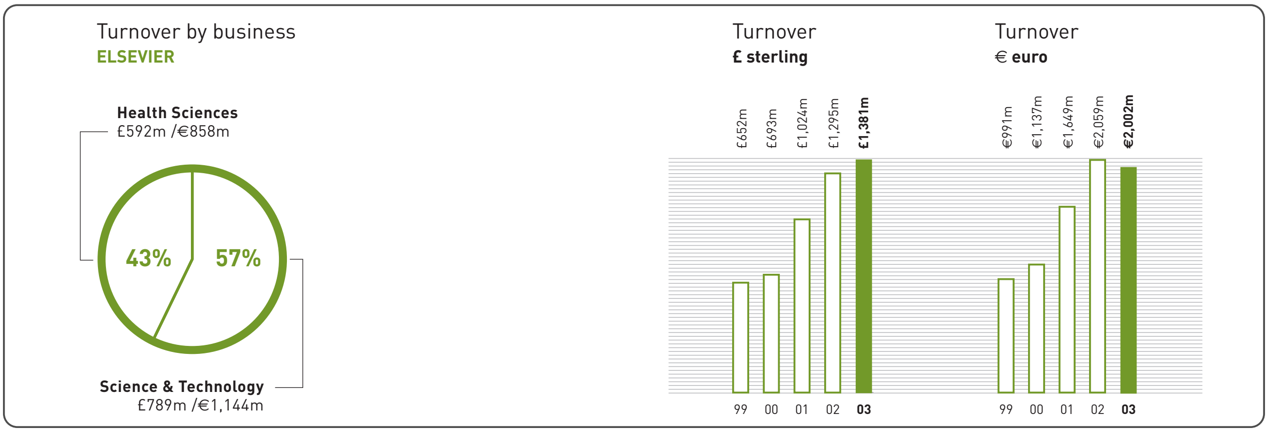
	2003 £m	2002 £m	2003 €m	2002 €m	% change at constant currencies
Turnover					
Elsevier					
Science & Technology	**789**	746	**1,144**	1,186	5%
Health Sciences	**592**	549	**858**	873	11%
	1,381	1,295	**2,002**	2,059	8%
Adjusted operating profit	**467**	429	**677**	682	8%
Adjusted operating margin	**33.8%**	33.1%	**33.8%**	33.1%	0.7pts

Elsevier has had another successful year against a background of considerable pressure on institutional budgets. Strong subscriptions renewals and growing online sales drove revenue growth in Science & Technology and a successful book publishing programme delivered good growth in Health Sciences. Underlying operating margins were improved by further actions to streamline operations. Continued investment in new publishing and in expanding ScienceDirect and other online services are expected to deliver future growth.

Revenue and adjusted operating profits both increased by 8% at constant exchange rates, or 5% and 8% excluding the Holtzbrinck STM business acquired at the beginning of the year and other small acquisitions and disposals. Both the Science & Technology and Health Sciences divisions saw underlying revenue growth of 5%.

In the Science & Technology division, growth was driven by strong subscription renewals and growing online sales including recently introduced back files and subject collections. Usage of ScienceDirect more than doubled to 175 million article downloads during the year, reflecting the dramatic increase in access and utility that this web based service provides. ScienceDirect now holds over 5 million scientific research articles that can be searched, accessed and linked at the click of a mouse, anywhere and at any time. Increasingly customers, either individually or through consortia, are subscribing to content hitherto outside their collections at attractive discounts. Electronic only subscriptions grew by 55% and now account for 23% of journal subscriptions by value.

In Health Sciences, growth was driven by the strong book publishing programme with successful new titles and editions coupled with increased demand from the growing healthcare professions. Electronic



revenues continue to grow strongly, albeit from a much smaller base than in Science & Technology, from the expansion of online services in addition to migration from print subscriptions. Demand from the pharmaceutical industry for projects and conferences was however weaker leading to consolidation of these activities. The International business was expanded in the year through more aggressive versioning and distribution of international content in local markets and the acquisition of the Holtzbrinck STM publishing business, adding high quality German language medical publishing and strong local market and distribution channels for other international content.

Significant investments continue to be made in ScienceDirect, most particularly in new navigation services, and in web platforms to support the launch of new online products within Health Sciences. Continued action on costs, including further benefits of integration of the Harcourt STM businesses, funded increases in investment and improved the adjusted overall margin, i.e. before exceptional items and the amortisation of goodwill and intangible assets, by 0.7 percentage points.

The outlook for the Science & Medical business is good. Although academic institutional and corporate budgets remain under pressure, Elsevier continues to see strong subscription renewals and take up of its electronic products. Investment in content and new online services is being increased to address further market opportunities.

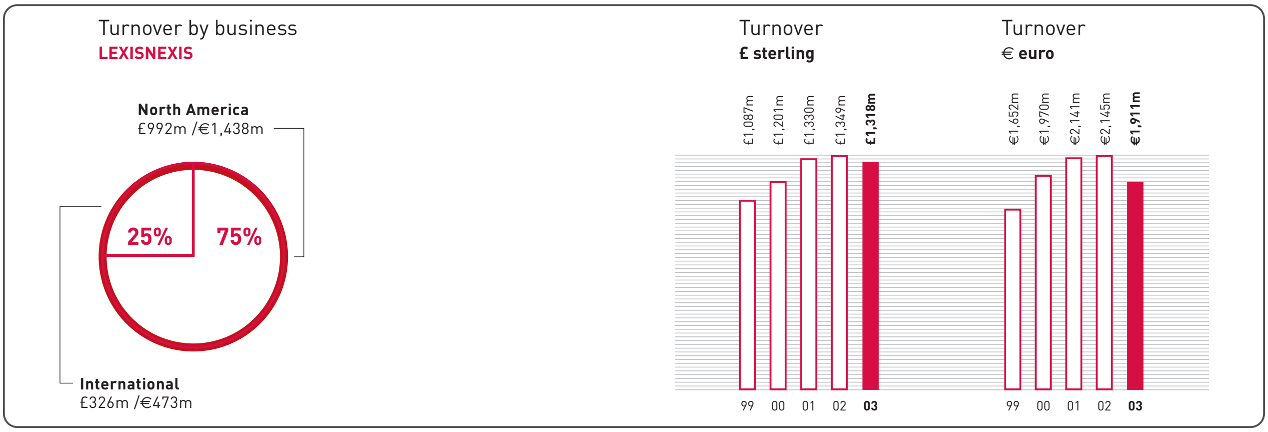
LEGAL

	2003 £m	2002 £m	2003 €m	2002 €m	% change at constant currencies
Turnover					
LexisNexis					
North America	**992**	1,056	**1,438**	1,679	2%
International	**326**	293	**473**	466	7%
	1,318	1,349	**1,911**	2,145	3%
Adjusted operating profit	**301**	287	**437**	456	10%
Adjusted operating margin	**22.8%**	21.3%	**22.8%**	21.3%	1.5pts

The LexisNexis business has continued to perform well in markets seeing slower growth. The US legal business is performing ahead of the market, whilst the continued slow down within US corporate and federal markets for corporate business information has been offset by the stronger growth in the risk solutions business. Continued investment is being made in new content and online services whilst further cost actions have improved operational efficiency and margins.

Revenues and adjusted operating profits increased by 3% and 10% respectively at constant exchange rates, or 3% and 8% excluding acquisitions and disposals. LexisNexis North America saw underlying revenue growth at 2% held back by the late cycle impact of the economic slowdown, particularly in corporate markets. Outside the US, revenue growth before acquisitions was 4% which, while seeing similar weakness in UK corporate information markets, saw strong growth in Asia-Pacific. Adjusted operating margins improved by 1.5 percentage points to 22.8% as a result of the continued action to improve efficiency and release funds for investment.

In US legal markets, revenues grew by 3%. Online revenue growth was 7% with good growth in national law firms and, in particular, in the small law firm market. Print and CD sales were marginally lower as the market continues to move online. The legal directories business again performed well with strong renewals and expanded web services. In US corporate and federal markets, underlying revenues were flat. Strong growth in the risk solutions business was offset by declines in corporate and academic information markets reflecting the difficult budgetary environment. Continued action on the cost base funded further increases in investment and delivered underlying operating profit growth in LexisNexis North America of 10%.



The LexisNexis International businesses outside North America saw revenues and adjusted operating profits up 4% and 2% respectively at constant exchange rates before acquisitions. Strong growth in online sales of legal, tax and regulatory product across all major markets was in part offset by print migration and by weakness in demand in the UK for corporate news and business information. Underlying operating margins were broadly maintained, despite increased investment in new online services and expansion of the business in Germany, as a result of continued cost actions, most particularly in rationalisation of editorial and production processes within Europe.

LexisNexis is continuing to invest in new content and improved online functionalities for its core products as well as expanding into contiguous markets through investment in new development and acquisitions. Good further progress has been made in expanding coverage of annotated codes for individual states and in case law summaries. The first development phase of the global online delivery platform has been completed, with the launch of services on the new platform in France, with the UK and Australia to follow later in the year, significantly enhancing product functionality and, after the initial launch phases, delivering greater operational efficiency.

Two acquisitions made in the second half of the year in the US have expanded LexisNexis' position in fast growing contiguous markets. Applied Discovery Inc is the leading provider in the US of electronic discovery services, which is a rapidly growing market. The public records business of Dolan Media, including important electronic information on court judgements and liens, has further expanded LexisNexis' position in the strongly growing risk management market. Courtlink, the leading provider of electronic court document filing and court access services acquired just over two years ago, is continuing to grow strongly as these markets expand. LexisNexis is increasing investment behind faster growth opportunities, to continue to drive above market revenue growth and which positions the business well for the future.

The outlook for the LexisNexis business is good. Revenue growth is being stimulated by new publishing and product initiatives and the declines seen in corporate and business information markets appear to be abating. Increases in investment are expected to be funded by the actions taken to further improve operational efficiency.

EDUCATION

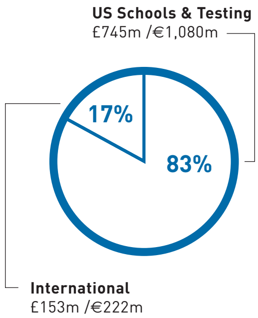
	2003 £m	2002 £m	2003 €m	2002 €m	% change at constant currencies
Turnover					
Harcourt Education					
US Schools & Testing	**745**	846	**1,080**	1,345	–5%
International	**153**	147	**222**	234	5%
	898	993	**1,302**	1,579	–3%
Adjusted operating profit	**174**	183	**252**	291	2%
Adjusted operating margin	**19.4%**	18.4%	**19.4%**	18.4%	1.0pts

The Harcourt Education business performed well given the difficult schools markets, with education budgets under pressure and a trough in the US state textbook adoption cycle, and the effect on revenues of past contract losses. Harcourt performed well in new US state textbook adoptions and saw good growth in backlist sales and non-adoption states.

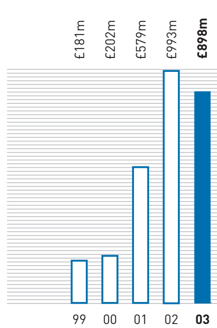
Revenues, before acquisitions and disposals, were 2% lower than in the prior year whilst adjusted operating profits were 3% ahead at constant exchange rates. Excluding the impact of the loss of the California state testing contract announced in 2002, underlying revenue growth would have been 1-2%, broadly in line with the market. Despite lower revenues, adjusted operating margins improved by 1.0 percentage points to 19.4% as substantial cost savings were realised from rationalisation of editorial and production processes and further integration.

The Harcourt US K-12 schools business performed well in 2003 state adoptions, gaining the joint overall market share leadership in new state adoption opportunities. Taking into account that Harcourt did not participate in the second year implementation of the 2002 California elementary reading adoption, this is an impressive performance. Particular successes in the Elementary market were achieved in Georgia reading and in social studies in North Carolina and Texas. In the secondary market, whilst performance in social studies was below expectation, the literature and language arts programmes have maintained their leading positions with successes in California and Florida and the science programme also led with a major win in Tennessee. The market for state adoptions was however weak due to the

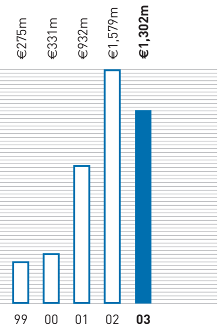
Turnover by business
HARCOURT EDUCATION



Turnover
£ sterling



Turnover
€ euro



trough in the US state textbook adoption cycle and some adoption deferrals due to the pressures on state budgets. This was compensated by good growth in backlist sales and sales to open territories in both elementary and secondary schools markets. Overall revenues were however held back by weakness in the supplemental business ahead of new publishing that addresses federally funded programmes. Underlying operating profits were up 2%, reflecting the significant cost savings achieved through supply chain rationalisation and further integration of the supplemental businesses.

The Harcourt Assessment businesses saw underlying revenues down 5%, reflecting the loss of the California state testing contract which was announced in 2002. Without this, underlying revenue growth would have been over 15%. This has been primarily driven by strong new publishing in the clinical testing market. The new edition of the Stanford Achievement Test, which combines the power of the well established norm-reference test with the flexibility to test state-specific criteria, has been well received in the market and has been instrumental in winning a number of new state contracts, including Nevada, New Mexico and Minnesota, which will impact in 2004. Underlying operating profits were up 10% due to the strong growth in higher margin product and the actions taken to improve operational efficiency. Increased investment is being put into classroom-based assessment to improve individual educational outcomes, linking assessment to reinforcement of learning through linked curriculum and remediation products.

The Harcourt Education International businesses saw revenues 5% ahead and adjusted operating profits 1% ahead, with strong growth in academic publishing and the global library business offset by a marked reduction in the UK schools market due to shortfalls in governmental funding.

In 2004, the US schools market is expected to decline further as the low point is reached in the three year trough in the adoptions cycle combined with continuing state budget pressures. Harcourt expects to perform well in the new 2004 adoptions and the early market reaction to new publishing programmes has been encouraging. The assessment business will benefit from the recent state contract wins and the International business is expected to recover from the UK funding constraints seen last year. 2005 and the following years are expected to see a significant recovery in US market growth given the much stronger adoption calendar and Harcourt should be well placed to perform strongly.

BUSINESS

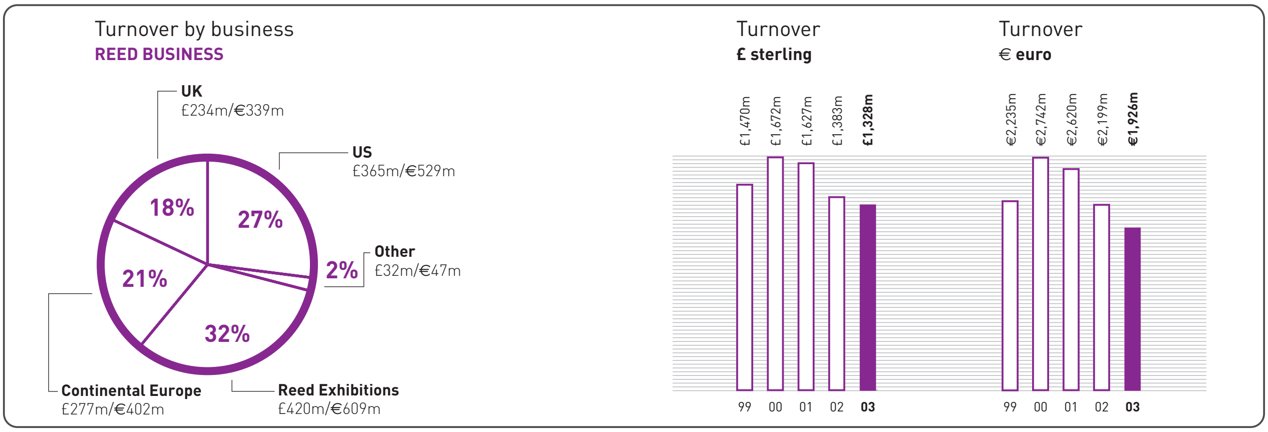
	2003 £m	2002 £m	2003 €m	2002 €m	% change at constant currencies
Turnover					
Reed Business Information					
US	**365**	438	**529**	696	–6%
UK	**234**	241	**339**	383	–3%
Continental Europe	**277**	256	**402**	407	–6%
Reed Exhibitions	**420**	425	**609**	676	–3%
Other	**32**	23	**47**	37	8%
	1,328	1,383	**1,926**	2,199	–4%
Adjusted operating profit	**236**	234	**342**	372	–
Adjusted operating margin	**17.8%**	16.9%	**17.8%**	16.9%	0.9pts

The Reed Business division has again performed well in yet another difficult year. The continued decline of advertising volumes was in part compensated by continued market share gains, yield improvement and significant growth in online sales. The exhibitions business has been tightly managed through weak economic conditions but has been adversely affected by the net cycling out of non-annual shows as well as the impact of the war in Iraq and the SARS outbreak. Underlying margins improved through firm cost management.

Revenues and adjusted operating profits were respectively 4% lower and flat at constant exchange rates, or 5% and 2% lower excluding acquisitions and disposals. The underlying magazine and information publishing businesses saw a revenue decline of 5% due to the advertising market weakness, and the exhibitions business revenues were 6% lower, or 3% before taking account of the net cycling out of non-annual shows. Adjusted operating margin was 0.9 percentage points ahead at 17.8% reflecting the actions taken on costs to mitigate the impact of lower revenues and to fund investment.

In the US, Reed Business Information saw revenues 6% lower than in the prior year. Growth in the entertainment sector was more than offset by declines in the manufacturing, electronics and construction sectors. Significant focus on improving yields and building share could not compensate for the volume decline. Despite the revenue decline, underlying operating profits have risen by 23% reflecting the significant actions taken to reduce costs.

In the UK, Reed Business Information revenues were down 3%. Whilst display and recruitment advertising markets saw lower revenues, good growth was achieved in online sales. Adjusted operating profits



were similar to the prior year, with operating margins improved through firm cost management. In Continental Europe, Reed Business Information saw underlying revenues down 5%. Continued focus on market share gains and improving yields mitigated to an extent the significant decline in advertising markets. Economic conditions in the Netherlands remain very weak, with only the healthcare and regulatory titles showing growth. Significant cost actions taken throughout the year resulted in adjusted operating profits 5% higher despite the revenue decline.

At Reed Exhibitions, revenues and adjusted operating profits were lower by 3% and 9% respectively at constant exchange rates. Underlying revenues, excluding acquisitions and disposals, were 6% lower, or 3% lower before the effect of the net cycling out of non-annual shows. Growth in Asia-Pacific and the majority of North American shows was offset by weakness in the US manufacturing sector and in Europe, particularly in the international shows. Underlying operating profits were 14% lower, or 3% lower before the cycling out of non-annual shows. Given the weak economic conditions in most markets and the impact on business travel of the Iraq war and the SARS outbreak, this is a very resilient performance and reflects the quality of the exhibitions business and very focused management.

Reed Business is not yet budgeting for any real upturn in its markets and, taken with increased investment in online services, is not anticipating growth this year. If, however, an economic recovery really does take hold and becomes more broadly based, then Reed Business should recover quickly, most immediately in its advertising revenues. Given the dramatic improvements made in operational efficiency over the last three years, the flow through to increased profitability will be strong.

FINANCIAL REVIEW

REED ELSEVIER COMBINED BUSINESSES

	2003 £m	2002 £m	2003 €m	2002 €m	Change at constant currencies %
Reported figures					
Turnover	**4,925**	5,020	**7,141**	7,982	1%
Operating profit	**661**	507	**958**	806	29%
Profit before taxation	**519**	289	**752**	460	75%
Net borrowings	**2,372**	2,732	**3,368**	4,180	
Adjusted figures					
Operating profit	**1,178**	1,133	**1,708**	1,801	6%
Operating margin	**24%**	23%	**24%**	23%	1.3pts
Profit before taxation	**1,010**	927	**1,465**	1,474	10%
Operating cash flow	**1,028**	1,010	**1,491**	1,606	3%
Operating cash flow conversion	**87%**	89%	**87%**	89%	
Interest cover (times)	**7.0**	5.5	**7.0**	5.5	

Adjusted figures, which exclude the amortisation of goodwill and intangible assets and exceptional items, are used by Reed Elsevier as additional performance measures. A reconciliation between the reported and adjusted figures is provided in note 10 to the combined financial statements.

Profit and loss

The **reported profit before tax** for the Reed Elsevier combined businesses, after the amortisation of goodwill and intangible assets and exceptional items, was £519m/€752m, which compares with a reported profit of £289m/€460m in 2002. The increase principally reflects higher underlying operating profits, lower goodwill and intangible asset amortisation and a £65m/€108m reduction in exceptional charges, as well as reduced net interest expense. The **reported attributable profit** of £334m/€484m increased against a reported attributable profit of £181m/€288m in 2002, reflecting the improved operating performance and the lower interest costs.

The year on year decline of the US dollar since 2002 has had adverse translation effects on the results expressed in sterling and, more particularly, in euros. The strengthening of the euro relative to sterling has compounded this adverse translation effect on the results expressed in euros, whilst mitigating the impact on the results expressed in sterling. This translation effect does not however have any impact on the underlying performance of the businesses.

Turnover decreased by 2% expressed in sterling to £4,925m, and by 11% expressed in euros to €7,141m. At constant exchange rates, turnover was 1% higher, or flat excluding acquisitions and disposals.

Adjusted operating profits, excluding the amortisation of goodwill and intangible assets and exceptional items, were up 4% expressed in sterling at £1,178m, whilst down 5% expressed in euros at €1,708m. At constant exchange rates, adjusted operating profits were up 6%, or 5% excluding acquisitions and disposals.

Adjusted operating margins improved by 1.3 percentage points to 23.9% reflecting the continued tight management of costs.

The **amortisation charge** for intangible assets and goodwill, including in joint ventures, amounted to £445m/€645m, down £82m/€193m on the prior year as a result of translation effects and some past acquisitions becoming fully amortised.

Exceptional items showed a pre-tax charge of £46m/€68m, comprising, £49m/€72m of Harcourt and other acquisition integration and related costs, £23m/€33m in respect of restructuring actions taken in response to the effect of the protracted global economic slowdown, less a £26m/€37m net gain on disposal of businesses and fixed asset investments. After a tax credit of £84m/€122m principally arising on the exceptional costs and in respect of prior year disposals, exceptional items showed a net post-tax gain of £38m/€54m. This compares with a net post-tax exceptional gain of £11m/€18m in 2002.

Net interest expense, at £168m/€243m, was £38m/€84m lower than in the prior year, reflecting the benefit of the 2002 free cash flow, lower interest rates and currency translation effects. Net interest cover on an adjusted basis was 7.0 times.

Adjusted profits before tax, before the amortisation of goodwill and intangible assets and exceptional items, at £1,010m/€1,465m, were up 9% expressed in sterling, whilst down 1% expressed in euros. At constant exchange rates, adjusted profits before tax were up 10%.

The **effective tax rate** on adjusted earnings was little changed at 26%. The **adjusted profit attributable to shareholders** of £744m/€1,079m was up 9% expressed in sterling, and down 1% expressed in euros. At constant exchange rates, the adjusted profit attributable to shareholders was up 10%.

Cash flows and debt

Adjusted operating cash flow, before exceptional items, was £1,028m/€1,491m representing an 87% conversion rate of adjusted operating profits into cash. This compares with a conversion rate in 2002 of 89%. Capital expenditure in the year amounted to £168m/€244m and depreciation was £134m/€194m, both similar to the prior year.

Free cash flow – after interest and taxation but before acquisition spend, exceptional receipts and payments and dividends – was £669m/€970m, compared to £651m/€1,035m in 2002. After dividends, free cash flow was £377m/€547m compared to £378m/€601m in 2002. Net exceptional cash inflows of £34m/€50m included £96m/€140m proceeds from disposals of businesses and fixed asset investments and £36m/€52m of reduced tax payments, less exceptional acquisition related and restructuring payments of £98m/€142m.

In 2003, **acquisitions** were made for a total consideration of £226m/€328m, including £3m/€5m deferred to future years, and after taking account of £9m/€13m of net cash acquired. An amount of £229m/€332m was capitalised as goodwill and intangible assets. Deferred consideration paid in respect of prior year acquisitions and payment of change of control and other non-operating liabilities assumed on the acquisition of Harcourt totalled £35m/€50m. The 2003 acquisitions contributed £16m/€25m to adjusted operating profit in the year and added £15m/€22m to adjusted operating cash flow.

Net borrowings at 31 December 2003 were £2,372m/€3,368m, a decrease of £360m in sterling and €812m in euros since 31 December 2002, reflecting the free cash flow less acquisition spend, and favourable exchange translation effects from the weaker US dollar.

Gross borrowings at 31 December 2003 amounted to £3,010m/€4,274m, denominated mostly in US dollars, and were partly offset by cash balances totalling £638m/€906m invested in short term deposits and marketable securities. After taking account of interest rate derivatives, a total of 65% of Reed Elsevier's gross borrowings were at fixed rates, including £1,270m/€1,797m of floating rate debt fixed through the use of interest rate derivatives, and had a weighted average interest coupon of 6.3% and an average remaining life of 5.8 years.

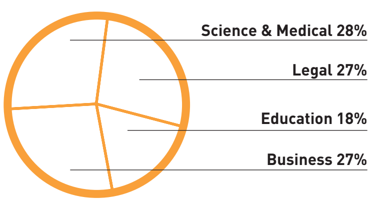
ACCOUNTING POLICIES

Introduction

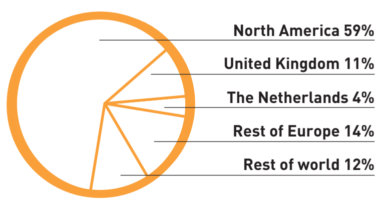
The accounting policies of the Reed Elsevier combined businesses are described in the combined financial statements. Prior to 2003, the Reed Elsevier combined financial statements were presented in accordance with both UK and Dutch Generally Accepted Accounting Principles ("GAAP"). Following changes to Dutch GAAP effective for the 2003 financial year in respect of the presentation of dividends and pension accounting, UK and Dutch GAAP have diverged such that the Reed Elsevier accounting policies no longer accord with Dutch GAAP. Under Article 362.1 of Book 2 Title 9 of the Netherlands Civil Code, UK GAAP may be adopted by Dutch companies with international operations for the preparation of financial statements and, accordingly, UK GAAP has been so adopted, ensuring consistency with the prior year of the accounting policies applied in the combined financial statements.

Reed Elsevier NV has adopted UK GAAP in its statutory financial statements and has therefore presented both group financial statements, in which its investments in Reed Elsevier Group plc and Elsevier Reed Finance BV are presented using the gross equity method, and parent company financial statements, in which its investments are presented using the historical cost method. The adoption of UK GAAP by Reed Elsevier NV had no impact on group shareholders' funds as at 1 January 2003 or on the group earnings for the year ended 31 December 2003. The adoption of UK GAAP had the effect of reducing parent company shareholders' funds as at 1 January 2003 by €34m and parent company attributable profit for the year ended

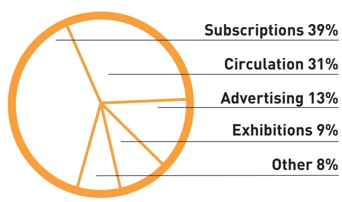
Turnover by business segment



Turnover by geographical market



Turnover by source



31 December 2003 by €39m compared to the amounts that would have been reported under Dutch GAAP.

The most significant accounting policies in determining the financial condition and results of the combined businesses, and those requiring the most subjective or complex judgement, relate to the valuation and amortisation of goodwill and intangible assets, taxation and pensions.

Revenue recognition policies, while an area of management focus, are generally straightforward in application as the timing of product or service delivery and customer acceptance for the various revenue types can be readily determined. Allowances for product returns are deducted from revenues based on historical return rates.

Pre-publication costs incurred in the origination of content are capitalised and amortised over their estimated useful lives based on sales profiles. Annual reviews are carried out to assess the recoverability of carrying amounts.

Goodwill and intangible assets

Reed Elsevier's accounting policy is that, on acquisition of a subsidiary, associate, joint venture or business, the purchase consideration is allocated between the net tangible and intangible assets other than goodwill on a fair value basis, with any excess purchase consideration representing goodwill. The valuation of intangible assets other than goodwill represents the estimated economic value in use, using standard valuation methodologies, including as appropriate, discounted cash flow, relief from royalty and comparable market transactions. Acquired goodwill and intangible assets are capitalised and amortised systematically over their estimated useful lives up to a maximum of 40 years, subject to impairment review. Appropriate amortisation periods are selected based on assessments of the longevity of the brands and imprints, the market positions of the acquired assets and the technological and competitive risks that they face.

The carrying amounts of goodwill and intangible assets are regularly reviewed, at least twice a year. The carrying amounts of goodwill and intangible assets arising on all significant acquisitions, on all acquisitions made in the previous financial year, and on any acquisitions for which there are indications of possible impairment are compared with estimated values in use based on latest management cash flow projections. Key areas of judgement in estimating the values in use of businesses are the forecast long term growth rates and the appropriate discount rates to be applied to forecast cash flows. Based on the latest value in use calculations, no goodwill or intangible assets were impaired as at 31 December 2003.

Taxation

The Reed Elsevier combined businesses seek to organise their affairs in a tax efficient manner, taking account of the jurisdictions in which they operate. Reed Elsevier's policy is to make prudent provision for tax uncertainties.

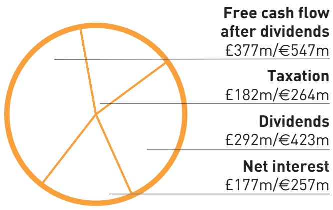
Reed Elsevier's policy in respect of deferred taxation is to provide in full for timing differences using the liability method. Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term based on an assessment of the forecast level of taxable profits in jurisdictions where such assets have arisen.

Pensions

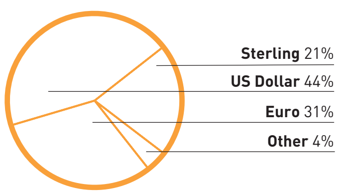
Pension costs are accounted for in accordance with the UK accounting standard SSAP24: Pension costs.

Accounting for pension schemes involves judgement about uncertain events, including the life expectancy of the members, salary and pension increases, inflation, the return on scheme assets and the rate at which the future pension payments are discounted. Estimates for all of these factors are used in determining the pension cost and liabilities reported in the financial statements. These best estimates of future developments are made in conjunction with independent actuaries. Each scheme is subject to a periodic review by the independent actuaries.

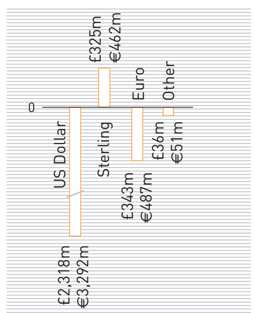
Use of adjusted operating cash flow



Currency profile – 2003 adjusted pre-tax profit



Currency profile – 2003 net cash/borrowings



For defined contribution schemes, the profit and loss account charge represents contributions payable.

International Accounting Standards

Under a Regulation adopted by the European Parliament in 2002, the Reed Elsevier combined financial statements will be prepared under International Accounting Standards (IAS) with effect from the 2005 financial year.

Impact assessments have been carried out during 2003 to identify the changes of accounting policy that will be necessary to comply with IAS and implementation plans have been prepared to modify accounting systems and procedures as necessary. The key changes arising on adoption of IAS are expected to relate to the accounting for goodwill and intangible assets, share based payments, pensions, financial instruments and deferred taxation.

Final IAS have yet to be issued and endorsed in respect of most of these and other accounting policy areas, and developments will be monitored closely.

TREASURY POLICIES

The boards of Reed Elsevier PLC and Reed Elsevier NV have requested that Reed Elsevier Group plc and Elsevier Reed Finance BV have 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 the Reed Elsevier businesses and to hedge transactions. Reed Elsevier's businesses do not enter into speculative transactions. The main treasury risks faced by Reed Elsevier are liquidity risk, interest rate risk and foreign currency risk. The boards of the parent companies agree overall policy guidelines for managing each of these risks and the boards of Reed Elsevier Group plc and Elsevier Finance SA agree policies (in conformity with parent company guidelines) for their respective business and treasury centres. These policies are summarised below and remained broadly unchanged during 2003.

Funding

Reed Elsevier 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 maintains a maturity profile to facilitate refinancing. Reed Elsevier's policy is that no more than US$1,000m 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.

After taking account of the maturity of committed bank facilities that back short term borrowings, at 31 December 2003, nil% of debt after utilising available cash resources matures in the first, second and third years, 72% in the fourth and fifth years, 14% in five to ten years, and 14% beyond ten years.

At 31 December 2003, Reed Elsevier had access to US$3,000 million (2002 US$3,500 million) of committed bank facilities, of which US$91 million was drawn. These facilities principally provide back up for short term debt but also security of funding for future acquisition spend in the event that commercial paper markets are not available. Of the total committed facilities, US$750 million (2002:US$2,860 million) matures within one year, US$nil (2002: US$640 million) within two to three years, and US$2,250 million (2002: US$nil) within four to five years.

Interest rate exposure management

Reed Elsevier's interest rate exposure management policy is aimed at reducing the exposure of the combined businesses 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. Reed Elsevier 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.

At 31 December 2003, US$4,126 million of Reed Elsevier's net debt was denominated in US dollars on which approximately 75% of forecast net interest expense was fixed or capped for the next 12 months. This fixed or capped percentage reduces to approximately 60% by the end of the third year and reduces thereafter with all the interest rate derivatives which fix or cap expense and approximately three quarters of fixed rate term debt having matured by the end of 2009 and 2011 respectively.

At 31 December 2003, fixed rate US dollar term debt (not swapped back to floating rate) amounted to US$1.2 billion and had a weighted average life remaining of 13.0 years (2002: 14.3 years) and a weighted average interest coupon of 6.9%. Interest rate derivatives in place at 31 December 2003 which fix or cap the interest cost on an additional US$2.0 billion (2002: US$2.1 billion) of variable rate US dollar debt, have a weighted average maturity of 1.9 years (2002: 2.2 years) and a weighted average interest rate of 6.0%.

Foreign currency exposure management

Translation exposures arise on the earnings and net assets of business operations in countries other than those of each parent company. 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 US$1.2 billion.

ELSEVIER REED FINANCE BV

Structure

Elsevier Reed Finance BV, the Dutch resident parent company of the Elsevier Reed Finance BV group ("ERF"), is directly owned by Reed Elsevier PLC and Reed Elsevier NV. ERF provides treasury, finance and insurance services to the Reed Elsevier Group plc businesses through its subsidiaries in Switzerland: Elsevier Finance SA ("EFSA"), Elsevier Properties SA ("EPSA") and Elsevier Risks SA ("ERSA"). These three Swiss companies are organised under one Swiss holding company, which is in turn owned by Elsevier Reed Finance BV.

Activities

EFSA, EPSA and ERSA each focus on their own specific area of expertise.

EFSA is the principal treasury centre for the combined businesses. It is responsible for all aspects of treasury advice and support for Reed Elsevier Group plc's businesses operating in Continental Europe, South America, the Pacific Rim and certain other territories, and undertakes foreign exchange and derivatives dealing services for the whole of Reed Elsevier. EFSA also arranges or directly provides Reed Elsevier Group plc businesses with financing for acquisitions and product development and manages cash pools and investments on their behalf. EPSA is responsible for the exploitation of tangible and intangible property rights whilst ERSA is responsible for insurance activities relating to risk retention.

Major developments

EFSA continued to diversify its sources of funding in 2003 with an additional US$149 million of term debt raised through bilateral term loans and private placements.

In 2003, EFSA organised bank tenders and implemented cash-pooling arrangements in several European and Asian countries. EFSA also provided specialist advice concerning the management of interest exposures and also advised Reed Elsevier Group plc companies in Europe on the further development of their collection and payment mechanisms.

The average balance of cash under management, on behalf of Reed Elsevier Group plc and its parent companies, was approximately US$0.3 billion.

Liabilities and assets

At the end of 2003, 88% (2002: 90%) of ERF's gross assets were held in US dollars and 12% (2002: 10%) in euros, including US$7.2 billion (2002: US$7.1 billion) and €0.7 billion (2002: €0.8 billion) in loans to Reed Elsevier Group plc subsidiaries. Loans made to Reed Elsevier Group plc businesses are funded from equity, long term debt of US$0.8 billion and short term debt of €1.3 billion backed by committed bank facilities. These committed facilities were renegotiated in 2003. Term debt is derived from a Swiss domestic public bond issue, bilateral term loans and private placements. Short term debt is primarily derived from euro and US commercial paper programmes.

PARENT COMPANIES

	Reed Elsevier PLC			Reed Elsevier NV		
	2003 £m	2002 £m	% change	**2003 €m**	2002 €m	% change
Reported profit attributable	**169**	89	90%	**242**	144	68%
Adjusted profit attributable	**394**	361	9%	**540**	542	–
Average exchange rate €:£	**1.45**	1.59		**1.45**	1.59	
Reported earnings per share	**13.4p**	7.0p	91%	**€0.31**	€0.18	72%
Adjusted earnings per share	**31.2p**	28.5p	9%	**€0.69**	€0.69	–
Dividend per share	**12.0p**	11.2p	7%	**€0.30**	€0.30	–

The results of Reed Elsevier PLC reflect its shareholders' 52.9% economic interest in the Reed Elsevier combined businesses. The results of Reed Elsevier NV reflect its shareholders' 50% economic interest in the Reed Elsevier combined businesses. The respective economic interests of the Reed Elsevier PLC and Reed Elsevier NV shareholders take account of Reed Elsevier PLC's 5.8% interest in Reed Elsevier NV. Both parent companies gross equity account for their respective interests in the Reed Elsevier combined businesses. Adjusted figures, excluding the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures and are reconciled to the reported figures in the notes to the respective financial statements.

Profit and loss

Adjusted earnings per share, measured before the effect of amortisation of goodwill and intangible assets and exceptional items, for Reed Elsevier PLC were 31.2p, up 9% on the previous year, and for Reed Elsevier NV were €0.69, unchanged from 2002. The difference in percentage change is entirely attributable to the impact of currency movements on the translation of reported results. At constant rates of exchange, the adjusted earnings per share of both companies would have shown an increase of 10% over the previous year.

After their share of the charge in respect of goodwill and intangible asset amortisation and of the exceptional items, the **reported earnings per share** of Reed Elsevier PLC after tax credit equalisation and Reed Elsevier NV were 13.4p and €0.31 respectively, compared to 7.0p and €0.18 in 2002.

Dividends

Dividends to Reed Elsevier PLC and Reed Elsevier NV shareholders are equalised at the gross level, including the benefit of the UK attributable tax credit of 10% received by certain Reed Elsevier PLC shareholders. The exchange rate used for each dividend calculation – as defined in the Reed Elsevier merger agreement – is the spot euro/sterling exchange rate, averaged over a period of five business days commencing with the tenth business day before the announcement of the proposed dividend.

The Board of Reed Elsevier PLC has proposed a final dividend of 8.7p, giving a total dividend of 12.0p for the year, up 7% on 2002. The Boards of Reed Elsevier NV, in accordance with the dividend equalisation arrangements, have proposed a final dividend of €0.22. This results in a total dividend of €0.30 for the year, the same as in 2002. The difference in dividend growth rates reflects the impact of the significant appreciation of the euro against sterling since the prior year dividend declaration dates.

Dividend cover for Reed Elsevier PLC, using adjusted earnings before the amortisation of goodwill and intangible assets and exceptional items and related tax effects, was 2.6 times and for Reed Elsevier NV was 2.3 times. Measured for the combined businesses on a similar basis, dividend cover was 2.4 times, unchanged from 2002.

Structure and Corporate Governance

STRUCTURE

Corporate structure

Reed Elsevier came into existence in January 1993, when Reed Elsevier PLC and Reed Elsevier NV contributed their businesses to two jointly owned companies, Reed Elsevier Group plc, a UK registered company which owns the publishing and information businesses, and Elsevier Reed Finance BV, a Dutch registered company which owns the financing activities. Reed Elsevier PLC and Reed Elsevier NV have retained their separate legal and national identities and are publicly held companies. Reed Elsevier PLC's securities are listed in London and New York, and Reed Elsevier NV's securities are listed in Amsterdam and New York.

Equalisation arrangements

Reed Elsevier PLC and Reed Elsevier NV each hold a 50% interest in Reed Elsevier Group plc. Reed Elsevier PLC holds a 39% interest in Elsevier Reed Finance BV, with Reed Elsevier NV holding a 61% interest. Reed Elsevier PLC additionally holds an indirect equity interest in Reed Elsevier NV, reflecting the arrangements entered into between the two companies at the time of the merger, which determined the equalisation ratio whereby one Reed Elsevier NV ordinary share is, in broad terms, intended to confer equivalent economic interests to 1.538 Reed Elsevier PLC ordinary shares. The equalisation ratio is subject to change to reflect share splits and similar events that affect the number of outstanding ordinary shares of either Reed Elsevier PLC or Reed Elsevier NV.

Under the equalisation arrangements, Reed Elsevier PLC shareholders have a 52.9% economic interest in Reed Elsevier, and Reed Elsevier NV shareholders (other than Reed Elsevier PLC) have a 47.1% economic interest in Reed Elsevier. Holders of ordinary shares in Reed Elsevier PLC and Reed Elsevier NV enjoy substantially equivalent dividend and capital rights with respect to their ordinary shares.

The boards of both Reed Elsevier PLC and Reed Elsevier NV have agreed, except in exceptional circumstances, to recommend equivalent gross dividends (including, with respect to the dividend on Reed Elsevier PLC ordinary shares, the associated UK tax credit), based on the equalisation ratio. A Reed Elsevier PLC ordinary share pays dividends in sterling and is subject to UK tax law with respect to dividend and capital rights. A Reed Elsevier NV ordinary share pays dividends in euros and is subject to Dutch tax law with respect to dividend and capital rights.

CORPORATE GOVERNANCE

Compliance with codes of best practice

The boards of Reed Elsevier PLC and Reed Elsevier NV have implemented standards of corporate governance and disclosure policies applicable to companies listed on the stock exchanges of the United Kingdom, the Netherlands and the United States. The effect of this is that an obligation applying to one will, where practicable and not in conflict, also be observed by the other.

Reed Elsevier PLC, which has its primary listing on the London Stock Exchange, has complied throughout the period under review with the provisions and principles of Section 1 of the Principles of Good Governance and Code of Best Practice, issued by the UK Financial Services Authority. The boards of Reed Elsevier PLC and Reed Elsevier NV support the provisions and principles of corporate governance set out in the Combined Code on Corporate Governance issued by the UK Financial Reporting Council in July 2003 (the "UK Combined Code") and believe that each company complied with the provisions and principles of the UK Combined Code at the close of the period under review.

Reed Elsevier NV, which has its primary listing on Euronext in Amsterdam, has complied throughout the period under review with the listing rules of Euronext in Amsterdam and best custom and practice appropriate to internationally focused Dutch companies. The boards of Reed Elsevier NV and Reed Elsevier PLC support the principles of corporate governance set out in the Dutch Corporate Governance Code issued in December 2003 (the "Dutch Code") and believe that they will have no significant issues regarding compliance with the Dutch Code during 2004, subject to reconciliation with the UK Combined Code.

The ways in which the relevant principles of corporate governance are applied and complied with within Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV are described below.

THE BOARDS

The boards of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV each comprise 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.

The boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc are harmonised. Subject to approval by the respective shareholders, all the directors of Reed Elsevier Group plc are also directors of Reed Elsevier PLC and of Reed Elsevier NV. No individual may be appointed to the boards of Reed Elsevier PLC, Reed Elsevier NV or Reed Elsevier Group plc unless recommended by the joint Nominations Committee, although members of the Committee abstain when their own re-appointment is being considered. The Reed Elsevier PLC and Reed Elsevier NV shareholders maintain their rights to appoint individuals to their respective boards, in accordance with the provisions of the Articles of Association of those companies.

On appointment, 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 businesses and other information to assist them in performing their duties. Non-executive directors are encouraged to visit the Reed Elsevier businesses to meet directors and senior executives. All directors have access to the services of the respective company secretaries and may take independent professional advice in the furtherance of their duties, at the relevant company's expense.

All Reed Elsevier PLC and Reed Elsevier NV directors are subject to retirement at least every three years, and are able then to make themselves available for re-election by shareholders at the respective Annual General Meetings.

As a general rule, non-executive directors of Reed Elsevier PLC and members of the Reed Elsevier NV supervisory board serve on the respective board for two, three year terms, although the boards may invite individual directors to serve up to one additional three year term.

Reed Elsevier PLC

The Reed Elsevier PLC board consists of five executive directors: Crispin Davis – Chief Executive Officer, Mark Armour – Chief Financial Officer, Gerard van de Aast, Andrew Prozes and Patrick Tierney – appointed April 2003, and seven independent non-executive directors: Morris Tabaksblat – Chairman, John Brock, Mark Elliott – appointed April 2003, Cees van Lede – appointed April 2003, David Reid – appointed April 2003, Lord Sharman and Rolf Stomberg – senior independent non-executive director. Roelof Nelissen and Steven Perrick retired as directors in April 2003 and Derk Haank resigned as a director in June 2003. The board met five times during the year. Due to a prior commitment, Mr van Lede was not able to attend one meeting, otherwise there was full attendance.

At the Reed Elsevier PLC Annual General Meeting to be held on 28 April 2004, Messrs Tabaksblat, van de Aast and Stomberg and Lord Sharman will retire by rotation. Being eligible, they offer themselves for re-election.

Reed Elsevier NV

Reed Elsevier NV has a two-tier board structure comprising a supervisory board of eight members, all of whom are independent non-executives, and an executive board of five members. The executive board is responsible for the management of the company and the supervisory board supervises the executive board. The members of the supervisory board are Morris Tabaksblat – Chairman, Dien de Boer-Kruyt, John Brock, Mark Elliott – appointed April 2003, Cees van Lede – appointed April 2003, David Reid – appointed April 2003, Lord Sharman and Rolf Stomberg. The executive board comprises Crispin Davis – Chief Executive Officer, Mark Armour – Chief Financial Officer, Gerard van de Aast, Andrew Prozes and Patrick Tierney – appointed April 2003. Roelof Nelissen and Steven Perrick retired as members of the supervisory board in April 2003 and Derk Haank resigned as a member of the executive board in June 2003. The boards met five times during the year. Due to a prior commitment Mr van Lede was not able to attend one meeting and Mrs de Boer-Kruyt was not able to attend three meetings due to illness, otherwise there was full attendance.

At the Reed Elsevier NV Annual General Meeting to be held on 29 April 2004, Messrs Tabaksblat and Stomberg and Lord Sharman will retire by rotation as members of the supervisory board, and Mr van de Aast will retire by rotation as a member of the executive board. Being eligible, they offer themselves for re-election.

Reed Elsevier Group plc

The Reed Elsevier Group plc board consists of five executive directors: Crispin Davis – Chief Executive Officer, Mark Armour – Chief Finance Officer, Gerard van de Aast, Andrew Prozes and Patrick Tierney – appointed April 2003, and seven independent non-executive directors: Morris Tabaksblat – Chairman, John Brock, Mark Elliott – appointed April 2003, Cees van Lede – appointed April 2003, David Reid – appointed April 2003, Lord Sharman and Rolf Stomberg. Roelof Nelissen and Steven Perrick retired as directors in April 2003 and Derk Haank resigned as a director in June 2003. The board met six times during the year. Due to a prior commitment, Messrs Haank, van Lede and Reid were each not able to attend one meeting, otherwise there was full attendance.

Biographical information in respect of the current members of the boards appears on pages 10 and 11 of the Annual Review and Summary Financial Statements.

Elsevier Reed Finance BV

The management board and the supervisory board of Elsevier Reed Finance BV met three times during the year. All members of these boards attended all board meetings during the year, with the exception of Mrs de Boer-Kruyt who was not able to attend one meeting. The supervisory board comprises Roelof Nelissen – Chairman, Mark Armour and Dien de Boer-Kruyt, with the management board consisting of Willem Boellaard and Jacques Billy. Appointments to the supervisory and management boards are made by the shareholders, in accordance with the company's Articles of Association. In April 2003 Steven Perrick retired from the supervisory board.

BOARD COMMITTEES

In accordance with the principles of good corporate governance, the following committees, all of which have written terms of reference, have been established by the respective boards. The terms of reference of these committees are published on the Reed Elsevier website (www.reedelsevier.com).

Audit Committees

Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc have established Audit Committees. The Committees comprise only non-executive directors, all of whom are independent. The Committees are chaired by Lord Sharman, the other members being John Brock and David Reid – appointed in April 2003. A report of the Audit Committees, setting out the role of the Committees and their main activities during the year, appears on pages 27 and 28.

The Committees met four times during the year, and there was full attendance.

Corporate Governance Committee

Reed Elsevier PLC and Reed Elsevier NV have established a joint Corporate Governance Committee, which comprises only non-executive directors, all of whom are independent. The Committee is chaired by Morris Tabaksblat, the other members being Dien de Boer-Kruyt, John Brock, Mark Elliott – appointed in April 2003, Cees van Lede – appointed in April 2003, David Reid – appointed in April 2003, Lord Sharman and Rolf Stomberg. The Committee met twice during the year and, with the exception of Mrs de Boer-Kruyt who was absent through illness, there was full attendance.

In addition to reviewing ongoing developments and best practice in corporate governance, the Committee is also responsible for recommending the structure and operation of the various committees of the boards and the qualifications and criteria for membership of each committee, including the independence of members of the boards.

During the period the Committee reviewed ongoing developments and best practice in corporate governance. The Committee also assessed the performance of individual executive directors and the functioning and constitution of the boards and their Committees and the Chairman assessed the individual performance of the non-executive directors, in consultation with the other directors. The Committee, led by the senior independent non-executive director, also assessed the performance of the Chairman. Based on these assessments, the Committee believes that the performance of each director continues to be effective and that they demonstrate commitment to their respective roles in Reed Elsevier.

During the course of 2004 the Committee will keep under review the implications of the UK Combined Code and the Dutch Code on the corporate governance structure and practices of Reed Elsevier PLC and Reed Elsevier NV.

Nominations Committee

Reed Elsevier PLC and Reed Elsevier NV have established a joint Nominations Committee, which provides a formal and transparent procedure for the appointment of new directors to the boards. The Committee comprises a majority of independent non-executive directors. The Committee is chaired by Morris Tabaksblat, the other members being Crispin Davis – Chief Executive Officer, Cees van Lede – appointed in April 2003, Lord Sharman – appointed in August 2003 and Rolf Stomberg. The Committee believes that it is appropriate for the Chief Executive Officer to be a member of the Committee since he provides a perspective which assists the Committee in nominating candidates to the board who will be able to work as a team with both the executive and non-executive directors. The Committee met twice during the year, and there was full attendance.

The Committee's terms of reference include assuring board succession and making recommendations to the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc concerning the appointment or reappointment of directors to, and the retirement of directors from, those boards. In conjunction with the Chairman of the Reed Elsevier Group plc Remuneration Committee and external consultants, the Committee is also responsible for developing proposals for the remuneration and fees for new directors.

During the period the Committee recommended to the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc the appointment of an additional executive director and three non-executive directors, as set out on pages 31 and 32. In each case the Committee retained the services of external search consultants to produce short lists of potential candidates.

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 – appointed in April 2003 and Cees van Lede – appointed in April 2003. The Committee met three times during the year. Mr van Lede was not able to attend one meeting, otherwise 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. It also makes recommendations to the board of Reed Elsevier PLC and

Reed Elsevier NV regarding the remuneration of the executive directors of these companies.

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

A Directors' Remuneration Report, which has been approved by the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV, appears on pages 29 to 38. This report also serves as disclosure of the directors' remuneration and interests in shares of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV.

Strategy Committee

Reed Elsevier Group plc has established a Strategy Committee, comprising a majority of independent non-executive directors. The Committee is chaired by Morris Tabaksblat, the other members being Crispin Davis, Mark Elliott – appointed in April 2003 and David Reid – appointed in April 2003. 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.

RELATIONS WITH SHAREHOLDERS

Reed Elsevier PLC and Reed Elsevier NV participate in regular dialogue with institutional shareholders, and presentations on the Reed Elsevier combined businesses are made after the announcement of the interim and full year results. The boards of Reed Elsevier PLC and Reed Elsevier NV commission periodic reports on the attitudes and views of the companies' institutional shareholders and the results are the subject of formal presentations to the respective boards. A trading update is provided at the respective Annual General Meetings of the two companies, and near the end of the financial year. The Annual General Meetings provide an opportunity for the boards to communicate with individual shareholders. The Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chairmen of the board committees, other directors and a representative of the external auditor are available to answer questions from shareholders. The interim and annual results announcements and presentations, together with the trading updates and other important announcements concerning Reed Elsevier, are published on the Reed Elsevier website (www.reedelsevier.com).

INTERNAL CONTROL

Parent companies

The boards of Reed Elsevier PLC and Reed Elsevier NV exercise independent supervisory roles over the activities and systems of internal control of Reed Elsevier Group plc and Elsevier Reed Finance BV. The boards of Reed Elsevier PLC and Reed Elsevier NV have each adopted a schedule of matters which are required to be brought to them for decision. In relation to Reed Elsevier Group plc and Elsevier Reed Finance BV, the boards of Reed Elsevier PLC and Reed Elsevier NV approve the strategy and the annual budgets, and receive regular reports on the operations, including the treasury and risk management activities, of the two companies. Major transactions proposed by the boards of Reed Elsevier Group plc or Elsevier Reed Finance BV require the approval of the boards of both Reed Elsevier PLC and Reed Elsevier NV.

The Reed Elsevier PLC and Reed Elsevier NV Audit Committees meet on a regular basis to review the systems of internal control of Reed Elsevier Group plc and Elsevier Reed Finance BV.

Operating companies

The board of Reed Elsevier Group plc is responsible for the system of internal control of the Reed Elsevier publishing and information businesses, while the boards of Elsevier Reed Finance BV are responsible for the system of internal control in respect of the finance group activities. The boards of Reed Elsevier Group plc and Elsevier Reed Finance BV are also responsible for reviewing the effectiveness of their system of internal control. The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The boards of Reed Elsevier Group plc and Elsevier Reed Finance BV have implemented an ongoing process for identifying, evaluating and managing the significant risks faced by their respective businesses. This process has been in place throughout the year ended 31 December 2003 and up to the date of the approvals of the Annual Reports and Financial Statements.

Reed Elsevier Group plc

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.

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.

Elsevier Reed Finance BV

Elsevier Reed Finance BV has established policy guidelines, which are applied for all Elsevier Reed Finance BV companies. The boards of Elsevier Reed Finance BV have adopted schedules of matters that are required to be brought to them for decision. Procedures are in place for monitoring the activities of the finance group, including a comprehensive treasury reporting system. The major risks affecting the finance group have been identified and evaluated and are subject to regular review. The controls in place to manage these risks and the level of residual risk accepted are monitored by the boards. The internal control system of the Elsevier Reed Finance BV group is reviewed each year by its external auditors.

Annual review

As part of the year end procedures, the boards of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV have reviewed the effectiveness of the systems of internal control during the last financial year.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV 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 respective companies and their 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 combined financial statements, which are the responsibility of the directors of Reed Elsevier PLC and Reed Elsevier NV, are prepared using accounting policies which comply with UK Generally Accepted Accounting Principles.

US CERTIFICATIONS

As required by section 302 of the US Sarbanes-Oxley Act 2002 and by related rules issued by the US Securities and Exchange Commission, the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and of Reed Elsevier NV certify in the respective Annual Reports 2003 on Form 20-F filed with the Commission that they are responsible for establishing and maintaining disclosure controls and procedures and that they have:

- designed such disclosure controls and procedures to ensure that material information relating to Reed Elsevier is made known to them;
- evaluated the effectiveness of Reed Elsevier's disclosure controls and procedures;
- based on their evaluation, disclosed to the Audit Committees and the external auditors all significant deficiencies in the design or operation of disclosure controls and procedures and any frauds, whether or not material, that involve management or other employees who have a significant role in Reed Elsevier internal controls; and
- presented in the Annual Reports on Form 20-F their conclusions about the effectiveness of the disclosure controls and procedures.

A Disclosure Committee, comprising the company secretaries of Reed Elsevier PLC and Reed Elsevier NV and other senior Reed Elsevier managers, provides assurance to the Chief Executive Officer and Chief Financial Officer regarding their certifications.

GOING CONCERN

The directors of Reed Elsevier PLC and Reed Elsevier NV, having made appropriate enquiries, consider that adequate resources exist for the combined 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.

Report of the Audit Committees

This report has been prepared by the Audit Committees of Reed Elsevier PLC and Reed Elsevier NV, in conjunction with the Audit Committee of Reed Elsevier Group plc, (the "Committees") and has been approved by the respective boards.

The report meets the requirements of The Combined Code of Corporate Governance, issued by the UK Financial Services Authority.

AUDIT COMMITTEES

The main role and responsibilities of the Committees in relation to the respective companies are set out in written terms of reference and include:

(i) to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;

(ii) to review the company's internal financial controls and the company's internal control and risk management systems;

(iii) to monitor and review the effectiveness of the company's internal audit function;

(iv) to make recommendations to the board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;

(v) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements; and

(vi) to develop and recommend policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to monitor compliance.

The Committees report to the respective boards on their activities identifying any matters in respect of which they consider that action or improvement is needed and making recommendations as to the steps to be taken.

The Reed Elsevier Group plc Audit Committee fulfils this role in respect of the publishing and information operating business. The functions of an audit committee in respect of the financing activities are carried out by the supervisory board of Elsevier Reed Finance BV. The Reed Elsevier PLC and Reed Elsevier NV Audit Committees fulfil their roles from the perspective of the parent companies and both committees have access to the reports to and the work of the Reed Elsevier Group plc Audit Committee and the Elsevier Reed Finance BV supervisory board in this respect.

The Committees have explicit authority to investigate any matters within their terms of reference and have access to all resources and information that they may require for this purpose. The Committees are entitled to obtain legal and other independent professional advice and have the authority to approve all fees payable to such advisers.

A copy of the terms of reference of each Audit Committee is published on the Reed Elsevier website (www.reedelsevier.com).

COMMITTEE MEMBERSHIP

The Committees each comprise at least three independent non-executive directors, at least one of which has significant, recent and relevant financial experience. The current members of each of the Committees are: Lord Sharman (Chairman of the Committees), John Brock and David Reid (appointed April 2003).

Lord Sharman (61), a chartered accountant, spent his professional career at KPMG and now serves as non-executive chairman of Aegis Group plc and Securicor plc and is a member of the supervisory board of ABN-AMRO and a non-executive director of BG Group plc. He was elected UK senior partner of KPMG in 1994 and served as Chairman of KPMG Worldwide between 1997 and 1999. John Brock (55) is chief executive officer of Interbrew SA and formerly chief operating officer of Cadbury Schweppes plc. David Reid (57), a chartered accountant, was until December 2003 executive deputy chairman of Tesco PLC, with responsibility for strategy, business development and international operations; he was previously its finance director and is its non-executive chairman designate.

During the 2003 financial year, until April 2003, Rolf Stomberg, Roelof Nelissen and Steven Perrick served on the Committees, all being non executive directors and, other than Mr Perrick, independent. Mr Stomberg is the senior independent non executive director and his biographical details are set out in the Reed Elsevier Annual Review. Mr Nelissen has served on a number of supervisory boards and is a former chairman of the managing board of ABN AMRO. Mr Perrick is a partner in Freshfields Bruckhaus Deringer in the Netherlands, an international firm of advisers which provides legal advice to Reed Elsevier.

Appointments to the Committees are made on the recommendation of the Nominations Committee and are for periods of up to three years, extendable by no more than two additional three-year periods, so long as the member continues to be independent. Details of the remuneration policy in respect of members of the Committees and the remuneration paid to members for the year ended 31 December 2003 are set out in the Directors' Remuneration Report on pages 29 to 38.

COMMITTEE ACTIVITIES

The Committees typically hold meetings five times a year: around January, February, June, August and December, and report on these meetings to the respective boards at the next board meetings. The principal business of these meetings includes:

- January: review of critical accounting policies and practices, and significant financial reporting issues and judgements made in connection with the annual financial

statements; review of internal control effectiveness; reviewing and approving the internal audit plan; review of internal audit findings
- February: review and approval of annual financial statements, results announcement and related formal statements; review of external audit findings
- June: monitoring and assessing the qualification, performance, expertise, resources, objectivity and independence of the external auditors and the effectiveness of the external and internal audit process; agreeing the external audit plan; reviewing significant financial reporting issues and judgements arising in connection with the interim financial statements; review of risk management activities; review of report from external auditors on control matters; review of internal audit findings
- August: review and approval of the interim financial statements, results announcement and related formal statements; review of external audit findings; review of internal audit findings
- December: review of year end financial reporting and accounting issues; review of significant external financial reporting and regulatory developments; review of external audit findings to date; review of internal audit findings.

The Audit Committee meetings are typically attended by the chief financial officer, group chief accountant, director of internal audit and senior representatives of the external auditors. Additionally, the managing director and senior representatives of the external auditors of Elsevier Reed Finance BV attend the August and February meetings of the parent company Audit Committees. At two or more of the meetings each year, the Committees additionally meet separately with the external auditors without management present, and also with the director of internal audit.

In discharging their principal responsibilities in respect of the 2003 financial year, the Committees have:

(i) received and discussed reports from the Reed Elsevier Group plc group chief accountant that set out areas of significance in the preparation of the financial statements, including: review of the carrying values of goodwill and intangible assets for possible impairment, review of estimated useful lives of goodwill and intangible assets, pensions accounting and related assumptions, accounting treatment for acquisitions and disposals and exceptional items, application of revenue recognition and cost capitalisation and provisioning policies, review of tax reserves and provisions for lease obligations. Discussion of reporting matters has additionally focused on the adoption of UK GAAP by Reed Elsevier NV, the format and content of the operating and financial review to meet the new UK best practice guidelines, and compliance with the new SEC restrictions on the use of non-GAAP financial measures in the Annual Report on Form 20-F.

(ii) reviewed the critical accounting policies and compliance with applicable accounting standards and other disclosure requirements and have received regular update reports on accounting and regulatory developments, including in relation to International Accounting Standards.

(iii) received and discussed regular reports on the management of material risks and reviewed the effectiveness of the systems of internal control. As part of this review, detailed internal control evaluation and self-certification is obtained from management across the operating businesses, reviewed by internal audit and discussed with the Committees.

(iv) received and discussed regular reports from the director of internal audit summarising the status of the Reed Elsevier risk management activities and the findings from internal audit reviews and the actions agreed with management. An area of focus in 2003 has been the development and agreement of plans to meet the new requirements, effective for the 2005 financial year, of Section 404 of the Sarbanes-Oxley Act relating to the documentation and testing of internal financial controls.

(v) reviewed and approved the internal audit plan for 2003 and monitored execution. Reviewed the resources and budget of the internal audit function.

The external auditors have attended all meetings of the Committees. They have provided written reports at the August, December and February meetings summarising the most significant findings from their audit work. These reports have been discussed by the Committees and actions agreed where necessary.

The external auditors have confirmed their independence from management and compliance with the Reed Elsevier policy on auditor independence. This policy sets out *inter alia* the requirements for rotation of the lead, review and other senior partners, as well as guidelines for the provision of permitted non-audit services. The Committees have reviewed and agreed the non-audit services provided by the external auditors, together with the associated fees. The external auditors' fees for audit services have been reviewed and approved by the Committees.

Based on their observations on the planning and execution of the external audits, the Committees have recommended to the respective boards that resolutions for the re-appointment of the external auditors be proposed at the forthcoming Annual General Meetings. At their meeting in June 2004, the Committees will conduct a more formal review of the performance of the auditors and the effectiveness of the audit process for both the external and internal audit activities.

Lord Sharman of Redlynch
Chairman of the Audit Committees
18 February 2004

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 "Regulations") and serves the requirements for Reed Elsevier NV under the Netherlands Civil Code. The Report also meets the requirements of Schedule A of the Principles of Good Governance and Code of Best Practice, issued by the UK Financial Services Authority and describes how the Principles of Good Governance relating to directors' remuneration have been applied.

Information relating to the emoluments of the directors on pages 32 to 34 and directors' interests in share options on pages 36 and 37 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 at www.reedelsevier.com.

Throughout 2003 the Committee consisted wholly of independent non-executive directors. The current members of the Committee are Rolf Stomberg (Chairman of the Committee), Mark Elliott (appointed in April 2003) and Cees van Lede (appointed in April 2003). John Brock and Roelof Nelissen were members of the Committee until April 2003. 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; Christopher Thomas, Director, Compensation and Benefits; and Crispin Davis, Chief Executive Officer.

REMUNERATION POLICY

The remuneration policy is set out below:

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 Committee also has regard to, and balances as far as is practicable, the following objectives:

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

(ii) to ensure that it maintains a competitive package of pay and benefits, commensurate with comparable packages available within other leading multinational companies operating in global markets;

(iii) to deliver upper quartile total remuneration for clearly superior levels of performance;

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

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

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 package composition for 2004 shows that for superior performance some 70% of the total remuneration would be performance related. Effective from January 2003 the Committee adopted 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.

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. 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) 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. The Committee has also applied the foregoing criteria in assessing the 2003 bonuses.

- A bonus investment plan, under which directors and other senior executives were able to invest up to half of their 2002 annual performance related bonus in Reed Elsevier PLC/Reed Elsevier NV shares. 38 senior executives participated in the bonus investment arrangements in respect of their 2002 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. Following approval of the 2003 Reed Elsevier Group plc Bonus Investment Plan (the "2003 Bonus Investment Plan) by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Committee has agreed to award options under the 2003 Bonus Investment Plan to directors and selected key employees in respect of the 2003 bonus. Awards under the 2003 Bonus Investment Plan will be made annually, and will be 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 (i.e. before amortisation of goodwill and intangible assets, exceptional items and UK tax credit equalisation) measured at constant exchange rates ("adjusted EPS") of 6% per annum compound during the three year vesting period.
- Share options, where the directors and other senior executives are granted options annually over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price at the date of grant. The Committee approves the grant of any option and sets performance conditions attaching to options. Following approval of the Reed Elsevier Group plc Share Option Scheme (the "Share Option Scheme") by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Remuneration Committee has agreed to award options under the Share Option Scheme to executive directors and selected employees from 2004. The size of the annual grant pool will be determined 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 will be broadly comparable to the level of options granted under the previous scheme. At executive director level the grants are expected to be up to 3 times salary. For executive directors, option grants will be subject to a performance condition requiring the achievement of 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.
- Long term incentive plan. Following approval of the Reed Elsevier Group plc Long Term Incentive Share Option Scheme (the "2003 LTIS") by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Committee has decided to make the first awards under the 2003 LTIS 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 2003 LTIS will be made to participants. The Rules require that approximately 50% of the total implied value of grants under the 2003 LTIS will take the form of nil cost conditional shares and 50% will take the form of conventional market value options. On the basis of the current implied values, this will result in a grant of 2.5 times salary in conditional shares and 5.5 times salary in conventional share options. Grants will vest 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 growth 25% of the award will vest; at 10% compound annual adjusted growth 100% of the award will vest; and at 12% compound annual adjusted 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 2003 LTIS by any individual will automatically terminate any award under the previous Reed Elsevier Group plc Senior Executive Long Term Incentive Plan (the "2000 LTIP"). Participants in the 2003 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 1½ times salary, to be acquired over a three year period.
- 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.

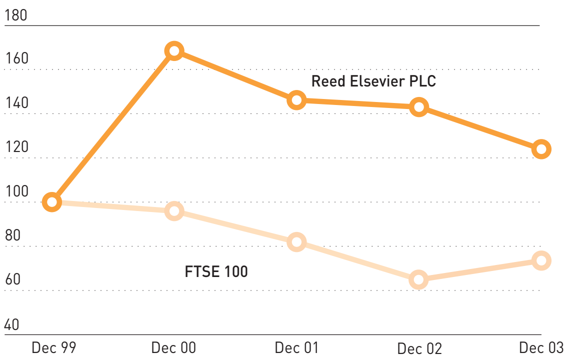
The Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in Reed Elsevier's business environment and in remuneration practice. Consequently, the above policy will apply in 2004 but may require to be amended. Any changes in policy will be described in future Directors' Remuneration Reports.

TOTAL SHAREHOLDER RETURN

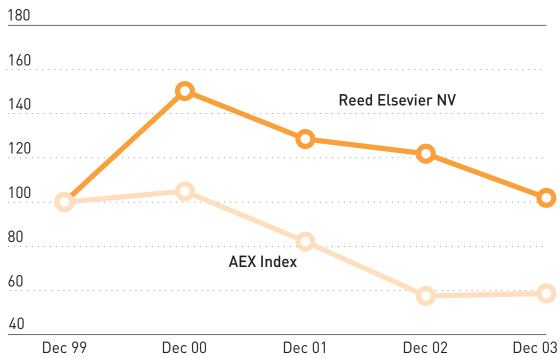
The graphs below show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested. The top two graphs compare the Reed Elsevier PLC performance with the performance achieved by the FTSE 100, of which Reed Elsevier PLC is a member, and the Reed Elsevier NV performance with the performance achieved by the Amsterdam Stock Exchange ("AEX") Index, of which Reed Elsevier NV is a member, for the four years 2000–2003. This period reflects the implementation of the new strategy, announced in February 2000, by the current management team. The other two graphs, which have been prepared in accordance with the Regulations, show the performance over the five years 1999-2003 compared to the performances of the FTSE 100 and the AEX. As Reed Elsevier PLC and Reed Elsevier NV are members of the FTSE 100 and AEX respectively, the Committee considers these indices to be appropriate for comparison purposes.

For the four year period since 1 January 2000, the total shareholder return for Reed Elsevier PLC was 24%, significantly outperforming the FTSE 100 which saw a negative return of 26%. For Reed Elsevier NV, in the same four year period total shareholder return was 2%, also significantly outperforming the AEX Index which had a negative return of 41%.

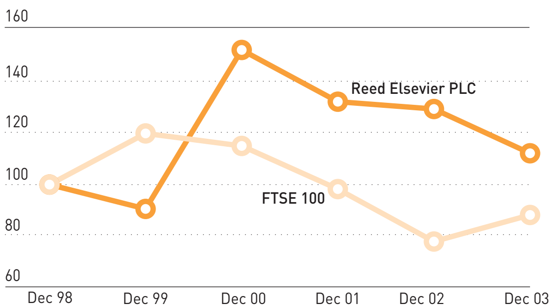
Reed Elsevier PLC total shareholder return v FTSE 100 2000–2003



Reed Elsevier NV total shareholder return v AEX Index 2000–2003

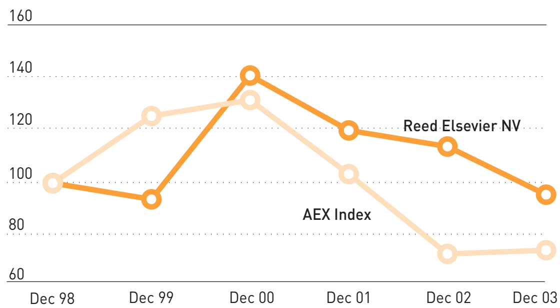


Reed Elsevier PLC total shareholder return v FTSE 100 1999–2003



Source: FTSE International

Reed Elsevier NV total shareholder return v AEX Index 1999–2003



Source: Datastream

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

SERVICE CONTRACTS

As a condition of receiving an award under the 2003 LTIS, each executive director will be required to enter into a new service contract. The new contract will have a notice period of 12 months and will contain strengthened covenants that will apply for 12 months after leaving employment, preventing a director from working with specified competitors, recruiting Reed Elsevier employees and soliciting Reed Elsevier clients.

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 twelve months.

M H Armour was appointed a director in July 1996. His service contract, which is dated 7 October 1996, is subject to English law and since 10 June 2003 his contract has provided for a notice period of twelve months, when Mr Armour agreed to a reduction in his notice period from twenty-four months. Mr Armour did not receive any compensation in return for agreeing to this change in his notice period.

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

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

P Tierney was appointed a director on 8 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, twelve months' base salary will be payable.

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

EXTERNAL APPOINTMENTS

Executive directors may, subject to the approval of the Chairman and the Chief Executive Officer, serve as non-executive directors on the boards of up to two non-associated companies (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. During the year CHL Davis was appointed a non-executive director of GlaxoSmithKline plc and received a fee of £28,848 during the year from that company in such capacity.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is 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.

During 2003 the boards initiated a review of the fees paid to the non-executive directors compared against the fees paid to non-executive directors of other leading multinational companies operating in global markets. 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/€65,000. The respective Chairmen of the Remuneration Committee and Audit Committee also receive an additional fee of £7,000/€12,000 in respect of those additional duties.

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		€000	
	2003	2002	**2003**	2002
Salaries and fees	**3,473**	3,022	**5,035**	4,805
Benefits	**93**	91	**134**	145
Annual performance-related bonuses	**2,254**	1,453	**3,269**	2,310
Pension contributions	**243**	267	**352**	425
Pension to former director	**213**	231	**307**	368
Payment to former directors	**95**	–	**139**	–
Total	**6,371**	5,064	**9,236**	8,053

No compensation payments have been made for loss of office or termination in 2002 and 2003.

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 36 and 37. The aggregate notional pre-tax gain made by the directors on the exercise of share options during the year was £5,201,190/€7,541,726 (2002: £306,843/€487,880).

(b) Individual emoluments of executive directors

	£					€				
	Salary	Benefits	Bonus	Total	2002	Salary	Benefits	Bonus	Total	2002
G J A van de Aast	369,000	17,492	294,517	681,009	538,674	535,050	25,363	427,050	987,463	856,492
M H Armour	471,000	23,466	362,764	857,230	689,127	682,950	34,026	526,008	1,242,984	1,095,712
C H L Davis	945,000	27,035	746,344	1,718,379	1,366,543	1,370,250	39,201	1,082,199	2,491,650	2,172,803
D J Haank (until 18 June 2003)	200,217	6,914	–	207,131	563,240	290,315	10,025	–	300,340	895,552
A Prozes	582,822	8,353	431,055	1,022,230	1,030,820	845,092	12,112	625,030	1,482,234	1,639,005
P Tierney (from 8 April 2003)	423,333	9,434	419,632	852,399	–	613,833	13,680	608,466	1,235,979	–
Total	2,991,372	92,694	2,254,312	5,338,378	4,188,404	4,337,490	134,407	3,268,753	7,740,650	6,659,564

Benefits include the provision of a company car, medical insurance and life assurance.
C H L Davis was the highest paid director in 2003, including gains of £4,960,150/€7,192,217 on the exercise of nil cost options awarded on his appointment as Chief Executive Officer in 1999. Mr Davis invested the entire after tax gain arising from the exercise of his options in Reed Elsevier PLC/Reed Elsevier NV shares.
D J Haank served as a director until 18 June 2003 and remained an employee until 31 August 2003. During the period 18 June to 31 August 2003 he received emoluments of £87,759/€127,251, comprising salary (£84,839/€123,017) and other benefits (£2,920/€4,234). In accordance with the terms of the share options in force at the time of their grant in 1999, Mr Haank has retained his entitlement to options over 18,497 Reed Elsevier PLC shares and 10,925 Reed Elsevier NV shares, as detailed in the schedules on pages 36 and 37. All other options granted to Mr Haank lapsed on termination of his employment.

(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 C H L Davis at normal retirement age of 60 is 45% of base salary in the 12 months prior to retirement.
In 1989, the Inland Revenue introduced a cap on the amount of pension that can be provided from an approved pension scheme. M H Armour's, G J A van de Aast's and C H L Davis's pension benefits will be provided from a combination of the Reed Elsevier Pension Scheme and the company's unapproved, unfunded pension arrangements.
The target pension for A Prozes, a US based director, is US$300,000 per annum, which becomes payable on retirement only if he completes a minimum of seven years' service. This pension has no associated contingent benefits for a spouse or dependants, and will be reduced in amount by the value of any other retirement benefits payable by the company or any former employer, other than those attributable to employee contributions.
The 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 all the directors include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and, except in the case of A Prozes, a spouse's and/or dependants' pension on death.

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

	£								
	Age 31 December 2003	Directors contributions	Transfer value of accrued pension 31 December 2002	Transfer value of accrued pension 31 December 2003	Increase in transfer value during the period (net of directors' contributions)	Accrued annual pension 31 December 2003	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	46	2,957	191,063	333,533	139,513	37,945	13,760	13,058	111,824
M H Armour	49	2,957	1,036,652	1,378,566	338,957	139,956	22,820	19,432	188,446
C H L Davis	54	2,957	1,779,585	2,748,864	966,322	193,038	53,023	48,963	694,279
D J Haank (resigned 18 June 2003)	50	11,201	1,484,705	1,925,916	430,010	181,007	20,017	15,348	152,104
A Prozes	57	–	–	–	–	–	–	–	–
P Tierney	58	–	–	1,325,718	1,325,718	126,298	126,298	126,298	1,325,718

	€							
	Directors' contributions	Transfer value of accrued pension 31 December 2002	Transfer value of accrued pension 31 December 2003	Increase in transfer value during the period (net of directors' contributions)	Accrued annual pension 31 December 2003	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	4,288	303,790	483,623	202,294	55,020	19,952	18,934	162,145
M H Armour	4,288	1,648,277	1,998,920	491,488	202,936	33,089	28,176	273,247
C H L Davis	4,288	2,829,540	3,985,853	1,401,167	279,905	76,883	70,996	1,006,705
D J Haank (resigned 18 June 2003)	16,241	2,152,822	2,792,578	623,515	262,460	29,025	22,255	220,551
A Prozes	–	–	–	–	–	–	–	–
P Tierney	–	–	1,922,292	1,922,292	183,132	183,132	183,132	1,922,292

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.

(d) Individual emoluments of non-executive directors

	£		€	
	2003	2002	**2003**	2002
G J de Boer-Kruyt	**15,758**	13,522	**22,850**	21,500
J F Brock	**43,448**	35,849	**63,000**	57,000
M W Elliott (from 8 April 2003)	**36,742**	–	**53,276**	–
C J A van Lede (from 8 April 2003)	**36,897**	–	**53,500**	–
R J Nelissen (until 8 April 2003)	**10,172**(i)	35,849	**14,750**(i)	57,000
S Perrick (until 8 April 2003)	**10,172**	35,849	**14,750**	57,000
D E Reid (from 8 April 2003)	**36,742**	–	**53,276**	–
Lord Sharman	**48,544**	35,849	**70,388**	57,000
R W H Stomberg	**49,655**	35,849	**72,000**	57,000
M Tabaksblat	**193,103**	176,101	**280,000**	280,000
D G C Webster (until 9 April 2002)	**–**	8,962	**–**	14,250
Total	**481,233**	377,830	**697,790**	600,750

(i) R J Nelissen has served as chairman of the supervisory board of Elsevier Reed Finance BV throughout the year. During the period 9 April to 31 December 2003 he received fees of £7,758/€11,250 in such capacity.

SHARE OPTIONS AND INTERESTS IN SHARES

Options over shares in Reed Elsevier PLC and Reed Elsevier NV have been granted to executive directors and other senior executives under the Reed Elsevier Group plc 1993 Share Option Scheme (the "1993 Scheme"). Approximately 1,500 executives were granted options under the 1993 Scheme during 2003. The terms of the 1993 Scheme were approved by the shareholders of Reed Elsevier PLC and Reed Elsevier NV at their respective Annual General Meetings in 1993. The 1993 Scheme has granted options at the market price at the date of grant, which are normally exercisable between three and ten years from the date of grant. Since 1999 all options granted under the 1993 Scheme have been subject to the performance condition that the compound growth at constant exchange rates in adjusted EPS in the three years immediately preceding vesting must exceed the compound growth in the average of the UK and Dutch retail price indices by a minimum of 6%.

Options over shares in Reed Elsevier PLC and Reed Elsevier NV have been granted, at the market price at the date of grant, under the Reed Elsevier Group plc Senior Executive Long Term Incentive Scheme (the "2000 LTIP"). Implementation of the 2000 LTIP was approved by shareholders of Reed Elsevier PLC and Reed Elsevier NV at their respective Annual General Meetings in April 2000. The terms of the 2000 LTIP permitted a one off grant of options to be made to executive directors and a limited number of key employees responsible for reshaping the business, executing the strategy for growth announced in February 2000 and producing a sustainable improvement in shareholder value. 38 key executives have been granted options under the 2000 LTIP. All grants were approved by the Committee, and may only be exercised during the period 1 January 2005 and 31 December 2005, and then only if 20% per annum compound total shareholder return is achieved, together with individual performance targets. In accordance with the terms of the grants proposed to be made under the 2003 LTIS in 2004, acceptance of an award under the 2003 LTIS by any individual will automatically terminate any award under the 2000 LTIP.

The performance conditions applicable to the 1993 Scheme and the LTIP were chosen in order to provide an appropriate balance between operational focus and producing a sustainable improvement in shareholder value over the longer term.

Options have also been granted over shares in Reed Elsevier PLC under the Reed Elsevier Group plc UK SAYE Option Scheme, in which all eligible UK employees are invited to participate. The SAYE Scheme grants options at a maximum discount of 20% to the market price at the time of grant, and are normally exercisable after the expiry of three or five years from the date of grant. No performance targets attach to options granted under this scheme as it is an all employee scheme. Approximately 1,600 employees participated in the SAYE Scheme during 2003.

Details of options held by directors in the ordinary shares of Reed Elsevier PLC and Reed Elsevier NV during the period are shown below. There have been no changes in the options held by directors over Reed Elsevier PLC and Reed Elsevier NV ordinary shares since 31 December 2003.

(a) Over shares in Reed Elsevier PLC

		1 January 2003	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2003	Exercisable from	Exercisable until
G J A van de Aast	– Executive Scheme	50,940		638.00p			50,940	1 Dec 2003	1 Dec 2010
		49,317		659.00p			49,317	23 Feb 2004	23 Feb 2011
		58,000		600.00p			58,000	22 Feb 2005	22 Feb 2012
			81,728	451.50p			81,728	21 Feb 2006	21 Feb 2013
	– LTIP	509,404		638.00p			509,404	1 Jan 2005	31 Dec 2005
Total		667,661	81,728				749,389		
M H Armour	– Executive Scheme	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
	– 2002 Bonus investment plan		11,327	Nil			11,327	21 Mar 2006	21 Mar 2006
	– LTIP	882,016		436.50p			882,016	1 Jan 2005	31 Dec 2005
	– SAYE Scheme	3,924		430.00p			3,924	1 Aug 2004	31 Jan 2005
Total		1,333,216	115,646				1,448,862		
C H L Davis	– Executive Scheme	160,599		467.00p			160,599	21 Feb 2003	1 Sept 2009
		80,300		467.00p			80,300	1 Sept 2003	1 Sept 2009
		80,300		467.00p			80,300	1 Sept 2004	1 Sept 2009
		171,821		436.50p			171,821	2 May 2003	2 May 2010
		122,914		659.00p			122,914	23 Feb 2004	23 Feb 2011
		148,500		600.00p			148,500	22 Feb 2005	22 Feb 2012
			209,192	451.50p			209,192	21 Feb 2006	21 Feb 2013
	– 2002 Bonus investment plan		22,731	Nil			22,731	21 Mar 2006	21 Mar 2006
	– LTIP	1,718,213		436.50p			1,718,213	1 Jan 2005	31 Dec 2005
	– Nil cost options	535,332		Nil	535,332[i]	498.00p	–		
	– SAYE Scheme	5,019		336.20p			5,019	1 Aug 2005	31 Jan 2006
Total		3,022,998	231,923		535,332		2,719,589		
D J Haank	– Executive Scheme	18,498[ii]		677.25p			–		
(resigned 18 June		18,497		537.50p			18,497[iii]	19 Apr 1999	19 Apr 2009
2003)		51,368		436.50p	51,368	525.00p	–		
		51,110[ii]		659.00p			–		
		59,843[ii]		600.00p			–		
			93,231[ii]	451.50p			–		
	– LTIP	513,680[ii]		436.50p			–		
Total		712,996	93,231		51,368		18,497		
A Prozes	– Executive Scheme	188,281		566.00p			188,281	9 Aug 2003	9 Aug 2010
		83,785		659.00p			83,785	23 Feb 2004	23 Feb 2011
		103,722		600.00p			103,722	22 Feb 2005	22 Feb 2012
			132,142	451.50p			132,142	21 Feb 2006	21 Feb 2013
	– 2002 Bonus investment plan		20,040	Nil			20,040	21 Mar 2006	21 Mar 2006
	– LTIP	941,406		566.00p			941,406	1 Jan 2005	31 Dec 2005
	– Nil cost options	20,170		Nil	20,170[iv]	492.00p	–		
Total		1,337,364	152,182		20,170		1,469,376		
P Tierney	– Executive Scheme	396,426[v]		451.50p			396,426	21 Feb 2006	21 Feb 2013
	– LTIP	1,321,420[v]		451.50p			1,321,420	1 Jan 2008	31 Dec 2008
Total		1,717,846					1,717,846		

(i) Retained an interest in 321,200 shares
(ii) Options lapsed unexercised during the year
(iii) At date of resignation as a director
(iv) Retained an interest in all of the shares
(v) At date of appointment as a director

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range 392p to 552p and at 31 December 2003 was 467.25p.

(b) Options over shares in Reed Elsevier NV

		1 January 2003	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2003	Exercisable from	Exercisable until
G J A van de Aast	– Executive Scheme	35,866		€14.87			35,866	1 Dec 2003	1 Dec 2010
		35,148		€14.75			35,148	23 Feb 2004	23 Feb 2011
		40,699		€13.94			40,699	22 Feb 2005	22 Feb 2012
			58,191	€9.34			58,191	21 Feb 2006	21 Feb 2013
	– 2002 Bonus investment plan		12,057	Nil			12,057	21 Mar 2006	21 Mar 2006
	– LTIP	358,658		€14.87			358,658	1 Jan 2005	31 Dec 2005
Total		470,371	70,248				540,619		
M H Armour	– Executive Scheme	20,244		€13.55			20,244	21 Feb 2003	19 Apr 2009
		61,726		€10.73			61,726	2 May 2003	2 May 2010
		44,882		€14.75			44,882	23 Feb 2004	23 Feb 2011
		51,926		€13.94			51,926	22 Feb 2005	22 Feb 2012
			74,276	€9.34			74,276	21 Feb 2006	21 Feb 2013
	– 2002 Bonus investment plan		8,030	Nil			8,030	21 Mar 2006	21 Mar 2006
	– LTIP	617,256		€10.73			617,256	1 Jan 2005	31 Dec 2005
Total		796,034	82,306				878,340		
C H L Davis	– Executive Scheme	95,774		€12.00			95,774	21 Feb 2003	1 Sept 2009
		47,888		€12.00			47,888	1 Sept 2003	1 Sept 2009
		47,888		€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
	– 2002 Bonus investment plan		16,115	Nil			16,115	21 Mar 2006	21 Mar 2006
	– LTIP	1,202,446		€10.73			1,202,446	1 Jan 2005	31 Dec 2005
	– Nil cost options	319,250		Nil	319,250[i]	€10.42	–		
Total		2,025,296	165,061		319,250		1,871,107		
D J Haank (resigned 18 June 2003)	– Executive Scheme	30,000[ii]		€15.25			–		
		10,926[ii]		€17.07			–		
		10,925		€13.55			10,925[iii]	19 Apr 1999	19 Apr 2009
		35,949[ii]		€10.73			–		
		36,426[ii]		€14.75			–		
		41,993[ii]		€13.94			–		
			66,381[ii]	€9.34			–		
	– 2002 Bonus investment plan		14,332[ii]	Nil			–		
	– LTIP	359,485[ii]		€10.73			–		
Total		525,704	80,713				10,925		
A Prozes	– Executive Scheme	131,062		€13.60			131,062	9 Aug 2003	9 Aug 2010
		59,714		€14.75			59,714	23 Feb 2004	23 Feb 2011
		72,783		€13.94			72,783	22 Feb 2005	22 Feb 2012
			94,086	€9.34			94,086	21 Feb 2006	21 Feb 2013
	– 2002 Bonus investment plan		14,552	Nil			14,552	21 Mar 2006	21 Mar 2006
	– LTIP	655,310		€13.60			655,310	1 Jan 2005	31 Dec 2005
	– Nil cost options	14,040		Nil	14,040[iv]	€9.95	–		
Total		932,909	108,638		14,040		1,027,507		
P Tierney	– Executive Scheme	282,258[v]		€9.34			282,258	21 Feb 2006	21 Feb 2013
	– LTIP	940,860[v]		€9.34			940,860	1 Jan 2005	31 Dec 2005
Total		1,223,118					1,223,118		

(i) Retained an interest in 191,550 shares
(ii) Options lapsed unexercised during the year
(iii) At date of resignation as a director
(iv) Retained an interest in all of the shares
(v) At date of appointment as a director

The market price of a Reed Elsevier NV ordinary share during the year was in the range €8.13 to €12.03 and at 31 December 2003 was €9.85.

(c) Interests in shares

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:

	Reed Elsevier PLC ordinary shares		Reed Elsevier NV ordinary shares	
	1 January 2003[i]	31 December 2003	1 January 2003[i]	31 December 2003
G J A van de Aast	–	–	12,500	19,684
M H Armour	22,500	31,738	2,500	22,284
G J de Boer Kruyt	–	–	–	–
J F Brock	3,000	3,000	–	–
C H L Davis	115,571	450,293	81,553	282,704
M W Elliott	–	–	–	–
C J A van Lede	–	–	11,100	11,100
A Prozes	63,497	96,525	44,400	67,774
D E Reid	–	–	–	–
Lord Sharman	–	–	–	–
R W H Stomberg	–	–	–	–
M Tabaksblat	–	–	8,000	8,000
P Tierney	–	12,000	–	8,000
D J Haank (resigned 18 June 2003)	–	–[ii]	31,880	38,735[ii]
R J Nelissen (resigned 8 April 2003)	–	–[ii]	5,000	5,000[ii]
S Perrick (resigned 8 April 2003)	–	–[ii]	4,000	4,000[ii]

(i) At date of appointment as a director, if later
(ii) At date of resignation as a director.

Any ordinary shares required to fulfil entitlements under nil cost share option grants are provided by the Employee Benefit Trust ("EBT") from market purchases. As a potential beneficiary under the EBT 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 2003, amounted to 6,383,333 Reed Elsevier PLC ordinary shares and 1,327,777 Reed Elsevier NV ordinary shares.

There have been no changes in the interests of the directors in the share capital of Reed Elsevier PLC or Reed Elsevier NV since 31 December 2003.

Approved by the board of Reed Elsevier Group plc
on 18 February 2004

Rolf Stomberg
Chairman of the Remuneration Committee

Approved by the board of Reed Elsevier PLC
on 18 February 2004

Rolf Stomberg
Non-executive director

Approved by the combined board of Reed Elsevier NV
on 18 February 2004

Rolf Stomberg
Member of the supervisory board

Combined financial statements

REED ELSEVIER COMBINED FINANCIAL STATEMENTS

Accounting policies

These financial statements are presented under the historical cost convention and in accordance with applicable UK Generally Accepted Accounting Principles ("GAAP"). Prior to 2003, the financial statements were presented in accordance with both UK and Dutch GAAP. Following changes to Dutch GAAP effective for the 2003 financial year in respect of the presentation of dividends and pension accounting, UK and Dutch GAAP have diverged such that the Reed Elsevier accounting policies no longer accord with Dutch GAAP. Under Article 362.1 of Book 2 Title 9 of the Netherlands Civil Code, UK GAAP may be adopted by Dutch companies with international operations for the preparation of financial statements and, accordingly, UK GAAP has been so adopted ensuring consistency with the prior year of the accounting policies applied in the combined financial statements.

Basis of preparation

The equalisation agreement between Reed Elsevier PLC and Reed Elsevier NV has the effect that their shareholders can be regarded as having the interests of a single economic group. The Reed Elsevier combined financial statements ("the combined financial statements") represent the combined interests of both sets of shareholders and encompass the businesses of Reed Elsevier Group plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the parent companies, Reed Elsevier PLC and Reed Elsevier NV ("the combined businesses").

These financial statements form part of the statutory information to be provided by Reed Elsevier NV, but are not for a legal entity and do not include all the information required to be disclosed by a company in its financial statements under the UK Companies Act 1985 or Netherlands Civil Code. Additional information is given in the annual reports and financial statements of the parent companies set out on pages 72 to 104. A list of principal businesses is set out on page 115.

In addition to the figures required to be reported by applicable accounting standards, adjusted profit and operating cash flow figures have been presented as additional performance measures. Adjusted profit is shown before the amortisation of goodwill and intangible assets and exceptional items. Adjusted operating cash flow is measured after dividends from joint ventures, tangible fixed asset spend and proceeds from the sale of tangible fixed assets, but before exceptional payments and proceeds.

Foreign exchange translation

The combined financial statements are presented in both pounds sterling and euros.

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.

The principal exchange rates used are set out in note 28.

Turnover

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

Sales are recognised for the various revenue sources as follows: subscriptions – over the period of the subscription; circulation – on despatch; advertising – on publication or period of online display; exhibitions – on exhibition date; educational testing contracts – on performance against delivery milestones.

Development spend

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

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

Pensions

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

Goodwill and intangible assets

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

Acquired goodwill and intangible assets are capitalised and amortised systematically over their estimated useful lives up to a maximum of 40 years, subject to annual impairment review. For the majority of acquired goodwill and intangible assets, the maximum estimated useful life is 20 years, which is the rebuttable presumption under UK GAAP. In view of the longevity of certain of the goodwill and intangible assets relating to acquired science and medical and educational publishing businesses, this presumption 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. Plant, equipment and computer systems are depreciated on a straight line basis at rates from 5%–33%.

Investments

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

Inventories and pre-publication costs

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

Finance leases

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

Operating leases

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

Financial instruments

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

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

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

Prior year adjustment

Following the issuance of UITF38: Accounting for ESOP Trusts in December 2003, shares held in the parent companies by the Reed Elsevier Group plc Employee Benefit Trust, previously included within other fixed asset investments, are now presented as shares held in treasury and deducted within combined shareholders' funds. Prior year comparatives have been restated accordingly.

Combined profit and loss account

For the year ended 31 December 2003

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Turnover					
Including share of turnover of joint ventures		**5,006**	5,094	**7,259**	8,099
Less: share of turnover of joint ventures		**(81)**	(74)	**(118)**	(117)
	1	**4,925**	5,020	**7,141**	7,982
Continuing operations before acquisitions		**4,845**	5,020	**7,025**	7,982
Acquisitions		**80**	–	**116**	–
Cost of sales	2	**(1,764)**	(1,794)	**(2,558)**	(2,852)
Gross profit		**3,161**	3,226	**4,583**	5,130
Operating expenses	2	**(2,516)**	(2,736)	**(3,648)**	(4,351)
Before amortisation and exceptional items		**(2,002)**	(2,113)	**(2,902)**	(3,361)
Amortisation of goodwill and intangible assets		**(442)**	(524)	**(641)**	(833)
Exceptional items	6	**(72)**	(99)	**(105)**	(157)
Operating profit (before joint ventures)		**645**	490	**935**	779
Continuing operations before acquisitions		**659**	490	**955**	779
Acquisitions		**(14)**	–	**(20)**	–
Share of operating profit of joint ventures		**16**	17	**23**	27
Operating profit including joint ventures	1,5	**661**	507	**958**	806
Non operating exceptional items					
Net profit/(loss) on disposal of businesses and fixed asset investments	6	**26**	(12)	**37**	(19)
Profit on ordinary activities before interest		**687**	495	**995**	787
Net interest expense	7	**(168)**	(206)	**(243)**	(327)
Profit on ordinary activities before taxation		**519**	289	**752**	460
Tax on profit on ordinary activities	8	**(183)**	(107)	**(265)**	(171)
Profit on ordinary activities after taxation		**336**	182	**487**	289
Minority interests		**(2)**	(1)	**(3)**	(1)
Profit attributable to parent companies' shareholders	26	**334**	181	**484**	288
Equity dividends paid and proposed	9	**(304)**	(282)	**(441)**	(448)
Retained profit/(loss) taken to combined reserves		**30**	(101)	**43**	(160)

Adjusted figures

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Adjusted operating profit	1,10	**1,178**	1,133	**1,708**	1,801
Adjusted profit before tax	10	**1,010**	927	**1,465**	1,474
Adjusted profit attributable to parent companies' shareholders	10	**744**	682	**1,079**	1,084

Adjusted figures, which exclude the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures, and are reconciled to the reported figures in note 10 to the combined financial statements.

Combined cash flow statement

For the year ended 31 December 2003

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Net cash inflow from operating activities before exceptional items	11	**1,163**	1,154	**1,686**	1,835
Payments relating to exceptional items charged to operating profit	6	**(98)**	(119)	**(142)**	(190)
Net cash inflow from operating activities		**1,065**	1,035	**1,544**	1,645
Dividends received from joint ventures	15	**14**	13	**20**	21
Interest and similar income received		**17**	25	**25**	40
Interest and similar charges paid		**(194)**	(230)	**(282)**	(366)
Returns on investments and servicing of finance		**(177)**	(205)	**(257)**	(326)
Taxation before exceptional items		**(182)**	(154)	**(264)**	(245)
Exceptional items	6	**36**	20	**52**	32
Taxation		**(146)**	(134)	**(212)**	(213)
Purchase of tangible fixed assets		**(155)**	(163)	**(225)**	(259)
Purchase of fixed asset investments	15	**(7)**	(5)	**(10)**	(8)
Proceeds from sale of tangible fixed assets		**6**	6	**10**	9
Exceptional proceeds from disposal of fixed asset investments	6	**19**	118	**28**	188
Capital expenditure and financial investment		**(137)**	(44)	**(197)**	(70)
Acquisitions	11	**(258)**	(184)	**(374)**	(293)
Exceptional net proceeds/(costs) from disposal of businesses	6	**77**	(12)	**112**	(19)
Acquisitions and disposals		**(181)**	(196)	**(262)**	(312)
Equity dividends paid to shareholders of the parent companies		**(292)**	(273)	**(423)**	(434)
Cash inflow before changes in short term investments and financing		**146**	196	**213**	311
Increase in short term investments	11	**(165)**	(55)	**(240)**	(88)
Financing	11	**(86)**	(69)	**(125)**	(109)
(Decrease)/increase in cash	11	**(105)**	72	**(152)**	114

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

Adjusted figures

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Adjusted operating cash flow	10	**1,028**	1,010	**1,491**	1,606
Adjusted operating cash flow conversion		**87%**	89%	**87%**	89%

Reed Elsevier businesses focus on adjusted operating cash flow as a key cash flow measure. Adjusted operating cash flow is measured after dividends from joint ventures, tangible fixed asset spend and proceeds from the sale of tangible fixed assets but before exceptional payments and proceeds, and is reconciled to the reported figures in note 10 to the combined financial statements. Adjusted operating cash flow conversion expresses adjusted operating cash flow as a percentage of adjusted operating profit.

Combined balance sheet

As at 31 December 2003

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Fixed assets					
Goodwill and intangible assets	13	**5,153**	5,814	**7,317**	8,895
Tangible fixed assets	14	**482**	484	**684**	741
Investments	15	**101**	121	**144**	185
Investments in joint ventures:					
Share of gross assets		**118**	132	**168**	202
Share of gross liabilities		**(58)**	(70)	**(83)**	(107)
Share of net assets		**60**	62	**85**	95
Other investments	27	**41**	59	**59**	90
		5,736	6,419	**8,145**	9,821
Current assets					
Inventories and pre-publication costs	16	**526**	500	**747**	765
Debtors – amounts falling due within one year	17	**1,044**	923	**1,482**	1,412
Debtors – amounts falling due after more than one year	18	**249**	321	**354**	491
Cash and short term investments	19	**638**	570	**906**	872
		2,457	2,314	**3,489**	3,540
Creditors: amounts falling due within one year	20	**(3,474)**	(3,629)	**(4,933)**	(5,552)
Net current liabilities		**(1,017)**	(1,315)	**(1,444)**	(2,012)
Total assets less current liabilities		**4,719**	5,104	**6,701**	7,809
Creditors: amounts falling due after more than one year	21	**(2,105)**	(2,270)	**(2,989)**	(3,473)
Provisions for liabilities and charges	24	**(168)**	(187)	**(239)**	(286)
Minority interests		**(12)**	(7)	**(17)**	(11)
Net assets		**2,434**	2,640	**3,456**	4,039
Capital and reserves					
Combined share capitals		**190**	187	**270**	286
Combined share premium accounts		**1,784**	1,708	**2,533**	2,613
Combined shares held in treasury		**(37)**	(19)	**(53)**	(29)
Combined reserves		**497**	764	**706**	1,169
Combined shareholders' funds	26	**2,434**	2,640	**3,456**	4,039

Approved by the boards of Reed Elsevier PLC and Reed Elsevier NV, 18 February 2004.

Combined statement of total recognised gains and losses

For the year ended 31 December 2003

	2003 £m	2002 £m	2003 €m	2002 €m
Profit attributable to parent companies' shareholders	**334**	181	**484**	288
Exchange translation differences	**(232)**	(187)	**(620)**	(604)
Total recognised gains and losses for the year	**102**	(6)	**(136)**	(316)

Combined shareholders' funds reconciliation

For the year ended 31 December 2003

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Profit attributable to parent companies' shareholders		**334**	181	**484**	288
Equity dividends paid and proposed		**(304)**	(282)	**(441)**	(448)
Issue of ordinary shares, net of expenses		**14**	30	**20**	48
Increase in shares held in treasury		**(18)**	(1)	**(26)**	(2)
Exchange translation differences		**(232)**	(187)	**(620)**	(604)
Net decrease in combined shareholders' funds		**(206)**	(259)	**(583)**	(718)
Combined shareholders' funds at 1 January		**2,640**	2,899	**4,039**	4,757
As originally reported		**2,659**	2,917	**4,068**	4,784
Prior year adjustment in relation to presentation of shares held in treasury	27	**(19)**	(18)	**(29)**	(27)
Combined shareholders' funds at 31 December		**2,434**	2,640	**3,456**	4,039

1 Segment analysis

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Business segment								
Science & Medical	**1,381**	1,295	**375**	294	**467**	429	**1,476**	1,550
Legal	**1,318**	1,349	**95**	61	**301**	287	**1,985**	2,192
Education	**898**	993	**91**	102	**174**	183	**1,390**	1,569
Business	**1,328**	1,383	**100**	50	**236**	234	**763**	834
Total	**4,925**	5,020	**661**	507	**1,178**	1,133	**5,614**	6,145
Geographical origin								
North America	**2,822**	3,158	**225**	142	**603**	616	**4,639**	5,190
United Kingdom	**823**	782	**168**	129	**210**	190	**432**	481
The Netherlands	**502**	419	**162**	153	**189**	169	**2**	(22)
Rest of Europe	**541**	456	**73**	55	**136**	119	**516**	475
Rest of world	**237**	205	**33**	28	**40**	39	**25**	21
Total	**4,925**	5,020	**661**	507	**1,178**	1,133	**5,614**	6,145

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2003 €m	2002 €m	**2003 €m**	2002 €m	**2003 €m**	2002 €m	**2003 €m**	2002 €m
Business segment								
Science & Medical	**2,002**	2,059	**544**	467	**677**	682	**2,096**	2,372
Legal	**1,911**	2,145	**138**	97	**437**	456	**2,819**	3,354
Education	**1,302**	1,579	**132**	162	**252**	291	**1,974**	2,401
Business	**1,926**	2,199	**144**	80	**342**	372	**1,083**	1,275
Total	**7,141**	7,982	**958**	806	**1,708**	1,801	**7,972**	9,402
Geographical origin								
North America	**4,092**	5,021	**326**	226	**874**	979	**6,587**	7,941
United Kingdom	**1,193**	1,243	**244**	205	**305**	302	**613**	736
The Netherlands	**728**	666	**235**	243	**274**	269	**3**	(34)
Rest of Europe	**784**	725	**106**	87	**197**	189	**733**	727
Rest of world	**344**	327	**47**	45	**58**	62	**36**	32
Total	**7,141**	7,982	**958**	806	**1,708**	1,801	**7,972**	9,402

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 and exceptional items. Within prior year capital employed, goodwill of £183m/€280m arising on the Harcourt acquisition has been reclassified from the Education segment to the Science & Medical segment.

Turnover is analysed before the £81m/€118m (2002: £74m/€117m) share of joint ventures' turnover, of which £20m/€29m (2002: £17m/€27m) relates to the Legal segment, principally to Giuffrè, and £61m/€89m (2002: £57m/€90m) relates to the Business segment, principally to exhibition joint ventures.

Share of operating profit in joint ventures of £16m/€23m (2002: £17m/€27m) comprises £5m/€7m (2002: £5m/€8m) relating to the Legal segment and £11m/€16m (2002: £12m/€19m) relating to the Business segment.

1 Segment analysis (continued)

	2003 £m	2002 £m	2003 €m	2002 €m
Analysis of turnover by geographical market				
North America	**2,921**	3,152	**4,235**	5,012
United Kingdom	**551**	545	**799**	867
The Netherlands	**207**	207	**300**	329
Rest of Europe	**695**	611	**1,008**	971
Rest of world	**551**	505	**799**	803
Total	**4,925**	5,020	**7,141**	7,982

	2003 £m	2002 £m	2003 €m	2002 €m
Reconciliation of capital employed to combined shareholders' funds				
Capital employed	**5,614**	6,145	**7,972**	9,402
Taxation	**(549)**	(528)	**(780)**	(809)
Dividends and net interest	**(247)**	(238)	**(351)**	(363)
Net borrowings	**(2,372)**	(2,732)	**(3,368)**	(4,180)
Minority interests	**(12)**	(7)	**(17)**	(11)
Combined shareholders' funds	**2,434**	2,640	**3,456**	4,039

	Capital expenditure		Depreciation		Amortisation	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Business segment						
Science & Medical	**46**	36	**30**	27	**72**	101
Legal	**83**	84	**61**	62	**185**	197
Education	**14**	20	**13**	13	**63**	71
Business	**25**	39	**30**	34	**125**	158
Total	**168**	179	**134**	136	**445**	527

	Capital expenditure		Depreciation		Amortisation	
	2003 €m	2002 €m	2003 €m	2002 €m	2003 €m	2002 €m
Business segment						
Science & Medical	**67**	57	**43**	43	**104**	161
Legal	**120**	134	**89**	99	**268**	313
Education	**20**	32	**19**	21	**91**	113
Business	**37**	62	**43**	53	**182**	251
Total	**244**	285	**194**	216	**645**	838

2 Cost of sales and operating expenses

	2003 Before amortisation and exceptional items £m	2003 Amortisation of goodwill and intangible assets £m	2003 Exceptional items £m	2003 Total £m	2002 Before amortisation and exceptional items £m	2002 Amortisation of goodwill and intangible assets £m	2002 Exceptional items £m	2002 Total £m
Cost of sales								
Continuing operations	**1,733**	**–**	**–**	**1,733**	1,794	–	–	1,794
Acquisitions	**31**	**–**	**–**	**31**	–	–	–	–
Total	**1,764**	**–**	**–**	**1,764**	1,794	–	–	1,794
Distribution and selling costs								
Continuing operations	**1,036**	**–**	**–**	**1,036**	1,117	–	–	1,117
Acquisitions	**14**	**–**	**–**	**14**	–	–	–	–
	1,050	**–**	**–**	**1,050**	1,117	–	–	1,117
Administrative expenses								
Continuing operations	**933**	**418**	**66**	**1,417**	996	524	99	1,619
Acquisitions	**19**	**24**	**6**	**49**	–	–	–	–
	952	**442**	**72**	**1,466**	996	524	99	1,619
Operating expenses								
Continuing operations	**1,969**	**418**	**66**	**2,453**	2,113	524	99	2,736
Acquisitions	**33**	**24**	**6**	**63**	–	–	–	–
Total	**2,002**	**442**	**72**	**2,516**	2,113	524	99	2,736

	2003 Before amortisation and exceptional items €m	2003 Amortisation of goodwill and intangible assets €m	2003 Exceptional items €m	2003 Total €m	2002 Before amortisation and exceptional items €m	2002 Amortisation of goodwill and intangible assets €m	2002 Exceptional items €m	2002 Total €m
Cost of sales								
Continuing operations	**2,513**	**–**	**–**	**2,513**	2,852	–	–	2,852
Acquisitions	**45**	**–**	**–**	**45**	–	–	–	–
Total	**2,558**	**–**	**–**	**2,558**	2,852	–	–	2,852
Distribution and selling costs								
Continuing operations	**1,502**	**–**	**–**	**1,502**	1,776	–	–	1,776
Acquisitions	**21**	**–**	**–**	**21**	–	–	–	–
	1,523	**–**	**–**	**1,523**	1,776	–	–	1,776
Administrative expenses								
Continuing operations	**1,353**	**606**	**96**	**2,055**	1,585	833	157	2,575
Acquisitions	**26**	**35**	**9**	**70**	–	–	–	–
	1,379	**641**	**105**	**2,125**	1,585	833	157	2,575
Operating expenses								
Continuing operations	**2,855**	**606**	**96**	**3,557**	3,361	833	157	4,351
Acquisitions	**47**	**35**	**9**	**91**	–	–	–	–
Total	**2,902**	**641**	**105**	**3,648**	3,361	833	157	4,351

3 Personnel

Number of people employed	At 31 December 2003	At 31 December 2002	Average during the year 2003	Average during the year 2002
Business segment				
Science & Medical	**6,800**	6,400	**6,700**	6,400
Legal	**12,800**	13,300	**13,100**	13,300
Education	**5,300**	5,600	**5,400**	5,800
Business	**10,100**	10,800	**10,400**	11,300
Total	**35,000**	36,100	**35,600**	36,800
Geographical location				
North America	**19,600**	20,700	**20,200**	21,300
United Kingdom	**5,900**	6,000	**5,900**	6,100
The Netherlands	**2,700**	2,800	**2,700**	2,800
Rest of Europe	**3,900**	3,800	**3,900**	3,800
Rest of world	**2,900**	2,800	**2,900**	2,800
Total	**35,000**	36,100	**35,600**	36,800

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 2003.

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.

The actuarial values placed on scheme assets under SSAP24 as at their last valuation date were sufficient to cover 113% and 104% of the benefits that had accrued to members of the main UK and US schemes, respectively. Actuarial surpluses are spread as a level amount over the average remaining service lives of 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/€1,958m and £260m/€369m in respect of the UK and US schemes respectively.

Assessments for accounting purposes in respect of other funded schemes, including the Netherlands scheme, have been carried out by external qualified actuaries using prospective benefit methods. The actuarial value of assets of the schemes approximated to the aggregate benefits that had accrued to members, after allowing for expected future increases in pensionable remuneration and pensions in course of payment. The assets of the Netherlands scheme as at 31 December 2003 were sufficient to cover 101% of the actuarial value placed on the benefits that had accrued to the members of the scheme as at that date.

The liabilities in respect of unfunded schemes have been determined by actuaries. As at 31 December 2003 £52m/€74m (2002: £52m/€80m) has been provided for within creditors.

4 Pension schemes (continued)

The net pension charge was £59m/€86m (2002: £59m/€94m). Pension contributions made in the year amounted to £49m/€72m (2002: £47m/€75m). The net SSAP24 charge on the main UK scheme comprises a regular cost of £23m/€33m (2002: £27m/€43m), less amortisation of the net actuarial surplus of £13m/€19m (2002: £24m/€38m). Based on the advice of the scheme actuaries, and with the agreement of the scheme trustees, no employer contributions have been made to the main UK scheme in 2003 (2002: nil) and, with effect from 1 January 2004, employer contributions will be made at a rate of 5% of pensionable salaries until the next triennial valuation in 2006.

A prepayment of £115m/€163m (2002: £125m/€191m) is included in debtors falling due after more than one year, representing the excess of the net pension credit to the profit and loss account since 1988 over the amounts funded to the main UK scheme.

Pension costs are accounted for in accordance with the UK accounting standard, SSAP24. A new 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	
	Assumed rate of return on assets	£m	€m	Assumed rate of return on assets	£m	€m
2003						
Equities	7.8%	**1,050**	**1,491**	8.0%	**1,341**	**1,904**
Bonds	4.8%	**442**	**628**	5.0%	**639**	**907**
Other	4.3%	**38**	**54**	4.6%	**50**	**72**
Total fair value of assets		**1,530**	**2,173**		**2,030**	**2,883**
Present value of scheme liabilities		**(1,588)**	**(2,255)**		**(2,281)**	**(3,239)**
Net deficit		**(58)**	**(82)**		**(251)**	**(356)**
Related deferred tax		**17**	**24**		**84**	**119**
Net pension liability		**(41)**	**(58)**		**(167)**	**(237)**

		Main UK Scheme			Aggregate of Schemes	
	Assumed rate of return on assets	£m	€m	Assumed rate of return on assets	£m	€m
2002						
Equities	9.0%	825	1,262	9.0%	1,068	1,634
Bonds	4.5%	487	745	4.9%	670	1,025
Other	3.8%	45	69	3.8%	53	81
Total fair value of assets		1,357	2,076		1,791	2,740
Present value of scheme liabilities		(1,305)	(1,996)		(1,928)	(2,950)
Net surplus/(deficit)		52	80		(137)	(210)
Related deferred tax		(16)	(25)		50	77
Net pension asset/(liability)		36	55		(87)	(133)

At 31 December 2003, the aggregate net deficit in respect of the defined benefit schemes under FRS17 comprised £189m/€268m (2002: £66m/€101m) in respect of funded schemes and liabilities of £62m/€88m (2002: £71m/€109m) in respect of unfunded schemes, of which £52m/€74m (2002: £52m/€80m) is provided for within creditors under SSAP24.

At 31 December 2001, for the aggregate of schemes, the fair value of equities, bonds and assets, and the related assumed rates of return for those asset classes were £1,267m/€2,078m, £721m/€1,182m and £81m/€133m and 7.7%, 5.5% and 4.0% respectively.

4 Pension schemes (continued)

The movement in the net FRS17 surplus/(deficit) before taxation during the year was as follows:

	Main UK Scheme		Aggregate of Schemes	
	£m	€m	£m	€m
Net surplus/(deficit) in schemes at beginning of the year	52	80	(137)	(210)
Movement in the year:				
Total operating charge	(32)	(46)	(65)	(94)
Contributions	–	–	38	55
Finance income	23	33	17	25
Actuarial loss	(101)	(146)	(113)	(164)
Exchange translation differences	–	(3)	9	32
Net deficit in schemes at end of the year	**(58)**	**(82)**	**(251)**	**(356)**

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

	Main UK Scheme		Aggregate of Schemes	
	2003	2002	**2003**	2002
Inflation	**2.8%**	2.3%	**2.9%**	2.5%
Rate of increase in salaries	**4.8%**	4.3%	**4.4%**	4.2%
Rate of increase in pensions in payment	**2.8%**	2.3%	**2.8%**	2.5%
Discount rate	**5.5%**	5.7%	**5.6%**	5.9%

The combined profit and loss reserves as at 31 December 2003 of £497m/€706m (2002: £764m/€1,169m) would have been £285m/€405m (2002: £623m/€953m), had the accounting methodologies of FRS17 been applied in the 2003 and 2002 financial years.

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	
	£m	€m	£m	€m
2003				
Charged to operating profit				
Current service cost	(32)	(46)	(76)	(94)
Past service cost	–	–	11	–
Total operating charge	**(32)**	**(46)**	**(65)**	**(94)**
Credited to other finance income				
Expected return on pension scheme assets	96	139	131	190
Interest on pension scheme liabilities	(73)	(106)	(114)	(165)
Net return	**23**	**33**	**17**	**25**
Amounts recognised in the statement of total recognised gains and losses				
Actual return less expected return on pension scheme assets	125	181	153	222
Experience losses arising on the scheme liabilities	(57)	(83)	(96)	(139)
Changes in assumptions underlying the present value of the scheme liabilities	(169)	(244)	(170)	(247)
Actuarial loss	**(101)**	**(146)**	**(113)**	**(164)**

4 Pension schemes (continued)

	Main UK Scheme		Aggregate of Schemes	
	£m	€m	£m	€m
2002				
Charged to operating profit				
Current service cost	(34)	(54)	(75)	(119)
Past service cost	–	–	–	–
Total operating charge	(34)	(54)	(75)	(119)
Credited to other finance income				
Expected return on pension scheme assets	97	154	137	218
Interest on pension scheme liabilities	(72)	(114)	(107)	(170)
Net return	25	40	30	48
Amounts recognised in the statement of total recognised gains and losses				
Actual return less expected return on pension scheme assets	(254)	(404)	(352)	(560)
Experience losses arising on the scheme liabilities	(21)	(33)	(13)	(21)
Changes in assumptions underlying the present value of the scheme liabilities	86	136	43	69
Actuarial loss	(189)	(301)	(322)	(512)

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 gain and losses, expressed as a percentage of scheme assets and liabilities as appropriate, were as follows:

	Main UK Scheme		Aggregate of Schemes	
	2003	**2002**	**2003**	**2002**
Actual return less expected return on scheme assets, as a percentage of scheme assets	**8%**	–19%	**8%**	–20%
Experience losses arising on scheme liabilities, as a percentage of the present value of scheme liabilities	**4%**	2%	**4%**	1%
Total actuarial 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	**6%**	14%	**5%**	17%

5 Operating profit

Operating profit is stated after the following:

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Hire of plant and machinery		**9**	12	**13**	19
Other operating lease rentals		**94**	87	**136**	138
Depreciation (including £7m/€10m (2002: £6m/€10m) in respect of assets held under finance leases)		**134**	136	**194**	216
Amortisation					
Amortisation of goodwill and intangible assets		**442**	524	**641**	833
Amortisation of goodwill and intangible assets in joint ventures		**3**	3	**4**	5
Total amortisation		**445**	527	**645**	838
Staff costs					
Wages and salaries		**1,255**	1,277	**1,820**	2,030
Social security costs		**136**	127	**197**	202
Pensions	4	**59**	59	**86**	94
Total staff costs		**1,450**	1,463	**2,103**	2,326
Auditors' remuneration					
For audit services		**2.5**	2.3	**3.6**	3.7
For non audit services		**2.1**	3.6	**3.2**	5.7

Auditors' remuneration for non audit services comprises £0.8m/€1.2m (2002: £0.7m/€1.1m) for audit related services, £0.6m/€0.9m (2002: £1.4m/€2.2m) for due diligence and other transaction related services, £0.6m/€0.9m (2002: £0.7m/€1.1m) for tax compliance and advisory work, and £0.1m/€0.2m (2002: £0.8m/€1.3m) for other non audit services. Included in auditors' remuneration for non audit services is £0.4m/€0.6m (2002: £0.7m/€1.1m) paid to Deloitte & Touche LLP and its associates in the UK.

Information on directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Directors' Remuneration Report on pages 29 to 38.

6 Exceptional items

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Reorganisation costs	(i)	**(23)**	(42)	**(33)**	(67)
Acquisition related costs	(ii)	**(49)**	(57)	**(72)**	(90)
Charged to operating profit		**(72)**	(99)	**(105)**	(157)
Net profit/(loss) on disposal of businesses and fixed asset investments	(iii)	**26**	(12)	**37**	(19)
Exceptional charge before tax		**(46)**	(111)	**(68)**	(176)
Net tax credit	(iv)	**84**	122	**122**	194
Total exceptional credit		**38**	11	**54**	18

(i) Reorganisation costs relate to employee severance principally in the Legal and Business segments.

(ii) Acquisition related costs include employee severance and property rationalisation costs arising on the further integration and rationalisation of Harcourt and on other recent acquisitions.

(iii) The net profit on disposal of businesses and fixed asset investments relates principally to a profit on the sale of LexisNexis Document Solutions less losses on other disposals and on fixed asset investments.

(iv) The net tax credit in 2003 and 2002 arises principally in respect of prior year disposals and tax relief related to restructuring and acquisition integration costs.

Cash flows in respect of exceptional items were as follows:

	2003 £m	2002 £m	2003 €m	2002 €m
Reorganisation costs	**(51)**	(56)	**(74)**	(89)
Acquisition related costs	**(47)**	(63)	**(68)**	(101)
Exceptional operating cash outflow	**(98)**	(119)	**(142)**	(190)
Net proceeds from disposal of businesses and fixed asset investments	**96**	106	**140**	169
Exceptional cash outflow before tax	**(2)**	(13)	**(2)**	(21)
Exceptional tax cash inflow	**36**	20	**52**	32
Total exceptional cash inflow	**34**	7	**50**	11

7 Net interest expense

	2003 £m	2002 £m	2003 €m	2002 €m
Interest receivable and similar income	**18**	24	**26**	38
Interest payable and similar charges				
Promissory notes and bank loans	**(46)**	(76)	**(67)**	(120)
Other loans	**(139)**	(152)	**(201)**	(242)
Other interest and similar charges	**(1)**	(2)	**(1)**	(3)
Total	**(168)**	(206)	**(243)**	(327)
Interest cover (times)	**7.0**	5.5	**7.0**	5.5

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

8 Tax on profit on ordinary activities

	2003 £m	2002 £m	2003 €m	2002 €m
Current tax				
United Kingdom	**2**	(6)	**3**	(10)
The Netherlands	**58**	62	**84**	99
Rest of world	**57**	(14)	**83**	(22)
Total current tax	**117**	42	**170**	67
Deferred tax				
Origination and reversal of timing differences	**60**	58	**87**	92
Sub-total	**177**	100	**257**	159
Share of tax attributable to joint ventures	**6**	7	**8**	12
Total	**183**	107	**265**	171

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

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

	2003 £m	2002 £m	2003 €m	2002 €m
Profit on ordinary activities before tax	**519**	289	**752**	460
Tax at average standard rates	**152**	79	**220**	126
Net impact of amortisation of goodwill and intangible assets	**108**	109	**157**	173
Prior year disposals	**(76)**	(100)	**(110)**	(159)
Permanent differences and other items	**(7)**	12	**(10)**	19
Origination and reversal of timing differences	**(60)**	(58)	**(87)**	(92)
Current tax charge	**117**	42	**170**	67

9 Equity dividends paid and proposed

	2003 £m	2002 £m	2003 €m	2002 €m
Reed Elsevier PLC	**152**	143	**220**	227
Reed Elsevier NV	**152**	139	**221**	221
Total	**304**	282	**441**	448

Dividends comprise a total dividend for Reed Elsevier PLC of 12.0p (2002: 11.2p) per ordinary share and a total dividend for Reed Elsevier NV of €0.30 (2002: €0.30) per ordinary share.

Dividends paid to Reed Elsevier PLC and Reed Elsevier NV shareholders are equalised at the gross level inclusive of the UK tax credit of 10% received by certain Reed Elsevier PLC shareholders.

10 Adjusted figures

Adjusted profit and cash flow figures are used by the Reed Elsevier businesses as additional performance measures. The adjusted figures are stated before the amortisation of goodwill and intangible assets, exceptional items and related tax effects, and are derived as follows:

	2003 £m	2002 £m	**2003 €m**	2002 €m
Operating profit including joint ventures	**661**	507	**958**	806
Adjustments:				
Amortisation of goodwill and intangible assets (including joint ventures)	**445**	527	**645**	838
Reorganisation costs	**23**	42	**33**	67
Acquisition related costs	**49**	57	**72**	90
Adjusted operating profit	**1,178**	1,133	**1,708**	1,801
Profit before tax	**519**	289	**752**	460
Adjustments:				
Amortisation of goodwill and intangible assets (including joint ventures)	**445**	527	**645**	838
Reorganisation costs	**23**	42	**33**	67
Acquisition related costs	**49**	57	**72**	90
Net (profit)/loss on disposal of businesses and fixed asset investments	**(26)**	12	**(37)**	19
Adjusted profit before tax	**1,010**	927	**1,465**	1,474
Profit attributable to parent companies' shareholders	**334**	181	**484**	288
Adjustments:				
Amortisation of goodwill and intangible assets (including joint ventures)	**448**	512	**649**	814
Reorganisation costs	**17**	32	**24**	51
Acquisition related costs	**32**	43	**47**	68
Net profit on disposal of businesses and fixed asset investments	**(87)**	(86)	**(125)**	(137)
Adjusted profit attributable to parent companies' shareholders	**744**	682	**1,079**	1,084
Net cash inflow from operating activities	**1,065**	1,035	**1,544**	1,645
Dividends received from joint ventures	**14**	13	**20**	21
Purchase of tangible fixed assets	**(155)**	(163)	**(225)**	(259)
Proceeds from sale of tangible fixed assets	**6**	6	**10**	9
Payments in relation to exceptional items charged to operating profit	**98**	119	**142**	190
Adjusted operating cash flow	**1,028**	1,010	**1,491**	1,606

11 Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Operating profit (before joint ventures)		**645**	490	**935**	779
Exceptional charges to operating profit	6	**72**	99	**105**	157
Operating profit before exceptional items		**717**	589	**1,040**	936
Amortisation of goodwill and intangible assets		**442**	524	**641**	833
Depreciation		**134**	136	**194**	216
Total non cash items		**576**	660	**835**	1,049
Increase in inventories and pre-publication costs		**(51)**	(51)	**(75)**	(81)
Increase in debtors		**(112)**	(12)	**(162)**	(19)
Increase/(decrease) in creditors		**33**	(32)	**48**	(50)
Movement in working capital		**(130)**	(95)	**(189)**	(150)
Net cash inflow from operating activities before exceptional items		**1,163**	1,154	**1,686**	1,835
Payments relating to exceptional items charged to operating profit	6	**(98)**	(119)	**(142)**	(190)
Net cash inflow from operating activities		**1,065**	1,035	**1,544**	1,645

Acquisitions

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Purchase of businesses	12	**(223)**	(90)	**(323)**	(143)
Payment of Harcourt change of control and other non operating liabilities assumed		**(23)**	(76)	**(33)**	(121)
Deferred consideration of prior year acquisitions		**(12)**	(18)	**(18)**	(29)
Total		**(258)**	(184)	**(374)**	(293)

Financing

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Net movement in promissory notes and bank loans		**(46)**	(74)	**(67)**	(118)
Repayment of other loans		**(118)**	(173)	**(171)**	(275)
Issuance of other loans		**94**	162	**136**	258
Repayment of finance leases		**(12)**	(10)	**(17)**	(16)
		(82)	(95)	**(119)**	(151)
Issue of ordinary shares		**14**	30	**20**	48
Purchase of treasury shares	27	**(18)**	(4)	**(26)**	(6)
Total		**(86)**	(69)	**(125)**	(109)

The repayment of other loans in 2003 relates primarily to the maturity of a US$125m Private Placement and the redemption of subordinated debentures with a nominal value of US$39m. The issuance of other loans in 2003 relates to term debt raised by a subsidiary of Elsevier Reed Finance BV.

11 Cash flow statement (continued)

Reconciliation of net borrowings

	Cash £m	Short term investments £m	Borrowings £m	2003 £m	2002 £m
Net borrowings at 1 January	169	401	(3,302)	(2,732)	(3,229)
(Decrease)/increase in cash	(105)	–	–	(105)	72
Increase in short term investments	–	165	–	165	55
Decrease in borrowings	–	–	82	82	95
Change in net borrowings resulting from cash flows	(105)	165	82	142	222
Borrowings in acquired businesses	–	–	(9)	(9)	–
Inception of finance leases	–	–	(13)	(13)	(16)
Exchange translation differences	4	4	232	240	291
Net borrowings at 31 December	68	570	(3,010)	(2,372)	(2,732)

	Cash €m	Short term investments €m	Borrowings €m	2003 €m	2002 €m
Net borrowings at 1 January	259	613	(5,052)	(4,180)	(5,296)
(Decrease)/increase in cash	(152)	–	–	(152)	114
Increase in short term investments	–	240	–	240	88
Decrease in borrowings	–	–	119	119	151
Change in net borrowings resulting from cash flows	(152)	240	119	207	353
Borrowings in acquired businesses	–	–	(13)	(13)	–
Inception of finance leases	–	–	(19)	(19)	(25)
Exchange translation differences	(10)	(44)	691	637	788
Net borrowings at 31 December	97	809	(4,274)	(3,368)	(4,180)

Net borrowings comprise cash and short term investments, loan capital, finance leases, promissory notes and bank and other loans, and are analysed further in notes 19 to 22.

12 Acquisitions

During the year a number of acquisitions were made for a total consideration amounting to £226m/€328m, including £3m/€5m deferred to future years, and after taking account of net cash acquired of £9m/€13m. The most significant acquisitions were the Holtzbrinck STM business in Germany, and, in the US, Applied Discovery Inc and the public records business of Dolan Media Company.

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

	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Goodwill	–	93	93
Intangible fixed assets	28	108	136
Tangible fixed assets	4	(1)	3
Current assets	44	–	44
Current liabilities	(42)	1	(41)
Borrowings	(9)	–	(9)
Net assets acquired	**25**	**201**	**226**
Consideration (after taking account of £9m net cash acquired)			**226**
Less: deferred to future years			(3)
Net cash flow			**223**

	Book value on acquisition €m	Fair value adjustments €m	Fair value €m
Goodwill	–	135	135
Intangible fixed assets	41	156	197
Tangible fixed assets	6	(2)	4
Current assets	64	–	64
Current liabilities	(62)	3	(59)
Borrowings	(13)	–	(13)
Net assets acquired	**36**	**292**	**328**
Consideration (after taking account of €13m net cash acquired)			**328**
Less: deferred to future years			(5)
Net cash flow			**323**

The fair value adjustments in relation to the acquisitions made in 2003 relate principally to the valuation of intangible assets to conform with Reed Elsevier accounting policies. Goodwill represents the excess of the consideration over the net tangible and intangible assets acquired. The businesses acquired in 2003 contributed £80m/€116m to turnover, £16m/€25m to adjusted operating profit, before the amortisation of goodwill and intangible assets and exceptional items, and £15m/€22m to net cash inflow from operating activities for the part year under Reed Elsevier ownership.

13 Goodwill and intangible assets

	Goodwill £m	Intangible assets £m	Total £m	Goodwill €m	Intangible assets €m	Total €m
Cost						
At 1 January 2003	**4,527**	**4,311**	**8,838**	**6,926**	**6,596**	**13,522**
Acquisitions	**93**	**136**	**229**	**135**	**197**	**332**
Disposal of businesses	**(62)**	**(74)**	**(136)**	**(90)**	**(107)**	**(197)**
Exchange translation differences	**(308)**	**(282)**	**(590)**	**(936)**	**(877)**	**(1,813)**
At 31 December 2003	**4,250**	**4,091**	**8,341**	**6,035**	**5,809**	**11,844**
Accumulated amortisation						
At 1 January 2003	**1,717**	**1,307**	**3,024**	**2,627**	**2,000**	**4,627**
Disposal of businesses	**(53)**	**(48)**	**(101)**	**(77)**	**(69)**	**(146)**
Charge for the year	**257**	**185**	**442**	**373**	**268**	**641**
Exchange translation differences	**(108)**	**(69)**	**(177)**	**(349)**	**(246)**	**(595)**
At 31 December 2003	**1,813**	**1,375**	**3,188**	**2,574**	**1,953**	**4,527**
Net book amount						
At 1 January 2003	2,810	3,004	5,814	4,299	4,596	8,895
At 31 December 2003	**2,437**	**2,716**	**5,153**	**3,461**	**3,856**	**7,317**

At 31 December 2003, the weighted average remaining estimated useful life of goodwill and intangible assets was 24 years (2002: 25 years).

14 Tangible fixed assets

	Land and buildings £m	Computer systems, plant and equipment £m	Total £m	Land and buildings €m	Computer systems, plant and equipment €m	Total €m
Cost						
At 1 January 2003	**206**	**1,018**	**1,224**	**315**	**1,558**	**1,873**
Acquisitions	**–**	**3**	**3**	**–**	**4**	**4**
Capital expenditure	**3**	**165**	**168**	**4**	**240**	**244**
Disposals	**(13)**	**(46)**	**(59)**	**(19)**	**(67)**	**(86)**
Exchange translation differences	**(11)**	**(55)**	**(66)**	**(37)**	**(195)**	**(232)**
At 31 December 2003	**185**	**1,085**	**1,270**	**263**	**1,540**	**1,803**
Accumulated depreciation						
At 1 January 2003	**77**	**663**	**740**	**118**	**1,014**	**1,132**
Disposals	**(7)**	**(36)**	**(43)**	**(10)**	**(52)**	**(62)**
Charge for the year	**7**	**127**	**134**	**10**	**184**	**194**
Exchange translation differences	**(5)**	**(38)**	**(43)**	**(15)**	**(130)**	**(145)**
At 31 December 2003	**72**	**716**	**788**	**103**	**1,016**	**1,119**
Net book amount						
At 1 January 2003	129	355	484	197	544	741
At 31 December 2003	**113**	**369**	**482**	**160**	**524**	**684**

At 31 December 2003 and 2002, all assets were included at cost. No depreciation was provided on freehold land. The net book amount of tangible fixed assets includes £29m/€41m (2002: £24m/€37m) in respect of assets held under finance leases.

15 Fixed asset investments

	Note	Investments in joint ventures £m	Other investments £m	Total £m	Investments in joint ventures €m	Other investments €m	Total €m
At 1 January 2003 as originally reported		**62**	**78**	**140**	**95**	**119**	**214**
Prior year adjustment	27	**–**	**(19)**	**(19)**	**–**	**(29)**	**(29)**
At 1 January 2003 as restated		**62**	**59**	**121**	**95**	**90**	**185**
Share of attributable profit		**13**	**–**	**13**	**19**	**–**	**19**
Amortisation of goodwill and intangible assets		**(3)**	**–**	**(3)**	**(4)**	**–**	**(4)**
Dividends received from joint ventures		**(14)**	**–**	**(14)**	**(20)**	**–**	**(20)**
Additions		**1**	**6**	**7**	**1**	**9**	**10**
Transfers/disposals		**–**	**(14)**	**(14)**	**–**	**(20)**	**(20)**
Provided		**–**	**(7)**	**(7)**	**–**	**(10)**	**(10)**
Exchange translation differences		**1**	**(3)**	**(2)**	**(6)**	**(10)**	**(16)**
At 31 December 2003		**60**	**41**	**101**	**85**	**59**	**144**

The principal joint venture at 31 December 2003 is Giuffrè (an Italian legal publisher in which Reed Elsevier has a 40% shareholding). The cost and net book amount of goodwill and intangible assets in joint ventures were £37m/€53m and £19m/€27m respectively (2002: £36m/€55m and £21m/€32m).

16 Inventories and pre-publication costs

	2003 £m	2002 £m	**2003 €m**	2002 €m
Raw materials	**13**	15	**18**	23
Pre-publication costs	**322**	306	**457**	468
Finished goods	**191**	179	**272**	274
Total	**526**	500	**747**	765

17 Debtors – amounts falling due within one year

	2003 £m	2002 £m	**2003 €m**	2002 €m
Trade debtors	**852**	743	**1,210**	1,137
Other debtors	**85**	73	**120**	111
Prepayments and accrued income	**107**	107	**152**	164
Total	**1,044**	923	**1,482**	1,412

18 Debtors – amounts falling due after more than one year

	Note	**2003 £m**	2002 £m	**2003 €m**	2002 €m
Trade debtors		**8**	9	**11**	14
Pension prepayment	4	**115**	125	**163**	191
Prepayments, accrued income and other debtors		**30**	26	**44**	40
Deferred taxation assets	24	**96**	161	**136**	246
Total		**249**	321	**354**	491

19 Cash and short term investments

	2003 £m	2002 £m	2003 €m	2002 €m
Cash at bank and in hand	**68**	169	**97**	259
Short term investments	**570**	401	**809**	613
Total	**638**	570	**906**	872

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.

20 Creditors: amounts falling due within one year

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Borrowings					
Promissory notes and bank loans		**1,180**	1,279	**1,675**	1,957
Other loans		**2**	80	**3**	122
Obligations under finance leases	23	**16**	8	**23**	12
		1,198	1,367	**1,701**	2,091
Trade creditors		**228**	251	**324**	384
Other creditors		**144**	165	**204**	252
Taxation		**323**	328	**459**	502
Proposed dividends		**226**	205	**321**	314
Accruals and deferred income		**1,355**	1,313	**1,924**	2,009
Total		**3,474**	3,629	**4,933**	5,552

21 Creditors: amounts falling due after more than one year

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Borrowings					
Loans repayable:					
Within one to two years		**84**	2	**119**	3
Within two to five years		**1,067**	903	**1,515**	1,382
After five years		**654**	1,016	**929**	1,554
Obligations under finance leases	23	**7**	14	**10**	22
		1,812	1,935	**2,573**	2,961
Other creditors		**9**	15	**13**	22
Taxation		**229**	269	**325**	412
Accruals and deferred income		**55**	51	**78**	78
Total		**2,105**	2,270	**2,989**	3,473

22 Financial instruments

Details of the objectives, policies and strategies pursued by Reed Elsevier in relation to financial instruments are set out in the Operating and Financial Review on pages 3 to 21.

For the purpose of the disclosures which follow in this note, short term 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 £3,074m/€4,365m (2002: £3,391m/€5,188m), after taking account of interest rate and currency derivatives, is set out below:

					Fixed rate financial liabilities	
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities €m	Fixed rate financial liabilities €m	Weighted average interest rate	Weighted average term (years)
2003						
US dollar	**674**	**1,789**	**957**	**2,540**	**6.3%**	**6.0**
Sterling	**5**	**–**	**7**	**–**	**–**	**–**
Euro	**380**	**156**	**540**	**222**	**5.4%**	**2.8**
Other currencies	**70**	**–**	**99**	**–**	**–**	**–**
Total	**1,129**	**1,945**	**1,603**	**2,762**	**6.3%**	**5.8**

					Fixed rate financial liabilities	
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities €m	Fixed rate financial liabilities €m	Weighted average interest rate	Weighted average term (years)
2002						
US dollar	478	2,307	731	3,530	6.5%	7.6
Sterling	19	–	29	–	–	–
Euro	363	143	555	219	5.6%	4.3
Other currencies	81	–	124	–	–	–
Total	941	2,450	1,439	3,749	6.4%	7.4

Included within fixed rate financial liabilities as at 31 December 2003 are £nil/€nil (2002: £78m/€119m) of US dollar term debt and £421m/€598m (2002: £281m/€430m) of interest rate swaps and options denominated principally in US dollars that mature within one year.

Currency and interest rate profile of financial assets

The currency and interest rate profile of the aggregate financial assets of £702m/€997m (2002: £649m/€993m), after taking account of interest rate swaps, is set out below:

	Interest bearing financial assets £m	Non interest bearing financial assets £m	Interest bearing financial assets €m	Non interest bearing financial assets €m
2003				
US dollar	**88**	**54**	**125**	**77**
Sterling	**326**	**–**	**463**	**–**
Euro	**192**	**6**	**273**	**9**
Other currencies	**32**	**4**	**45**	**5**
Total	**638**	**64**	**906**	**91**

22 Financial instruments (continued)

	Interest bearing financial assets £m	Non interest bearing financial assets £m	Interest bearing financial assets €m	Non interest bearing financial assets €m
2002				
US dollar	81	67	124	95
Sterling	207	–	317	–
Euro	246	5	376	7
Other currencies	36	7	55	10
Total	570	79	872	112

Non interest bearing financial assets reflect the prior year adjustment in respect of other investments, as described in note 27.

At 31 December 2003 there were interest rate swaps in place with a principal amount totalling £100m/€142m (2002: £nil/€nil) and interest rate floors in place with a principal amount totalling £50m/€71m (2002: £150m/€230m) denominated in sterling that mature within one year.

Floating rate interest rates payable on US commercial paper are based on US dollar commercial paper rates. Other financial assets and liabilities bear interest by reference to LIBOR or other national LIBOR equivalent interest rates. Included within non interest bearing financial assets are £41m/€58m (2002: £59m/€90m) of investments denominated principally in sterling and US dollars which have no maturity date.

Forward starting interest rate derivatives

At 31 December 2003, agreements totalling £653m/€927m (2002: £187m/€286m) were in place to enter into interest rate swaps at future dates. Of these, individual swap agreements totalling £449m/€638m (2002: £125m/€191m) were to fix the interest expense on US dollar borrowings commencing in 2004 and 2006 for periods of up to 30 months, at a weighted average interest rate of 2.5%. A further £104m/€148m (2002: £nil/€nil) interest rate swap agreement starting in 2004 was to swap a US dollar fixed rate debt issue, to be drawn down in 2004, to floating rate debt for a period of 10 years. Interest rate swap agreements totalling £100m/€142m (2002: £nil/€nil) and starting in 2004 were to fix the interest income on sterling short term investments for one year, at a weighted average interest rate of 3.6%. There were no forward starting interest rate options (2002: £62m/€95m) or interest rate floors (2002: £nil/€nil).

At 31 December 2003, forward rate agreements totalling £253m/€359m (2002: £780m/€1,193m) were in place. These comprised a succession of agreements to fix the interest expense on short term US dollar borrowings commencing in 2004 and 2006 for periods of three months only, at a weighted average interest rate of 3.2%.

Maturity profile of financial liabilities

The maturity profile of financial liabilities at 31 December comprised:

	2003 £m	2002 £m	**2003 €m**	2002 €m
Repayable:				
Within one year	**1,198**	1,367	**1,701**	2,091
Within one to two years	**107**	35	**152**	53
Within two to five years	**1,099**	944	**1,561**	1,445
After five years	**670**	1,045	**951**	1,599
Total	**3,074**	3,391	**4,365**	5,188

Financial liabilities repayable within one year include US commercial paper and euro commercial paper. Short term borrowings are supported by committed facilities and by centrally managed cash and short term investments. As at 31 December 2003, a total of £1,684m/€2,372m (2002: £2,188m/€3,348m) of committed facilities were available, of which £51m/€72m (2002: £63m/€96m) was drawn and is included in financial liabilities repayable within one year. Of the total committed facilities, £421m/€598m (2002: £1,788m/€2,736m) matures within one year, £nil/€nil (2002: £400m/€612m) within two to three years and £1,263m/€1,794m (2002: £nil/€nil) within four to five years. Secured borrowings under finance leases were £23m/€33m (2002: £22m/€34m).

Currency exposure

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 currencies of the operating units.

22 Financial instruments (continued)

Fair values of financial assets and liabilities

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

	2003			2002		
	Notional amount £m	**Book value £m**	**Fair value £m**	Notional amount £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance operations						
Investments		**41**	**41**		59	59
Cash		**68**	**68**		169	169
Short term investments		**570**	**570**		401	400
Other financial assets		**23**	**23**		20	20
Short term borrowings and current portion of long term borrowings		**(1,198)**	**(1,197)**		(1,367)	(1,374)
Long term borrowings		**(1,812)**	**(1,903)**		(1,935)	(2,043)
Other financial liabilities		**(13)**	**(13)**		(18)	(18)
Provisions		**(51)**	**(51)**		(71)	(71)
		(2,372)	**(2,462)**		(2,742)	(2,858)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	**1,405**	**(7)**	**(54)**	729	(9)	(73)
Interest rate options	**618**	**(4)**	**(33)**	686	(4)	(65)
Interest rate floors	**50**	**–**	**–**	150	–	–
Forward rate agreements	**253**	**–**	**–**	968	–	(1)
Forward foreign exchange contracts	**52**	**–**	**5**	246	–	8
	2,378	**(11)**	**(82)**	2,779	(13)	(131)
Total financial instruments	**2,378**	**(2,383)**	**(2,544)**	2,779	(2,755)	(2,989)

22 Financial instruments (continued)

	2003			2002		
	Notional amount €m	Book value €m	Fair value €m	Notional amount €m	Book value €m	Fair value €m
Primary financial instruments held or issued to finance operations						
Investments		58	58		90	90
Cash		97	97		259	259
Short term investments		809	809		613	612
Other financial assets		33	33		31	31
Short term borrowings and current portion of long term borrowings		(1,701)	(1,700)		(2,091)	(2,102)
Long term borrowings		(2,573)	(2,702)		(2,961)	(3,127)
Other financial liabilities		(19)	(19)		(27)	(27)
Provisions		(72)	(72)		(109)	(109)
		(3,368)	(3,496)		(4,195)	(4,373)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	1,995	(10)	(77)	1,115	(14)	(112)
Interest rate options	878	(6)	(46)	1,050	(6)	(99)
Interest rate floors	71	–	–	230	–	–
Forward rate agreements	359	–	–	1,481	–	(2)
Forward foreign exchange contracts	74	–	7	376	–	13
	3,377	(16)	(116)	4,252	(20)	(200)
Total financial instruments	3,377	(3,384)	(3,612)	4,252	(4,215)	(4,573)

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 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 2003 and 2002. The fair values of all other items have been calculated by discounting expected future cash flows at market rates.

Hedges

The unrecognised and deferred gains and losses on financial instruments used for hedging purposes as at 31 December 2003, and before taking into account gains and losses arising in the year and included in the profit and loss account, are derived as follows:

	Unrecognised		Deferred	
	Gains £m	Losses £m	Gains £m	Losses £m
On hedges at 1 January 2003	8	(126)	58	(15)
Arising in previous years included in 2003 profit and loss account	(8)	49	(30)	8
Arising in previous years not included in 2003 profit and loss account	–	(77)	28	(7)
Arising in 2003 not included in 2003 profit and loss account	7	(1)	41	(18)
On hedges at 31 December 2003	7	(78)	69	(25)
Of which:				
Expected to be included in 2004 profit and loss account	4	(35)	44	(14)
Expected to be included in 2005 profit and loss account or later	3	(43)	25	(11)

22 Financial instruments (continued)

	Unrecognised		Deferred	
	Gains €m	Losses €m	Gains €m	Losses €m
On hedges at 1 January 2003	**12**	**(193)**	**89**	**(23)**
Arising in previous years included in 2003 profit and loss account	**(12)**	**84**	**(49)**	**13**
Arising in previous years not included in 2003 profit and loss account	**–**	**(109)**	**40**	**(10)**
Arising in 2003 not included in 2003 profit and loss account	**10**	**(2)**	**58**	**(26)**
On hedges at 31 December 2003	**10**	**(111)**	**98**	**(36)**
Of which:				
Expected to be included in 2004 profit and loss account	**6**	**(50)**	**62**	**(20)**
Expected to be included in 2005 profit and loss account or later	**4**	**(61)**	**36**	**(16)**

23 Obligations under leases

Future finance lease obligations are:

	Note	2003 £m	2002 £m	2003 €m	2002 €m
Repayable:					
Within one year		**17**	9	**24**	14
Within one to two years		**4**	6	**6**	9
Within two to five years		**4**	3	**6**	5
After five years		**–**	7	**–**	11
Less: interest charges allocated to future periods		**(2)**	(3)	**(3)**	(5)
Total		**23**	22	**33**	34
Obligations falling due within one year	20	**16**	8	**23**	12
Obligations falling due after more than one year	21	**7**	14	**10**	22
Total		**23**	22	**33**	34

Annual commitments under operating leases are:

	2003 £m	2002 £m	2003 €m	2002 €m
On leases expiring:				
Within one year	**9**	7	**13**	11
Within two to five years	**38**	37	**54**	57
After five years	**59**	59	**84**	90
Total	**106**	103	**151**	158

Of the above annual commitments, £100m/€142m relates to land and buildings (2002: £99m/€152m) and £6m/€9m to other leases (2002: £4m/€6m).

24 Provisions for liabilities and charges

	Deferred taxation liabilities £m	Property lease obligations £m	Total £m
At 1 January 2003	**92**	**95**	**187**
Transfers	**(16)**	**–**	**(16)**
Provided	**27**	**–**	**27**
Utilised	**(4)**	**(11)**	**(15)**
Exchange translation differences	**(6)**	**(9)**	**(15)**
At 31 December 2003	**93**	**75**	**168**

	Deferred taxation liabilities €m	Property lease obligations €m	Total €m
At 1 January 2003	**141**	**145**	**286**
Transfers	**(23)**	**–**	**(23)**
Provided	**39**	**–**	**39**
Utilised	**(6)**	**(16)**	**(22)**
Exchange translation differences	**(19)**	**(22)**	**(41)**
At 31 December 2003	**132**	**107**	**239**

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.

Deferred taxation comprises:

	Note	**2003 £m**	2002 £m	**2003 €m**	2002 €m
Deferred taxation liabilities					
Excess of tax allowances over related amortisation		**45**	46	**64**	70
Pension prepayment		**32**	35	**45**	54
Short term timing differences		**16**	11	**23**	17
		93	92	**132**	141
Deferred taxation assets					
Excess of amortisation over related tax allowances		**(9)**	(8)	**(13)**	(12)
Short term timing differences		**(69)**	(151)	**(98)**	(231)
Tax losses carried forward		**(18)**	(2)	**(25)**	(3)
	18	**(96)**	(161)	**(136)**	(246)
Net deferred tax asset		**(3)**	(69)	**(4)**	(105)
Net deferred tax asset at 1 January		**(69)**	(126)	**(105)**	(206)
Transfers		**3**	(12)	**4**	(19)
Deferred tax charge in profit and loss account	8	**60**	58	**87**	92
Exchange translation differences		**3**	11	**10**	28
Net deferred tax asset at 31 December		**(3)**	(69)	**(4)**	(105)

25 Contingent liabilities

There are contingent liabilities amounting to £77m/€109m (2002: £118m/€181m) in respect of property lease guarantees, in excess of provided amounts of £26m/€37m (2002: £32m/€49m), given by Harcourt General, Inc in favour of a former subsidiary (see note 24).

26 Combined shareholders' funds

	Note	Combined share capitals £m	Combined share premium accounts £m	Combined shares held in treasury £m	Combined reserves £m	Total £m
At 1 January 2003 as originally reported		**187**	**1,708**	**–**	**764**	**2,659**
Prior year adjustment	27	**–**	**–**	**(19)**	**–**	**(19)**
At 1 January 2003 as restated		**187**	**1,708**	**(19)**	**764**	**2,640**
Profit attributable to parent companies' shareholders		**–**	**–**	**–**	**334**	**334**
Equity dividends paid and proposed		**–**	**–**	**–**	**(304)**	**(304)**
Issue of ordinary shares, net of expenses		**1**	**13**	**–**	**–**	**14**
Increase in shares held in treasury		**–**	**–**	**(18)**	**–**	**(18)**
Exchange translation differences		**2**	**63**	**–**	**(297)**	**(232)**
At 31 December 2003		**190**	**1,784**	**(37)**	**497**	**2,434**

	Note	Combined share capitals €m	Combined share premium accounts €m	Combined shares held in treasury €m	Combined reserves €m	Total €m
At 1 January 2003 as originally reported		**286**	**2,613**	**–**	**1,169**	**4,068**
Prior year adjustment	27	**–**	**–**	**(29)**	**–**	**(29)**
At 1 January 2003 as restated		**286**	**2,613**	**(29)**	**1,169**	**4,039**
Profit attributable to parent companies' shareholders		**–**	**–**	**–**	**484**	**484**
Equity dividends paid and proposed		**–**	**–**	**–**	**(441)**	**(441)**
Issue of ordinary shares, net of expenses		**1**	**19**	**–**	**–**	**20**
Increase in shares held in treasury		**–**	**–**	**(26)**	**–**	**(26)**
Exchange translation differences		**(17)**	**(99)**	**2**	**(506)**	**(620)**
At 31 December 2003		**270**	**2,533**	**(53)**	**706**	**3,456**

Combined share capital excludes the shares of Reed Elsevier NV held by Reed Elsevier PLC.

Combined reserves include a £4m/€6m (2002: £4m/€6m) capital redemption reserve following the redemption of non equity shares in Reed Elsevier PLC in 1999.

At 31 December 2003, shares held in treasury related to the 6,383,333 (2002: 2,840,047) Reed Elsevier PLC ordinary shares and 1,327,777 (2002: 1,554,381) Reed Elsevier NV ordinary shares held by the Reed Elsevier Group plc Employee Benefit Trust ("EBT"). The aggregate market value of these shares at 31 December 2003 was £39m/€55m (2002: £27m/€41m). The EBT purchases Reed Elsevier PLC and Reed Elsevier NV shares which, at the trustees' discretion, can be used in respect of the exercise of share options.

27 Prior year adjustment

In accordance with UITF38: Accounting for ESOP Trusts issued in December 2003 by the Urgent Issues Task Force of the UK Accounting Standards Board, shares in Reed Elsevier PLC and Reed Elsevier NV held by the Reed Elsevier Group plc Employee Benefit Trust are now presented as shares held in treasury and deducted within combined shareholders' funds. Previously, such shares were included within other fixed asset investments. Within the combined cash flow statement, the purchase of such shares is now presented as a financing transaction and not as a purchase of fixed asset investments. The combined balance sheet as at 31 December 2002 and the combined cash flow statement for the year ended 31 December 2002 have been restated accordingly.

28 Exchange rates

The following exchange rates have been applied in preparing the combined financial statements:

	Profit and loss		Balance sheet	
	2003	2002	**2003**	2002
Euro to sterling	**1.45**	1.59	**1.42**	1.53
US dollars to sterling	**1.63**	1.50	**1.78**	1.60
Euro to US dollars	**0.89**	1.06	**0.80**	0.96
US dollars to euro	**1.12**	0.94	**1.25**	1.05

Independent auditors' report to the members of Reed Elsevier PLC and shareholders of Reed Elsevier NV

We have audited the combined financial statements of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc, Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures (together "the combined businesses") for the year ended 31 December 2003 which comprise the accounting policies, the profit and loss account, the cash flow statement, the balance sheet, the statement of total recognised gains and losses, the shareholders' funds reconciliation and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the parts of the directors' remuneration report presented in the Annual Reports and Financial Statements ("the Remuneration Report") that are described as having been audited.

Our audit work has been undertaken so that we might state to the members of Reed Elsevier PLC and shareholders of Reed Elsevier NV those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by applicable law, we do not accept or assume responsibility to anyone other than Reed Elsevier PLC and Reed Elsevier NV and the members of Reed Elsevier PLC and shareholders of Reed Elsevier NV 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 directors of Reed Elsevier PLC and Reed Elsevier NV are responsible for the preparation of the financial statements in accordance with applicable United Kingdom accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report and Financial Statements including the Remuneration Report. Our responsibilities, as independent auditors of the combined financial statements and the parts of the Remuneration Report described as having been audited, are set out in auditing standards generally accepted in the United Kingdom and the Netherlands and by our respective professions' ethical guidance.

We report to you our opinion as to whether the combined financial statements give a true and fair view. We read the other information contained in the Annual Reports and Financial Statements, 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 combined financial statements. We are not required to consider whether the boards' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the combined businesses' corporate governance procedures or their risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and the Netherlands. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the parts of the Remuneration Report described as having been audited. 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, 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 combined financial statements and the parts of the Remuneration Report described as having been audited 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 combined financial statements and the parts of the Remuneration Report described as having been audited.

Opinion

In our opinion:
- the combined financial statements give a true and fair view of the state of affairs of the combined businesses as at 31 December 2003, and of their profits for the year then ended; and
- the parts of the Remuneration Report described as having been audited have been properly prepared in accordance with the United Kingdom Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
London
18 February 2004

Deloitte Accountants
Amsterdam
18 February 2004

Reed Elsevier PLC

REED ELSEVIER PLC ANNUAL REPORT AND FINANCIAL STATEMENTS

Company number: 77536

Financial highlights

For the years ended 31 December

	1999 £m	2000 £m	2001 £m	2002 £m	**2003 £m**
PROFIT AND LOSS ACCOUNT					
Reported profit before tax	57	102	146	153	**275**
Reported profit/(loss) attributable to shareholders	(33)	17	67	96	**177**
Adjusted profit before tax	376	365	449	490	**534**
Adjusted profit attributable to shareholders	279	270	330	361	**394**
PER SHARE INFORMATION					
Earnings/(loss) per ordinary share	(2.9)p	1.5p	5.3p	7.6p	**14.0p**
Adjusted earnings per ordinary share	24.4p	23.3p	26.1p	28.5p	**31.2p**
Net dividend per ordinary share	10.0p	10.0p	10.5p	11.2p	**12.0p**
Dividend cover	2.4	2.1	2.5	2.5	**2.6**
Ordinary share prices – high	630p	700p	700p	696p	**552p**
– low	344p	391p	493p	488p	**392p**
Market capitalisation (£m)	5,310	8,837	7,196	6,733	**5,909**

(i) All amounts presented are based on the 52.9% share of Reed Elsevier combined profits attributable to the Reed Elsevier PLC shareholders (see note 9 to the financial statements). The statutory profit for Reed Elsevier PLC includes the impact of sharing the UK tax credit with Reed Elsevier NV as a reduction in reported profits. On this basis, the consolidated profit before tax, attributable profit and basic earnings per share for the year ended 31 December 2003 are £267m, £169m and 13.4p respectively.

(ii) Adjusted figures are shown before amortisation of goodwill and intangible assets, exceptional items and related tax effects, and equalisation adjustments. The Reed Elsevier businesses focus on adjusted profit and cash flow as additional performance measures. These are reconciled to the reported figures in note 9 to the financial statements.

(iii) Dividend cover is calculated as the number of times adjusted profit attributable to shareholders, after taking account of the sharing of the UK tax credit with Reed Elsevier NV, covers the annual dividend.

(iv) Share prices quoted are the closing mid-price. Market capitalisation is the number of shares outstanding at the year end, excluding Reed Elsevier PLC shares held in treasury, multiplied by the closing mid-price at the year end date.

Directors' report

The directors present their report, together with the financial statements of the company, for the year ended 31 December 2003.

As a consequence of the merger of the company's businesses with those of Reed Elsevier NV in 1993, described on page 22, the shareholders of Reed Elsevier PLC and Reed Elsevier NV can be regarded as having the interests of a single economic group. The Reed Elsevier combined financial statements represent the combined interests of both sets of shareholders and encompass the businesses of Reed Elsevier Group plc, Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the parent companies, Reed Elsevier PLC and Reed Elsevier NV ("the combined businesses" or "Reed Elsevier"). This directors' report and the financial statements of the company should be read in conjunction with the combined financial statements and other reports set out on pages 3 to 69, as well as the Report of the Chairman and the Chief Executive Officer in the Annual Review and Summary Financial Statements.

Principal activities

The company is a holding company and its principal investments are its direct 50% shareholding in Reed Elsevier Group plc and its 39% shareholding in Elsevier Reed Finance BV, which are engaged in publishing and information activities and financing activities, respectively. The remaining shareholdings in these two companies are held by Reed Elsevier NV. Reed Elsevier PLC also has an indirect equity interest in Reed Elsevier NV. Reed Elsevier PLC and Reed Elsevier NV have retained their separate legal identities and are publicly held companies. Reed Elsevier PLC's securities are listed in London and New York and Reed Elsevier NV's securities are listed in Amsterdam and New York.

Financial statement presentation

The consolidated financial statements of Reed Elsevier PLC include the 52.9% economic interest that shareholders have under the equalisation arrangements in the Reed Elsevier combined businesses, accounted for on a gross equity basis.

Under the terms of the merger agreement, dividends paid to Reed Elsevier PLC and Reed Elsevier NV shareholders are equalised at the gross level inclusive of the UK tax credit received by certain Reed Elsevier PLC shareholders. Because of the tax credit, Reed Elsevier PLC normally requires less cash to fund its net dividend than Reed Elsevier NV does to fund its gross dividend. An adjustment is, therefore, required in the statutory profit and loss account of Reed Elsevier PLC to share this tax benefit between the two sets of shareholders in accordance with the equalisation agreement. The equalisation adjustment arises on dividends paid by Reed Elsevier PLC to its shareholders and it reduces the statutory attributable earnings of the company by 47.1% of the total amount of the tax credit, which in 2003 was £8m (2002: £7m).

In addition to the reported figures, adjusted profit figures are presented as additional performance measures. These exclude the tax credit equalisation adjustment, the amortisation of goodwill and intangible assets and exceptional items and provide a basis for performance comparison that is not dependent on the choice of method of adoption of FRS10 in accounting for goodwill and intangible assets.

Profit and loss account

The company's share of the operating profits of Reed Elsevier was £343m, up from £262m in 2002. The science & medical business performed well with strong publishing and new electronic products driving above market revenue growth. The legal business also continued to outperform its markets with consistent improvements in product performance and expansion of its online services. The education business had a mixed performance in weak markets, affected by the low level of textbook adoption opportunities compounded by state budget pressures. The business division continued to show impressive resilience in depressed markets. Underlying operating margins in all four divisions improved despite the high levels of investment, due to cost efficiency. Strong cash flows reinforced the quality of the financial result.

The company's share of the charge for amortisation of goodwill and intangible assets was £235m, down £44m from 2002, reflecting translation effects and some past acquisitions becoming fully amortised. The company's share of the operating exceptional items was £38m (2002: £52m), principally comprising its share of integration and rationalisation costs relating to Harcourt and other acquisitions and other restructuring costs.

The profit for the year also includes a £14m share of the gain (2002: loss £6m) on disposals of businesses and fixed asset investments. The reported attributable profit for Reed Elsevier PLC was £169m (2002: £89m). The adjusted profit attributable to shareholders – before the amortisation of goodwill and intangible assets and exceptional items – was £394m (2002: £361m).

Adjusted earnings per share increased 9% to 31.2p (2002: 28.5p). Including the effect of the tax credit equalisation as well as the amortisation of goodwill and intangible assets and exceptional items and related tax effects, the basic earnings per share was 13.4p (2002: 7.0p).

Directors' report (continued)

Balance sheet

The balance sheet of Reed Elsevier PLC reflects the shareholders 52.9% economic interest in the net assets of Reed Elsevier, which at 31 December 2003 amounted to £1,288m (2002: £1,397m). The £109m decrease in net assets principally reflects the company's share in the attributable profits of Reed Elsevier, less dividends paid and proposed and exchange translation effects.

Dividends

The board is recommending a final dividend of 8.7p per ordinary share to be paid on 21 May 2004 to shareholders on the Register on 30 April 2004 which, when added to the interim dividend already paid on 5 September 2003 amounting to 3.3p per ordinary share, makes the total dividend for the year 12.0p (2002: 11.2p).

The total dividend on the ordinary shares for the financial year will amount to £152m (2002: £143m), leaving a retained profit of £17m (2002: loss £54m).

Directors

The following served as directors during the year:

M Tabaksblat (Chairman)
CHL Davis (Chief Executive Officer)
MH Armour (Chief Financial Officer)
GJA van de Aast
JF Brock
MW Elliott (appointed 8 April 2003)
CJA van Lede (appointed 8 April 2003)
DJ Haank (resigned 18 June 2003)
RJ Nelissen (resigned 8 April 2003)
S Perrick (resigned 8 April 2003)
A Prozes
DE Reid (appointed 8 April 2003)
Lord Sharman of Redlynch OBE
RWH Stomberg (senior independent non-executive director)
P Tierney (appointed 8 April 2003)

Biographical details of the directors at the date of this Report are given on pages 10 and 11 of the Annual Review and Summary Financial Statements.

Messrs Tabaksblat, van de Aast and Stomberg and Lord Sharman will retire by rotation at the forthcoming Annual General Meeting. Being eligible, they will each offer themselves for re-election.

The notice period applicable to the service contracts of Mr van de Aast is set out in the Directors' Remuneration Report on page 31, Messrs Tabaksblat and Stomberg and Lord Sharman do not have service contracts.

Details of directors' remuneration and their interests in the share capital of the company are provided in the Directors' Remuneration Report on pages 29 to 38.

Share capital

During the period 2,737,010 ordinary shares in the company were issued in connection with the following share option schemes:

932,994 under a UK SAYE share option scheme at prices between 336.20p and 543.20p per share.

1,804,016 under executive share option schemes at prices between 321.75p and 537.50p per share.

At 17 February 2004, the company had received notification of the following substantial interests in the company's issued ordinary share capital:

The Capital Group Companies, Inc 77,918,935 shares 6.13%

Legal & General Group plc 44,174,343 shares 3.47%

Oechsle International Advisors, LLC 42,907,149 shares 3.37%

At the 2003 Annual General Meeting a resolution was passed to extend the authority given to the company to purchase up to 10% of its ordinary shares by market purchase. At 31 December 2003, this authority remained unutilised. A resolution to further extend the authority is to be put to the 2004 Annual General Meeting.

Charitable and political donations

Reed Elsevier companies made donations during the year for charitable purposes amounting to £1.3m of which £0.3m was in the United Kingdom. In the United States, Reed Elsevier companies contributed £49,000 to political parties. There were no donations made in the European Union for political purposes.

Statement of directors' responsibilities

The directors are required by English company law to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the company and the group, and of the profit or loss for that period. In preparing those financial statements, the directors ensure that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used, and accounting standards have been followed.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the law.

Directors' report (continued)

The directors have general responsibility for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Corporate governance

The company has complied throughout the period under review with the provisions of Section 1 of the Combined Code – the Principles of Good Governance and Code of Best Practice, issued by the UK Financial Services Authority ("the Combined Code").

Details of how the provisions of the Combined Code have been applied and the directors' statement on internal control are set out in the Structure and Corporate Governance report on pages 22 to 26.

Details of the role and responsibilities, membership and activities of the Reed Elsevier PLC Audit Committee are set out in the Report of the Audit Committees on pages on 27 and 28.

Going concern

After making enquiries, the directors have a reasonable expectation that the group has adequate resources 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.

Payments to suppliers

Reed Elsevier companies agree 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

On 1 August 2003, Deloitte & Touche, the company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989.

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

Registered Office
1-3 Strand
London
WC2N 5JR

18 February 2004

Accounting policies

These financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

Basis of preparation

These statutory financial statements report the profit and loss account, cash flow and financial position of Reed Elsevier PLC, and have been prepared in accordance with UK generally accepted accounting principles. Unless otherwise indicated, all amounts shown in the financial statements are in millions of pounds.

The basis of the merger of the businesses of Reed Elsevier PLC and Reed Elsevier NV is set out on page 22.

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

Determination of profit

The Reed Elsevier PLC share of the Reed Elsevier combined results has been calculated on the basis of the 52.9% economic interest of the Reed Elsevier PLC shareholders in the Reed Elsevier combined businesses, after taking account of results arising in Reed Elsevier PLC and its subsidiary undertakings. Dividends paid to Reed Elsevier PLC and Reed Elsevier NV shareholders are equalised at the gross level inclusive of the UK tax credit received by certain Reed Elsevier PLC shareholders. In the financial statements, an adjustment is required to equalise the benefit of the tax credit between the two sets of shareholders in accordance with the equalisation agreement. This equalisation adjustment arises on dividends paid by Reed Elsevier PLC to its shareholders and reduces the attributable earnings of the company by 47.1% of the total amount of the tax credit.

The accounting policies adopted in the preparation of the combined financial statements are set out on pages 40 and 41.

Basis of valuation of assets and liabilities

Reed Elsevier PLC's 52.9% economic interest in the net assets of the combined businesses has been shown on the balance sheet as interests in joint ventures, net of the assets and liabilities reported as part of Reed Elsevier PLC and its subsidiaries. Joint ventures are accounted for using the gross equity method.

In the parent company accounts, investments are stated at cost, less provision, if appropriate, for any impairment in value.

Foreign exchange translation

Profit and loss and cash flow items are translated at average exchange rates. In the consolidated balance sheet, assets and liabilities are translated at rates ruling at the balance sheet date or contracted rates where applicable. The gains or losses relating to the retranslation of Reed Elsevier PLC's 52.9% economic interest in the net assets of the combined businesses are taken directly to reserves.

Taxation

Deferred taxation is provided in full for timing differences using the liability method. No provision is made for tax which might become payable on the distribution of retained profits by foreign subsidiaries 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.

Prior year adjustment

Following the issuance of UITF38: Accounting for ESOP Trusts in December 2003, shares held in the parent companies by the Reed Elsevier Group plc Employee Benefit Trust, previously included within share of gross assets of joint ventures, are now presented as shares held in treasury and deducted within consolidated shareholders' funds. Prior year comparatives have been restated accordingly.

Consolidated profit and loss account

For the year ended 31 December 2003

	Note	**2003 £m**	2002 £m
Turnover			
Including share of turnover of joint ventures		**2,605**	2,656
Less: share of turnover of joint ventures		**(2,605)**	(2,656)
		–	–
Administrative expenses		**(1)**	(1)
Operating loss (before joint ventures)	3	**(1)**	(1)
Share of operating profit of joint ventures			
Before amortisation and exceptional items	1	**616**	593
Amortisation of goodwill and intangible assets		**(235)**	(279)
Exceptional items		**(38)**	(52)
		343	262
Operating profit including joint ventures		**342**	261
Share of non operating exceptional items of joint ventures		**14**	(6)
		14	(6)
Net interest income/(expense)			
Group	6	**3**	3
Share of net interest of joint ventures		**(92)**	(112)
		(89)	(109)
Profit on ordinary activities before taxation		**267**	146
Tax on profit on ordinary activities	7	**(98)**	(57)
UK corporation tax		**(1)**	(1)
Share of tax of joint ventures		**(97)**	(56)
Profit attributable to ordinary shareholders		**169**	89
Equity dividends paid and proposed	8	**(152)**	(143)
Retained profit/(loss) taken to reserves		**17**	(54)

Adjusted figures

	Note	**2003 £m**	2002 £m
Adjusted profit before tax	9	**534**	490
Adjusted profit attributable to ordinary shareholders	9	**394**	361

Adjusted figures, which exclude the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures, and are reconciled to the reported figures in note 9 to the financial statements.

Earnings per ordinary share ("EPS")

	Note	**2003 pence**	2002 pence
Basic EPS	10	**13.4**	7.0
Diluted EPS	10	**13.4**	7.0
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses	10	**14.0**	7.6
Adjusted EPS	10	**31.2**	28.5

The above amounts derive from continuing activities.

Consolidated cash flow statement

For the year ended 31 December 2003

	Note	2003 £m	2002 £m
Net cash outflow from operating activities	11	**(1)**	–
Dividends received from Reed Elsevier Group plc		**144**	135
Returns on investments and servicing of finance – interest received		**3**	3
Taxation		**(3)**	(1)
Equity dividends paid		**(144)**	(135)
Cash (outflow)/inflow before changes in short term investments and financing		**(1)**	2
Financing		**1**	(2)
Issue of ordinary shares		**12**	16
Increase in net funding balances to Reed Elsevier Group plc group	11	**(11)**	(18)
Change in net cash		**–**	–

Balance sheets

As at 31 December 2003

	Note	Consolidated 2003 £m	Consolidated 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Investment in joint ventures:	12				
Share of gross assets		**4,370**	4,656	**–**	–
Share of gross liabilities		**(3,511)**	(3,683)	**–**	–
Share of net assets		**859**	973	**–**	–
Investments	13	**–**	–	**1,411**	1,411
		859	973	**1,411**	1,411
Current assets					
Debtors	14	**584**	573	**584**	573
		584	573	**584**	573
Creditors: amounts falling due within one year	15	**(119)**	(113)	**(196)**	(190)
Net current assets		**465**	460	**388**	383
Total assets less current liabilities		**1,324**	1,433	**1,799**	1,794
Creditors: amounts falling due after more than one year	16	**(36)**	(36)	**(36)**	(36)
Net assets		**1,288**	1,397	**1,763**	1,758
Capital and reserves					
Called up share capital	17	**159**	159	**159**	159
Share premium account	19	**963**	951	**963**	951
Shares held in treasury	19	**(20)**	(10)	**–**	–
Capital redemption reserve	19	**4**	4	**4**	4
Profit and loss reserve	19	**182**	293	**637**	644
Shareholders' funds		**1,288**	1,397	**1,763**	1,758

The financial statements were approved by the board of directors, 18 February 2004.

M Tabaksblat
Chairman

MH Armour
Chief Financial Officer

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2003

	2003 £m	2002 £m
Profit attributable to ordinary shareholders	**169**	89
Exchange translation differences	**(123)**	(98)
Total recognised gains and losses for the year	**46**	(9)

Recognised gains and losses include gains of £53m (2002: losses of £3m) in respect of joint ventures.

Reconciliation of shareholders' funds

For the year ended 31 December 2003

		Consolidated		Company	
	Note	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Profit attributable to ordinary shareholders		**169**	89	**145**	136
Equity dividends paid and proposed		**(152)**	(143)	**(152)**	(143)
Issue of ordinary shares, net of expenses		**12**	16	**12**	16
Increase in shares held in treasury		**(10)**	(1)	**–**	–
Exchange translation differences		**(123)**	(98)	**–**	–
Equalisation adjustments		**(5)**	–	**–**	–
Net (decrease)/increase in shareholders' funds		**(109)**	(137)	**5**	9
Shareholders' funds at 1 January		**1,397**	1,534	**1,758**	1,749
As originally reported		**1,407**	1,543	**1,758**	1,749
Prior year adjustment in relation to presentation of shares held in treasury	21	**(10)**	(9)	**–**	–
Shareholders' funds at 31 December		**1,288**	1,397	**1,763**	1,758

1 Income from interests in joint ventures

	Note	2003 £m	2002 £m
Share of operating profit before amortisation and exceptional items (based on 52.9% economic interest in the Reed Elsevier combined businesses)		**623**	599
Effect of tax credit equalisation on distributed earnings	2	**(8)**	(7)
Items consolidated within Reed Elsevier PLC group		**1**	1
Total		**616**	593

Segmental analysis of the Reed Elsevier combined results is shown in the Reed Elsevier combined financial statements.

2 Effect of tax credit equalisation on distributed earnings

The tax credit equalisation adjustment arises on dividends paid by Reed Elsevier PLC to its shareholders and reduces the earnings of the company by 47.1% of the total amount of the tax credit, as set out in the accounting policies on page 76.

3 Operating loss

The operating loss comprises administrative expenses and includes £330,000 (2002: £318,000) paid in the year to Reed Elsevier Group plc under a contract for the services of directors and administrative support. The company has no employees (2002: nil).

4 Auditors' remuneration

Audit fees payable for the group were £23,000 (2002: £23,000).

5 Directors' emoluments

Information on directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Directors' Remuneration Report on pages 29 to 38.

6 Net interest

	2003 £m	2002 £m
Interest receivable and similar income		
On loans to Reed Elsevier Group plc group	**3**	3
Net interest income	**3**	3

7 Tax on profit on ordinary activities

	2003 £m	2002 £m
UK corporation tax	**1**	1
Share of tax arising in joint ventures:		
Before amortisation and exceptional items	**139**	128
On amortisation and exceptional items	**(42)**	(72)
Total	**98**	57

UK corporation tax has been provided at 30% (2002: 30%).

The share of tax arising in joint ventures as a proportion of the share of profit before tax is increased due to non tax-deductible amortisation and reduced due to exceptional tax credits.

8 Dividends

	2003 pence	2002 pence	2003 £m	2002 £m
Ordinary shares of 12.5 pence each				
Interim	**3.3**	3.2	**42**	41
Final (2003 proposed)	**8.7**	8.0	**110**	102
Total	**12.0**	11.2	**152**	143

9 Adjusted figures

Adjusted profit and cash flow figures are used as additional performance measures. The adjusted figures are derived as follows:

	2003 £m	2002 £m
Profit before tax	**267**	146
Effect of tax credit equalisation on distributed earnings	**8**	7
Profit before tax based on 52.9% economic interest in the Reed Elsevier combined businesses	**275**	153
Adjustments:		
Amortisation of goodwill and intangible assets	**235**	279
Exceptional items	**24**	58
Adjusted profit before tax	**534**	490
Profit attributable to ordinary shareholders	**169**	89
Effect of tax credit equalisation on distributed earnings	**8**	7
Profit attributable to ordinary shareholders based on 52.9% economic interest in the Reed Elsevier combined businesses	**177**	96
Adjustments:		
Amortisation of goodwill and intangible assets	**237**	271
Exceptional items	**(20)**	(6)
Adjusted profit attributable to ordinary shareholders	**394**	361

	2003 pence	2002 pence
Basic earnings per ordinary share	**13.4**	7.0
Effect of tax credit equalisation on distributed earnings	**0.6**	0.6
Earnings per share based on 52.9% economic interest in the Reed Elsevier combined businesses	**14.0**	7.6
Adjustments:		
Amortisation of goodwill and intangible assets	**18.8**	21.4
Exceptional items	**(1.6)**	(0.5)
Adjusted earnings per ordinary share	**31.2**	28.5

10 Earnings per ordinary share (EPS)

	Note	2003 Earnings £m	2003 Weighted average number of shares (millions)	2003 EPS pence
Basic EPS		**169**	**1,263.7**	**13.4**
Diluted EPS		**169**	**1,265.4**	**13.4**
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses		**177**	**1,263.7**	**14.0**
Adjusted EPS	9	**394**	**1,263.7**	**31.2**

	Note	2002 Earnings £m	2002 Weighted average number of shares (millions)	2002 EPS pence
Basic EPS		89	1,264.7	7.0
Diluted EPS		89	1,270.8	7.0
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses		96	1,264.7	7.6
Adjusted EPS	9	361	1,264.7	28.5

The diluted EPS figures are calculated after taking into account the effect of share options.

11 Cash flow statement

Reconciliation of operating loss to net cash outflow from operating activities

	2003 £m	2002 £m
Operating loss	**(1)**	(1)
Net movement in debtors and creditors	**–**	1
Net cash outflow from operating activities	**(1)**	–

Reconciliation of net funding balances to Reed Elsevier Group plc group

	£m
At 1 January 2003	**537**
Cash flow	**11**
At 31 December 2003	**548**

12 Fixed asset investments – consolidated investment in joint ventures

	2003 £m	2002 £m
Share of operating profit	**343**	262
Share of non operating exceptional items	**14**	(6)
Share of net interest payable	**(92)**	(112)
Share of profit before tax	**265**	144
Share of taxation	**(97)**	(56)
Share of profit after tax	**168**	88
Dividends received	**(144)**	(135)
Increase in shares held in treasury	**(10)**	(1)
Exchange translation differences	**(123)**	(98)
Equalisation adjustments	**(5)**	–
Net movement in the year	**(114)**	(146)
At 1 January	**973**	1,119
As originally reported	**983**	1,128
Prior year adjustment (note 21)	**(10)**	(9)
At 31 December	**859**	973

The investment in joint ventures comprises the group's share at the following amounts of:

	2003 £m	2002 £m
Fixed assets	**3,034**	3,396
Current assets	**1,336**	1,260
Creditors: amounts falling due within one year	**(2,303)**	(2,380)
Creditors: amounts falling due after more than one year	**(1,114)**	(1,201)
Provisions	**(89)**	(99)
Minority interests	**(5)**	(3)
Total	**859**	973

Included within share of current assets and creditors are cash and short term investments of £338m (2002: £302m) and borrowings of £1,592m (2002: £1,747m) respectively.

13 Fixed asset investments – company

	Subsidiary undertakings £m	Joint ventures £m	Total £m
At 1 January and 31 December 2003	**303**	**1,108**	**1,411**

14 Debtors

	Consolidated		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Amounts owed by Reed Elsevier Group plc group	**584**	573	**584**	573

Amounts falling due after more than one year are £40m (2002: £40m). These amounts are denominated in sterling and earn interest at a fixed rate of 9.8% (2002: 9.8%) for a remaining duration of four years (2002: five years). At 31 December 2003 these amounts had a fair value of £47m (2002: £49m).

15 Creditors: amounts falling due within one year

	Consolidated		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Other creditors	**1**	1	**1**	1
Proposed dividend	**110**	102	**110**	102
Taxation	**8**	10	**8**	10
Amounts owed to group undertakings	**–**	–	**77**	77
Total	**119**	113	**196**	190

16 Creditors: amounts falling due after more than one year

	Consolidated		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts owed to Reed Elsevier Group plc group	**36**	36	**36**	36

These amounts are denominated in sterling and earn interest at a fixed rate of 10.5% (2002: 10.5%) for a remaining duration of two years (2002: three years). At 31 December 2003 these amounts had a fair value of £40m (2002: £42m).

17 Called up share capital

	Authorised		Issued and fully paid			
			2003		2002	
	No. of shares	£m	**No. of shares**	**£m**	No. of shares	£m
Ordinary shares of 12.5p each	1,271,111,509	159	**1,271,111,509**	**159**	1,268,374,499	159
Unclassified shares of 12.5p each	200,341,667	25	**–**	**–**	–	–
Total		184		**159**		159

Details of shares issued under share option schemes are set out in note 18.

18 Share option schemes

During the year a total of 2,737,010 ordinary shares in the company, having a nominal value of £0.3m, were allotted in connection with the exercise of share options. The consideration received by the company was £11.5m. Options were granted during the year under the Reed Elsevier Group plc Executive Share Option Scheme to subscribe for 15,004,082 ordinary shares, at prices between 431p and 540p per share. Options were also granted during the year under the Reed Elsevier Group plc SAYE Share Option Scheme to subscribe for 1,825,263 ordinary shares at a price of 399.6p per share.

Options outstanding at 31 December 2003 over the company's ordinary share capital were:

	Number of ordinary shares	Range of subscription prices	Exercisable
UK and overseas executive share option schemes	45,311,222	400.75p-700.0p	2004-2013
Senior Executive Long Term Incentive Scheme	12,385,458	436.50p-700.0p	2005
UK SAYE share option scheme	3,675,932	336.2p-543.2p	2004-2009

The above entitlements are expected, upon exercise, to be met principally by the issue of new ordinary shares.

Options to subscribe for 3,539,646 ordinary shares in the company lapsed during the year.

Excluded from above are 2,407,064 options at subscription prices ranging between 424p and 537.5p and 232,461 nil cost options which, upon exercise, will be met by the Reed Elsevier Group plc Employee Benefit Trust from shares purchased in the market.

19 Reserves

	Consolidated				
	Share premium account £m	Shares held in treasury £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2003 as originally reported	**951**	**–**	**4**	**293**	**1,248**
Prior year adjustment (note 21)	**–**	**(10)**	**–**	**–**	**(10)**
At 1 January 2003 as restated	**951**	**(10)**	**4**	**293**	**1,238**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**169**	**169**
Equity dividends paid and proposed	**–**	**–**	**–**	**(152)**	**(152)**
Issue of ordinary shares, net of expenses	**12**	**–**	**–**	**–**	**12**
Increase in shares held in treasury	**–**	**(10)**	**–**	**–**	**(10)**
Exchange translation differences	**–**	**–**	**–**	**(123)**	**(123)**
Equalisation adjustments	**–**	**–**	**–**	**(5)**	**(5)**
At 31 December 2003	**963**	**(20)**	**4**	**182**	**1,129**

Details of shares held in treasury are provided in note 26 to the combined financial statements.

19 Reserves (continued)

	Company			
	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2003	**951**	**4**	**644**	**1,599**
Profit attributable to ordinary shareholders	**–**	**–**	**145**	**145**
Equity dividends paid and proposed	**–**	**–**	**(152)**	**(152)**
Issue of ordinary shares, net of expenses	**12**	**–**	**–**	**12**
At 31 December 2003	**963**	**4**	**637**	**1,604**

Reed Elsevier PLC's share of the revenue reserves of the Reed Elsevier combined businesses is £261m (2002: £402m).

20 Contingent liabilities

There are contingent liabilities in respect of borrowings of the Reed Elsevier Group plc group and Elsevier Reed Finance BV group guaranteed by Reed Elsevier PLC as follows:

	2003 £m	2002 £m
Guaranteed jointly and severally with Reed Elsevier NV	**2,692**	2,934

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 22 to the Reed Elsevier combined financial statements.

21 Prior year adjustment

In accordance with UITF38: Accounting for ESOP Trusts issued in December 2003 by the Urgent Issues Task Force of the UK Accounting Standards Board, the Reed Elsevier combined businesses now present the shares in Reed Elsevier PLC and Reed Elsevier NV held by the Reed Elsevier Group plc Employee Benefit Trust as shares held within treasury, which are deducted within combined shareholders' funds. Previously, such shares were included within the other fixed asset investments of the combined businesses. The consolidated balance sheet as at 31 December 2002 has been restated to reflect Reed Elsevier PLC's share of the restatement made in the combined financial statements in relation to the presentation of shares held in treasury.

22 Principal joint ventures

The principal joint ventures are:

		% holding
Reed Elsevier Group plc		
Incorporated and operating in Great Britain	£10,000 ordinary "R" shares	100%
1-3 Strand	£10,000 ordinary "E" shares	–
London WC2N 5JR	£100,000 7.5% cumulative preference non voting shares	100%
Holding company for operating businesses involved in science & medical, legal, educational and business publishing	Equivalent to a 50% equity interest	
Elsevier Reed Finance BV		
Incorporated in the Netherlands	133 ordinary "R" shares	100%
Sara Burgerhartstraat 25	205 ordinary "E" shares	–
1055 KV Amsterdam, The Netherlands		
Holding company for financing businesses	Equivalent to a 39% equity interest	

The "E" shares in Reed Elsevier Group plc and Elsevier Reed Finance BV are owned by Reed Elsevier NV.

23 Principal subsidiary undertaking

The principal subsidiary undertaking is:

		% holding
Reed Holding BV Incorporated in the Netherlands Sara Burgerhartstraat 25 1055 KV Amsterdam, The Netherlands	41 ordinary shares	100%

Reed Holding BV owns 4,679,249 shares of a separate class in Reed Elsevier NV, giving Reed Elsevier PLC a 5.8% indirect equity interest in Reed Elsevier NV.

Independent auditors' report to the members of Reed Elsevier PLC

We have audited the financial statements of Reed Elsevier PLC for the year ended 31 December 2003 which comprise the accounting policies, the profit and loss account, the cash flow statement, the balance sheets, the statement of total recognised gains and losses, the reconciliation of shareholders' funds and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the parts of the directors' remuneration report presented in the Annual Reports and Financial Statements ("the Remuneration Report") that are described as having been audited.

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. They are also responsible for the preparation of the other information contained in the Annual Report and Financial Statements including, together with the directors of Reed Elsevier NV, the Remuneration Report. Our responsibility is to audit the financial statements and the parts of the Remuneration Report described as having been audited 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 whether the financial statements and the parts of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited parts of the Remuneration Report 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 and the parts of the Remuneration Report described as having been audited. 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 and the parts of the Remuneration Report described as having been audited 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 and the parts of the Remuneration Report described as having been audited.

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 2003 and of the profit of the group for the year then ended; and
- the financial statements and the parts of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
London
18 February 2004

Reed Elsevier NV

REED ELSEVIER NV ANNUAL REPORT AND FINANCIAL STATEMENTS

Financial Highlights

For the years ended 31 December

(in €m, unless otherwise indicated)	Note	1999	2000	2001	2002	**2003**
PROFIT AND LOSS ACCOUNT						
Reported profit before tax		80	157	221	230	**376**
Reported profit/(loss) attributable to shareholders		(48)	27	101	144	**242**
Adjusted profit before tax	(ii)	540	566	683	737	**733**
Adjusted profit attributable to shareholders	(ii)	401	419	503	542	**540**
PER SHARE INFORMATION (in €)						
Earnings/(loss) per ordinary share		(0.07)	0.04	0.13	0.18	**0.31**
Adjusted earnings per ordinary share	(ii)	0.57	0.59	0.64	0.69	**0.69**
Cash dividend per ordinary share		0.27	0.28	0.30	0.30	**0.30**
Dividend cover	(iv)	2.1	2.1	2.1	2.3	**2.3**
Ordinary share prices – high		15.25	16.07	15.66	16.01	**12.03**
– low		8.95	9.30	10.92	10.86	**8.13**
– closing	(v)	11.86	15.66	13.28	11.65	**9.85**
Number of shares outstanding at year end (in millions)	(vi)	709	776	783	784	**784**
Market capitalisation (€m)	(vii)	8,409	12,152	10,398	9,134	**7,722**

The information provided above is based on Reed Elsevier NV's gross equity share of the Reed Elsevier combined businesses.

(i) Financial information for 1999 has been calculated on the basis of the official exchange rate of Dfl 2.20371 to one euro. Percentage changes and financial ratios have been calculated using historic Dutch guilder figures and may be affected by rounding.

(ii) Adjusted profit before tax, adjusted profit attributable and adjusted earnings per share are presented as additional performance measures and stated before amortisation of goodwill and intangible assets, exceptional items and related tax effects. These are reconciled to the reported figures in note 8 to the financial statements.

(iii) Per share information has been calculated using the average number of shares outstanding, taking into account that the R-shares can be converted into ten ordinary shares.

(iv) Dividend cover is the number of times the adjusted earnings, before amortisation of goodwill and intangible assets, exceptional items and related tax effects, cover the cash dividends paid and proposed for the year.

(v) The closing price is the final quotation at year end on the stockmarket of Euronext Amsterdam N.V. for ordinary shares.

(vi) The number of shares outstanding at year end include the R-shares, assuming that they have been converted into ten ordinary shares, and exclude Reed Elsevier NV shares held in treasury.

(vii) Market capitalisation is the number of shares outstanding at year end multiplied by the closing price.

The Supervisory Board's report

Supervisory Board

M Tabaksblat, Chairman
GJ de Boer-Kruyt
JF Brock
MW Elliott
CJA van Lede
DE Reid
Lord Sharman of Redlynch OBE
RWH Stomberg

Together with the Executive Board, we herewith submit Reed Elsevier NV's annual report and financial statements for the financial year ended 31 December 2003 to the shareholders' meeting for adoption. The financial statements have been drawn up in accordance with the accounting principles explained on pages 92 and 93 of this document. They have been examined by Deloitte Accountants, Amsterdam. Their report and opinion is set out on page 104. The combined financial statements on pages 40 to 69 are part of the notes to and form an integral part of these statutory financial statements.

We refer to the Report of the Chairman and the Chief Executive Officer and to the other reports contained within the Reed Elsevier Annual Review and Summary Financial Statements 2003 and the Reed Elsevier Annual Reports and Financial Statements 2003. These reports explain the business results of 2003, the financial state of the company at the end of 2003, and the key strategic issues.

The equalisation agreement between Reed Elsevier NV and Reed Elsevier PLC has the effect that shareholders can be regarded as having the interests of a single economic group and provides that Reed Elsevier NV shall declare dividends such that the dividend on one Reed Elsevier NV ordinary share, which shall be payable in euros, will equal 1.538 times the cash dividend, including the related UK tax credit, paid on one Reed Elsevier PLC ordinary share. In that context, the combined meeting of the Supervisory and Executive Boards ("the Combined Board") determines the amounts of the company's profit to be retained. The ordinary shares and the R-shares are entitled to receive distribution in proportion to their nominal value. The combined board may resolve to pay less per R-share, but not less than 1% of the nominal value. Details of dividends are contained in the Operating and Financial Review on page 21.

We have assessed Reed Elsevier NV's compliance with the Dutch Corporate Governance Code ("the Code") issued on 9 December 2003 and believe that Reed Elsevier's policies and practices, as set out in the Reed Elsevier Annual Review and Summary Financial Statements 2003 and the Reed Elsevier Annual Reports and Financial Statements 2003, substantially comply with the recommendations of the Code. While some aspects of the Code are still being considered, we do not expect that there will be any significant issues regarding compliance during 2004. The agenda for the Annual General Meeting of the shareholders to be held on 29 April 2004 in the Hotel Okura in Amsterdam will include a discussion of Reed Elsevier's corporate governance policies, practices and disclosures.

At the Reed Elsevier NV Annual General Meeting, Lord Sharman, Mr Stomberg and Mr Tabaksblat will retire by rotation as members of the Supervisory Board. Having reviewed their performance, qualifications and availability, and the overall Supervisory Board profile, the Nominations Committee has recommended their re-appointment. Resolutions proposing the re-appointment of Lord Sharman, Mr Stomberg and Mr Tabaksblat will be submitted to the 2004 Annual General Meeting.

The Supervisory Board	**Registered office**
18 February 2004	Sara Burgerhartstraat 25 1055 KV Amsterdam

The Executive Board's report

Executive Board

CHL Davis, Chairman
MH Armour, Chief Financial Officer
GJA van de Aast
A Prozes
P Tierney

We refer to the Report of the Chairman and the Chief Executive Officer and to the other reports contained within the Reed Elsevier Annual Review and Summary Financial Statements 2003 and the Reed Elsevier Annual Reports and Financial Statements 2003. These reports explain the business results of 2003, the financial state of the company at the end of 2003, and the key strategic issues.

As explained in the financial statements on pages 92 and 93, Reed Elsevier NV prepares its financial statements in accordance with generally accepted accounting principles in the UK and therefore presents both group financial statements and parent company financial statements. In the group financial statements, the profit attributable to the shareholders of Reed Elsevier NV was €242m (2002 €144m) and net assets as at 31 December 2003, principally representing the investments in Reed Elsevier Group plc and Elsevier Reed Finance BV under the gross equity method, were €1,728m (2002 €2,019m). In the parent company financial statements, the profit attributable to the shareholders of Reed Elsevier NV was €203m (2002 €152m) and net assets as at 31 December 2003, principally representing the investments in Reed Elsevier Group plc and Elsevier Reed Finance BV under the historical cost method, were €1,985m (2002 €2,000m).

At the Reed Elsevier NV Annual General Meeting, Mr van de Aast will retire by rotation as a member of the Executive Board. The Nominations Committee has recommended his re-appointment and a resolution will be submitted to the 2004 Annual General Meeting.

The Executive Board	**Registered office**
18 February 2004	Sara Burgerhartstraat 25 1055 KV Amsterdam

Accounting policies

These statutory financial statements report the profit and loss account, cash flow and financial position of Reed Elsevier NV. Unless otherwise indicated, all amounts shown in the financial statements are in millions of euros.

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The Reed Elsevier combined financial statements on pages 40 to 69 form an integral part of the notes to Reed Elsevier NV's statutory financial statements.

The basis of the merger of the businesses of Reed Elsevier NV and Reed Elsevier PLC is set out on page 22. As a consequence of the merger of the company's businesses with those of Reed Elsevier PLC, described on page 22, the shareholders of Reed Elsevier NV and Reed Elsevier PLC can be regarded as having the interests of a single economic group, enjoying substantially equivalent ordinary dividend and capital rights in the earnings and net assets of the Reed Elsevier combined businesses.

Adoption of UK GAAP

The financial statements have been prepared in accordance with generally accepted accounting principles in the United Kingdom ("UK GAAP"). Prior to 2003, Reed Elsevier NV presented statutory financial statements prepared in accordance with generally accepted accounting principles in the Netherlands ("Dutch GAAP") and the combined financial statements were prepared in accordance with both UK and Dutch GAAP. Following changes to Dutch GAAP effective for the 2003 financial year in respect of the presentation of dividends and pension accounting, UK GAAP and Dutch GAAP have diverged. As permitted by Article 362.1 of Book 2 Title 9 of the Netherlands Civil Code, Reed Elsevier NV has therefore determined to prepare its financial statements in accordance with UK GAAP, thereby ensuring consistency with the prior year of the accounting policies applied within the Reed Elsevier combined financial statements, and with the accounting policies of Reed Elsevier PLC.

Parent company financial statements

Under UK GAAP, Reed Elsevier NV presents financial statements for the parent company which reflect, in the profit and loss account, its own income, including dividends from Reed Elsevier Group plc and Elsevier Reed Finance BV companies, and expenses, and, in the balance sheet, its fixed asset investments in these joint ventures accounted for using the historical cost method. These parent company financial statements have been presented for the first time as if UK GAAP had been adopted in prior years. The impact of the change in accounting principles from Dutch to UK GAAP on the parent company financial statements of Reed Elsevier NV is set out in note 18.

Group financial statements

Reed Elsevier NV holds a majority interest in Elsevier Reed Finance BV (61%) and is therefore *prima facie* required to prepare consolidated financial statements in accordance with Book 2 Title 9 of the Netherlands Civil Code. However, management believes that a better insight into the financial position and results of Reed Elsevier NV is provided by looking at the investment in the combined businesses in aggregate, as presented in the Reed Elsevier combined financial statements.

Reed Elsevier NV group financial statements are presented, as in prior years, incorporating Reed Elsevier NV's investments in the Reed Elsevier combined businesses accounted for using the gross equity method, as adjusted for the effects of the equalisation arrangement between Reed Elsevier NV and Reed Elsevier PLC. The arrangement lays down the distribution of dividends and net assets in such a way that Reed Elsevier NV's share in the profit and net assets of the Reed Elsevier combined businesses equals 50%, with all settlements accruing to shareholders from the equalisation arrangements taken directly to reserves. These group financial statements also meet the additional information requirements of the UK financial reporting standard FRS9: Associates and Joint Ventures where consolidated financial statements are not prepared.

Because the dividend paid to shareholders by Reed Elsevier NV is equivalent to the Reed Elsevier PLC dividend plus the UK tax credit received by certain Reed Elsevier PLC shareholders, Reed Elsevier NV normally distributes a higher proportion of the combined profit attributable than Reed Elsevier PLC. Reed Elsevier PLC's share in this difference in dividend distributions is settled with Reed Elsevier NV and is credited directly to group reserves under equalisation. Reed Elsevier NV can pay a nominal dividend on its R-shares held by Reed Elsevier PLC that is lower than the dividend on the ordinary shares. Reed Elsevier PLC is compensated by direct dividend payments by Reed Elsevier Group plc. Equally, Reed Elsevier NV has the possibility to receive dividends directly from Dutch affiliates. The settlements flowing from these arrangements are also taken directly to group reserves under equalisation.

In accordance with UITF38: Accounting for ESOP Trusts issued in December 2003 by the UK Accounting Standards Board, shares in Reed Elsevier NV and Reed Elsevier PLC purchased by the Reed Elsevier Group plc Employee Benefit Trust, previously included within share of gross assets of joint ventures, are presented as shares held in treasury and deducted within group shareholders' funds. Prior year comparatives have been restated accordingly.

Other than in respect of the representation of shares held in treasury, the adoption of UK GAAP had no effect on group shareholders' funds or on the group earnings compared to the amounts that would have been reported under Dutch GAAP.

Combined financial statements
The accounting policies adopted in the preparation of the combined financial statements are set out on pages 40 and 41.

These include policies in relation to goodwill and intangible assets. Such assets are amortised over their estimated useful economic lives, which due to their longevity, may be for periods in excess of five years.

Basis of valuation of assets and liabilities
Reed Elsevier NV's 50% economic interest in the net assets of the combined businesses has been shown on the group balance sheet as interests in joint ventures, net of the assets and liabilities reported as part of Reed Elsevier NV. Joint ventures are accounted for using the gross equity method.

In the parent company financial statements, fixed asset investments in the combined businesses 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. Other assets and liabilities are stated at historical cost, less provision, if appropriate, for any impairment in value.

Foreign exchange translation
Profit and loss and cash flow items are translated at average exchange rates. In the balance sheets, assets and liabilities are translated at rates ruling at the balance sheet date or contracted rates where applicable. The gains or losses relating to the retranslation of Reed Elsevier NV's 50% interest in the net assets of the combined businesses are taken directly to group reserves.

Taxation
Deferred taxation is provided in full for timing differences using the liability method. No provision is made for tax which might become payable on the distribution of retained profits by foreign subsidiaries 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.

Profit and loss accounts

For the year ended 31 December 2003

	Note	Group 2003 €m	Group 2002 €m	Parent Company 2003 €m	Parent Company 2002 €m
Turnover					
Including share of turnover of joint ventures		**3,571**	3,991	**–**	–
Less: share of turnover of joint ventures		**(3,571)**	(3,991)	**–**	–
		–	–	**–**	–
Administrative expenses	1	**(3)**	(3)	**(3)**	(3)
Operating loss (before joint ventures)		**(3)**	(3)	**(3)**	(3)
Share of operating profit of joint ventures					
Before amortisation and exceptional items	2	**858**	904	**–**	–
Amortisation of goodwill and intangible assets		**(323)**	(419)	**–**	–
Exceptional items		**(53)**	(79)	**–**	–
		482	406	**–**	–
Operating profit/(loss) including joint ventures		**479**	403	**(3)**	(3)
Share of non operating exceptional items of joint ventures		**19**	(9)	**–**	–
		19	(9)	**–**	–
Dividends received from joint ventures		**–**	–	**200**	150
Net interest income/(expense)					
Company	5	**7**	7	**7**	7
Share of net interest of joint ventures		**(129)**	(171)	**–**	–
		(122)	(164)	**207**	157
Profit on ordinary activities before taxation		**376**	230	**204**	154
Tax on profit on ordinary activities	6	**(134)**	(86)	**(1)**	(2)
Profit attributable to ordinary shareholders		**242**	144	**203**	152
Equity dividends paid and proposed	7	**(221)**	(221)	**(221)**	(221)
Retained profit/(loss) taken to reserves		**21**	(77)	**(18)**	(69)

Earnings per ordinary share ("EPS")

	Note	Group 2003 €	Group 2002 €	Parent Company 2003 €	Parent Company 2002 €
Basic EPS	9	**0.31**	0.18	**0.26**	0.19
Diluted EPS	9	**0.31**	0.18	**0.26**	0.19
Adjusted EPS (before amortisation of goodwill and intangible assets and exceptional items)	9	**0.69**	0.69		

The above amounts derive from continuing activities.

Adjusted figures

	Note	2003 €m	2002 €m
Adjusted group profit before tax	8	**733**	737
Adjusted group profit attributable to ordinary shareholders	8	**540**	542

Adjusted figures, which exclude the amortisation of goodwill and intangible assets, exceptional items and related tax effects, are presented as additional performance measures, and are reconciled to the reported figures in note 8 to the financial statements.

Group financial statements, reflecting Reed Elsevier NV's 50% interest in the Reed Elsevier combined businesses, are presented using the gross equity method.

Cash flow statements

For the year ended 31 December 2003

	Note	Group 2003 €m	Group 2002 €m	Parent Company 2003 €m	Parent Company 2002 €m
Net cash outflow from operating activities	10	**(2)**	–	**(2)**	–
Dividends received from joint ventures		**200**	150	**200**	150
Returns on investments and servicing of finance – interest received		**7**	6	**7**	6
Taxation		**(2)**	(3)	**(2)**	(3)
Equity dividends paid		**(215)**	(222)	**(215)**	(222)
Cash outflow before changes in short term investments and financing		**(12)**	(69)	**(12)**	(69)
Decrease in short term investments		**8**	10	**8**	10
Financing		**4**	59	**4**	59
Issue of shares, net of expenses		**3**	22	**3**	22
Net issue/(repayment) of debenture loans		**1**	(1)	**1**	(1)
Decrease in funding balances to joint ventures	10	**–**	38	**–**	38
Change in net cash		**–**	–	**–**	–

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.

Statements of total recognised gains and losses

For the year ended 31 December 2003

	Group 2003 €m	Group 2002 €m	Parent Company 2003 €m	Parent Company 2002 €m
Profit attributable to ordinary shareholders	**242**	144	**203**	152
Exchange translation differences	**(310)**	(303)	**–**	–
Total recognised gains and losses	**(68)**	(159)	**203**	152

Group financial statements, reflecting Reed Elsevier NV's 50% interest in the Reed Elsevier combined businesses, are presented using the gross equity method.

Balance sheets

As at 31 December 2003

	Note	Group 2003 €m	Group 2002 €m	Parent Company 2003 €m	Parent Company 2002 €m
Fixed assets					
Investment in joint ventures	11				
Share of gross assets		**5,805**	6,609	**–**	–
Share of gross liabilities		**(3,901)**	(4,429)	**–**	–
Share of net assets		**1,904**	2,180	**–**	–
Investments	12	**–**	–	**2,161**	2,161
		1,904	2,180	**2,161**	2,161
Current assets					
Debtors	13	**56**	56	**56**	56
Short term investments		**7**	15	**7**	15
		63	71	**63**	71
Creditors: amounts falling due within one year	14	**(174)**	(167)	**(174)**	(167)
Net current liabilities		**(111)**	(96)	**(111)**	(96)
Total assets less current liabilities		**1,793**	2,084	**2,050**	2,065
Creditors: amounts falling due after more than one year	15	**(65)**	(65)	**(65)**	(65)
Net assets		**1,728**	2,019	**1,985**	2,000
Capital and reserves					
Share capital issued	17,18	**47**	47	**47**	47
Paid in surplus	18	**1,463**	1,460	**1,463**	1,460
Shares held in treasury	18	**(27)**	(15)	**–**	–
Reserves	18	**245**	527	**475**	493
Shareholders' funds	18	**1,728**	2,019	**1,985**	2,000

Reconciliations of shareholders' funds

For the year ended 31 December 2003

	Note	Group 2003 €m	Group 2002 €m	Parent Company 2003 €m	Parent Company 2002 €m
Profit attributable to ordinary shareholders		**242**	144	**203**	152
Equity dividends paid and proposed		**(221)**	(221)	**(221)**	(221)
Issue of shares, net of expenses		**3**	22	**3**	22
Increase in shares held in treasury		**(13)**	(1)	**–**	–
Exchange translation differences		**(310)**	(303)	**–**	–
Equalisation adjustments		**8**	–	**–**	–
Net decrease in shareholders' funds		**(291)**	(359)	**(15)**	(47)
Shareholders' funds at 1 January	18	**2,019**	2,378	**2,000**	2,047
Before prior year adjustment		**2,034**	2,392	**2,000**	2,047
Prior year adjustment in relation to the presentation of shares held in treasury	20	**(15)**	(14)	**–**	–
Shareholders' funds at 31 December		**1,728**	2,019	**1,985**	2,000

Group financial statements, reflecting Reed Elsevier NV's 50% interest in the Reed Elsevier combined businesses, are presented using the gross equity method.

1 Operating loss

Operating loss is stated after the gross remuneration for present and former directors of Reed Elsevier NV in respect of services rendered to Reed Elsevier NV and the combined businesses. Fees for members of the supervisory board of Reed Elsevier NV of €0.2m (2002: €0.1m) are included in gross remuneration. In so far as gross remuneration is related to services rendered to Reed Elsevier Group plc and Elsevier Reed Finance BV, it is borne by these companies.

2 Income from interests in joint ventures

	2003 €m	2002 €m
Share of operating profit before amortisation and exceptional items	**855**	901
Administrative expenses reported within Reed Elsevier NV group	**3**	3
Total	**858**	904

3 Auditors' remuneration

Audit fees payable for the company were €44,000 (2002: €43,000).

4 Directors' emoluments

Information on directors' remuneration, share options, longer term incentive plans, pension contributions and entitlements is set out in the Directors' Remuneration Report on pages 29 to 38.

5 Net interest

	2003 €m	2002 €m
Interest receivable and similar income		
Interest on receivables from joint ventures	**3**	3
Other interest	**4**	4
Net interest income	**7**	7

6 Tax on profit on ordinary activities

	2003 €m	2002 €m
Dutch corporation tax	**1**	2
Share of tax arising in joint ventures		
Before amortisation and exceptional items	**192**	193
On amortisation and exceptional items	**(59)**	(109)
Total	**134**	86

Dutch corporation tax has been provided at 34.5%.

The share of tax arising in joint ventures as a proportion of the share of profit before tax is increased due to non tax-deductible amortisation and reduced due to exceptional tax credits.

7 Dividends

	2003 €	2002 €	2003 €m	2002 €m
Ordinary shares of €0.06 each				
Interim	**0.08**	0.09	**59**	65
Final (2003 proposed)	**0.22**	0.21	**162**	156
R-shares of €0.60 each	**–**	–	**–**	–
Total	**0.30**	0.30	**221**	221

8 Adjusted figures

Adjusted group profit and cash flow figures are used as additional performance measures. The adjusted figures are derived as follows:

	2003 €m	2002 €m
Group profit before tax	**376**	230
Adjustments:		
Amortisation of goodwill and intangible assets	**323**	419
Exceptional items	**34**	88
Adjusted group profit before tax	**733**	737
Group profit attributable to ordinary shareholders	**242**	144
Adjustments:		
Amortisation of goodwill and intangible assets	**325**	407
Exceptional items	**(27)**	(9)
Adjusted group profit attributable to ordinary shareholders	**540**	542

	2003 €	2002 €
Group earnings per ordinary share	**0.31**	0.18
Adjustments:		
Amortisation of goodwill and intangible assets	**0.41**	0.52
Exceptional items	**(0.03)**	(0.01)
Adjusted group earnings per ordinary share	**0.69**	0.69

9 Earnings per ordinary share (EPS)

		Group					
		2003			2002		
	Note	Weighted average number of shares (millions)	Earnings €m	EPS €	Weighted average number of shares (millions)	Earnings €m	EPS €
Basic EPS		**783.9**	**242**	**0.31**	783.2	144	0.18
Diluted EPS		**783.9**	**242**	**0.31**	786.6	144	0.18
Adjusted EPS	8	**783.9**	**540**	**0.69**	783.2	542	0.69

Basic and diluted EPS for the parent company was €0.26 (2002: €0.19) based on earnings of €203m (2002: €152m) and a weighted average number of shares in issue of 785.3m (2002: 784.7m) and on a diluted basis of 785.3m (2002: 788.1m). The weighted average number of shares for the group is after deducting shares held in treasury.

The diluted EPS figures are calculated after taking into account the effect of share options.

10 Cash flow statement

Reconciliation of operating loss to net cash outflow from operating activities

	2003 €m	2002 €m
Operating loss	(3)	(3)
Net movement in debtors and creditors	1	3
Net cash flow from operating activities	**(2)**	–

Reconciliation of net funding balances with joint ventures

	€m
At 1 January 2003	50
Cash flow	–
At 31 December 2003	**50**

11 Fixed asset investments – group

Gross equity accounted investments in joint ventures

	Note	2003 €m	2002 €m
Share of operating profit		482	406
Share of non operating exceptional items		19	(9)
Share of net interest payable		(129)	(171)
Share of profit before tax		372	226
Share of taxation		(133)	(84)
Share of profit after tax		239	142
Dividends received		(200)	(150)
Increase in shares held in treasury		(13)	(1)
Exchange translation differences		(310)	(303)
Equalisation adjustments		8	–
Net movement in the year		(276)	(312)
At 1 January		2,180	2,492
Before prior year adjustment		2,195	2,506
Prior year adjustment	20	(15)	(14)
At 31 December		1,904	2,180

The investment in joint ventures comprises the group share at the following amounts of:

	2003 €m	2002 €m
Fixed assets	4,073	4,910
Current assets	1,732	1,699
Creditors: amounts falling due within one year	(2,343)	(2,609)
Creditors: amounts falling due after more than one year	(1,430)	(1,731)
Provisions	(120)	(84)
Minority interests	(8)	(5)
Total	1,904	2,180

Included within share of current assets and creditors are cash and short term investments of €446m (2002: €421m) and borrowings of €2,130m (2002: €2,520m) respectively.

12 Fixed asset investments – parent company

	2003 €m	2002 €m
Investment in joint ventures	**2,161**	2,161

13 Debtors

	2003 €m	2002 €m
Joint ventures	**50**	50
Other accounts receivable	**6**	6
Total	**56**	56

Amounts falling due after more than one year are €nil (2002: €nil).

14 Creditors: amounts falling due within one year

	2003 €m	2002 €m
Proposed dividend	**162**	156
Taxation	**9**	10
Other creditors	**3**	1
Total	**174**	167

15 Creditors: amounts falling due after more than one year

	2003 €m	2002 €m
Debenture loans	**7**	6
Taxation	**58**	58
Other creditors	**–**	1
Total	**65**	65

Debenture loans comprise four convertible personnel debenture loans with a weighted average interest rate of 5.2%. Depending on the conversion terms, the surrender of €227 or €200 par value debenture loans qualifies for the acquisition of 20-50 Reed Elsevier NV ordinary shares.

16 Share option schemes

During the year a total of 405,812 ordinary shares in the company, having a nominal value of €0.02m, were allotted in connection with the exercise of share options. The net consideration received by the company was €3m.

Share options are granted under the Reed Elsevier Group plc Executive Share Option Scheme, the Reed Elsevier Group plc Senior Executive Long Term Incentive Scheme, and, prior to 1999, under the Reed Elsevier NV share option scheme. In addition nil cost options were granted to certain senior executives. Share options will generally be met by the issue of new Reed Elsevier NV shares. Certain share options will be met by the Reed Elsevier Employee Benefit Trust ("EBT") from shares purchased in the market.

A summary of the movement in share options is presented in the table below:

Issued in	Expiring in	Outstanding 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding 31 December 2003	Exercise price range (Euro)
1998	2004 – 2008	1,245,040	–	–	681,208	563,832	12.50 – 15.70
1999	2004 – 2009	8,391,092	–	694,689	469,216	7,227,187	Nil – 17.07
2000	2004 – 2010	10,868,544	–	36,137	579,052	10,253,355	Nil – 15.70
2001	2006 – 2011	6,138,599	–	–	340,574	5,798,025	11.65 – 15.43
2002	2007 – 2012	6,058,445	–	–	262,884	5,795,561	11.97 – 16.00
2003	2006 – 2013	–	11,141,912	43,919	317,137	10,780,856	Nil – 11.04
Total		32,701,720	11,141,912	774,745	2,650,071	40,418,816	

The average exercise price of share options outstanding at the end of the year was €11.62 (2002: €12.36) and the average term of these options is four years (2002: four years).

17 Called up share capital

	Authorised		Issued and fully paid			
			2003		2002	
	No. of shares	€m	**No. of shares**	**€m**	No. of shares	€m
Ordinary shares €0.06	2,100,000,000	126	**738,760,906**	**44**	738,355,094	44
R-shares €0.60	30,000,000	18	**4,679,249**	**3**	4,679,249	3
Total		144		**47**		47

The R-shares are held by a subsidiary company of Reed Elsevier PLC. The R-shares are convertible at the election of the holder into ten ordinary shares each. They have otherwise the same rights as the ordinary shares, except that Reed Elsevier NV may pay a lower dividend on the R-shares.

18 Shareholders' funds

	Group and Parent Company		Group			Parent Company	
	Share capital issued €m	Paid-in surplus €m	Shares held in treasury €m	Reserves €m	Total €m	Reserves €m	Total €m
At 1 January 2002							
Before prior year adjustment	47	1,438	–	907	2,392	562	2,047
Prior year adjustment (note 20)	–	–	(14)	–	(14)	–	–
	47	1,438	(14)	907	2,378	562	2,047
Profit attributable to ordinary shareholders	–	–	–	144	144	152	152
Equity dividends paid and proposed	–	–	–	(221)	(221)	(221)	(221)
Issue of shares, net of expenses	–	22	–	–	22	–	22
Increase in shares held in treasury	–	–	(1)	–	(1)	–	–
Exchange translation differences	–	–	–	(303)	(303)	–	–
At 1 January 2003	**47**	**1,460**	**(15)**	**527**	**2,019**	**493**	**2,000**
Before prior year adjustment	**47**	**1,460**	**–**	**527**	**2,034**	**493**	**2,000**
Prior year adjustment (note 20)	**–**	**–**	**(15)**	**–**	**(15)**	**–**	**–**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**242**	**242**	**203**	**203**
Equity dividends paid and proposed	**–**	**–**	**–**	**(221)**	**(221)**	**(221)**	**(221)**
Issue of shares, net of expenses	**–**	**3**	**–**	**–**	**3**	**–**	**3**
Increase in shares held in treasury	**–**	**–**	**(13)**	**–**	**(13)**	**–**	**–**
Equalisation adjustments	**–**	**–**	**–**	**8**	**8**	**–**	**–**
Exchange translation differences	**–**	**–**	**1**	**(311)**	**(310)**	**–**	**–**
At 31 December 2003	**47**	**1,463**	**(27)**	**245**	**1,728**	**475**	**1,985**

Other than in respect of the representation of shares held in treasury (see note 20), the adoption of UK GAAP by Reed Elsevier NV had no impact on group shareholders' funds as at 1 January 2003 or on the group earnings for the year ended 31 December 2003. The adoption of UK GAAP had the effect of reducing parent company shareholders' funds as at 1 January 2003 by €34m and parent company attributable profit for the year ended 31 December 2003 by €39m compared to the amounts that would have been reported under Dutch GAAP.

Within paid-in surplus, an amount of €1,286m (2002: €1,283m) is free of tax.

Details of shares held in treasury are provided in note 26 to the combined financial statements.

A reconciliation between the parent company profit attributable to ordinary shareholders and the group profit attributable to ordinary shareholders presented under the gross equity method is provided below:

	2003 €m	2002 €m
Parent company profit attributable to ordinary shareholders	**203**	152
Share of profit after tax of joint ventures	**239**	142
Dividends received from joint ventures	**(200)**	(150)
Group profit attributable to ordinary shareholders using the gross equity method	**242**	144

A reconciliation between the parent company shareholders' funds and group shareholders' funds presented under the gross equity method is provided below:

	2003 €m	2002 €m
Parent company shareholders' funds	**1,985**	2,000
Cumulative profit attributable from joint ventures less cumulative dividends received	**(148)**	(187)
Cumulative currency translation adjustments	**(204)**	107
Cumulative equalisation adjustments and other adjustments	**122**	114
Shares held in treasury	**(27)**	(15)
Group shareholders' funds using the gross equity method	**1,728**	2,019

19 Contingent liabilities

There are contingent liabilities in respect of borrowings of Reed Elsevier Group plc group and Elsevier Reed Finance BV group guaranteed by Reed Elsevier NV as follows:

	2003 €m	2002 €m
Guaranteed jointly and severally with Reed Elsevier PLC	**3,822**	4,493

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 22 to the Reed Elsevier combined financial statements.

20 Prior year adjustment

In accordance with UITF38: Accounting for ESOP Trusts issued in December 2003 by the Urgent Issues Task Force of the UK Accounting Standards Board, the Reed Elsevier combined businesses now present the shares in Reed Elsevier PLC and Reed Elsevier NV held by the Reed Elsevier Group plc Employee Benefit Trust as shares held within treasury, which are deducted within combined shareholders' funds. Previously, such shares were included within the other fixed asset investments of the combined businesses. The group balance sheet as at 31 December 2002 has been restated to reflect Reed Elsevier NV's share of the restatement made in the combined financial statements in relation to the presentation of shares held in treasury.

21 Principal joint ventures

The principal joint ventures are:

		% holding
Reed Elsevier Group plc		
Incorporated and operating in Great Britain	£10,000 ordinary "R" shares	–
1-3 Strand	£10,000 ordinary "E" shares	100%
London WC2N 5JR	£100,000 7.5% cumulative preference non voting shares	–
Holding company for operating businesses involved in science & medical, legal, educational and business publishing	Equivalent to a 50% equity interest	
Elsevier Reed Finance BV		
Incorporated in the Netherlands	133 ordinary "R" shares	–
Sara Burgerhartstraat 25	205 ordinary "E" shares	100%
1055 KV Amsterdam, The Netherlands		
Holding company for financing businesses	Equivalent to a 61% equity interest	

The "R" shares in Reed Elsevier Group plc and Elsevier Reed Finance BV are owned by Reed Elsevier PLC.

In addition, Reed Elsevier NV holds €0.14m par value in shares with special dividend rights in Reed Elsevier Overseas BV and Reed Elsevier Nederland BV, both with registered offices in Amsterdam. These shares are included in the amount shown under investments in joint ventures. They enable Reed Elsevier NV to receive dividends from companies within the same tax jurisdiction.

A list of companies within the Reed Elsevier combined businesses is filed with the Amsterdam Chamber of Commerce in the Netherlands.

M Tabaksblat
Chairman

M H Armour
Chief Financial Officer

Independent auditors' report to the shareholders of Reed Elsevier NV

We have audited the 2003 financial statements of Reed Elsevier NV, Amsterdam, which comprise the accounting policies, the profit and loss account, cash flow statement, reconciliation of shareholders' funds, balance sheet, the statement of total recognised gains and losses and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein and include the Reed Elsevier combined financial statements for the year ended 31 December 2003 which comprise the accounting policies, the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the shareholders' funds reconciliation and the related notes 1 to 28, having been prepared under the accounting policies set out therein, dated 18 February 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of audit opinion

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements of Reed Elsevier NV, which include the Reed Elsevier combined financial statements, give a true and fair view of the financial position of Reed Elsevier NV at 31 December 2003 and the result and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United Kingdom and comply with the legal requirements for financial statements as included in Book 2 Title 9 of the Netherlands Civil Code.

Deloitte Accountants
Amsterdam
18 February 2004

Proposal for allocation of profit

	2003 €m	2002 €m
Interim dividend on ordinary shares	**59**	65
Final dividend on ordinary shares	**162**	156
Dividend on R-shares	**–**	–
Retained loss	**(18)**	(69)
	203	152

The combined Supervisory and Executive Board determines the part of the profit to be retained. The profit to be distributed is paid on the ordinary shares and the R-shares in proportion to their nominal value. The combined board may resolve to pay less per R-share, but not less than 1% of the nominal value.

The company is bound by the Governing Agreement with Reed Elsevier PLC, which provides that Reed Elsevier NV shall declare dividends such that the dividend on one Reed Elsevier NV ordinary share, which shall be payable in euros, will equal 1.538 times the dividend, including the related UK tax credit, paid on one Reed Elsevier PLC ordinary share.

Additional information for US investors

ADDITIONAL INFORMATION FOR US INVESTORS

Summary financial information in US dollars

Basis of preparation

The summary financial information is a simple translation of the Reed Elsevier combined financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK GAAP as used in the preparation of the Reed Elsevier combined financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Exchange rates for translation

	2003 US$	2002 US$
Sterling		
Profit and loss and cash flow	**1.63**	1.50
Balance sheet	**1.78**	1.60
Euro		
Profit and loss and cash flow	**1.124**	0.943
Balance sheet	**1.254**	1.046

Profit and loss account

For the year ended 31 December 2003

	2003 US$m	2002 US$m
Net sales	**8,028**	7,530
Operating profit	**1,077**	760
Profit before tax	**846**	434
Profit attributable	**544**	272
Adjusted operating profit	**1,920**	1,700
Adjusted profit before tax	**1,646**	1,391
Adjusted profit attributable to parent companies' shareholders	**1,213**	1,023

Adjusted figures are used by Reed Elsevier as additional performance measures and are stated before the amortisation of goodwill and intangible assets and exceptional items.

Cash flow statement

For the year ended 31 December 2003

	2003 US$m	2002 US$m
Net cash inflow from operating activities	**1,736**	1,553
Dividends received from joint ventures	**23**	20
Returns on investments and servicing of finance	**(289)**	(308)
Taxation (including US$59m (2002: US$30m) exceptional net inflow)	**(238)**	(201)
Capital expenditure and financial investment	**(223)**	(66)
Acquisitions and disposals	**(295)**	(294)
Equity dividends paid to shareholders of the parent companies	**(476)**	(410)
Cash inflow before changes in short term investments and financing	**238**	294
Increase in short term investments	**(269)**	(83)
Financing	**(140)**	(103)
(Decrease)/increase in cash	**(171)**	108
Adjusted operating cash flow	**1,676**	1,515
Adjusted operating cash flow conversion	**87%**	89%

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

Summary financial information in US dollars (continued)

Balance sheet

As at 31 December 2003

	2003 US$m	2002 US$m
Goodwill and intangible assets	**9,172**	9,302
Tangible fixed assets and investments	**1,038**	968
Fixed assets	**10,210**	10,270
Inventories and pre-publication costs	**936**	800
Debtors – amounts falling due within one year	**1,858**	1,476
Debtors – amounts falling due after more than one year	**443**	514
Cash and short term investments	**1,136**	912
Current assets	**4,373**	3,702
Creditors: amounts falling due within one year	**(6,183)**	(5,806)
Net current liabilities	**(1,810)**	(2,104)
Total assets less current liabilities	**8,400**	8,166
Creditors: amounts falling due after more than one year	**(3,747)**	(3,633)
Provisions for liabilities and charges	**(299)**	(299)
Minority interests	**(21)**	(11)
Net assets	**4,333**	4,223

Summary of the principal differences to US GAAP

The combined financial statements are prepared in accordance with UK GAAP, which differ in certain significant respects to US GAAP. The principal differences that affect net income and combined shareholders' funds are explained below and their approximate effect is shown on page 110. The Reed Elsevier Annual Report 2003 on Form 20-F provides further information for US investors.

Goodwill and intangible assets

Under UK GAAP, acquired goodwill and intangible assets are capitalised and amortised systematically over their estimated useful lives up to a maximum of 40 years, subject to impairment review.

Under US GAAP, acquired goodwill and intangible assets are accounted for in accordance with SFAS141: Business Combinations and SFAS142: Goodwill and Other Intangible Assets. In accordance with these SFAS, goodwill and intangible assets with indefinite lives are not amortised and are subject to at least annual impairment review. Other intangible assets with definite lives are amortised over periods up to 40 years, also subject to annual impairment review under SFAS144.

Under US GAAP, as at 31 December 2003, the carrying value of goodwill is £3,045m (2002: £3,225m), the gross cost of intangible assets is £5,000m (2002: £5,264m) and accumulated amortisation of intangible assets is £1,522m (2002: £1,352m).

Deferred taxation

Under UK GAAP, the combined businesses provide in full for timing differences using the liability method. Under US GAAP, deferred taxation is provided on all temporary differences under the liability method subject to a valuation allowance on deferred tax assets where applicable, in accordance with SFAS109: Accounting for Income Taxes. The most significant adjustment to apply SFAS109 arises on the recognition of a deferred tax liability in respect of acquired intangible assets for which amortisation is not tax deductible. Under the timing difference approach applied under UK GAAP, no such liability would be recognised.

Pensions

Under UK GAAP, the combined businesses account for pension costs under the rules set out in SSAP24: Accounting for Pension Costs. Its objectives and principles are broadly in line with SFAS87: Employers' Accounting for Pensions. However, SSAP24 is less prescriptive in the application of the actuarial methods and assumptions to be applied in the calculation of pension assets, liabilities and costs.

Under UK GAAP, pension plan assets and liabilities are based on the results of the latest actuarial valuation. Pension assets are valued at the discounted present value determined by expected future income. Liabilities are assessed using the expected rate of return on plan assets. Under US GAAP, plan assets are valued by reference to market-related values at the date of the financial statements. Liabilities are assessed using the rate of return obtainable on fixed or inflation-linked bonds.

Stock based compensation

Under US GAAP, the combined businesses apply the accounting requirements of APB25: Accounting for Stock Issued to Employees and related interpretations in accounting for stock based compensation. Under APB25 compensatory plans with performance criteria qualify as variable plans, for which total compensation cost must be recalculated each period based on the current share price. The total compensation cost is amortised over the vesting period. Under UK GAAP, compensation cost is determined based on a comparison of the exercise price with the share price on the date of grant.

Also under US GAAP, SFAS123: Accounting for Stock Based Compensation establishes a fair value based method of computing compensation cost. It encourages the application of this method in the profit and loss account but, where APB25 is applied, the proforma effect on net income must be disclosed.

The disclosure only provisions of SFAS123, as amended by SFAS148: Accounting for Stock Based Compensation – Transition and Disclosure, have been adopted. If compensation costs based on fair value at the grant date had been recognised in the profit and loss account, net income under US GAAP would have been reduced by £43m in 2003 (2002: £36m).

Derivative instruments

Under US GAAP, SFAS133: Accounting for Derivative Instruments and Hedging Activities requires all derivative instruments to be carried at fair value on the balance sheet. Changes in fair value are accounted for through the profit and loss account or comprehensive income statement, depending on the derivative's designation and effectiveness as a hedging instrument. Certain derivative instruments used by Reed Elsevier have not been designated as qualifying hedge instruments under SFAS133 and, accordingly, a charge or credit as appropriate to net income is recorded under US GAAP for the changes in the fair value of those derivative instruments. Under UK GAAP, derivative instruments intended as hedges are recorded at appropriate historical cost amounts, with fair values shown as a disclosure item. The adoption of SFAS133, which was effective from

1 January 2001, resulted in a cumulative transition adjustment in other comprehensive income, of which £7m was charged to US GAAP net income in 2003 (2002: £7m).

Equity dividends
Under UK GAAP, dividends are provided for in the year in respect of which they are proposed by the directors. Under US GAAP, such dividends would not be provided for until they are formally declared by the directors.

Available for sale investments
Under UK GAAP, fixed asset investments (excluding investments in joint ventures) are recorded at historical cost less provision for any impairment in value. Under US GAAP, investments in equity securities with readily determinable fair values are classified as available for sale and are reported at fair value, with unrealised gains or losses reported as a separate component of shareholders' funds.

Acquisition accounting
Under UK GAAP, severance and integration costs in relation to acquisitions are expensed as incurred and, depending on their size and incidence, these costs may be disclosed as exceptional items charged to operating profit. Under US GAAP, certain integration costs may be provided for as part of purchase accounting adjustments on acquisition.

Exceptional items
Exceptional items are material items within the combined businesses' ordinary activities which, under UK GAAP, are required to be disclosed separately due to their size or incidence. These items do not qualify as extraordinary under US GAAP.

Adjusted earnings
In the combined financial statements adjusted profit and cash flow measures are presented as permitted by UK GAAP as additional performance measures. US GAAP does not permit the presentation of alternative earnings measures.

Short term obligations expected to be refinanced
Under US GAAP, where it is expected to refinance short term obligations on a long term basis and this is supported by an ability to consummate the refinancing, such short term obligations should be excluded from current liabilities and shown as long term obligations. Under UK GAAP, such obligations can only be excluded from current liabilities where, additionally, the debt and facility are under a single agreement or course of dealing with the same lender or group of lenders. Short term obligations at 31 December 2003 of £1,182m (2002: £1,359m) would be excluded from current liabilities under US GAAP and shown as long term obligations.

Effects on net income of material differences to US GAAP

For the year ended 31 December 2003

	2003 £m	2002 £m	2003 €m	2002 €m
Net income as reported	**334**	181	**484**	288
US GAAP adjustments:				
Goodwill and intangible assets	**121**	223	**176**	355
Deferred taxation	**(40)**	(50)	**(58)**	(80)
Pensions	**75**	56	**109**	89
Stock based compensation	**7**	–	**10**	–
Derivative instruments	**41**	(45)	**59**	(72)
Net income under US GAAP	**538**	365	**780**	580

Effects on combined shareholders' funds of material differences to US GAAP

As at 31 December 2003

	2003 £m	2002 £m	2003 €m	2002 €m
Combined shareholders' funds as reported	**2,434**	2,640	**3,456**	4,039
US GAAP adjustments:				
Goodwill and intangible assets	**1,354**	1,302	**1,923**	1,992
Deferred taxation	**(828)**	(838)	**(1,176)**	(1,283)
Pensions	**185**	151	**263**	231
Derivative instruments	**(69)**	(117)	**(98)**	(179)
Available for sale investments	**3**	3	**4**	5
Equity dividends	**226**	205	**321**	314
Other items	**(2)**	(2)	**(3)**	(3)
Combined shareholders' funds under US GAAP	**3,303**	3,344	**4,690**	5,116

Summary financial information in US dollars

Basis of preparation

The summary financial information is a simple translation of Reed Elsevier PLC's consolidated financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK GAAP as used in the preparation of the Reed Elsevier PLC consolidated financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Exchange rates for translation of sterling ($:£1)

	2003	2002
Profit and loss	**1.63**	1.50
Balance sheet	**1.78**	1.60

Consolidated profit and loss account

For the year ended 31 December 2003

	2003 US$m	2002 US$m
Profit attributable to ordinary shareholders: statutory	**275**	134
Profit attributable to 52.9% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	**642**	542
Amortisation of goodwill and intangible assets	**(386)**	(407)
Exceptional items	**33**	9
	289	144

Data per American Depositary Share

	2003 US$	2002 US$
Earnings per American Depositary Share based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	**$2.03**	$1.71
Basic	**$0.91**	$0.46
Net dividend per American Depositary Share	**$0.78**	$0.67

Consolidated balance sheet

As at 31 December 2003

	2003 US$m	2002 US$m
Shareholders' funds	**2,293**	2,235

Adjusted earnings per American Depositary Share is based on Reed Elsevier PLC shareholders' 52.9% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation of goodwill and intangible assets and exceptional items. Adjusted figures are described in note 9 to the Reed Elsevier PLC consolidated financial statements.

Reed Elsevier PLC shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares ("ADSs"), evidenced by American Depositary Receipts ("ADRs"), representing four Reed Elsevier PLC ordinary shares of 12.5p each. (CUSIP No. 758205108; trading symbol, RUK; Bank of New York is the ADS Depositary.)

Summary of the principal differences between UK and US GAAP

Reed Elsevier PLC accounts for its 52.9% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, using the gross equity method in conformity with UK GAAP which is similar to the equity method in US GAAP. Using the equity method to present its net income and shareholders' funds under US GAAP, Reed Elsevier PLC reflects its 52.9% share of the effects of differences between UK and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the capitalisation and amortisation of goodwill and intangibles, pensions, deferred taxes and derivative financial instruments. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between UK and US GAAP is given on pages 108 and 109. The Reed Elsevier Annual Report 2003 on Form 20-F provides further information for US investors.

Effects on net income of material differences between UK and US GAAP

For the year ended 31 December 2003

	2003 £m	2002 £m
Net income under UK GAAP	**169**	89
Impact of US GAAP adjustments to combined financial statements	**109**	97
Net income under US GAAP	**278**	186
Earnings per ordinary share under US GAAP	**22.0p**	14.7p

Effects on shareholders' funds of material differences between UK and US GAAP

As at 31 December 2003

	2003 £m	2002 £m
Shareholders' funds under UK GAAP	**1,288**	1,397
Impact of US GAAP adjustments to combined financial statements	**350**	269
Equity dividends not declared in the period	**110**	102
Shareholders' funds under US GAAP	**1,748**	1,768

Summary financial information in US dollars

Basis of preparation

The summary financial information is a simple translation of the Reed Elsevier NV group financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK GAAP as used in the preparation of the Reed Elsevier NV statutory financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Exchange rates for translation of euros (€:$1)

	2003	2002
Profit and loss	**0.890**	1.060
Balance sheet	**0.798**	0.956

Group profit and loss account

For the year ended 31 December 2003

	2003 US$m	2002 US$m
Profit attributable to 50% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	**607**	511
Amortisation of goodwill and intangible assets	**(365)**	(383)
Exceptional items	**30**	8
	272	136

Data per American Depositary Share

	2003 US$m	2002 US$m
Earnings per American Depositary Share based on 50% interest in Reed Elsevier combined businesses		
Adjusted	**$1.55**	$1.30
Basic	**$0.70**	$0.34
Net dividend per American Depositary Share	**$0.67**	$0.57

Group balance sheet

As at 31 December 2003

	2003 US$m	2002 US$m
Shareholders' funds	**2,165**	2,111

Adjusted earnings per American Depositary Share is based on Reed Elsevier NV's 50% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation of goodwill and intangible assets and exceptional items. Adjusted figures are described in note 8 to the Reed Elsevier NV statutory financial statements.

Reed Elsevier NV shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares ("ADSs"), evidenced by American Depositary Receipts ("ADRs"), representing two Reed Elsevier NV ordinary shares of €0.06 each. (CUSIP No. 758204101; trading symbol, ENL; Bank of New York is the ADS Depositary.)

Summary of the principal differences between UK and US GAAP

Reed Elsevier NV accounts for its 50% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, using the gross equity method in its group financial statements. Using the equity method to present its net income and shareholders' funds under US GAAP, Reed Elsevier NV reflects its 50% share of the effects of differences between UK and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the capitalisation and amortisation of goodwill and intangibles, pensions, deferred taxes and derivative financial instruments. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between UK and US GAAP is given on pages 108 and 109. The Reed Elsevier Annual Report 2003 on Form 20-F provides further information for US investors.

Effects on group net income of material differences between UK and US GAAP

For the year ended 31 December 2003

	2003 €m	2002 €m
Group net income under UK GAAP	**242**	144
Impact of US GAAP adjustments to combined financial statements	**159**	159
Net income under US GAAP	**401**	303
Group earnings per share under US GAAP	**€0.51**	€0.39

Effects on group shareholders' funds of material differences between UK and US GAAP

As at 31 December 2003

	2003 €m	2002 €m
Group shareholders' funds as reported under UK GAAP	**1,728**	2,019
Impact of US GAAP adjustments to combined financial statements	**455**	383
Equity dividends not declared in the period	**162**	156
Group shareholders' funds under US GAAP	**2,345**	2,558

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