Indispensable Global Information

Annual Reports and
Financial Statements 2004

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

Reed Elsevier

Annual Reports and Financial Statements 2004

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 2004, forms the Annual Reports and Financial Statements of Reed Elsevier PLC and Reed Elsevier NV for the year ended 31 December 2004 and the two documents should be read together.

Contents

Financial highlights

For the year ended 31 December 2004

Reed Elsevier combined businesses

	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m	% Change at constant currencies
Reported figures					
Turnover	**4,812**	4,925	**7,074**	7,141	+5%
Operating profit	**697**	661	**1,024**	958	+10%
Profit before taxation	**562**	519	**826**	752	+12%
Net borrowings	**2,532**	2,372	**3,570**	3,368	
Adjusted figures					
Operating profit	**1,159**	1,178	**1,704**	1,708	+5%
Profit before taxation	**1,027**	1,010	**1,510**	1,465	+8%
Operating cash flow	**1,050**	1,028	**1,544**	1,491	+9%
Operating margin	**24%**	24%	**24%**	24%	0.2pts
Operating cash flow conversion	**91%**	87%	**91%**	87%	
Interest cover (times)	**8.8**	7.0	**8.8**	7.0	

Parent companies

	£ Reed Elsevier PLC			€ Reed Elsevier NV			%
	2004 £m	2003 £m	% change	**2004 €m**	2003 €m	% change	Change at constant currencies
Reported profit attributable	**152**	169	-10%	**223**	242	-8%	
Adjusted profit attributable	**402**	394	+2%	**559**	540	+4%	+8%
Average US$: £/€ exchange rate	**1.83**	1.63		**1.24**	1.12		
Reported earnings per share	**12.0p**	13.4p	-10%	**€0.28**	€0.31	-10%	
Adjusted earnings per share	**31.8p**	31.2p	+2%	**€0.71**	€0.69	+3%	+8%
Dividend per share	**13.0p**	12.0p	+8%	**€0.33**	€0.30	+10%	

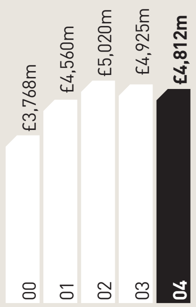
The Reed Elsevier combined businesses encompass the businesses of Reed Elsevier Group plc and Elsevier Reed Finance BV, together with their two parent companies, Reed Elsevier PLC and Reed Elsevier NV (the "Reed Elsevier combined businesses"). The results of Reed Elsevier PLC reflect its shareholders' 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. Reconciliations between the reported and adjusted figures are provided in the notes to the financial statements.

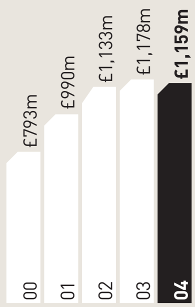
The percentage change at constant currencies refers to the movements at constant exchange rates, using 2003 full year average rates.

Reed Elsevier combined businesses

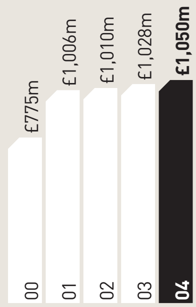
£ Turnover



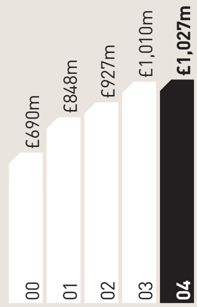
Adjusted operating profit



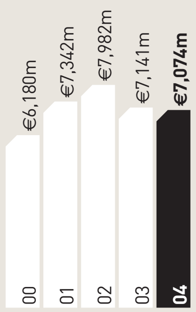
Adjusted operating cash flow



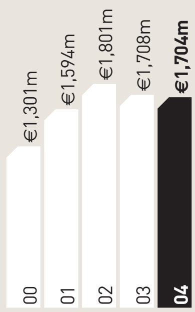
Adjusted pre-tax profit



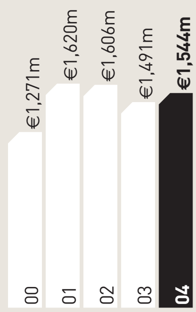
€ Turnover



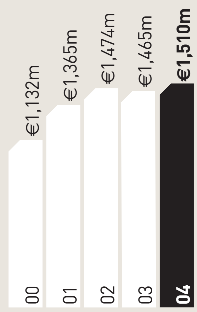
Adjusted operating profit



Adjusted operating cash flow

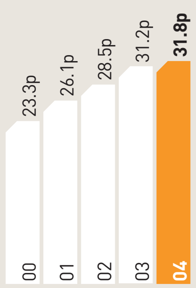


Adjusted pre-tax profit

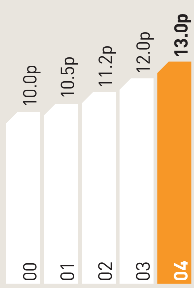


Reed Elsevier PLC

£ Adjusted earnings per share

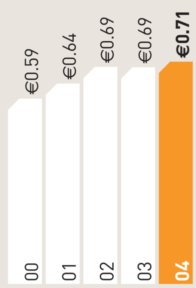


Full year dividend

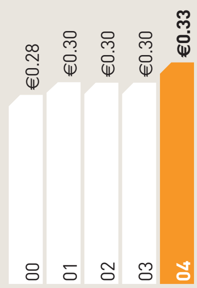


Reed Elsevier NV

€ Adjusted earnings per share



Full year dividend



Operating and financial review

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 2004 were £4,812 million/€7,074 million principally derived from subscriptions, circulation and copy sales, advertising sales and exhibition fees.

Reed Elsevier is well positioned in markets with attractive growth prospects and has a clear investment led growth strategy focused on building revenue momentum across all our businesses.

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. Recently these markets have been impacted by the late cycle effects of global economic slowdown but are beginning to see improvement, with most sectors showing positive growth trends. 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 accelerated sales growth in these markets with innovative products based on our content development skills and technology leadership supported by 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 strong 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.

Elsevier
Elsevier comprises worldwide scientific, technical and medical publishing and communications businesses. Total revenues for the year ended 31 December 2004 were £1,363 million/€2,004 million.

Growth in the scientific information market is driven by ever increasing scientific research and discovery and 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 give rise to 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 the leading global academic journal publisher and each year publishes over 170,000 new research articles in some 1,200 journals and over 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 6.7 million scientific articles and 40 major reference works. The fully searchable database is accessed by over 10 million users each year

Forward looking statements
The Reed Elsevier Annual Reports and Financial Statements 2004 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.

and has provided significant improvements in productivity through quicker and easier access to high quality content. Elsevier continues to develop its electronic product offering and in 2004 launched Scopus, an abstract and index database and navigational tool which significantly enhances research productivity.

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, practicing professionals and students. It publishes over 10,000 book titles and clinical reference works and over 500 journals. Elsevier is also seeing acceleration in 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 practitioner reference. Internationally, Elsevier is leveraging both its print and online content into new markets through foreign language versions. The Excerpta Medica Communications business publishes customised information for healthcare professionals, medical societies and pharmaceutical companies.

LexisNexis

LexisNexis provides legal, tax, regulatory and business information to professional, business and government customers internationally. Total revenues for the year ended 31 December 2004 were £1,292 million/ €1,899 million.

Legal and regulatory markets worldwide are seeing continuing growth driven by the increasing level of legislation and litigation, as well as the increasing number of lawyers. Additional opportunities are also developing beyond the core research market, through the delivery of value added services to meet demands for greater legal efficiency and productivity. Increasingly legal information and services are being delivered online, with considerable potential to deliver such products in markets outside the United States where online migration is significantly 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 dramatically 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 and martindale.com databases provide 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 legal discovery applications as well as electronic filing of documents with courts and electronic access and monitoring of court records. 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. The 2004 acquisition of Seisint strengthens LexisNexis' position as a leading provider of public record solutions in the fast growing US risk management sector.

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.

Harcourt Education

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 2004 were £868 million/€1,276 million.

The long standing commitment by governments 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 further emphasis on 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. In 2004 Harcourt Achieve significantly extended its capabilities in math supplemental materials through the acquisition of Saxon Publishers. Greenwood-Heinemann publishes monograph and reference lists and professional resources for teachers. The Global Library business publishes reference materials for school libraries. Harcourt Education has achieved strong performance in recent years both in the adoption states and 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.

Reed Business
The business division, Reed Business, provides information and marketing solutions to business professionals in the United States, the United Kingdom, continental Europe, Australia and Asia. The division also organises trade exhibitions internationally. Total revenues for the year ended 31 December 2004 were £1,289 million/€1,895 million.

Business to business magazines provide an effective marketing channel through which advertisers reach their target audiences, increasingly delivered 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 growth in GDP and business investment.

Reed Business Information publishes over 400 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 over 30% per annum and contribute 9% of the division's total revenues. These products include totaljobs.com, the 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 Kellysearch.com, an industrial search engine which is being launched internationally.

Reed Exhibitions organises trade exhibitions and conferences internationally, with over 420 events in 34 countries, attracting over 85,000 exhibitors and more than 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. Increasingly Reed Exhibitions is also developing online services to increase the effectiveness and efficiency of its trade shows.

Further information on the performance of the individual businesses in 2004 is set out 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 procedure that is embedded into the operations of the businesses and is reviewed by the Boards and Audit Committees. Important specific risks that have been identified and are being 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 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 and changes in regulation. There is no assurance that this investment will produce satisfactory long term returns.

- Reed Elsevier's businesses are increasingly dependent on electronic platforms and networks, 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 and networks 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 organise 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.

Our financial statements are expressed in pounds sterling and euros and are, therefore, subject to movements in exchange rates on the translation of the financial information of businesses whose operational currencies are other than our reporting currencies. The United States is our most important market and, accordingly, significant fluctuations in US dollar exchange rates could significantly affect our reported results.

Further details on risk management and internal control procedures are set out in the Structure and Corporate Governance report on pages 22 to 27.

Operating review

	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m	% Change at constant currencies
Turnover					
Elsevier	**1,363**	1,381	**2,004**	2,002	4%
LexisNexis	**1,292**	1,318	**1,899**	1,911	7%
Harcourt Education	**868**	898	**1,276**	1,302	7%
Reed Business	**1,289**	1,328	**1,895**	1,926	2%
Total	**4,812**	4,925	**7,074**	7,141	5%
Adjusted operating profit					
Elsevier	**460**	467	**676**	677	3%
LexisNexis	**308**	301	**453**	437	11%
Harcourt Education	**164**	174	**241**	252	5%
Reed Business	**227**	236	**334**	342	–
Total	**1,159**	1,178	**1,704**	1,708	5%

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 operating review 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 2003 full year average rates, and are stated before the amortisation of goodwill and intangible assets and exceptional items.

Elsevier

	£ 2004 £m	2003 £m	€ 2004 €m	2003 €m	% Change at constant currencies
Turnover					
Science & Technology	**779**	789	**1,145**	1,144	3%
Health Sciences	**584**	592	**859**	858	6%
	1,363	1,381	**2,004**	2,002	4%
Adjusted operating profit	**460**	467	**676**	677	3%
Adjusted operating margin	**33.7%**	33.8%	**33.7%**	33.8%	-0.1pts

The Elsevier science and medical business has seen strong subscription renewals, growing online sales, and a successful medical book publishing programme. Underlying revenue growth at 4% was however a little disappointing, held back by budgetary constraints in academic institutions and some new product delay. Growth should now improve with new products launched and widening distribution, and some initial signs of easing of budgetary pressures.

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

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

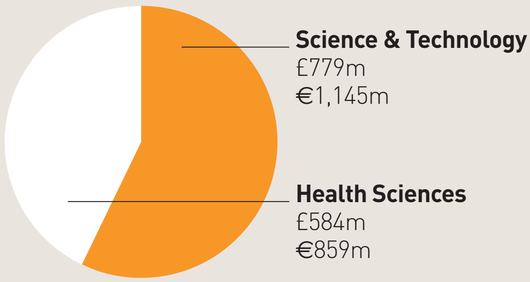
The number of research articles published in the year was up 4%. Usage on ScienceDirect continues to grow strongly, with article downloads up 41% to over 240 million before taking into account usage in locally hosted networks in developing markets such as China. New publishing and expansion of the archive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

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

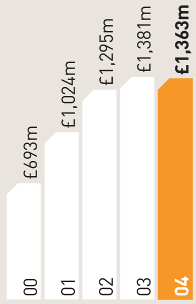
The investments that Elsevier has made in new, innovative products and technologies is substantial and ongoing, and is having a significant impact on research productivity for customers. In November, Elsevier launched a major new electronic product, Scopus, which provides scientists with the most comprehensive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

During the year there has been considerable public debate surrounding the scientific journal publishing model, focusing on whether the current predominantly subscription 'user-pays' model or alternative models, such as 'author-pays', would best serve the scientific community. We have engaged in this debate and been open to new ideas, and we will continue to experiment and adapt. There is, we believe, increasing recognition that the subscription based 'user-pays' model does serve science well, by providing high quality peer reviewed research articles across the whole spectrum of scientific disciplines, with quality the determining factor in generating subscription demand. This model has also encouraged and enabled substantial investments to be made in applying new technologies to the distribution and navigation of research,

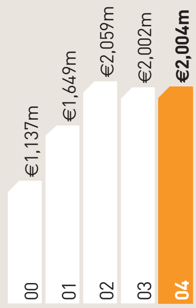
Elsevier
Turnover by business



£ Sterling



€ Euro



significantly enhancing the productivity of scientific endeavour. The UK government's response to the parliamentary science and technology committee review and the recent archiving proposals by the US National Institute of Health both acknowledge the importance of these considerable benefits to science. We firmly believe that the science business will continue its long record of delivering both increasing value to customers and good returns to shareholders.

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

LexisNexis

	2004 £m	2003 £m	2004 €m	2003 €m	Change at constant currencies %
Turnover					
North America	**949**	992	**1,395**	1,438	7%
International	**343**	326	**504**	473	6%
	1,292	1,318	**1,899**	1,911	7%
Adjusted operating profit	**308**	301	**453**	437	11%
Adjusted operating margin	**23.8%**	22.8%	**23.8%**	22.8%	1.0pts

LexisNexis had a good year, with revenue growth building as the investment programme pays back, delivering new publishing, better product functionalities and more powerful online services, as well as improved marketing and sales effectiveness. Demand for products linked to workflow applications and in risk management is also accelerating growth, with recent acquisitions in these areas performing well. The International business outside the US grew particularly strongly.

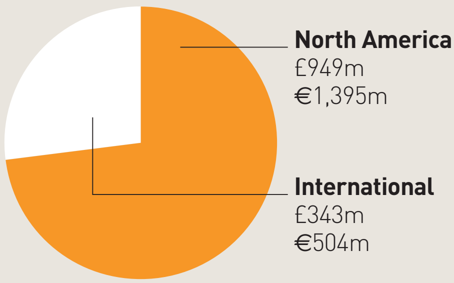
Revenues and adjusted operating profits were up by 7% and 11% respectively at constant exchange rates, or 4% and 6% before acquisitions and disposals. LexisNexis North America saw revenues up 7% and adjusted operating profits up 12% at constant exchange rates including good contributions from recently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

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

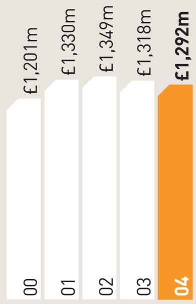
The rapid growth in the risk management business is driven by the burgeoning demand for identity authentication, fraud prevention, credit and security risk solutions from legal, commercial, government and law enforcement customers. In September, this business was significantly expanded through the $775m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

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

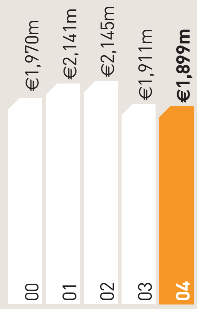
LexisNexis
Turnover by business



£ Sterling



€ Euro



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

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

Harcourt Education

	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m	% Change at constant currencies
Turnover					
US Schools & Testing	**774**	810	**1,138**	1,175	7%
International	**94**	88	**138**	127	6%
	868	898	**1,276**	1,302	7%
Adjusted operating profit	**164**	174	**241**	252	5%
Adjusted operating margin	**18.9%**	19.4%	**18.9%**	19.4%	-0.5pts

The Harcourt Education business has performed well against a weak US schools market which has seen the last year of a three year trough in the state textbook adoption cycle. New textbook programmes have performed well and good growth was seen in the assessment business and in international markets. The business is very well placed for the strong rebound in market growth in 2005 as the adoption cycle turns.

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

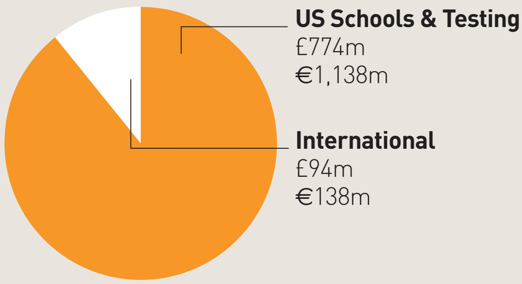
The Harcourt US K-12 schools business saw continued market success, gaining the leading overall market share of over 30% in state textbook adoptions, good growth in open territories, and significant new Reading First contracts. Revenues, before acquisitions, were however flat against a market down 2-3%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

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

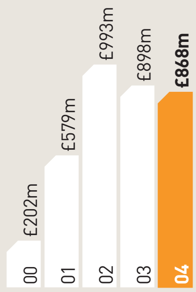
Harcourt Assessment saw underlying revenue growth of 8% driven by new state testing contracts and good growth on existing contracts. Adjusted operating profits were 1% lower due to new product investment and a change in sales mix after the heavy prior year clinical publishing schedule. Good growth was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

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

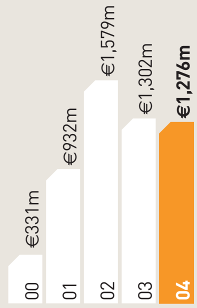
Harcourt Education
Turnover by business



£ Sterling



€ Euro



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

Reed Business

	2004 £m	2003 £m	2004 €m	2003 €m	% Change at constant currencies
Turnover					
Reed Business Information					
US	**323**	365	**475**	530	-1%
UK	**244**	234	**359**	339	5%
Continental Europe	**268**	277	**394**	402	-2%
Asia Pacific	**33**	32	**48**	46	5%
Reed Exhibitions	**421**	420	**619**	609	4%
	1,289	1,328	**1,895**	1,926	2%
Adjusted operating profit	**227**	236	**334**	342	–
Adjusted operating margin	**17.6%**	17.8%	**17.6%**	17.8%	-0.2pts

Reed Business saw recovery in its markets for the first time in four years, and revenues moving ahead with 2% growth, compared to a 5% decline in 2003. An increasing number of sectors and geographies are seeing positive growth momentum, and online services and exhibitions are performing well. Faster growth is expected in 2005 as markets continue to strengthen and we continue to focus on market share, yield and new product introduction.

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

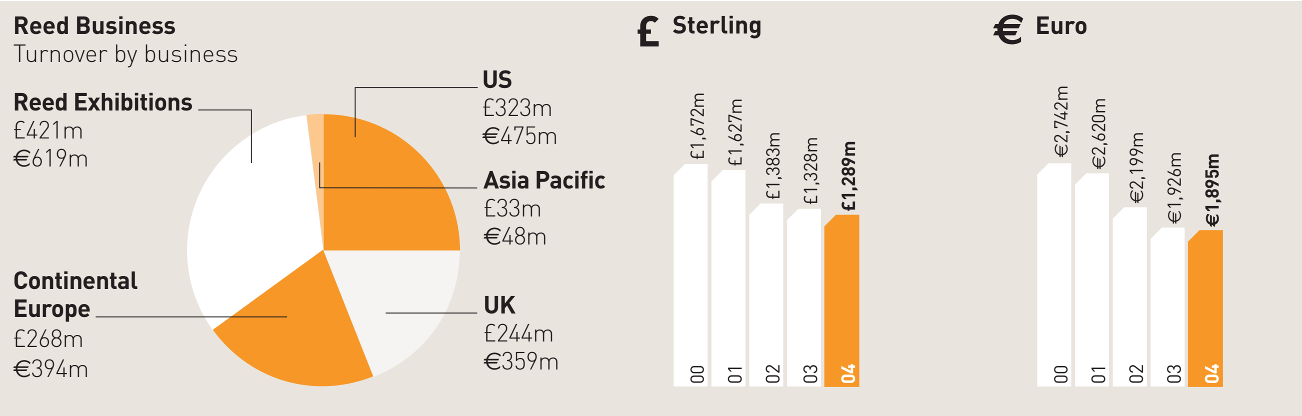
In the US, Reed Business Information saw revenues up 1% for the year for continuing titles, with the first half decline of 3% reversed in the second half. Continued good growth was seen in the media sector and, whilst the manufacturing titles showed some further decline, the electronics sector was up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

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

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

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

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



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

Financial review

Reed Elsevier combined businesses

	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m	% Change at constant currencies
Reported figures					
Turnover	**4,812**	4,925	**7,074**	7,141	5%
Operating profit	**697**	661	**1,024**	958	10%
Profit before taxation	**562**	519	**826**	752	12%
Net borrowings	**2,532**	2,372	**3,570**	3,368	
Adjusted figures					
Operating profit	**1,159**	1,178	**1,704**	1,708	5%
Operating margin	**24%**	24%	**24%**	24%	0.2pts
Profit before taxation	**1,027**	1,010	**1,510**	1,465	8%
Operating cash flow	**1,050**	1,028	**1,544**	1,491	9%
Operating cash flow conversion	**91%**	87%	**91%**	87%	
Interest cover (times)	**8.8**	7.0	**8.8**	7.0	

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 account
The reported profit before tax for the Reed Elsevier combined businesses, after the amortisation of goodwill and intangible assets and exceptional items, was £562m/€826m, which compares with a reported profit of £519m/€752m in 2003. The increase principally reflects higher underlying operating profits, lower goodwill and intangible asset amortisation, as well as a reduced net interest expense. The reported attributable profit of £303m/€445m was £31m/€39m lower than in 2003, which included exceptional tax credits of £84m/€122m principally in respect of prior year disposals.

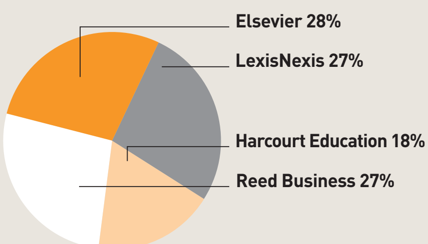
The continued decline of the US dollar since 2003 has had adverse currency translation effects on the reported results expressed in sterling and in euros. This translation effect does not however impact the underlying performance of the businesses.

Turnover decreased by 2% expressed in sterling to £4,812m, and by 1% expressed in euros to €7,074m. At constant exchange rates, turnover was 5% higher, or 3% higher excluding acquisitions and disposals.

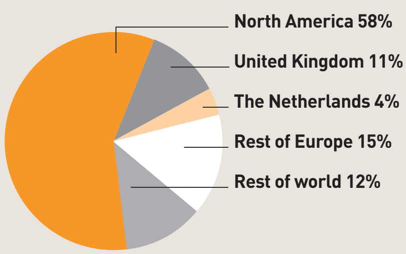
Adjusted operating profits, excluding the amortisation of goodwill and intangible assets and exceptional items, were down 2% expressed in sterling at £1,159m, and flat expressed in euros at €1,704m. At constant exchange rates, adjusted operating profits were up 5%, or 3% excluding acquisitions and disposals. Adjusted operating margins improved by 0.2 percentage points to 24.1% reflecting the continued tight management of costs despite increased investment.

The amortisation charge for intangible assets and goodwill, including in joint ventures, amounted to £406m/€598m, down £39m/€47m on the prior year as a result of currency translation effects and some past acquisitions becoming fully amortised.

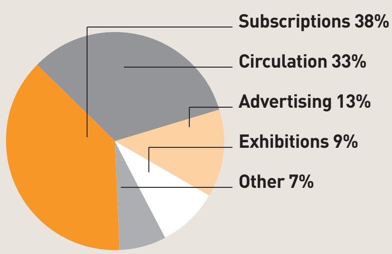
Turnover by business segment



Turnover by geographical market



Turnover by source



Exceptional items showed a pre-tax charge of £59m/€86m, comprising £38m/€56m of acquisition integration and related costs, £18m/€26m in respect of restructuring actions, and a £3m/€4m net loss on disposal of businesses, investments and other fixed assets. After a tax credit of £13m/€18m principally arising on the exceptional costs, exceptional items showed a net post-tax loss of £46m/€68m. This compares with a net post-tax exceptional gain of £38m/€54m in 2003 including tax credits in respect of prior year disposals.

Net interest expense, at £132m/€194m, was £36m/€49m lower than in the prior year, reflecting the benefit of the 2003 free cash flow, lower interest rates and currency translation effects. Net interest cover on an adjusted basis increased to 8.8 times.

Adjusted profits before tax, before the amortisation of goodwill and intangible assets and exceptional items, at £1,027m/€1,510m, were up 2% expressed in sterling and 3% expressed in euros. At constant exchange rates, adjusted profits before tax were up 8%.

The effective tax rate on adjusted earnings was little changed at 26%. The adjusted profit attributable to shareholders of £760m/€1,117m was up 2% expressed in sterling and 4% expressed in euros. At constant exchange rates, the adjusted profit attributable to shareholders was up 8%.

Cash flows and debt

Adjusted operating cash flow, before exceptional items, was £1,050m/€1,544m representing a 91% conversion rate of adjusted operating profits into cash. This compares with a conversion rate in 2003 of 87% and reflects the continuing focus on working capital management. Capital expenditure in the year amounted to £203m/€298m, up from £168m/€244m in the prior year, and included several major IT platform and infrastructure projects. Depreciation was broadly similar to the prior year at £126m/€185m.

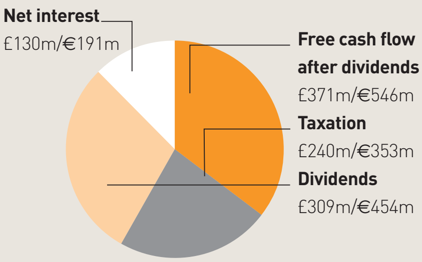
Free cash flow - after interest and taxation but before acquisition spend, exceptional receipts and payments and dividends - was £680m/€1,000m, compared to £669m/€970m in 2003. After dividends, free cash flow was £371m/€546m compared to £377m/€547m in 2003. Net exceptional cash payments of £24m/€34m comprise acquisition related and restructuring payments of £67m/€98m, less net proceeds from disposals of businesses, investments and other fixed assets of £12m/€18m and £31m/€46m of reduced tax payments.

In 2004, acquisitions were made for a total consideration of £647m/€951m, including £7m/€10m deferred to future years, and after taking account of net cash acquired of £17m/€25m. The amounts capitalised in respect of goodwill and intangible assets were £277m/€407m and £310m/€456m respectively. Deferred consideration paid in respect of prior year acquisitions totalled £4m/€6m. The 2004 acquisitions contributed £18m/€27m to adjusted operating profit in the year and added £31m/€46m to net cash inflow from operating activities for the part year under Reed Elsevier ownership.

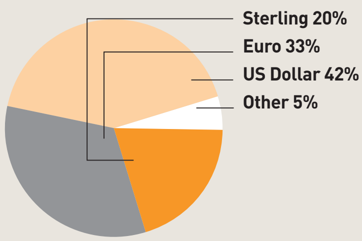
Net borrowings at 31 December 2004 were £2,532m/€3,570m, an increase of £160m in sterling and €202m in euros since 31 December 2003, reflecting acquisition spend less free cash flow and favourable exchange translation effects on net debt from the weaker US dollar.

Gross borrowings at 31 December 2004 amounted to £2,757m/€3,887m, denominated mostly in US dollars, and were partly offset by cash balances totalling £225m/€317m invested in short term deposits and marketable securities. After taking account of interest rate derivatives, a total of 63% of Reed Elsevier's gross borrowings were at fixed rates, including £1,209m/€1,705m of floating rate debt fixed through the use of interest rate derivatives, and had a weighted average interest coupon of 5.2% and an average remaining life of 4.1 years.

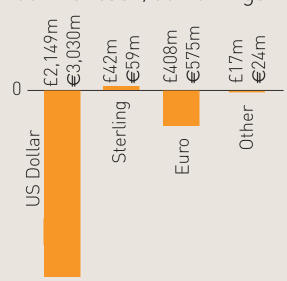
Use of adjusted operating cash flow



Currency profile –
2004 adjusted pre-tax profit



Currency profile –
2004 net cash/borrowings



Accounting policies

Introduction

The accounting policies of the Reed Elsevier combined businesses are described in the combined financial statements. The Reed Elsevier combined financial statements and the financial statements of Reed Elsevier PLC and Reed Elsevier NV are presented in accordance with UK Generally Accepted Accounting Principles (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 adopted by Reed Elsevier NV, ensuring consistency. Reed Elsevier NV, by adopting UK GAAP in its statutory financial statements, is required to present 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 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. Where sales consist of two or more components that operate independently, revenue is recognised as each component is completed by performance, based on attribution of relative value.

Pre-publication costs incurred in the creation of content prior to production and publication are deferred and expensed over their estimated useful lives based on sales profiles. Such costs typically comprise direct internal labour costs and externally commissioned editorial and other fees. Estimated useful lives generally do not exceed five years. Annual reviews are carried out to assess the recoverability of carrying amounts.

Development spend embraces investment in new product and other initiatives, ranging from the building of new online delivery platforms, to launch costs of new services, to building new infrastructure applications. Launch costs and other operating expenses of new products and services are expensed as incurred. The costs of building product applications and infrastructure are capitalised as tangible fixed assets and depreciated over their estimated useful lives. Impairment reviews are carried out annually.

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 annual 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 2004.

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 near 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.

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

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 were updated in 2004, mainly to reflect evolving treasury market practice and in anticipation of International Financial Reporting Standards, and are summarised below.

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 2004, no debt (after utilising available cash resources) matures in the first and second years, 14% in the third year, 58% in the fourth and fifth years, 16% in five to ten years, and 12% beyond ten years.

At 31 December 2004, Reed Elsevier had access to US$3,000 million (2003 US$3,000 million) of committed bank facilities, of which US$79 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 (2003: US$750 million) matures within one year, US$2,250 million (2003: US$nil) within three to four years, and US$nil (2003: US$2,250 million) 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 2004, US$4,145 million of Reed Elsevier's net debt was denominated in US dollars on which approximately 80% 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 90% of fixed rate term debt (not swapped back to floating rate) having matured by the end of 2009 and 2011 respectively.

At 31 December 2004, fixed rate US dollar term debt (not swapped back to floating rate) amounted to US$1.0 billion and had a weighted average life remaining of 10.0 years (2003: 13.0 years) and a weighted average interest coupon of 6.8%. Interest rate derivatives in place at 31 December 2004 which fix or cap the interest cost on an additional US$2.1 billion (2003: US$2.0 billion) of variable rate US dollar debt, have a weighted average maturity of 1.5 years (2003: 1.9 years) and a weighted average interest rate of 4.4%.

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$1.1 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 debt maturity profile in 2004 with an additional US$290 million of term debt raised, the proceeds of which were drawn down in 2005.

In 2004, EFSA renegotiated various banking and cash pooling arrangements in Continental Europe and Asia and continued to provide specialist advice to Reed Elsevier Group plc companies regarding interest and foreign currency exposures, implementation of International Financial Reporting Standards, and electronic collections and payment solutions.

The average balance of cash under management, on behalf of Reed Elsevier Group plc and its parent companies, was approximately $0.5 billion.

Liabilities and assets
At the end of 2004, 89% (2003: 88%) of ERF's gross assets were held in US dollars and 10% (2003: 12%) in euros, including $8.4 billion (2003: $7.2 billion) and €0.7 billion (2003: €0.7 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 $1.0 billion and short term debt of $1.3 billion backed by committed bank facilities. 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.

International Financial Reporting Standards

Under a regulation adopted by the European Parliament, the Reed Elsevier combined financial statements and the financial statements of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV, will be prepared in accordance with International Financial Reporting Standards (IFRS) with effect from the 2005 financial year.

The adoption of IFRS requires changes in Reed Elsevier accounting policies in six major areas:

- Goodwill and intangible assets;
- Employee benefits;
- Share based payments;
- Financial instruments;
- Deferred taxation; and
- Dividends.

Additional information on the adoption of IFRS, including details of the new accounting policies and re-presentations of the 2004 financial statements under IFRS, is set out on pages 112 to 139.

The net effect of presenting the 2004 financial statements under IFRS has been to increase the reported Reed Elsevier combined attributable earnings by £156m/€230m, an increase of 51% over the amounts reported under UK GAAP, and to reduce combined shareholders' funds as at 31 December 2004 by £603m/€850m. These are accounting effects only and have no bearing on the cash flows in the business.

Parent companies

	Reed Elsevier PLC £			Reed Elsevier NV €		
	2004 £m	2003 £m	% change	**2004 €m**	2003 €m	% change
Reported profit attributable	**152**	169	–10%	**223**	242	–8%
Adjusted profit attributable	**402**	394	+2%	**559**	540	+4%
Average US$: £/€ exchange rate	**1.83**	1.63		**1.24**	1.12	
Reported earnings per share	**12.0p**	13.4p	–10%	**€0.28**	€0.31	–10%
Adjusted earnings per share	**31.8p**	31.2p	+2%	**€0.71**	€0.69	+3%
Dividend per share	**13.0p**	12.0p	+8%	**€0.33**	€0.30	+10%

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 account
Adjusted earnings per share, measured before the effect of amortisation of goodwill and intangible assets, exceptional items and related tax effects, for Reed Elsevier PLC were 31.8p, up 2% on the previous year, and for Reed Elsevier NV were €0.71, up 3% from 2003. The difference in percentage change is attributable to the impact of currency movements on the translation of reported results and rounding effects. At constant rates of exchange, the adjusted earnings per share of both companies would have shown an increase of 8% 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 12.0p and €0.28 respectively, compared to 13.4p and €0.31 in 2003.

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 9.6p, giving a total dividend of 13.0p for the year, up 8% on 2003. The Boards of Reed Elsevier NV, in accordance with the dividend equalisation arrangements, have proposed a final dividend of €0.24. This results in a total dividend of €0.33 for the year, up 10% on 2003.

Dividend cover for Reed Elsevier PLC, based on adjusted earnings before the amortisation of goodwill and intangible assets and exceptional items and related tax effects, was 2.4 times, and for Reed Elsevier NV was 2.2 times. Measured for the combined businesses on a similar basis, dividend cover was 2.3 times.

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.

The boards of Reed Elsevier PLC and Reed Elsevier NV support the principles and provisions of corporate governance set out in the Combined Code on Corporate Governance issued in July 2003 (the "UK Code") and the Dutch Corporate Governance Code issued in December 2003 (the "Dutch Code"). Save as explained below, Reed Elsevier PLC, which has its primary listing on the London Stock Exchange, has complied throughout the period under review with the UK Code and Reed Elsevier NV, which has its primary listing on Euronext in Amsterdam, has complied throughout the period under review with the Dutch 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 combined board of Reed Elsevier NV has adopted rules governing the functioning of the boards and the relationship with shareholders, reflecting the requirements of the Dutch Code.

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. They have access to the services of the respective company secretaries, other members of Reed Elsevier's management and staff, and its external advisors. Directors may take independent professional advice in the furtherance of their duties, at the relevant company's expense.

The boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc are harmonised. Subject to shareholders re-electing retiring directors and to the appointment of Erik Engstrom to the executive board of Reed Elsevier NV at its Annual General Meeting in 2005, all the directors of Reed Elsevier Group plc will also be directors of Reed Elsevier PLC and of Reed Elsevier NV. The Reed Elsevier PLC and Reed Elsevier NV shareholders maintain their rights to appoint individuals to the respective boards, in accordance with the provisions of the Articles of Association of these companies. Subject to this, no individual may be appointed to the boards of Reed Elsevier PLC, Reed Elsevier NV (either members of the Executive Board or the Supervisory Board) 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.

In order to safeguard the agreed board harmonisation, the Articles of Association of Reed Elsevier NV provide that appointments of board members other than in accordance with nominations by the combined board, shall require a 2/3rd majority if less than 50% of the share capital is in attendance. Given the still generally low attendance rate at shareholders meetings in the Netherlands (30%), the boards believe that this qualified majority requirement is appropriate.

On appointment and at regular intervals, directors receive training appropriate to their level of previous experience. This includes the provision of a tailored induction programme, so as to provide newly appointed directors with information about the Reed Elsevier 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 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 six executive directors: Sir Crispin Davis – Chief Executive Officer, Mark Armour – Chief Financial Officer, Gerard van de Aast, Erik Engstrom – appointed 23 August 2004, Andrew Prozes and Patrick Tierney, and seven independent non-executive directors: Morris Tabaksblat – Chairman, John Brock, Mark Elliott, Cees van Lede, David Reid, Lord Sharman and Rolf Stomberg – senior independent non-executive director. The board met five times during the year. Mr Tabaksblat was unable to attend one meeting, otherwise there was full attendance.

At the Reed Elsevier PLC Annual General Meeting to be held on 27 April 2005, Sir Crispin Davis, Messrs Armour, Prozes and Brock will retire by rotation. Being eligible, Sir Crispin Davis, Messrs Armour and Prozes offer themselves for re-election. Mr Engstrom, having been appointed to the board during the year, will also retire and, being eligible, offers himself for re-election. Mr Brock will not be seeking 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 currently comprising 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, Cees van Lede, David Reid, Lord Sharman and Rolf Stomberg. The Executive Board currently comprises Sir Crispin Davis – Chief Executive Officer, Mark Armour – Chief Financial Officer, Gerard van de Aast, Andrew Prozes and Patrick Tierney. The boards met five times during the year. Mr Tabaksblat and Mrs de Boer-Kruyt were unable to attend one meeting, otherwise there was full attendance.

At the Reed Elsevier NV Annual General Meeting to be held on 28 April 2005, Mr Brock will retire by rotation as a member of the Supervisory Board, and Sir Crispin Davis, Messrs Armour and Prozes will retire by rotation as members of the Executive Board. Being eligible, Sir Crispin Davis, Messrs Armour and Prozes offer themselves for re-election. A resolution will also be submitted proposing the appointment of Mr Engstrom to the Executive Board. Mr Brock will not be seeking re-election.

Reed Elsevier Group plc

The Reed Elsevier Group plc board consists of six executive directors: Sir Crispin Davis – Chief Executive Officer, Mark Armour – Chief Finance Officer, Gerard van de Aast, Erik Engstrom – appointed 23 August 2004, Andrew Prozes and Patrick Tierney, and seven independent non-executive directors: Morris Tabaksblat – Chairman, John Brock, Mark Elliott, Cees van Lede, David Reid, Lord Sharman and Rolf Stomberg. The board met seven times during the year. Mr Tabaksblat was unable to attend two meetings and Lord Sharman and Mr Brock were each unable to attend one meeting, otherwise there was full attendance.

Biographical information in respect of the current members of the boards appears on page 13 of the Annual Review and Summary Financial Statements.

Elsevier Reed Finance BV
Elsevier Reed Finance BV has a two-tier board structure comprising a Supervisory Board and an Executive Board. 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. The management board and the supervisory board met three times during the year. Mr Boellaard was unable to attend two meetings, otherwise there was full attendance.

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. A report of the Audit Committees, setting out the role of the Committees and their main activities during the year, appears on pages 28 to 30.

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

The functions of an audit committee in respect of the financing activities are carried out by the supervisory board of Elsevier Reed Finance BV.

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, Cees van Lede, David Reid, Lord Sharman and Rolf Stomberg. The Committee met once during the year, and 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 assessed the performance of individual executive directors and, led by the senior independent director, also assessed the performance of the Chairman. Using self-assessment questionnaires completed by all directors, the Committee reviewed the functioning and constitution of the boards and their Committees. 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.

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 Sir Crispin Davis – Chief Executive Officer, Cees van Lede, Lord Sharman and Rolf Stomberg. Although he is not independent, the boards believe 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 six times during the year. Mr Tabaksblat was unable to attend two meetings and Lord Sharman and Mr van Lede were each unable to attend one meeting, otherwise 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.

Based on the assessment by the Corporate Governance Committee of the qualifications and performance of each individual director, the Nominations Committee recommends the appointment of the directors seeking election at the Annual General Meetings in 2005.

The Committee uses the services of external search consultants to identify potential candidates for appointment to the boards. During the period the Committee recommended to the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc the appointment of Erik Engstrom, an additional executive director, as set out on page 23.

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

The Committee is responsible for recommending to the board the remuneration in all its forms of executive directors of Reed Elsevier Group plc, and provides advice to the Chief Executive Officer on the remuneration of executives at a senior level below the board. It also makes recommendations to the board of Reed Elsevier PLC and to the supervisory board of Reed Elsevier NV regarding the remuneration of the executive directors of these companies.

The fees of non-executive directors of Reed Elsevier PLC are determined by the board of directors, within the limits set out in the Articles of Association, as approved by shareholders. A proposal establishing similar arrangements will be submitted to the Annual General Meeting of Reed Elsevier NV in April 2005.

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 31 to 42. This report also serves as disclosure of the directors' remuneration policy, their 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 Sir Crispin Davis, Mark Elliott and David Reid. The Committee met once during the year, and there was full attendance.

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

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 auditors are available to answer questions from shareholders. The interim and annual results announcements and presentations, together with the trading updates and other important announcements and corporate governance documents 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 and risk management 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 boards of Reed Elsevier Group plc and Elsevier Reed Finance BV have implemented an ongoing process for identifying, evaluating, monitoring and managing the more significant risks faced by their respective businesses. This process has been in place throughout the year ended 31 December 2004 and up to the date of the approvals of the Annual 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.

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

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

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

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

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 and risk management during the last financial year. The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss. Subject to this, the boards concluded that the systems of internal control and risk management were adequate and effective in the context of the business as a whole.

The Reed Elsevier businesses are in the process of re-documenting key internal financial controls and establishing a new controls testing regime to meet the specific reporting and audit requirements of Section 404 of the US Sarbanes-Oxley Act.

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 2004 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 Reed Elsevier Annual Report 2004 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. The current members of each of the Committees are: Lord Sharman (Chairman of the Committees), John Brock and David Reid. Lord Sharman and David Reid are considered to have significant, recent and relevant financial experience.

Lord Sharman (62), a chartered accountant, spent his professional career at KPMG and now serves as non-executive Chairman of Aegis Group plc. He is a member of the Supervisory Board of ABN-AMRO and a non-executive director of BG Group plc, Group 4 Securicor plc and Aviva plc. He was elected UK senior partner of KPMG in 1994 and served as Chairman of KPMG Worldwide between 1997 and 1999. John Brock (56) is Chief Executive Officer of InBev SA and a non-executive director of Campbell Soup Company. David Reid (58), a chartered accountant, was appointed non-executive Chairman of Tesco PLC in April 2004. Prior to this appointment, he was executive Deputy Chairman, with responsibility for strategy, business development and international operations; he was previously the finance director of Tesco PLC.

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 2004 are set out in the Directors' Remuneration Report on pages 31 to 42.

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 2004 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 International Financial Reporting Standards with effect from the 2005 financial year and the related disclosures.

(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 Financial Reporting Standards (IFRS). The review of critical accounting policies and financial statement presentation includes those in relation to IFRS.

(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 2004 has been the development and agreement of plans to meet the new requirements of Section 404 of the US Sarbanes-Oxley Act relating to the documentation and testing of internal financial controls.

(v) reviewed and approved the internal audit plan for 2004 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.

At their meeting in June 2004, the Committee conducted a formal review of the performance of the external auditors and the effectiveness of the audit process for both the external and internal audit activities. Based on this review, and on their subsequent observations on the planning and execution of the external audit for the year ended 31 December 2004, 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.

Lord Sharman of Redlynch
Chairman of the Audit Committees
16 February 2005

Directors' remuneration report

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

Information relating to the emoluments of the directors on pages 35 to 37 and directors' interests in share options on pages 38 to 41 has been audited.

Remuneration Committee

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

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

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

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

Remuneration policy

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

(a) Objectives

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

The Board and the Committee believes that this requires:

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

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

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

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

(b) Remuneration elements

Executive directors' remuneration consists of the following elements:

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

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

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

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

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

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

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

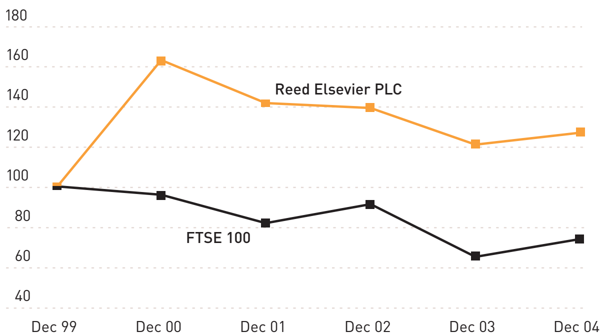
The Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in Reed Elsevier's business environment and in remuneration practice. Consequently, the above policy will apply in 2005 but may require to be amended. Any changes in policy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

Total shareholder return

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

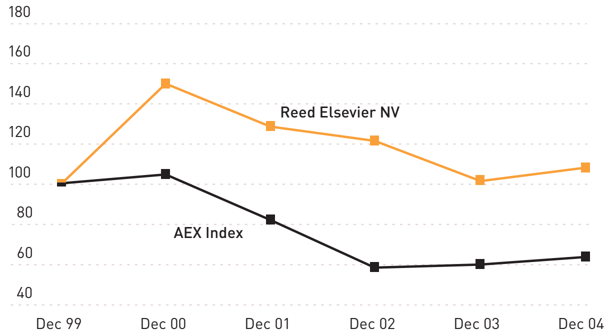
For the five year period since 1 January 2000, the total shareholder return for Reed Elsevier PLC was 27%, significantly outperforming the FTSE 100 which saw a negative return of 18%. For Reed Elsevier NV, in the same five year period total shareholder return was 8%, also significantly outperforming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

Reed Elsevier PLC total shareholder return v FTSE 100 2000–2004



Source: FTSE International

Reed Elsevier NV total shareholder return v AEX Index 2000–2004



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.

Appointment of executive director

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

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

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

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

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

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

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

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

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

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

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

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

External appointments
Executive directors may, subject to the approval of the Chairman and the Chief Executive Officer, serve as non-executive directors on the boards of up to two non-associated companies (of which only one may be to the board of a major company). The Committee believes that Reed Elsevier can benefit from the broader experience gained by executive directors in such appointments. Directors may retain remuneration arising from such non-executive directorships. Sir Crispin Davis is a non-executive director of GlaxoSmithKline plc, and received a fee of £57,260/€84,172 during the year from that company in such capacity. Erik Engstrom is a non-executive director of Eniro AB, and received a fee of £8,150/€11,981 from 23 August 2004 to 31 December 2004 from that company in such capacity.

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

With effect from 1 May 2003 the fees paid to the non-executive directors (other than the Chairman) who serve on the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV were reviewed for the first time since 1999 and were increased to £45,000/€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.

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

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

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

(a) Aggregate emoluments

	£		€	
	2004 £000	2003 £000	**2004 €000**	2003 €000
Salaries and fees	**3,684**	3,473	**5,416**	5,035
Benefits	**475**	93	**698**	134
Annual performance-related bonuses	**3,027**	2,254	**4,450**	3,269
Pension contributions	**54**	243	**79**	352
Pension to former director	**190**	213	**279**	307
Payment to former directors	**10**	95	**15**	139
Total	**7,440**	6,371	**10,937**	9,236

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

Details of share options exercised by the directors over shares in Reed Elsevier PLC and Reed Elsevier NV during the year are shown on pages 38 to 41. The aggregate notional pre-tax gain made by the directors on the exercise of share options during the year was £2,001/€2,942 (2003: £5,201,190/€7,541,726).

(b) Individual emoluments of executive directors

	£					€				
	Salary	Benefits	Bonus	**Total 2004**	Total 2003	Salary	Benefits	Bonus	**Total 2004**	Total 2003
G J A van de Aast	405,900	18,592	410,730	**835,222**	681,009	596,673	27,330	603,773	**1,227,776**	987,463
M H Armour	503,970	23,699	470,733	**998,402**	857,230	740,836	34,838	691,978	**1,467,652**	1,242,984
Sir Crispin Davis	991,725	31,340	926,370	**1,949,435**	1,718,379	1,457,836	46,070	1,361,764	**2,865,670**	2,491,650
E Engstrom	195,966	388,065	155,701	**739,732**	–	288,069	570,455	228,880	**1,087,404**	–
D J Haank (until 18 June 2003)	–	–	–	**–**	207,131	–	–	–	**–**	300,340
A Prozes	545,082	7,739	527,531	**1,080,352**	1,022,230	801,270	11,377	775,470	**1,588,117**	1,482,234
P Tierney (from 8 April 2003)	545,082	5,574	536,415	**1,087,071**	852,399	801,270	8,193	788,530	**1,597,993**	1,235,979
Total	3,187,725	475,009	3,027,480	**6,690,214**	5,338,378	4,685,954	698,263	4,450,395	**9,834,612**	7,740,650

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

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

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

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

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

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

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

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

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

£

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

€

	Directors' contributions	Transfer value of accrued pension 31 December 2003	Transfer value of accrued pension 31 December 2004	Increase in transfer value during the period (net of directors' contributions)	Accrued annual pension 31 December 2004	Increase in accrued annual pension during the period	Increase in accrued annual pension during the period (net of inflation)	Transfer value of increase in accrued annual pension during the period (net of inflation and directors' contributions)
G J A van de Aast	5,590	483,623	749,897	254,013	81,245	25,466	23,905	215,055
M H Armour	5,590	1,998,920	2,531,583	499,500	244,834	39,099	33,351	339,257
Sir Crispin Davis	5,590	3,985,853	5,823,758	1,777,337	366,505	82,739	74,794	1,182,871
A Prozes	–	–	–	–	–	–	–	–
P Tierney	–	1,922,292	2,099,151	363,329	200,712	35,344	35,344	421,889

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

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

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

(d) Individual emoluments of non-executive directors

	£ 2004	£ 2003	€ 2004	€ 2003
G J de Boer-Kruyt	**22,993**	15,758	**33,800**	22,850
J F Brock	**44,218**	43,448	**65,000**	63,000
M W Elliott (from 8 April 2003)	**45,000**	36,742	**66,150**	53,276
C J A van Lede (from 8 April 2003)	**44,218**	36,897	**65,000**	53,500
R J Nelissen (until 8 April 2003)	**–**	10,172[i]	**–**	14,750[i]
S Perrick (until 8 April 2003)	**–**	10,172	**–**	14,750
D E Reid (from 8 April 2003)	**45,000**	36,742	**66,150**	53,276
Lord Sharman	**52,000**	48,544	**76,440**	70,388
R W H Stomberg	**52,381**	49,655	**77,000**	72,000
M Tabaksblat	**190,476**	193,103	**280,000**	280,000
Total	**496,286**	481,233	**729,540**	697,790

(i) R J Nelissen has served as Chairman of the Supervisory Board of Elsevier Reed Finance BV throughout the year. During the period he received fees of £10,204/€15,000 in such capacity.

Share options and interests in shares

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

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

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

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

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

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

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

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

(a) In Reed Elsevier PLC

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

(a) In Reed Elsevier PLC continued

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

(i) At 23 August 2004, being the date of appointment as a director of Reed Elsevier Group plc and Reed Elsevier PLC.
(ii) Options lapsed unexercised during the year.
(iii) Retained an interest in all of the shares.

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

(b) In Reed Elsevier NV

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

(b) In Reed Elsevier NV continued

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

(i) At 23 August 2004, being the date of appointment as a director of Reed Elsevier Group plc and Reed Elsevier PLC.
(ii) Options lapsed unexercised during the year.

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

(c) Shareholdings

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

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

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

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

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

Rolf Stomberg
Chairman of the Remuneration Committee

Approved by the board of Reed Elsevier PLC
on 16 February 2005

Rolf Stomberg
Non-executive director

Approved by the Combined Board of Reed Elsevier NV
on 16 February 2005

Rolf Stomberg
Member of the Supervisory Board

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). 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.

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 the Netherlands Civil Code. Additional information is given in Annual Reports and Financial Statements of the parent companies set out on pages 76 to 109. A list of principal businesses is set out on page 151.

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 27.

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.

Revenues are recognised for the various categories of turnover as follows: subscriptions – on periodic despatch of subscribed product or ratably over the period of the subscription where performance is not measurable by despatch; circulation – on despatch; advertising – on publication or period of online display; exhibitions – on occurrence of the exhibition; educational testing contracts – over the term of the contract on percentage completed against contract milestones. Where sales consist of two or more independent components, revenue is recognised on each component, as it is completed by performance, based on attribution of relative value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Combined profit and loss account

For the year ended 31 December 2004

	Note	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m
Turnover					
Including share of turnover of joint ventures		**4,906**	5,006	**7,212**	7,259
Less: share of turnover of joint ventures		**(94)**	(81)	**(138)**	(118)
	1	**4,812**	4,925	**7,074**	7,141
Continuing operations before acquisitions		**4,751**	4,925	**6,984**	7,141
Acquisitions		**61**	–	**90**	–
Cost of sales	2	**(1,733)**	(1,764)	**(2,548)**	(2,558)
Gross profit		**3,079**	3,161	**4,526**	4,583
Operating expenses	2	**(2,404)**	(2,516)	**(3,534)**	(3,648)
Before amortisation and exceptional items		**(1,944)**	(2,002)	**(2,858)**	(2,902)
Amortisation of goodwill and intangible assets		**(404)**	(442)	**(594)**	(641)
Exceptional items	6	**(56)**	(72)	**(82)**	(105)
Operating profit (before joint ventures)		**675**	645	**992**	935
Continuing operations before acquisitions		**699**	645	**1,027**	935
Acquisitions		**(24)**	–	**(35)**	–
Share of operating profit of joint ventures		**22**	16	**32**	23
Operating profit including joint ventures	1,5	**697**	661	**1,024**	958
Non operating exceptional items					
Net (loss)/profit on disposal of businesses and fixed assets	6	**(3)**	26	**(4)**	37
Profit on ordinary activities before interest		**694**	687	**1,020**	995
Net interest expense	7	**(132)**	(168)	**(194)**	(243)
Profit on ordinary activities before taxation		**562**	519	**826**	752
Tax on profit on ordinary activities	8	**(257)**	(183)	**(378)**	(265)
Profit on ordinary activities after taxation		**305**	336	**448**	487
Minority interests		**(2)**	(2)	**(3)**	(3)
Profit attributable to parent companies' shareholders	26	**303**	334	**445**	484
Equity dividends paid and proposed	9	**(330)**	(304)	**(485)**	(441)
Retained (loss)/profit taken to combined reserves		**(27)**	30	**(40)**	43

Adjusted figures

	Note	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m
Adjusted operating profit	1,10	**1,159**	1,178	**1,704**	1,708
Adjusted profit before tax	10	**1,027**	1,010	**1,510**	1,465
Adjusted profit attributable to parent companies' shareholders	10	**760**	744	**1,117**	1,079

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 2004

	Note	2004 £m	2003 £m	2004 €m	2003 €m
Net cash inflow from operating activities before exceptional items	11	**1,221**	1,163	**1,794**	1,686
Payments relating to exceptional items charged to operating profit	6	**(67)**	(98)	**(98)**	(142)
Net cash inflow from operating activities		**1,154**	1,065	**1,696**	1,544
Dividends received from joint ventures	15	**17**	14	**25**	20
Interest and similar income received		**16**	17	**24**	25
Interest and similar charges paid		**(146)**	(194)	**(215)**	(282)
Returns on investments and servicing of finance		**(130)**	(177)	**(191)**	(257)
Taxation before exceptional items		**(240)**	(182)	**(353)**	(264)
Exceptional items	6	**31**	36	**46**	52
Taxation		**(209)**	(146)	**(307)**	(212)
Purchase of tangible fixed assets		**(192)**	(155)	**(282)**	(225)
Purchase of fixed asset investments	15	**(13)**	(7)	**(19)**	(10)
Proceeds from sale of tangible fixed assets		**4**	6	**7**	10
Exceptional proceeds from disposal of fixed assets	6	**10**	19	**15**	28
Capital expenditure and financial investment		**(191)**	(137)	**(279)**	(197)
Acquisitions	11	**(647)**	(258)	**(951)**	(374)
Exceptional net proceeds from disposal of businesses	6	**2**	77	**3**	112
Acquisitions and disposals		**(645)**	(181)	**(948)**	(262)
Equity dividends paid to shareholders of the parent companies		**(309)**	(292)	**(454)**	(423)
Cash (outflow)/inflow before changes in short term investments and financing		**(313)**	146	**(458)**	213
Decrease/(increase) in short term investments	11	**402**	(165)	**589**	(240)
Financing	11	**(90)**	(86)	**(132)**	(125)
Decrease in cash	11	**(1)**	(105)	**(1)**	(152)

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	2004 £m	2003 £m	2004 €m	2003 €m
Adjusted operating cash flow	10	**1,050**	1,028	**1,544**	1,491
Adjusted operating cash flow conversion		**91%**	87%	**91%**	87%

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 2004

	Note	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m
Fixed assets					
Goodwill and intangible assets	13	**5,006**	5,153	**7,058**	7,317
Tangible fixed assets	14	**519**	482	**732**	684
Investments	15	**108**	101	**153**	144
Investments in joint ventures:					
Share of gross assets		**115**	118	**162**	168
Share of gross liabilities		**(57)**	(58)	**(80)**	(83)
Share of net assets		**58**	60	**82**	85
Other investments		**50**	41	**71**	59
		5,633	5,736	**7,943**	8,145
Current assets					
Inventories and pre-publication costs	16	**541**	526	**763**	747
Debtors – amounts falling due within one year	17	**1,098**	1,044	**1,548**	1,482
Debtors – amounts falling due after more than one year	18	**239**	249	**337**	354
Cash and short term investments	19	**225**	638	**317**	906
		2,103	2,457	**2,965**	3,489
Creditors: amounts falling due within one year	20	**(3,357)**	(3,474)	**(4,733)**	(4,933)
Net current liabilities		**(1,254)**	(1,017)	**(1,768)**	(1,444)
Total assets less current liabilities		**4,379**	4,719	**6,175**	6,701
Creditors: amounts falling due after more than one year	21	**(1,971)**	(2,105)	**(2,779)**	(2,989)
Provisions for liabilities and charges	24	**(128)**	(168)	**(180)**	(239)
Minority interests		**(13)**	(12)	**(20)**	(17)
Net assets		**2,267**	2,434	**3,196**	3,456
Capital and reserves					
Combined share capitals		**191**	190	**269**	270
Combined share premium accounts		**1,805**	1,784	**2,545**	2,533
Combined shares held in treasury		**(66)**	(37)	**(93)**	(53)
Combined reserves		**337**	497	**475**	706
Combined shareholders' funds	26	**2,267**	2,434	**3,196**	3,456

Approved by the boards of Reed Elsevier PLC and Reed Elsevier NV, 16 February 2005.

Combined statement of total recognised gains and losses

For the year ended 31 December 2004

	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m
Profit attributable to parent companies' shareholders	**303**	334	**445**	484
Exchange translation differences	**(143)**	(232)	**(224)**	(620)
Total recognised gains and losses for the year	**160**	102	**221**	(136)

Combined shareholders' funds reconciliation

For the year ended 31 December 2004

	£ 2004 £m	£ 2003 £m	€ 2004 €m	€ 2003 €m
Profit attributable to parent companies' shareholders	**303**	334	**445**	484
Equity dividends paid and proposed	**(330)**	(304)	**(485)**	(441)
Issue of ordinary shares, net of expenses	**21**	14	**31**	20
Increase in shares held in treasury	**(29)**	(18)	**(43)**	(26)
Increase in conditional share reserve	**11**	–	**16**	–
Exchange translation differences	**(143)**	(232)	**(224)**	(620)
Net decrease in combined shareholders' funds	**(167)**	(206)	**(260)**	(583)
Combined shareholders' funds at 1 January	**2,434**	2,640	**3,456**	4,039
Combined shareholders' funds at 31 December	**2,267**	2,434	**3,196**	3,456

Notes to the combined financial statements

For the year ended 31 December 2004

1 Segment analysis

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
Business segment								
Elsevier	**1,363**	1,381	**386**	375	**460**	467	**1,380**	1,476
LexisNexis	**1,292**	1,318	**110**	95	**308**	301	**2,147**	1,985
Harcourt Education	**868**	898	**90**	91	**164**	174	**1,379**	1,390
Reed Business	**1,289**	1,328	**111**	100	**227**	236	**650**	763
Total	**4,812**	4,925	**697**	661	**1,159**	1,178	**5,556**	5,614
Geographical origin								
North America	**2,656**	2,822	**238**	225	**571**	603	**4,634**	4,639
United Kingdom	**846**	823	**155**	168	**204**	210	**473**	432
The Netherlands	**503**	502	**181**	162	**200**	189	**(42)**	2
Rest of Europe	**545**	541	**83**	73	**140**	136	**473**	516
Rest of world	**262**	237	**40**	33	**44**	40	**18**	25
Total	**4,812**	4,925	**697**	661	**1,159**	1,178	**5,556**	5,614

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
	2004 €m	2003 €m	**2004 €m**	2003 €m	**2004 €m**	2003 €m	**2004 €m**	2003 €m
Business segment								
Elsevier	**2,004**	2,002	**567**	544	**676**	677	**1,946**	2,096
LexisNexis	**1,899**	1,911	**162**	138	**453**	437	**3,027**	2,819
Harcourt Education	**1,276**	1,302	**132**	132	**241**	252	**1,944**	1,974
Reed Business	**1,895**	1,926	**163**	144	**334**	342	**917**	1,083
Total	**7,074**	7,141	**1,024**	958	**1,704**	1,708	**7,834**	7,972
Geographical origin								
North America	**3,904**	4,092	**350**	326	**839**	874	**6,534**	6,587
United Kingdom	**1,244**	1,193	**227**	244	**300**	305	**667**	613
The Netherlands	**739**	728	**266**	235	**294**	274	**(59)**	3
Rest of Europe	**801**	784	**122**	106	**206**	197	**667**	733
Rest of world	**386**	344	**59**	47	**65**	58	**25**	36
Total	**7,074**	7,141	**1,024**	958	**1,704**	1,708	**7,834**	7,972

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.

Turnover is analysed before the £94m/€138m (2003: £81m/€118m) share of joint ventures' turnover, of which £19m/€28m (2003: £20m/€29m) relates to LexisNexis, principally Giuffrè, and £75m/€110m (2003: £61m/€89m) relates to Reed Business, principally exhibition joint ventures.

Share of operating profit in joint ventures of £22m/€32m (2003: £16m/€23m) comprises £4m/€6m (2003: £5m/€7m) relating to LexisNexis and £18m/€26m (2003: £11m/€16m) relating to Reed Business.

1 Segment analysis continued

	2004 £m	2003 £m	2004 €m	2003 €m
Analysis of turnover by geographical market				
North America	**2,779**	2,921	**4,085**	4,235
United Kingdom	**545**	551	**801**	799
The Netherlands	**202**	207	**297**	300
Rest of Europe	**725**	695	**1,066**	1,008
Rest of world	**561**	551	**825**	799
Total	**4,812**	4,925	**7,074**	7,141

	2004 £m	2003 £m	2004 €m	2003 €m
Reconciliation of capital employed to combined shareholders' funds				
Capital employed	**5,556**	5,614	**7,834**	7,972
Taxation	**(476)**	(549)	**(671)**	(780)
Dividends and net interest	**(268)**	(247)	**(377)**	(351)
Net borrowings	**(2,532)**	(2,372)	**(3,570)**	(3,368)
Minority interests	**(13)**	(12)	**(20)**	(17)
Combined shareholders' funds	**2,267**	2,434	**3,196**	3,456

	Capital expenditure		Depreciation		Amortisation	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Business segment						
Elsevier	**66**	46	**29**	30	**65**	72
LexisNexis	**87**	83	**59**	61	**178**	185
Harcourt Education	**22**	14	**12**	13	**57**	63
Reed Business	**28**	25	**26**	30	**106**	125
Total	**203**	168	**126**	134	**406**	445

	Capital expenditure		Depreciation		Amortisation	
	2004 €m	2003 €m	2004 €m	2003 €m	2004 €m	2003 €m
Business segment						
Elsevier	**97**	67	**42**	43	**95**	104
LexisNexis	**128**	120	**87**	89	**263**	268
Harcourt Education	**32**	20	**18**	19	**84**	91
Reed Business	**41**	37	**38**	43	**156**	182
Total	**298**	244	**185**	194	**598**	645

Notes to the combined financial statements

For the year ended 31 December 2004

2 Cost of sales and operating expenses

	2004				2003			
	Before amortisation and exceptional items £m	Amortisation of goodwill and intangible assets £m	Exceptional items £m	Total £m	Before amortisation and exceptional items £m	Amortisation of goodwill and intangible assets £m	Exceptional items £m	Total £m
Cost of sales								
Continuing operations	**1,714**	**–**	**–**	**1,714**	1,764	–	–	1,764
Acquisitions	**19**	**–**	**–**	**19**	–	–	–	–
Total	**1,733**	**–**	**–**	**1,733**	1,764	–	–	1,764
Distribution and selling costs								
Continuing operations	**1,052**	**–**	**–**	**1,052**	1,100	–	–	1,100
Acquisitions	**13**	**–**	**–**	**13**	–	–	–	–
	1,065	**–**	**–**	**1,065**	1,100	–	–	1,100
Administrative expenses								
Continuing operations	**868**	**381**	**37**	**1,286**	902	442	72	1,416
Acquisitions	**11**	**23**	**19**	**53**	–	–	–	–
	879	**404**	**56**	**1,339**	902	442	72	1,416
Operating expenses								
Continuing operations	**1,920**	**381**	**37**	**2,338**	2,002	442	72	2,516
Acquisitions	**24**	**23**	**19**	**66**	–	–	–	–
Total	**1,944**	**404**	**56**	**2,404**	2,002	442	72	2,516

	2004				2003			
	Before amortisation and exceptional items €m	Amortisation of goodwill and intangible assets €m	Exceptional items €m	Total €m	Before amortisation and exceptional items €m	Amortisation of goodwill and intangible assets €m	Exceptional items €m	Total €m
Cost of sales								
Continuing operations	**2,520**	**–**	**–**	**2,520**	2,558	–	–	2,558
Acquisitions	**28**	**–**	**–**	**28**	–	–	–	–
Total	**2,548**	**–**	**–**	**2,548**	2,558	–	–	2,558
Distribution and selling costs								
Continuing operations	**1,546**	**–**	**–**	**1,546**	1,595	–	–	1,595
Acquisitions	**20**	**–**	**–**	**20**	–	–	–	–
	1,566	**–**	**–**	**1,566**	1,595	–	–	1,595
Administrative expenses								
Continuing operations	**1,277**	**560**	**54**	**1,891**	1,307	641	105	2,053
Acquisitions	**15**	**34**	**28**	**77**	–	–	–	–
	1,292	**594**	**82**	**1,968**	1,307	641	105	2,053
Operating expenses								
Continuing operations	**2,823**	**560**	**54**	**3,437**	2,902	641	105	3,648
Acquisitions	**35**	**34**	**28**	**97**	–	–	–	–
Total	**2,858**	**594**	**82**	**3,534**	2,902	641	105	3,648

3 Personnel

Number of people employed	At 31 December 2004	At 31 December 2003	Average during the year 2004	Average during the year 2003
Business segment				
Elsevier	**6,900**	6,800	**6,800**	6,700
LexisNexis	**13,200**	12,800	**12,900**	13,100
Harcourt Education	**5,400**	5,300	**5,300**	5,400
Reed Business	**10,100**	10,100	**10,100**	10,400
Total	**35,600**	35,000	**35,100**	35,600
Geographical location				
North America	**20,000**	19,600	**19,800**	20,200
United Kingdom	**5,700**	5,900	**5,700**	5,900
The Netherlands	**2,600**	2,700	**2,600**	2,700
Rest of Europe	**4,100**	3,900	**4,000**	3,900
Rest of world	**3,200**	2,900	**3,000**	2,900
Total	**35,600**	35,000	**35,100**	35,600

4 Pension schemes

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

The principal valuation assumptions for the main UK scheme were:

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

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

The actuarial values placed on scheme assets under SSAP24 as at their last valuation date were sufficient to cover 113%, 119% and 90% of the benefits that had accrued to members of the main UK, US and Netherlands schemes respectively. Actuarial surpluses and deficits are spread as a level amount over the average remaining service lives of employees. The actuarial values of the schemes' assets as at the valuation dates, excluding assets held in respect of members' additional voluntary contributions, were £1,350m/€1,958m, £287m/€405m and £280m/€395m in respect of the UK, US and Netherlands schemes respectively.

The liabilities in respect of unfunded schemes have been determined by actuaries. As at 31 December 2004 £53m/€74m (2003: £52m/€74m) has been provided for within creditors.

Notes to the combined financial statements

For the year ended 31 December 2004

4 Pension schemes continued

The net pension charge was £57m/€84m (2003: £59m/€86m). Pension contributions made in the year amounted to £79m/€116m (2003: £49m/€72m), including £11m/€16m in respect of defined contribution schemes. The net SSAP24 charge on the main UK scheme comprises a regular cost of £23m/€34m (2003: £23m/€33m), less amortisation of the net actuarial surplus of £13m/€19m (2003: £13m/€19m). Based on the advice of the scheme actuaries, and with the agreement of the scheme trustees, employer contributions to the main UK scheme with effect from 1 January 2004, will be made at a rate of 5% of pensionable salaries until the next triennial valuation in 2006. Employer contributions to the Netherlands scheme will be made at a rate of 9% of pensionable salaries for 2005.

A prepayment of £115m/€162m (2003: £115m/€163m), representing the excess of the net pension credit to the profit and loss account since 1988 and the amounts funded to the main UK scheme, is included in debtors falling due after one year. Other prepayments of £22m/€31m (2003: £nil/€nil) are included in debtors falling due within one year.

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

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

		Main UK Scheme			Aggregate of Schemes	
	Assumed rate of return on assets	£m	€m	Assumed rate of return on assets	£m	€m
2004						
Equities	7.8%	**1,075**	**1,516**	7.9%	**1,404**	**1,980**
Bonds	4.6%	**498**	**702**	4.7%	**713**	**1,005**
Other	4.3%	**72**	**101**	4.4%	**87**	**123**
Total fair value of assets		**1,645**	**2,319**		**2,204**	**3,108**
Present value of scheme liabilities		**(1,688)**	**(2,380)**		**(2,525)**	**(3,561)**
Net deficit		**(43)**	**(61)**		**(321)**	**(453)**
Related deferred tax		**13**	**19**		**109**	**154**
Net pension liability		**(30)**	**(42)**		**(212)**	**(299)**

		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)

At 31 December 2004, the aggregate net deficit in respect of the defined benefit schemes under FRS17 comprised £254m/€358m (2003: £189m/€268m) in respect of funded schemes and liabilities of £67m/€95m (2003: £62m/€88m) in respect of unfunded schemes, of which £53m/€74m (2003: £52m/€74m) is provided for within creditors under SSAP24.

At 31 December 2002, for the aggregate of schemes, the fair value of equities, bonds and other assets, and the related assumed rates of return for those asset classes were £1,068m/€1,634m, £670m/€1,025m and £53m/€81m and 9.0%, 4.9% and 3.8% respectively.

4 Pension schemes continued

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

	Main UK Scheme		Aggregate of Schemes	
	£m	€m	£m	€m
Net deficit in schemes at beginning of the year	**(58)**	**(82)**	**(251)**	**(356)**
Movement in the year:				
Total operating charge	**(41)**	**(60)**	**(83)**	**(122)**
Contributions	**10**	**15**	**68**	**100**
Finance income	**17**	**25**	**12**	**18**
Actuarial loss	**29**	**43**	**(74)**	**(109)**
Exchange translation differences	**–**	**(2)**	**7**	**16**
Net deficit in schemes at end of the year	**(43)**	**(61)**	**(321)**	**(453)**

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

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

The combined profit and loss reserves as at 31 December 2004 of £337m/€475m (2003: £497m/€706m) would have been £66m/€93m (2003: £285m/€405m), had the accounting methodologies of FRS17 been applied.

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
2004				
Charged to operating profit				
Current service cost	**(41)**	**(60)**	**(83)**	**(122)**
Past service cost	**–**	**–**	**–**	**–**
Total operating charge	**(41)**	**(60)**	**(83)**	**(122)**
Credited to other finance income				
Expected return on pension scheme assets	**103**	**151**	**139**	**204**
Interest on pension scheme liabilities	**(86)**	**(126)**	**(127)**	**(186)**
Net return	**17**	**25**	**12**	**18**
Amounts recognised in the statement of total recognised gains and losses				
Actual return less expected return on pension scheme assets	**57**	**84**	**66**	**97**
Experience losses arising on the scheme liabilities	**–**	**–**	**(18)**	**(26)**
Changes in assumptions underlying the present value of the scheme liabilities	**(28)**	**(41)**	**(122)**	**(180)**
Actuarial gain/(loss)	**29**	**43**	**(74)**	**(109)**

Notes to the combined financial statements

For the year ended 31 December 2004

4 Pension schemes continued

	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)

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

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

5 Operating profit

Operating profit is stated after the following:	Note	2004 £m	2003 £m	2004 €m	2003 €m
Hire of plant and machinery		**9**	9	**13**	13
Other operating lease rentals		**96**	94	**141**	136
Depreciation (including £8m/€12m (2003: £7m/€10m) in respect of assets held under finance leases)		**126**	134	**185**	194
Amortisation					
Amortisation of goodwill and intangible assets		**404**	442	**594**	641
Amortisation of goodwill and intangible assets in joint ventures		**2**	3	**4**	4
Total amortisation		**406**	445	**598**	645
Staff costs					
Wages and salaries		**1,227**	1,255	**1,804**	1,820
Social security costs		**130**	136	**191**	197
Pensions	4	**57**	59	**84**	86
Total staff costs		**1,414**	1,450	**2,079**	2,103
Auditors' remuneration					
For audit services		**3.0**	2.5	**4.4**	3.6
For non audit services		**1.2**	2.1	**1.8**	3.2

Auditors' remuneration for non audit services comprises £0.4m/€0.6m (2003: £0.8m/€1.2m) for audit related services, £0.2m/€0.3m (2003: £0.6m/€0.9m) for due diligence and other transaction related services, £0.6m/€0.9m (2003: £0.6m/€0.9m) for tax compliance and advisory work, and £nil/€nil (2003: £0.1m/€0.2m) for other non audit services. Included in auditors' remuneration for non audit services is £0.1m/€0.2m (2003: £0.4m/€0.6m) 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 31 to 42.

Notes to the combined financial statements

For the year ended 31 December 2004

6 Exceptional items

	Note	2004 £m	2003 £m	2004 €m	2003 €m
Reorganisation costs	(i)	**(18)**	(23)	**(26)**	(33)
Acquisition related costs	(ii)	**(38)**	(49)	**(56)**	(72)
Charged to operating profit		**(56)**	(72)	**(82)**	(105)
Net (loss)/profit on disposal of businesses and fixed assets	(iii)	**(3)**	26	**(4)**	37
Exceptional charge before tax		**(59)**	(46)	**(86)**	(68)
Net tax credit	(iv)	**13**	84	**18**	122
Total exceptional (charge)/credit		**(46)**	38	**(68)**	54

(i) Reorganisation costs relate to employee severance actions taken in the year, principally in Reed Business and Elsevier.
(ii) Acquisition related costs include employee severance and other costs arising on the integration of Seisint, Saxon and other recent acquisitions.
(iii) The net loss relates to minor disposals.
(iv) The net tax credit arises principally in respect of tax relief related to restructuring and acquisition integration costs, and, in 2003, additionally in respect of prior year disposals.

Cash flows in respect of exceptional items were as follows:

	2004 £m	2003 £m	2004 €m	2003 €m
Reorganisation costs	**(37)**	(51)	**(54)**	(74)
Acquisition related costs	**(30)**	(47)	**(44)**	(68)
Exceptional operating cash outflow	**(67)**	(98)	**(98)**	(142)
Net proceeds from disposal of businesses and fixed assets	**12**	96	**18**	140
Exceptional cash outflow before tax	**(55)**	(2)	**(80)**	(2)
Exceptional tax cash inflow	**31**	36	**46**	52
Total exceptional cash (outflow)/inflow	**(24)**	34	**(34)**	50

7 Net interest expense

	2004 £m	2003 £m	2004 €m	2003 €m
Interest receivable and similar income	**16**	18	**23**	26
Interest payable and similar charges				
Promissory notes and bank loans	**(41)**	(46)	**(60)**	(67)
Other loans	**(106)**	(139)	**(156)**	(201)
Other interest and similar charges	**(1)**	(1)	**(1)**	(1)
Total	**(132)**	(168)	**(194)**	(243)
Interest cover (times)	**8.8**	7.0	**8.8**	7.0

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

	2004 £m	2003 £m	2004 €m	2003 €m
Current tax				
United Kingdom	**73**	2	**107**	3
The Netherlands	**52**	58	**77**	84
Rest of world	**60**	57	**88**	83
Total current tax	**185**	117	**272**	170
Deferred tax				
Origination and reversal of timing differences	**65**	60	**96**	87
Sub-total	**250**	177	**368**	257
Share of tax attributable to joint ventures	**7**	6	**10**	8
Total	**257**	183	**378**	265

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:

	2004 £m	2003 £m	2004 €m	2003 €m
Profit on ordinary activities before tax	**562**	519	**826**	752
Tax at average standard rates	**167**	152	**245**	220
Net impact of amortisation of goodwill and intangible assets	**97**	108	**143**	157
Prior year disposals	**–**	(76)	**–**	(110)
Permanent differences and other items	**(14)**	(7)	**(20)**	(10)
Origination and reversal of timing differences	**(65)**	(60)	**(96)**	(87)
Current tax charge	**185**	117	**272**	170

9 Equity dividends paid and proposed

	2004 £m	2003 £m	2004 €m	2003 €m
Reed Elsevier PLC	**163**	152	**241**	220
Reed Elsevier NV	**167**	152	**244**	221
Total	**330**	304	**485**	441

Dividends comprise a total dividend for Reed Elsevier PLC of 13.0p (2003: 12.0p) per ordinary share and a total dividend for Reed Elsevier NV of €0.33 (2003: €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.

Notes to the combined financial statements

For the year ended 31 December 2004

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:

	2004 £m	2003 £m	2004 €m	2003 €m
Operating profit including joint ventures	**697**	661	**1,024**	958
Adjustments:				
Amortisation of goodwill and intangible assets (including joint ventures)	**406**	445	**598**	645
Reorganisation costs	**18**	23	**26**	33
Acquisition related costs	**38**	49	**56**	72
Adjusted operating profit	**1,159**	1,178	**1,704**	1,708
Profit before tax	**562**	519	**826**	752
Adjustments:				
Amortisation of goodwill and intangible assets (including joint ventures)	**406**	445	**598**	645
Reorganisation costs	**18**	23	**26**	33
Acquisition related costs	**38**	49	**56**	72
Net loss/(profit) on disposal of businesses and fixed assets	**3**	(26)	**4**	(37)
Adjusted profit before tax	**1,027**	1,010	**1,510**	1,465
Profit attributable to parent companies' shareholders	**303**	334	**445**	484
Adjustments:				
Amortisation of goodwill and intangible assets (including joint ventures)	**411**	448	**604**	649
Reorganisation costs	**15**	17	**22**	24
Acquisition related costs	**29**	32	**43**	47
Net loss/(profit) on disposal of businesses and fixed assets	**2**	(87)	**3**	(125)
Adjusted profit attributable to parent companies' shareholders	**760**	744	**1,117**	1,079
Net cash inflow from operating activities	**1,154**	1,065	**1,696**	1,544
Dividends received from joint ventures	**17**	14	**25**	20
Purchase of tangible fixed assets	**(192)**	(155)	**(282)**	(225)
Proceeds from sale of tangible fixed assets	**4**	6	**7**	10
Payments in relation to exceptional items charged to operating profit	**67**	98	**98**	142
Adjusted operating cash flow	**1,050**	1,028	**1,544**	1,491

11 Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	Note	**2004 £m**	2003 £m	**2004 €m**	2003 €m
Operating profit (before joint ventures)		**675**	645	**992**	935
Exceptional charges to operating profit	6	**56**	72	**82**	105
Operating profit before exceptional items		**731**	717	**1,074**	1,040
Amortisation of goodwill and intangible assets		**404**	442	**594**	641
Depreciation		**126**	134	**185**	194
Total non cash items		**530**	576	**779**	835
Increase in inventories and pre-publication costs		**(39)**	(51)	**(58)**	(75)
Increase in debtors		**(66)**	(112)	**(97)**	(162)
Increase in creditors		**65**	33	**96**	48
Movement in working capital		**(40)**	(130)	**(59)**	(189)
Net cash inflow from operating activities before exceptional items		**1,221**	1,163	**1,794**	1,686
Payments relating to exceptional items charged to operating profit	6	**(67)**	(98)	**(98)**	(142)
Net cash inflow from operating activities		**1,154**	1,065	**1,696**	1,544

Acquisitions

	Note	**2004 £m**	2003 £m	**2004 €m**	2003 €m
Purchase of businesses	12	**(640)**	(223)	**(941)**	(323)
Payment of non operating liabilities assumed on acquisition of Harcourt		**(3)**	(23)	**(4)**	(33)
Deferred consideration of prior year acquisitions		**(4)**	(12)	**(6)**	(18)
Total		**(647)**	(258)	**(951)**	(374)

Financing

	2004 £m	2003 £m	**2004 €m**	2003 €m
Net movement in promissory notes and bank loans	**(162)**	(46)	**(238)**	(67)
Repayment of other loans	**(3)**	(118)	**(4)**	(171)
Issuance of other loans	**102**	94	**150**	136
Repayment of finance leases	**(19)**	(12)	**(28)**	(17)
	(82)	(82)	**(120)**	(119)
Issue of ordinary shares	**21**	14	**31**	20
Purchase of treasury shares	**(29)**	(18)	**(43)**	(26)
Total	**(90)**	(86)	**(132)**	(125)

The issuance of other loans relates to term debt raised by a subsidiary of Elsevier Reed Finance BV.

Notes to the combined financial statements

For the year ended 31 December 2004

11 Cash flow statement continued

Reconciliation of net borrowings

	Cash £m	Short term investments £m	Borrowings £m	2004 £m	2003 £m
Net borrowings at 1 January	**68**	**570**	**(3,010)**	**(2,372)**	(2,732)
Decrease in cash	**(1)**	**–**	**–**	**(1)**	(105)
(Decrease)/increase in short term investments	**–**	**(402)**	**–**	**(402)**	165
Decrease in borrowings	**–**	**–**	**82**	**82**	82
Change in net borrowings resulting from cash flows	**(1)**	**(402)**	**82**	**(321)**	142
Borrowings in acquired businesses	**–**	**–**	**(2)**	**(2)**	(9)
Inception of finance leases	**–**	**–**	**(11)**	**(11)**	(13)
Exchange translation differences	**(1)**	**(9)**	**184**	**174**	240
Net borrowings at 31 December	**66**	**159**	**(2,757)**	**(2,532)**	(2,372)

	Cash €m	Short term investments €m	Borrowings €m	2004 €m	2003 €m
Net borrowings at 1 January	**97**	**809**	**(4,274)**	**(3,368)**	(4,180)
Decrease in cash	**(1)**	**–**	**–**	**(1)**	(152)
(Decrease)/increase in short term investments	**–**	**(589)**	**–**	**(589)**	240
Decrease in borrowings	**–**	**–**	**120**	**120**	119
Change in net borrowings resulting from cash flows	**(1)**	**(589)**	**120**	**(470)**	207
Borrowings in acquired businesses	**–**	**–**	**(3)**	**(3)**	(13)
Inception of finance leases	**–**	**–**	**(16)**	**(16)**	(19)
Exchange translation differences	**(3)**	**4**	**286**	**287**	637
Net borrowings at 31 December	**93**	**224**	**(3,887)**	**(3,570)**	(3,368)

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 £647m/€951m, including £7m/€10m deferred to future years, and after taking account of cash acquired of £17m/€25m. The most significant acquisitions were Seisint, a leading risk management business in the US, and Saxon, a supplemental educational publishing business in the US, for net consideration of £414m/€609m and £117m/€172m respectively.

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	–	277	277
Intangible fixed assets	3	307	310
Tangible fixed assets	14	–	14
Investments	5	–	5
Current assets	44	–	44
Current liabilities	(25)	–	(25)
Deferred tax	–	24	24
Borrowings	(2)	–	(2)
Net assets acquired	**39**	**608**	**647**
Consideration (after taking account of £17m cash acquired)			**647**
Less: deferred to future years			(7)
Net cash flow			**640**

	Book value on acquisition €m	Fair value adjustments €m	Fair value €m
Goodwill	–	407	407
Intangible fixed assets	4	452	456
Tangible fixed assets	21	–	21
Investments	7	–	7
Current assets	65	–	65
Current liabilities	(37)	–	(37)
Deferred tax	–	35	35
Borrowings	(3)	–	(3)
Net assets acquired	**57**	**894**	**951**
Consideration (after taking account of €25m cash acquired)			**951**
Less: deferred to future years			(10)
Net cash flow			**941**

The fair value adjustments in relation to the acquisitions made in 2004 relate principally to the valuation of publishing rights and titles, editorial content, technology and other intangible assets. Goodwill represents the excess of the consideration over the net tangible and intangible assets acquired. The businesses acquired in 2004 contributed £61m/€90m to turnover, £18m/€27m to adjusted operating profit, before the amortisation of goodwill and intangible assets and exceptional items, and £31m/€46m to net cash inflow from operating activities for the part year under Reed Elsevier ownership.

Notes to the combined financial statements

For the year ended 31 December 2004

13 Goodwill and intangible assets

	Goodwill £m	Intangible assets £m	Total £m	Goodwill €m	Intangible assets €m	Total €m
Cost						
At 1 January 2004	**4,250**	**4,091**	**8,341**	**6,035**	**5,809**	**11,844**
Acquisitions	**277**	**310**	**587**	**407**	**456**	**863**
Disposal of businesses	**(5)**	**(13)**	**(18)**	**(7)**	**(19)**	**(26)**
Exchange translation differences	**(260)**	**(236)**	**(496)**	**(426)**	**(391)**	**(817)**
At 31 December 2004	**4,262**	**4,152**	**8,414**	**6,009**	**5,855**	**11,864**
Accumulated amortisation						
At 1 January 2004	**1,813**	**1,375**	**3,188**	**2,574**	**1,953**	**4,527**
Disposal of businesses	**(5)**	**(13)**	**(18)**	**(7)**	**(19)**	**(26)**
Charge for the year	**204**	**200**	**404**	**300**	**294**	**594**
Exchange translation differences	**(99)**	**(67)**	**(166)**	**(170)**	**(119)**	**(289)**
At 31 December 2004	**1,913**	**1,495**	**3,408**	**2,697**	**2,109**	**4,806**
Net book amount						
At 1 January 2004	2,437	2,716	5,153	3,461	3,856	7,317
At 31 December 2004	**2,349**	**2,657**	**5,006**	**3,312**	**3,746**	**7,058**

At 31 December 2004, the weighted average remaining estimated useful life of goodwill and intangible assets was 23 years (2003: 24 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 2004	**185**	**1,085**	**1,270**	**263**	**1,540**	**1,803**
Acquisitions	**7**	**12**	**19**	**10**	**18**	**28**
Capital expenditure	**14**	**189**	**203**	**21**	**277**	**298**
Disposals	**(13)**	**(88)**	**(101)**	**(19)**	**(129)**	**(148)**
Exchange translation differences	**(11)**	**(60)**	**(71)**	**(18)**	**(102)**	**(120)**
At 31 December 2004	**182**	**1,138**	**1,320**	**257**	**1,604**	**1,861**
Accumulated depreciation						
At 1 January 2004	**72**	**716**	**788**	**103**	**1,016**	**1,119**
Acquisitions	**1**	**4**	**5**	**1**	**6**	**7**
Disposals/write off on acquisitions	**(3)**	**(70)**	**(73)**	**(4)**	**(103)**	**(107)**
Charge for the year	**7**	**119**	**126**	**10**	**175**	**185**
Exchange translation differences	**(5)**	**(40)**	**(45)**	**(8)**	**(67)**	**(75)**
At 31 December 2004	**72**	**729**	**801**	**102**	**1,027**	**1,129**
Net book amount						
At 1 January 2004	113	369	482	160	524	684
At 31 December 2004	**110**	**409**	**519**	**155**	**577**	**732**

At 31 December 2004 and 2003, all assets were included at cost. No depreciation was provided on freehold land.
The net book amount of tangible fixed assets includes £19m/€27m (2003: £29m/€41m) in respect of assets held under finance leases.

15 Fixed asset investments

	Investments in joint ventures £m	Other investments £m	Total £m	Investments in joint ventures €m	Other investments €m	Total €m
At 1 January 2004	**60**	**41**	**101**	**85**	**59**	**144**
Share of attributable profit	**17**	**–**	**17**	**26**	**–**	**26**
Amortisation of goodwill and intangible assets	**(2)**	**–**	**(2)**	**(4)**	**–**	**(4)**
Dividends received from joint ventures	**(17)**	**–**	**(17)**	**(25)**	**–**	**(25)**
Additions	**–**	**13**	**13**	**–**	**19**	**19**
Acquisitions	**–**	**5**	**5**	**–**	**7**	**7**
Disposals	**–**	**(5)**	**(5)**	**–**	**(7)**	**(7)**
Exchange translation differences	**–**	**(4)**	**(4)**	**–**	**(7)**	**(7)**
At 31 December 2004	**58**	**50**	**108**	**82**	**71**	**153**

The principal joint venture at 31 December 2004 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/€52m and £17m/€24m respectively (2003: £37m/€53m and £19m/€27m).

16 Inventories and pre-publication costs

	2004 £m	2003 £m	2004 €m	2003 €m
Raw materials	**12**	13	**17**	18
Pre-publication costs	**340**	322	**479**	457
Finished goods	**189**	191	**267**	272
Total	**541**	526	**763**	747

17 Debtors – amounts falling due within one year

	2004 £m	2003 £m	2004 €m	2003 €m
Trade debtors	**901**	852	**1,270**	1,210
Other debtors	**68**	85	**96**	120
Prepayments and accrued income	**129**	107	**182**	152
Total	**1,098**	1,044	**1,548**	1,482

18 Debtors – amounts falling due after more than one year

	Note	2004 £m	2003 £m	2004 €m	2003 €m
Trade debtors		**4**	8	**6**	11
Pension prepayment	4	**115**	115	**162**	163
Prepayments, accrued income and other debtors		**23**	30	**32**	44
Deferred taxation assets	24	**97**	96	**137**	136
Total		**239**	249	**337**	354

Notes to the combined financial statements

For the year ended 31 December 2004

19 Cash and short term investments

	2004 £m	2003 £m	2004 €m	2003 €m
Cash at bank and in hand	**66**	68	**93**	97
Short term investments	**159**	570	**224**	809
Total	**225**	638	**317**	906

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	2004 £m	2003 £m	2004 €m	2003 €m
Borrowings					
Promissory notes and bank loans		**965**	1,180	**1,361**	1,675
Other loans		**78**	2	**110**	3
Obligations under finance leases	23	**8**	16	**11**	23
		1,051	1,198	**1,482**	1,701
Trade creditors		**232**	228	**327**	324
Other creditors		**141**	144	**198**	204
Taxation		**299**	323	**422**	459
Proposed dividends		**248**	226	**350**	321
Accruals and deferred income		**1,386**	1,355	**1,954**	1,924
Total		**3,357**	3,474	**4,733**	4,933

21 Creditors: amounts falling due after more than one year

	Note	2004 £m	2003 £m	2004 €m	2003 €m
Borrowings					
Loans repayable:					
Within one to two years		**317**	84	**447**	119
Within two to five years		**680**	1,067	**959**	1,515
After five years		**701**	654	**987**	929
Obligations under finance leases	23	**8**	7	**12**	10
		1,706	1,812	**2,405**	2,573
Other creditors		**5**	9	**8**	13
Taxation		**198**	229	**279**	325
Accruals and deferred income		**62**	55	**87**	78
Total		**1,971**	2,105	**2,779**	2,989

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 £2,808m/€3,959m (2003: £3,074m/€4,365m), after taking account of interest rate and currency derivatives, is set out below:

	Floating rate financial liabilities £m	**Fixed rate financial liabilities £m**	**Floating rate financial liabilities €m**	**Fixed rate financial liabilities €m**	**Fixed rate financial liabilities**	
					Weighted average interest rate	**Weighted average term (years)**
2004						
US dollar	**682**	**1,579**	**962**	**2,226**	**5.2%**	**4.2**
Sterling	**1**	**–**	**1**	**–**	**–**	**–**
Euro	**344**	**146**	**485**	**206**	**5.6%**	**1.9**
Other currencies	**56**	**–**	**79**	**–**	**–**	**–**
Total	**1,083**	**1,725**	**1,527**	**2,432**	**5.2%**	**4.1**

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities €m	Fixed rate financial liabilities €m	Fixed rate financial liabilities	
					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

Included within fixed rate financial liabilities as at 31 December 2004 are £78m/€110m (2003: £nil/€nil) of US dollar term debt and £382m/€539m (2003: £421m/€598m) 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 £289m/€407m (2003: £702m/€997m), 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**
2004				
US dollar	**67**	**49**	**95**	**69**
Sterling	**42**	**5**	**59**	**7**
Euro	**79**	**3**	**111**	**4**
Other currencies	**37**	**7**	**52**	**10**
Total	**225**	**64**	**317**	**90**

Notes to the combined financial statements

For the year ended 31 December 2004

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
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

At 31 December 2004 there were interest rate swaps in place with a principal amount totalling £100m/€141m (2003: £100m/€142m) and interest rate floors in place with a principal amount totalling £nil/€nil (2003: £50m/€71m) 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 floating rate 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 £50m/€71m (2003: £41m/€58m) of investments denominated principally in sterling and US dollars which have no maturity date.

Forward starting interest rate derivatives

At 31 December 2004, agreements totalling £1,022m/€1,441m (2003: £653m/€927m) were in place to enter into interest rate swaps at future dates. Of these, individual swap agreements totalling £907m/€1,278m (2003: £449m/€638m) were to fix the interest expense on US dollar borrowings commencing in 2005 or 2006 for periods of up to 42 months, at a weighted average interest rate of 3.9%. A further £115m/€162m (2003: £104m/€148m) of interest rate swap agreements starting in 2005 was to swap US dollar fixed rate debt issues, to be drawn down in 2005, to floating rate debt for periods of 10 years and 12 years. There were no forward starting agreements in place to fix the interest income on sterling short term investments (2003: £100m/€142m).

At 31 December 2004, forward rate agreements totalling £130m/€183m (2003: £253m/€359m) were in place. All of these agreements were to fix the interest expense on short term US dollar borrowings commencing in 2006 for periods of three months only, at a weighted average interest rate of 2.7%.

Maturity profile of financial liabilities

The maturity profile of financial liabilities at 31 December comprised:

	2004 £m	2003 £m	**2004 €m**	2003 €m
Repayable:				
Within one year	**1,051**	1,198	**1,482**	1,701
Within one to two years	**341**	107	**481**	152
Within two to five years	**701**	1,099	**988**	1,561
After five years	**715**	670	**1,008**	951
Total	**2,808**	3,074	**3,959**	4,365

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 2004, a total of £1,555m/€2,193m (2003: £1,684m/€2,372m) of committed facilities was available, of which £41m/€58m (2003: £51m/€72m) was drawn and is included in financial liabilities repayable within one year. Of the total committed facilities, £389m/€548m (2003: £421m/€598m) matures within one year, £1,166m/€1,644m (2003: £nil/€nil) within three to four years and £nil/€nil (2003: £1,263m/€1,794m) within four to five years. Secured borrowings under finance leases were £16m/€23m (2003: £23m/€33m).

22 Financial instruments continued

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.

Fair values of financial assets and liabilities
The notional amount, book value and fair value of financial instruments are as follows:

	2004			2003		
	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		50	50		41	41
Cash		66	66		68	68
Short term investments		159	159		570	570
Other financial assets		14	14		23	23
Short term borrowings and current portion of long term borrowings		(1,051)	(1,052)		(1,198)	(1,197)
Long term borrowings		(1,706)	(1,744)		(1,812)	(1,903)
Other financial liabilities		(11)	(11)		(13)	(13)
Provisions		(40)	(40)		(51)	(51)
		(2,519)	(2,558)		(2,372)	(2,462)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	2,072	(6)	(32)	1,405	(7)	(54)
Interest rate options	259	(1)	(11)	618	(4)	(33)
Interest rate floors	–	–	–	50	–	–
Forward rate agreements	130	–	–	253	–	–
Forward foreign exchange contracts	380	–	2	52	–	5
	2,841	(7)	(41)	2,378	(11)	(82)
Total financial instruments	2,841	(2,526)	(2,599)	2,378	(2,383)	(2,544)

Notes to the combined financial statements

For the year ended 31 December 2004

22 Financial instruments continued

	2004			2003		
	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		**70**	**70**		58	58
Cash		**93**	**93**		97	97
Short term investments		**224**	**224**		809	809
Other financial assets		**20**	**20**		33	33
Short term borrowings and current portion of long term borrowings		**(1,482)**	**(1,482)**		(1,701)	(1,700)
Long term borrowings		**(2,405)**	**(2,459)**		(2,573)	(2,702)
Other financial liabilities		**(16)**	**(16)**		(19)	(19)
Provisions		**(56)**	**(56)**		(72)	(72)
		(3,552)	**(3,606)**		(3,368)	(3,496)
Derivative financial instruments held to manage interest rate and currency exposure						
Interest rate swaps	**2,922**	**(8)**	**(45)**	1,995	(10)	(77)
Interest rate options	**365**	**(2)**	**(16)**	878	(6)	(46)
Interest rate floors	**–**	**–**	**–**	71	–	–
Forward rate agreements	**183**	**–**	**–**	359	–	–
Forward foreign exchange contracts	**536**	**–**	**3**	74	–	7
	4,006	**(10)**	**(58)**	3,377	(16)	(116)
Total financial instruments	**4,006**	**(3,562)**	**(3,664)**	3,377	(3,384)	(3,612)

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 2004 and 2003. 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 2004, and before taking into account gains and losses arising in the year and included in the profit and loss account, are as follows:

	Unrecognised		Deferred	
	Gains £m	**Losses £m**	**Gains £m**	**Losses £m**
On hedges at 1 January 2004	**7**	**(78)**	**69**	**(25)**
Arising in previous years included in 2004 profit and loss account	**(4)**	**35**	**(44)**	**14**
Arising in previous years not included in 2004 profit and loss account	**3**	**(43)**	**25**	**(11)**
Arising in 2004 not included in 2004 profit and loss account	**3**	**3**	**35**	**(6)**
On hedges at 31 December 2004	**6**	**(40)**	**60**	**(17)**
Of which:				
Expected to be included in 2005 profit and loss account	**3**	**(26)**	**39**	**(12)**
Expected to be included in 2006 profit and loss account or later	**3**	**(14)**	**21**	**(5)**

22 Financial instruments continued

	Unrecognised Gains €m	Unrecognised Losses €m	Deferred Gains €m	Deferred Losses €m
On hedges at 1 January 2004	**10**	**(111)**	**98**	**(36)**
Arising in previous years included in 2004 profit and loss account	**(6)**	**51**	**(65)**	**21**
Arising in previous years not included in 2004 profit and loss account	**4**	**(60)**	**33**	**(15)**
Arising in 2004 not included in 2004 profit and loss account	**4**	**4**	**51**	**(9)**
On hedges at 31 December 2004	**8**	**(56)**	**84**	**(24)**
Of which:				
Expected to be included in 2005 profit and loss account	**4**	**(37)**	**55**	**(17)**
Expected to be included in 2006 profit and loss account or later	**4**	**(19)**	**29**	**(7)**

23 Obligations under leases

Future finance lease obligations are:

	Note	2004 £m	2003 £m	2004 €m	2003 €m
Repayable:					
Within one year		**9**	17	**13**	24
Within one to two years		**6**	4	**8**	6
Within two to five years		**2**	4	**3**	6
Less: interest charges allocated to future periods		**(1)**	(2)	**(1)**	(3)
Total		**16**	23	**23**	33
Obligations falling due within one year	20	**8**	16	**11**	23
Obligations falling due after more than one year	21	**8**	7	**12**	10
Total		**16**	23	**23**	33

Annual commitments under operating leases are:

	2004 £m	2003 £m	2004 €m	2003 €m
On leases expiring:				
Within one year	**7**	9	**10**	13
Within two to five years	**45**	38	**63**	54
After five years	**53**	59	**75**	84
Total	**105**	106	**148**	151

Of the above annual commitments, £97m/€137m relates to land and buildings (2003: £100m/€142m) and £8m/€11m to other leases (2003: £6m/€9m).

Notes to the combined financial statements

For the year ended 31 December 2004

24 Provisions for liabilities and charges

	Deferred taxation liabilities £m	Property lease obligations £m	Total £m
At 1 January 2004	93	75	168
Transfers	(31)	–	(31)
Provided	24	–	24
Utilised	(5)	(19)	(24)
Exchange translation differences	(5)	(4)	(9)
At 31 December 2004	76	52	128

	Deferred taxation liabilities €m	Property lease obligations €m	Total €m
At 1 January 2004	132	107	239
Transfers	(46)	–	(46)
Provided	35	–	35
Utilised	(7)	(28)	(35)
Exchange translation differences	(7)	(6)	(13)
At 31 December 2004	107	73	180

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	2004 £m	2003 £m	2004 €m	2003 €m
Deferred taxation liabilities					
Excess of tax allowances over related amortisation		46	45	65	64
Pension prepayment		28	32	39	45
Short term timing differences		2	16	3	23
		76	93	107	132
Deferred taxation assets					
Excess of amortisation over related tax allowances		(9)	(9)	(13)	(13)
Short term timing differences		(29)	(69)	(41)	(98)
Tax losses carried forward		(59)	(18)	(83)	(25)
	18	(97)	(96)	(137)	(136)
Net deferred tax asset		(21)	(3)	(30)	(4)
Net deferred tax asset at 1 January		(3)	(69)	(4)	(105)
Acquisitions		(24)	–	(35)	–
Transfers		(62)	3	(91)	4
Deferred tax charge in profit and loss account	8	65	60	96	87
Exchange translation differences		3	3	4	10
Net deferred tax asset at 31 December		(21)	(3)	(30)	(4)

25 Contingent liabilities

There are contingent liabilities amounting to £57m/€80m (2003: £77m/€109m) in respect of property lease guarantees given by Harcourt General, Inc. in favour of a former subsidiary (see note 24).

26 Combined shareholders' funds

	Combined share capitals £m	Combined share premium accounts £m	Combined shares held in treasury £m	Combined reserves £m	Total £m
At 1 January 2004	190	1,784	(37)	497	2,434
Profit attributable to parent companies' shareholders	–	–	–	303	303
Equity dividends paid and proposed	–	–	–	(330)	(330)
Issue of ordinary shares, net of expenses	1	20	–	–	21
Increase in shares held in treasury	–	–	(29)	–	(29)
Increase in conditional share reserve	–	–	–	11	11
Exchange translation differences	–	1	–	(144)	(143)
At 31 December 2004	191	1,805	(66)	337	2,267

	Combined share capitals €m	Combined share premium accounts €m	Combined shares held in treasury €m	Combined reserves €m	Total €m
At 1 January 2004	270	2,533	(53)	706	3,456
Profit attributable to parent companies' shareholders	–	–	–	445	445
Equity dividends paid and proposed	–	–	–	(485)	(485)
Issue of ordinary shares, net of expenses	1	30	–	–	31
Increase in shares held in treasury	–	–	(43)	–	(43)
Increase in conditional share reserve	–	–	–	16	16
Exchange translation differences	(2)	(18)	3	(207)	(224)
At 31 December 2004	269	2,545	(93)	475	3,196

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

Combined reserves include a £4m/€6m (2003: £4m/€6m) capital redemption reserve following the redemption of non equity shares in Reed Elsevier PLC in 1999.

At 31 December 2004, shares held in treasury related to the 8,313,746 (2003: 6,383,333) Reed Elsevier PLC ordinary shares and 3,708,599 (2003: 1,327,777) Reed Elsevier NV ordinary shares held by the Reed Elsevier Group plc Employee Benefit Trust ("EBT"). The aggregate market value of these shares at 31 December 2004 was £66m/€93m (2003: £39m/€55m). 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 and to meet commitments under conditional share awards.

27 Exchange rates

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

	Profit and loss		Balance sheet	
	2004	2003	**2004**	2003
Euro to sterling	**1.47**	1.45	**1.41**	1.42
US dollars to sterling	**1.83**	1.63	**1.93**	1.78
Euro to US dollars	**0.80**	0.89	**0.73**	0.80
US dollars to euro	**1.24**	1.12	**1.37**	1.25

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 2004 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 27. 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 2004, 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
16 February 2005

Deloitte Accountants B.V.
Amsterdam
16 February 2005

Reed Elsevier PLC
Annual report and financial statements

Company number: 77536

Financial highlights

For the years ended 31 December

	2000 £m	2001 £m	2002 £m	2003 £m	**2004 £m**
Profit and loss account					
Reported profit before tax	102	146	153	275	**297**
Reported profit attributable to shareholders	17	67	96	177	**160**
Adjusted profit before tax	365	449	490	534	**543**
Adjusted profit attributable to shareholders	270	330	361	394	**402**
Per share information					
Earnings per ordinary share	1.5p	5.3p	7.6p	14.0p	**12.7p**
Adjusted earnings per ordinary share	23.3p	26.1p	28.5p	31.2p	**31.8p**
Net dividend per ordinary share	10.0p	10.5p	11.2p	12.0p	**13.0p**
Dividend cover (times)	2.3	2.5	2.5	2.6	**2.4**
Ordinary share prices – high	700p	700p	696p	552p	**543p**
– low	391p	493p	488p	392p	**450p**
Market capitalisation (£m)	8,837	7,196	6,733	5,909	**6,080**

(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 on distributions 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 2004 are £289m, £152m and 12.0p 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 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 2004.

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 74, 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 £8m (2003: £8m), being 47.1% of the total amount of the tax credit.

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 £363m, up from £343m in 2003. The Elsevier division saw strong subscription renewals, growing online sales, and a successful medical book publishing programme. LexisNexis had a good year, with revenue growth building as the investment programme pays back and demand for products linked to workflow applications and in risk management also accelerating growth. Harcourt Education performed well against a weak US schools market, which has seen the last year of a three year trough in the state textbook adoption cycle. Reed Business saw recovery in its markets for the first time in four years, with an increasing number of sectors and geographies seeing positive growth momentum, and online services and exhibitions performing well. Underlying operating margins showed continued improvement, despite the increasing investment. 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 £215m, down £20m from 2003, reflecting translation effects and some past acquisitions becoming fully amortised. The company's share of the operating exceptional items was £29m (2003: £38m), principally comprising its share of integration and rationalisation costs relating to acquisitions and other restructuring costs.

The profit for the year also includes a £2m share of the exceptional loss (2003: gain £14m) on disposals of businesses and fixed assets. The reported attributable profit for Reed Elsevier PLC was £152m (2003: £169m). The adjusted profit attributable to shareholders – before the amortisation of goodwill and intangible assets and exceptional items – was £402m (2003: £394m).

Adjusted earnings per share increased 2% to 31.8p (2003: 31.2p). At constant rates of exchange, the increase would have been 8%. 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 12.0p (2003: 13.4p).

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 2004 amounted to £1,199m (2003: £1,288m). The £89m 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
In 2000, consistent with Reed Elsevier's investment led strategy for growth, the board established a policy of modest growth in dividends. Given the strengthening performance of the business, the strong cash generation and positive outlook, the board now intends to pursue a more progressive dividend policy. Accordingly, the board is recommending a final dividend of 9.6p per ordinary share to be paid on 20 May 2005 to shareholders on the Register on 29 April 2005 which, when added to the interim dividend already paid on 3 September 2004 amounting to 3.4p per ordinary share, makes the total dividend for the year 13.0p (2003: 12.0p), an increase of 8%.

The total dividend on the ordinary shares for the financial year will amount to £163m (2003: £152m), leaving a retained loss of £11m (2003: profit £17m).

International Financial Reporting Standards
Under a regulation adopted by the European Parliament, the financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) with effect from the 2005 financial year. Additional information on the adoption of IFRS, including a summary re-presentation of the 2004 financial statements under IFRS, is set out on pages 134 to 136.

Directors
The following served as directors during the year:
M Tabaksblat
(Chairman)
Sir Crispin Davis
(Chief Executive Officer)
M H Armour
(Chief Financial Officer)
G J A van de Aast
J F Brock
M W Elliott
E Engstrom (appointed 23 August 2004)
C J A van Lede
A Prozes
D E Reid
Lord Sharman of Redlynch OBE
R W H Stomberg
(senior independent non-executive director)
P Tierney

Biographical details of the directors at the date of this Report are given on pages 12 and 13 of the Annual Review and Summary Financial Statements.

Messrs Brock, Armour and Prozes and Sir Crispin Davis will retire by rotation at the forthcoming Annual General Meeting. Being eligible, Messrs Armour and Prozes and Sir Crispin Davis will each offer themselves for re-election. Erik Engstrom, having been appointed to the board during the year, will also retire and, being eligible, offers himself for re-election. Mr Brock will not be seeking re-election.

The notice period applicable to the service contracts of Messrs Armour, Prozes and Engstrom and Sir Crispin Davis is set out in the Directors' Remuneration Report on page 34.

Details of directors' remuneration and their interests in the share capital of the company are provided in the Directors' Remuneration Report on pages 31 to 42.

Share capital
During the period 2,562,500 ordinary shares in the company were issued in connection with the following share option schemes:

339,087 under a UK SAYE share option scheme at prices between 336.20p and 543.20p per share.

2,223,413 under executive share option schemes at prices between 400.75p and 566.00p per share.

At 15 February 2005, the company had received notification of the following substantial interests in the company's issued ordinary share capital:

The Capital Group Companies, Inc 127,980,366 shares 10.05%

Legal & General Group plc 55,610,716 shares 4.37%

Prudential plc 38,315,148 shares 3.01%

At the 2004 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 2004, this authority remained unutilised. A resolution to further extend the authority is to be put to the 2005 Annual General Meeting.

Charitable and political donations
Reed Elsevier companies made donations during the year for charitable purposes amounting to £1.4m of which £0.4m was in the United Kingdom. In the United States, Reed Elsevier companies contributed £44,000 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.

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
Save as noted on page 22, the company has complied throughout the period under review with the provisions of the Combined Code on Corporate Governance issued in July 2003 (the "UK Code").

Details of how the principles of the UK 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 27.

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 28 to 30.

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
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

16 February 2005

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 44 and 45.

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.

Consolidated profit and loss account

For the year ended 31 December 2004

	Note	£ 2004 £m	2003 £m
Turnover			
Including share of turnover of joint ventures		**2,546**	2,605
Less: share of turnover of joint ventures		**(2,546)**	(2,605)
		–	–
Administrative expenses		**(2)**	(1)
Operating loss (before joint ventures)	3	**(2)**	(1)
Share of operating profit of joint ventures			
Before amortisation and exceptional items	1	**607**	616
Amortisation of goodwill and intangible assets		**(215)**	(235)
Exceptional items		**(29)**	(38)
		363	343
Operating profit including joint ventures		**361**	342
Share of non operating exceptional items of joint ventures		**(2)**	14
		(2)	14
Net interest income/(expense)			
Group	6	**3**	3
Share of net interest of joint ventures		**(73)**	(92)
		(70)	(89)
Profit on ordinary activities before taxation		**289**	267
Tax on profit on ordinary activities	7	**(137)**	(98)
UK corporation tax		**(5)**	(1)
Share of tax of joint ventures		**(132)**	(97)
Profit attributable to ordinary shareholders		**152**	169
Equity dividends paid and proposed	8	**(163)**	(152)
Retained (loss)/profit taken to reserves		**(11)**	17

Adjusted figures

	Note	£ 2004 £m	2003 £m
Adjusted profit before tax	9	**543**	534
Adjusted profit attributable to ordinary shareholders	9	**402**	394

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	£ 2004 pence	2003 pence
Basic EPS	10	**12.0**	13.4
Diluted EPS	10	**11.9**	13.4
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses	10	**12.7**	14.0
Adjusted EPS	10	**31.8**	31.2

The above amounts derive from continuing activities.

Consolidated cash flow statement

For the year ended 31 December 2004

	Note	2004 £m	2003 £m
Net cash outflow from operating activities	11	**(2)**	(1)
Dividends received from Reed Elsevier Group plc		**153**	144
Returns on investments and servicing of finance – interest received		**3**	3
Taxation		**(1)**	(3)
Equity dividends paid		**(153)**	(144)
Cash outflow before changes in short term investments and financing		**–**	(1)
Financing		**–**	1
Issue of ordinary shares		**11**	12
Increase in net funding balances to Reed Elsevier Group plc group	11	**(11)**	(11)
Change in net cash		**–**	–

Balance sheets

As at 31 December 2004

	Note	Consolidated 2004 £m	Consolidated 2003 £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Investment in joint ventures:	12				
Share of gross assets		**4,128**	4,370	**–**	–
Share of gross liabilities		**(3,355)**	(3,511)	**–**	–
Share of net assets		**773**	859	**–**	–
Investments	13	**–**	–	**1,411**	1,411
		773	859	**1,411**	1,411
Current assets					
Debtors	14	**595**	584	**595**	584
		595	584	**595**	584
Creditors: amounts falling due within one year	15	**(169)**	(119)	**(246)**	(196)
Net current assets		**426**	465	**349**	388
Total assets less current liabilities		**1,199**	1,324	**1,760**	1,799
Creditors: amounts falling due after more than one year	16	**–**	(36)	**–**	(36)
Net assets		**1,199**	1,288	**1,760**	1,763
Capital and reserves					
Called up share capital	17	**159**	159	**159**	159
Share premium account	19	**974**	963	**974**	963
Shares held in treasury	19	**(35)**	(20)	**–**	–
Capital redemption reserve	19	**4**	4	**4**	4
Profit and loss reserve	19	**97**	182	**623**	637
Shareholders' funds		**1,199**	1,288	**1,760**	1,763

The financial statements were approved by the Board of Directors, 16 February 2005.

M Tabaksblat
Chairman

M H Armour
Chief Financial Officer

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2004

	2004 £m	2003 £m
Profit attributable to ordinary shareholders	**152**	169
Exchange translation differences	**(76)**	(123)
Total recognised gains for the year	**76**	46

Recognised gains include gains of £85m (2003: £53m) in respect of joint ventures.

Reconciliation of shareholders' funds

For the year ended 31 December 2004

	Consolidated		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Profit attributable to ordinary shareholders	**152**	169	**149**	145
Equity dividends paid and proposed	**(163)**	(152)	**(163)**	(152)
Issue of ordinary shares, net of expenses	**11**	12	**11**	12
Increase in shares held in treasury	**(15)**	(10)	**–**	–
Increase in conditional share reserve	**6**	–	**–**	–
Exchange translation differences	**(76)**	(123)	**–**	–
Equalisation adjustments	**(4)**	(5)	**–**	–
Net (decrease)/increase in shareholders' funds	**(89)**	(109)	**(3)**	5
Shareholders' funds at 1 January	**1,288**	1,397	**1,763**	1,758
Shareholders' funds at 31 December	**1,199**	1,288	**1,760**	1,763

Notes to the financial statements

For the year ended 31 December 2004

1 Income from interests in joint ventures

	Note	2004 £m	2003 £m
Share of operating profit before amortisation and exceptional items (based on 52.9% economic interest in the Reed Elsevier combined businesses)		**613**	623
Effect of tax credit equalisation on distributed earnings	2	**(8)**	(8)
Items consolidated within Reed Elsevier PLC group		**2**	1
Total		**607**	616

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 80.

3 Operating loss (before joint ventures)

The operating loss (before joint ventures) comprises administrative expenses and includes £386,000 (2003: £330,000) 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 (2003: nil).

4 Auditors' remuneration

Audit fees payable for the group were £24,000 (2003: £23,000). Further information on the audit and non-audit fees paid by the Reed Elsevier combined businesses to Deloitte & Touche LLP and its associates is set out in note 5 to the combined financial statements.

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 31 to 42.

6 Net interest

	2004 £m	2003 £m
Interest receivable and similar income		
On loans to Reed Elsevier Group plc group	**3**	3
Net interest income	**3**	3

Notes to the financial statements

For the year ended 31 December 2004

7 Tax on profit on ordinary activities

	2004 £m	2003 £m
UK corporation tax	**5**	1
Share of tax arising in joint ventures:		
Before amortisation and exceptional items	**136**	139
On amortisation and exceptional items	**(4)**	(42)
Total	**137**	98

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

8 Dividends

	2004 pence	2003 pence	2004 £m	2003 £m
Ordinary shares of 12.5 pence each				
Interim	**3.4**	3.3	**43**	42
Final (2004 proposed)	**9.6**	8.7	**120**	110
Total	**13.0**	12.0	**163**	152

9 Adjusted figures

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

	2004 £m	2003 £m
Profit before tax	**289**	267
Effect of tax credit equalisation on distributed earnings	**8**	8
Profit before tax based on 52.9% economic interest in the Reed Elsevier combined businesses	**297**	275
Adjustments:		
Amortisation of goodwill and intangible assets	**215**	235
Exceptional items	**31**	24
Adjusted profit before tax	**543**	534
Profit attributable to ordinary shareholders	**152**	169
Effect of tax credit equalisation on distributed earnings	**8**	8
Profit attributable to ordinary shareholders based on 52.9% economic interest in the Reed Elsevier combined businesses	**160**	177
Adjustments:		
Amortisation of goodwill and intangible assets	**217**	237
Exceptional items	**25**	(20)
Adjusted profit attributable to ordinary shareholders	**402**	394

9 Adjusted figures continued

	2004 pence	2003 pence
Basic earnings per ordinary share	**12.0**	13.4
Effect of tax credit equalisation on distributed earnings	**0.7**	0.6
Earnings per share based on 52.9% economic interest in the Reed Elsevier combined businesses	**12.7**	14.0
Adjustments:		
Amortisation of goodwill and intangible assets	**17.2**	18.8
Exceptional items	**1.9**	(1.6)
Adjusted earnings per ordinary share	**31.8**	31.2

10 Earnings per ordinary share (EPS)

	Note	**2004** Earnings £m	**2004** Weighted average number of shares (millions)	**2004** EPS pence
Basic EPS		**152**	**1,264.6**	**12.0**
Diluted EPS		**152**	**1,273.1**	**11.9**
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses		**160**	**1,264.6**	**12.7**
Adjusted EPS	9	**402**	**1,264.6**	**31.8**

	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

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

	2004 £m	2003 £m
Operating loss	**(2)**	(1)
Net movement in debtors and creditors	**–**	–
Net cash outflow from operating activities	**(2)**	(1)

Notes to the financial statements

For the year ended 31 December 2004

11 Cash flow statement continued

Reconciliation of net funding balances to Reed Elsevier Group plc group

	£m
At 1 January 2004	**548**
Cash flow	**11**
At 31 December 2004	**559**

12 Fixed asset investments – consolidated investment in joint ventures

	2004 £m	2003 £m
Share of operating profit	**363**	343
Share of non operating exceptional items	**(2)**	14
Share of net interest payable	**(73)**	(92)
Share of profit before tax	**288**	265
Share of taxation	**(132)**	(97)
Share of profit after tax	**156**	168
Dividends received	**(153)**	(144)
Increase in shares held in treasury	**(15)**	(10)
Increase in conditional share reserve	**6**	–
Exchange translation differences	**(76)**	(123)
Equalisation adjustments	**(4)**	(5)
Net movement in the year	**(86)**	(114)
At 1 January	**859**	973
At 31 December	**773**	859

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

	2004 £m	2003 £m
Fixed assets	**2,980**	3,034
Current assets	**1,148**	1,336
Creditors: amounts falling due within one year	**(2,238)**	(2,303)
Creditors: amounts falling due after more than one year	**(1,043)**	(1,114)
Provisions	**(68)**	(89)
Minority interests	**(6)**	(5)
Total	**773**	859

The above amounts exclude assets and liabilities held directly by Reed Elsevier PLC and include the counterparty balances of amounts owed to and by other Reed Elsevier businesses. Included within share of current assets and creditors are cash and short term investments of £119m (2003: £338m) and borrowings of £1,458m (2003: £1,592m) respectively.

13 Fixed asset investments – company

	Subsidiary undertakings £m	Joint ventures £m	Total £m
At 1 January and 31 December 2004	**303**	**1,108**	**1,411**

14 Debtors

	Consolidated		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Amounts owed by Reed Elsevier Group plc group	**595**	584	**595**	584

Amounts falling due after more than one year are £40m (2003: £40m). These amounts are denominated in sterling and earn interest at a fixed rate of 9.8% (2003: 9.8%) for a remaining duration of three years (2003: four years). At 31 December 2004 these amounts had a fair value of £46m (2003: £47m).

15 Creditors: amounts falling due within one year

	Consolidated		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Other creditors	**1**	1	**1**	1
Amounts owed to Reed Elsevier Group plc group	**36**	–	**36**	–
Proposed dividend	**120**	110	**120**	110
Taxation	**12**	8	**12**	8
Amounts owed to group undertakings	**–**	–	**77**	77
Total	**169**	119	**246**	196

16 Creditors: amounts falling due after more than one year

	Consolidated		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Amounts owed to Reed Elsevier Group plc group	–	36	–	36

17 Called up share capital

	Authorised		Issued and fully paid			
			2004		2003	
	No. of shares	£m	**No. of shares**	**£m**	No. of shares	£m
Ordinary shares of 12.5p each	1,273,674,009	159	**1,273,674,009**	**159**	1,271,111,509	159
Unclassified shares of 12.5p each	197,779,167	25	**–**	**–**	–	–
Total		184		**159**		159

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

Notes to the financial statements

For the year ended 31 December 2004

18 Share option schemes

During the year a total of 2,562,500 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 £10.9m. Options were granted during the year under the Reed Elsevier Group plc Share Option Scheme to subscribe for 16,274,119 ordinary shares, at prices between 473.5p and 505.5p per share, and under the Reed Elsevier Group plc Long Term Incentive Share Option Scheme to subscribe for 5,084,722 ordinary shares at prices between 478.0p and 487.25p. Options were also granted during the year under the Reed Elsevier Group plc SAYE Share Option Scheme to subscribe for 1,120,060 ordinary shares at a price of 377.6p per share.

Options outstanding at 31 December 2004 over the company's ordinary share capital were:

	Number of ordinary shares	Range of subscription prices	Exercisable
UK and overseas executive share option schemes	52,953,596	400.75p – 700.0p	2005 – 2014
Long Term Incentive Share Option Scheme	5,084,722	478.0p – 487.25p	2007 – 2014
UK SAYE share option scheme	3,876,202	336.2p – 543.2p	2005 – 2010

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

Additionally, at 31 December 2004, there were 1,740,407 options at subscription prices ranging between 424.0p and 537.5p and 5,341,329 nil cost conditional share awards granted principally under the Reed Elsevier Group plc Long Term Incentive Share Option Scheme, the Reed Elsevier Group plc Retention Share Plan and the Reed Elsevier Group plc Bonus Investment Plan which, upon exercise, will be met by the Reed Elsevier Group plc Employee Benefit Trust from shares purchased in the market.

Options to subscribe for 19,374,493 ordinary shares in the company lapsed during the year.

Further information on share option schemes is included in the Directors' Remuneration Report on pages 31 to 42.

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 2004	**963**	**(20)**	**4**	**182**	**1,129**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**152**	**152**
Equity dividends paid and proposed	**–**	**–**	**–**	**(163)**	**(163)**
Issue of ordinary shares, net of expenses	**11**	**–**	**–**	**–**	**11**
Increase in shares held in treasury	**–**	**(15)**	**–**	**–**	**(15)**
Increase in conditional share reserve	**–**	**–**	**–**	**6**	**6**
Exchange translation differences	**–**	**–**	**–**	**(76)**	**(76)**
Equalisation adjustments	**–**	**–**	**–**	**(4)**	**(4)**
At 31 December 2004	**974**	**(35)**	**4**	**97**	**1,040**

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

	Company			
	Share premium account £m	**Capital redemption reserve £m**	**Profit and loss reserve £m**	**Total £m**
At 1 January 2004	**963**	**4**	**637**	**1,604**
Profit attributable to ordinary shareholders	**–**	**–**	**149**	**149**
Equity dividends paid and proposed	**–**	**–**	**(163)**	**(163)**
Issue of ordinary shares, net of expenses	**11**	**–**	**–**	**11**
At 31 December 2004	**974**	**4**	**623**	**1,601**

Reed Elsevier PLC's share of the revenue reserves of the Reed Elsevier combined businesses is £176m (2003: £261m).

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:

	2004 £m	2003 £m
Guaranteed jointly and severally with Reed Elsevier NV	**2,487**	2,692

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 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%
Radarweg 29	205 ordinary "E" shares	–
1043 NX 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.

22 Principal subsidiary undertaking

The principal subsidiary undertaking is:

		% holding
Reed Holding BV		
Incorporated in the Netherlands	41 ordinary shares	100%
Radarweg 29		
1043 NX Amsterdam, The Netherlands		

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 2004 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 22. 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 nine provisions of the July 2003 FRC 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 2004 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
16 February 2005

Reed Elsevier NV
Annual report and financial statements

Financial highlights

For the years ended 31 December

(in €m, unless otherwise indicated)		Note	2000	2001	2002	2003	**2004**
Profit and loss account							
Reported profit before tax			157	221	230	376	**413**
Reported profit attributable to shareholders			27	101	144	242	**223**
Adjusted profit before tax		(i)	566	683	737	733	**755**
Adjusted profit attributable to shareholders		(i)	419	503	542	540	**559**
Per share information (in €)							
Earnings per ordinary share			0.04	0.13	0.18	0.31	**0.28**
Adjusted earnings per ordinary share		(i)	0.59	0.64	0.69	0.69	**0.71**
Cash dividend per ordinary share			0.28	0.30	0.30	0.30	**0.33**
Dividend cover (times)		(iii)	2.1	2.1	2.3	2.3	**2.2**
Ordinary share prices	**– high**		16.07	15.66	16.01	12.03	**12.19**
	– low		9.30	10.92	10.86	8.13	**9.61**
	– closing	(iv)	15.66	13.28	11.65	9.85	**10.03**
Number of shares outstanding at year end (in millions)		(v)	776	783	784	784	**783**
Market capitalisation (€m)		(vi)	12,152	10,398	9,134	7,722	**7,853**

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

(i) 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.

(ii) 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.

(iii) 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.

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

(v) 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.

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

The Supervisory Board's report

M Tabaksblat, Chairman
G J de Boer-Kruyt
J F Brock
M W Elliott
C J A van Lede
D E Reid
Lord Sharman of Redlynch OBE
R W H 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 2004 to the shareholders' meeting for adoption. The financial statements have been drawn up in accordance with the accounting principles explained on pages 96 and 97 of this document. They have been examined by Deloitte Accountants B.V. Amsterdam. Their report and opinion is set out on page 109. The combined financial statements on pages 44 to 73 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 2004 and the Reed Elsevier Annual Reports and Financial Statements 2004. These reports explain the business results of 2004, the financial state of the company at the end of 2004, and contain disclosures in respect of corporate governance, systems of internal control and risk management, corporate social responsibility, remuneration of board members and 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. Reed Elsevier's policies, practices and disclosures, and an explanation of the way in which Reed Elsevier has complied with the Code, are set out in pages 22 to 42 of the Reed Elsevier Annual Reports and Financial Statements 2004. The agenda for the Annual General Meeting of the shareholders to be held on 28 April 2005 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 Mr Brock will retire by rotation as a member of the Supervisory Board. He will not be seeking re-election. Furthermore Sir Crispin Davis, Mr Armour and Mr Prozes will retire by rotation as members of the Executive Board and, being eligible, will each offer themselves for re-election. A recommendation will be made to the Annual General Meeting for the appointment of Mr Erik Engstrom as a member of the Executive Board. Details of his service contract and remuneration are set out in the Directors' Remuneration Report on pages 33 and 34.

The Supervisory Board
16 February 2005

Registered office
Radarweg 29
1043 NX Amsterdam

The Executive Board's report

Sir Crispin Davis, Chairman
M H Armour, Chief Financial Officer
G J A 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 2004 and the Reed Elsevier Annual Reports and Financial Statements 2004. These reports explain the business results of 2004, the financial state of the company at the end of 2004, and the key operational and strategic issues.

As explained in the financial statements on pages 96 and 97, 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 €223m (2003: €242m) and net assets as at 31 December 2004, principally representing the investments in Reed Elsevier Group plc and Elsevier Reed Finance BV under the gross equity method, were €1,598m (2003: €1,728m). In the parent company financial statements, the profit attributable to the shareholders of Reed Elsevier NV was €219m (2003: €203m) and net assets as at 31 December 2004, principally representing the investments in Reed Elsevier Group plc and Elsevier Reed Finance BV under the historical cost method, were €1,974m (2003: €1,985m).

The Executive Board
16 February 2005

Registered office
Radarweg 29
1043 NX 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. As permitted by Article 362.1 of Book 2 Title 9 of the Netherlands Civil Code for companies with international operations, the financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (GAAP), ensuring consistency.

The Reed Elsevier combined financial statements on pages 44 to 73 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.

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.

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 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 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.

Combined financial statements
The accounting policies adopted in the preparation of the combined financial statements are set out on pages 44 and 45.

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 2004

	Note	Group 2004 €m	Group 2003 €m	Parent Company 2004 €m	Parent Company 2003 €m
Turnover					
Including share of turnover of joint ventures		**3,537**	3,571	**–**	–
Less: share of turnover of joint ventures		**(3,537)**	(3,571)	**–**	–
		–	–	**–**	–
Administrative expenses		**(3)**	(3)	**(3)**	(3)
Operating loss (before joint ventures)	1	**(3)**	(3)	**(3)**	(3)
Share of operating profit of joint ventures					
Before amortisation and exceptional items	2	**855**	858	**–**	–
Amortisation of goodwill and intangible assets		**(299)**	(323)	**–**	–
Exceptional items		**(41)**	(53)	**–**	–
		515	482	**–**	–
Operating profit/(loss) including joint ventures		**512**	479	**(3)**	(3)
Share of non operating exceptional items of joint ventures		**(2)**	19	**–**	–
		(2)	19	**–**	–
Dividends received from joint ventures		**–**	–	**220**	200
Net interest income/(expense)					
Company	5	**2**	7	**2**	7
Share of net interest of joint ventures		**(99)**	(129)	**–**	–
		(97)	(122)	**2**	7
Profit on ordinary activities before taxation		**413**	376	**219**	204
Tax on profit on ordinary activities	6	**(190)**	(134)	**–**	(1)
Profit attributable to ordinary shareholders		**223**	242	**219**	203
Equity dividends paid and proposed	7	**(244)**	(221)	**(244)**	(221)
Retained (loss)/profit taken to reserves		**(21)**	21	**(25)**	(18)

Adjusted figures

	Note	2004 €m	2003 €m
Adjusted group profit before tax	8	**755**	733
Adjusted group profit attributable to ordinary shareholders	8	**559**	540

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.

Earnings per ordinary share (EPS)

	Note	Group 2004 euro	Group 2003 euro	Parent Company 2004 euro	Parent Company 2003 euro
Basic EPS	9	**0.28**	0.31	**0.28**	0.26
Diluted EPS	9	**0.28**	0.31	**0.28**	0.26
Adjusted EPS (before amortisation of goodwill and intangible assets and exceptional items)	9	**0.71**	0.69		

The above amounts derive from continuing activities.

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 2004

	Note	Group 2004 €m	Group 2003 €m	Parent Company 2004 €m	Parent Company 2003 €m
Net cash outflow from operating activities	10	**(3)**	(2)	**(3)**	(2)
Dividends received from joint ventures		**220**	200	**220**	200
Returns on investments and servicing of finance – interest received		**1**	7	**1**	7
Taxation		**(5)**	(2)	**(5)**	(2)
Equity dividends paid		**(229)**	(215)	**(229)**	(215)
Cash outflow before changes in short term investments and financing		**(16)**	(12)	**(16)**	(12)
(Increase)/decrease in short term investments		**(18)**	8	**(18)**	8
Financing		**34**	4	**34**	4
Issue of shares, net of expenses		**14**	3	**14**	3
Net issue of debenture loans		**–**	1	**–**	1
Decrease in funding balances to joint ventures	10	**20**	–	**20**	–
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 2004

	Group 2004 €m	Group 2003 €m	Parent Company 2004 €m	Parent Company 2003 €m
Profit attributable to ordinary shareholders	**223**	242	**219**	203
Exchange translation differences	**(112)**	(310)	**–**	–
Total recognised gains and losses	**111**	(68)	**219**	203

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 2004

	Note	Group 2004 €m	Group 2003 €m	Parent Company 2004 €m	Parent Company 2003 €m
Fixed assets					
Investment in joint ventures	11				
Share of gross assets		**5,423**	5,805	**–**	–
Share of gross liabilities		**(3,638)**	(3,901)	**–**	–
Share of net assets		**1,785**	1,904	**–**	–
Investments	12	**–**	–	**2,161**	2,161
		1,785	1,904	**2,161**	2,161
Current assets					
Debtors	13	**37**	56	**37**	56
Short term investments		**25**	7	**25**	7
		62	63	**62**	63
Creditors: amounts falling due within one year	14	**(184)**	(174)	**(184)**	(174)
Net current liabilities		**(122)**	(111)	**(122)**	(111)
Total assets less current liabilities		**1,663**	1,793	**2,039**	2,050
Creditors: amounts falling due after more than one year	15	**(65)**	(65)	**(65)**	(65)
Net assets		**1,598**	1,728	**1,974**	1,985
Capital and reserves					
Share capital issued	17,18	**47**	47	**47**	47
Paid in surplus	18	**1,477**	1,463	**1,477**	1,463
Shares held in treasury	18	**(47)**	(27)	**–**	–
Reserves	18	**121**	245	**450**	475
Shareholders' funds	18	**1,598**	1,728	**1,974**	1,985

Reconciliations of shareholders' funds

For the year ended 31 December 2004

	Note	Group 2004 €m	Group 2003 €m	Parent Company 2004 €m	Parent Company 2003 €m
Profit attributable to ordinary shareholders		**223**	242	**219**	203
Equity dividends paid and proposed		**(244)**	(221)	**(244)**	(221)
Issue of shares, net of expenses		**14**	3	**14**	3
Increase in shares held in treasury		**(22)**	(13)	**–**	–
Increase in conditional share reserve		**8**	–	**–**	–
Exchange translation differences		**(112)**	(310)	**–**	–
Equalisation adjustments		**3**	8	**–**	–
Net decrease in shareholders' funds		**(130)**	(291)	**(11)**	(15)
Shareholders' funds at 1 January	18	**1,728**	2,019	**1,985**	2,000
Shareholders' funds at 31 December		**1,598**	1,728	**1,974**	1,985

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

Notes to the financial statements

For the year ended 31 December 2004

1 Operating loss (before joint ventures)

Operating loss (before joint ventures) 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 (2003: €0.2m) 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

	2004 €m	2003 €m
Share of operating profit before amortisation and exceptional items	**852**	855
Administrative expenses reported within Reed Elsevier NV group	**3**	3
Total	**855**	858

3 Auditors' remuneration

Audit fees payable for the company were €46,000 (2003: €44,000). Further information on the audit and non-audit fees paid by the Reed Elsevier combined businesses to Deloitte Accountants, B.V. and its associates is set out in note 5 to the combined financial statements.

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 31 to 42.

5 Net interest

	2004 €m	2003 €m
Interest receivable and similar income		
Interest on receivables from joint ventures	**2**	3
Other interest	**–**	4
Net interest income	**2**	7

6 Tax on profit on ordinary activities

	2004 €m	2003 €m
Dutch corporation tax	**–**	1
Share of tax arising in joint ventures		
Before amortisation and exceptional items	**196**	192
On amortisation and exceptional items	**(6)**	(59)
Total	**190**	134

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.

Notes to the financial statements

For the year ended 31 December 2004

7 Dividends

	2004 euro	2003 euro	2004 €m	2003 €m
Ordinary shares of €0.06 each				
Interim	**0.09**	0.08	**67**	59
Final (2004 proposed)	**0.24**	0.22	**177**	162
R-shares of €0.60 each			**–**	–
Total	**0.33**	0.30	**244**	221

8 Adjusted figures

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

	2004 €m	2003 €m
Group profit before tax	**413**	376
Adjustments:		
Amortisation of goodwill and intangible assets	**299**	323
Exceptional items	**43**	34
Adjusted group profit before tax	**755**	733
Group profit attributable to ordinary shareholders	**223**	242
Adjustments:		
Amortisation of goodwill and intangible assets	**302**	325
Exceptional items	**34**	(27)
Adjusted group profit attributable to ordinary shareholders	**559**	540

	2004 euro	2003 euro
Group earnings per ordinary share	**0.28**	0.31
Adjustments:		
Amortisation of goodwill and intangible assets	**0.39**	0.41
Exceptional items	**0.04**	(0.03)
Adjusted group earnings per ordinary share	**0.71**	0.69

9 Earnings per ordinary share (EPS)

		Group					
		2004			2003		
	Note	**Weighted average number of shares (millions)**	**Earnings €m**	**EPS euro**	Weighted average number of shares (millions)	Earnings €m	EPS euro
Basic EPS		**783.3**	**223**	**0.28**	783.9	242	0.31
Diluted EPS		**787.9**	**223**	**0.28**	783.9	242	0.31
Adjusted EPS	8	**783.3**	**559**	**0.71**	783.9	540	0.69

Basic and diluted EPS for the parent company were both €0.28 (2003: €0.26) based on earnings of €219m (2003: €203m) and a weighted average number of shares in issue on a basic basis of 786.3m (2003: 785.3m) and on a diluted basis of 790.9m (2003: 785.3m). 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

	2004 €m	2003 €m
Operating loss	**(3)**	(3)
Net movement in debtors and creditors	**–**	1
Net cash flow from operating activities	**(3)**	(2)

Reconciliation of net funding balances with joint ventures

	€m
At 1 January 2004	**50**
Cash flow	**(20)**
At 31 December 2004	**30**

Notes to the financial statements

For the year ended 31 December 2004

11 Fixed asset investments – group

Gross equity accounted investments in joint ventures

	2004 €m	2003 €m
Share of operating profit	**515**	482
Share of non operating exceptional items	**(2)**	19
Share of net interest payable	**(99)**	(129)
Share of profit before tax	**414**	372
Share of taxation	**(190)**	(133)
Share of profit after tax	**224**	239
Dividends received	**(220)**	(200)
Increase in shares held in treasury	**(22)**	(13)
Increase in conditional share reserve	**8**	–
Exchange translation differences	**(112)**	(310)
Equalisation adjustments	**3**	8
Net movement in the year	**(119)**	(276)
At 1 January	**1,904**	2,180
At 31 December	**1,785**	1,904

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

	2004 €m	2003 €m
Fixed assets	**3,972**	4,073
Current assets	**1,451**	1,732
Creditors: amounts falling due within one year	**(2,213)**	(2,343)
Creditors: amounts falling due after more than one year	**(1,325)**	(1,430)
Provisions	**(90)**	(120)
Minority interests	**(10)**	(8)
Total	**1,785**	1,904

The above amounts exclude assets and liabilities held directly by Reed Elsevier NV and include the counterparty balances of amounts owed to and by other Reed Elsevier businesses. Included within share of current assets and creditors are cash and short term investments of €134m (2003: €446m) and borrowings of €1,937m (2003: €2,130m) respectively.

12 Fixed asset investments – parent company

	2004 €m	2003 €m
Investment in joint ventures	**2,161**	2,161

13 Debtors

	2004 €m	2003 €m
Joint ventures	**30**	50
Other accounts receivable	**7**	6
Total	**37**	56

Amounts falling due after more than one year are €nil (2003: €nil).

14 Creditors: amounts falling due within one year

	2004 €m	2003 €m
Proposed dividend	**177**	162
Taxation	**4**	9
Other creditors	**3**	3
Total	**184**	174

15 Creditors: amounts falling due after more than one year

	2004 €m	2003 €m
Debenture loans	**7**	7
Taxation	**58**	58
Total	**65**	65

Debenture loans comprise four convertible personnel debenture loans with a weighted average interest rate of 4.9%. Depending on the conversion terms, the surrender of €227 or €200 par value debenture loans qualifies for the acquisition of 50 Reed Elsevier NV ordinary shares.

16 Share option schemes

During the year a total of 1,329,694 ordinary shares in the company, having a nominal value of €0.08m, were allotted in connection with the exercise of share options. The net consideration received by the company was €14m.

Share options and conditional share awards are granted under the Reed Elsevier Group plc Share Option Scheme, the Reed Elsevier Group plc Long Term Incentive Share Option Scheme, the Reed Elsevier Group plc Retention Share Plan, the Reed Elsevier Group plc Bonus Investment Plan and, prior to 1999, under the Reed Elsevier NV share option scheme. Share options will be met principally by the issue of new Reed Elsevier NV shares. Conditional share awards 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 and conditional share awards is presented in the table below:

Issued in	Expiring in	Outstanding 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding 31 December 2004	Exercise price range (euro)
1998	2004 – 2008	563,832	–	–	171,822	392,010	12.50 – 15.70
1999	2004 – 2009	7,227,187	–	911,004	730,082	5,586,101	10.45 – 17.07
2000	2004 – 2010	10,253,355	–	40,222	8,676,350	1,536,783	10.73 – 15.66
2001	2006 – 2011	5,798,025	–	5,430	1,666,903	4,125,692	11.65 – 15.43
2002	2007 – 2012	5,795,561	–	–	684,109	5,111,452	11.78 – 16.00
2003	2006 – 2013	10,780,856	–	344,170	1,426,812	9,009,874	Nil – 11.04
2004	2007 – 2014	–	18,322,766	29,277	212,133	18,081,356	Nil – 10.77
Total		40,418,816	18,322,766	1,330,103	13,568,211	43,843,268	

The average exercise price of share options outstanding at the end of the year was €10.37 (2003: €11.62) and the average term of these options is six years (2003: four years).

Notes to the financial statements

For the year ended 31 December 2004

17 Called up share capital

	Authorised		Issued and fully paid			
			2004		2003	
	No. of shares	€m	**No. of shares**	**€m**	No. of shares	€m
Ordinary shares €0.06	2,100,000,000	126	740,090,600	**44**	738,760,906	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 2003	47	1,460	(15)	527	2,019	493	2,000
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)	–	–
Exchange translation differences	–	–	1	(311)	(310)	–	–
Equalisation adjustments	–	–	–	8	8	–	–
At 1 January 2004	**47**	**1,463**	**(27)**	**245**	**1,728**	**475**	**1,985**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**223**	**223**	**219**	**219**
Equity dividends paid and proposed	**–**	**–**	**–**	**(244)**	**(244)**	**(244)**	**(244)**
Issue of shares, net of expenses	**–**	**14**	**–**	**–**	**14**	**–**	**14**
Increase in shares held in treasury	**–**	**–**	**(22)**	**–**	**(22)**	**–**	**–**
Increase in conditional share reserve	**–**	**–**	**–**	**8**	**8**	**–**	**–**
Exchange translation differences	**–**	**–**	**2**	**(114)**	**(112)**	**–**	**–**
Equalisation adjustments	**–**	**–**	**–**	**3**	**3**	**–**	**–**
At 31 December 2004	**47**	**1,477**	**(47)**	**121**	**1,598**	**450**	**1,974**

Within paid-in surplus, an amount of €1,300m (2003: €1,286m) is free of tax.

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

18 Shareholders' funds continued

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:

	2004 €m	2003 €m
Parent company profit attributable to ordinary shareholders	**219**	203
Share of profit after tax of joint ventures	**224**	239
Dividends received from joint ventures	**(220)**	(200)
Group profit attributable to ordinary shareholders using the gross equity method	**223**	242

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

	2004 €m	2003 €m
Parent company shareholders' funds	**1,974**	1,985
Cumulative profit attributable from joint ventures less cumulative dividends received	**(144)**	(148)
Cumulative currency translation adjustments	**(318)**	(204)
Cumulative equalisation adjustments and other adjustments	**133**	122
Shares held in treasury	**(47)**	(27)
Group shareholders' funds using the gross equity method	**1,598**	1,728

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:

	2004 €m	2003 €m
Guaranteed jointly and severally with Reed Elsevier PLC	**3,519**	3,822

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.

Notes to the financial statements

For the year ended 31 December 2004

20 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	–
Radarweg 29	205 ordinary "E" shares	100%
1043 NX 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
16 February 2005

M H Armour
Chief Financial Officer

Independent auditors' report
to the shareholders of Reed Elsevier NV

We have audited the 2004 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 20. 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 2004 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 27, having been prepared under the accounting policies set out therein, dated 16 February 2005. 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 2004 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 B.V.
Amsterdam
16 February 2005

Proposal for allocation of profit

	2004 €m	2003 €m
Interim dividend on ordinary shares	**67**	59
Final dividend on ordinary shares	**177**	162
Dividend on R-shares	**–**	–
Retained loss	**(25)**	(18)
	219	203

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.

Adoption of International Financial Reporting Standards

Adoption of International Financial Reporting Standards

Financial highlights (IFRS)
Reed Elsevier combined businesses

	£ Unaudited 2004 £m	€ Unaudited 2004 €m
Reported figures (IFRS)		
Turnover	**4,812**	**7,074**
Operating profit	**766**	**1,126**
Profit before taxation	**631**	**928**
Net borrowings	**2,532**	**3,570**
Adjusted (benchmark) figures (IFRS)		
Operating profit	**1,066**	**1,567**
Profit before taxation	**934**	**1,373**
Profit attributable	**687**	**1,010**
Operating cash flow	**1,013**	**1,490**
Operating margin	**22%**	**22%**
Operating cash flow conversion	**95%**	**95%**
Interest cover (times)	**8.1**	**8.1**

Parent companies

	£ Unaudited 2004 pence	€ Unaudited 2004 euro
Earnings per ordinary share (IFRS)		
Reported earnings per share	**18.6p**	**€0.43**
Adjusted (benchmark) earnings per share	**28.7p**	**€0.64**

On adoption of IFRS, Reed Elsevier proposes to use adjusted (benchmark) figures as additional performance measures. These measures exclude the amortisation of acquired intangible assets, acquisition related and non-operating exceptional items and deferred tax movements not expected to crystallise in the near term, and are explained in the commentary below. Reconciliations to the reported IFRS figures (unaudited) have been provided within the summarised IFRS financial information.

Under a regulation adopted by the European Parliament, the Reed Elsevier combined financial statements and the financial statements of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV, will be prepared in accordance with International Financial Reporting Standards (IFRS) with effect from the 2005 financial year. The 2004 financial statements have been restated (unaudited) under IFRS, assuming a 1 January 2004 transition date, and are summarised on pages 115 to 139. The restated IFRS financial information, which will form the results and financial position for the comparative year in the 2005 financial statements, assumes the endorsement of certain standards by the European Commission in 2005.

The adoption of IFRS for the 2005 financial year requires changes in Reed Elsevier accounting policies in six major areas:

- Goodwill and intangible assets;
- Employee benefits;
- Share based payments;
- Financial instruments;
- Deferred taxation; and
- Dividends

The net effect of presenting the 2004 financial statements under IFRS is to increase the reported Reed Elsevier combined attributable earnings by £156m/€230m, an increase of 51% over the amounts reported under UK GAAP, and to reduce combined shareholders' funds as at 31 December 2004 by £603m/€850m. These are accounting effects only and have no bearing on the cash flows in the business.

Under IFRS, the primary financial statements are described differently than under UK GAAP and there are certain differences of presentation.

Goodwill and intangible assets
IFRS 3 – Business Combinations prohibits the amortisation of acquired goodwill. Goodwill amortisation of £206m/€304m charged under UK GAAP in 2004 is therefore reversed under IFRS. On the balance sheet, the net book amount of goodwill under IFRS is £262m/€370m higher as at 31 December 2004 than under UK GAAP. This higher amount reflects the reversal of the UK GAAP amortisation charge for 2004, together with an increase of £68m/€96m in the amount of goodwill arising on 2004 acquisitions under IFRS due to the recognition of additional deferred taxation liabilities (see below), less the effects of currency translation on adjustments.

IAS38 – Intangible Assets requires more detailed evaluations to be made of acquired intangible assets and their estimated useful lives than under UK GAAP. Estimated useful lives of acquired intangible assets under IFRS are typically shorter than under UK GAAP, although in certain cases may be considered indefinite. The adoption of IAS38 gives rise to a net increase in the amortisation charge in respect of acquired intangible assets of £55m/€81m.

Capitalised software costs, previously included within tangible fixed assets, are now included within intangible assets. The net book amount reclassified as at 31 December 2004 is £227m/€321m. There is no change to the depreciation charges in respect of such assets, although these will now be classified, separately, within intangible asset amortisation.

On the balance sheet, the net book amount of intangible assets under IFRS is £178m/€251m higher as at 31 December 2004 than under UK GAAP. This is due to the reclassification of capitalised software costs, partly offset by the higher amortisation of acquired intangible assets and the effects of currency translation on adjustments.

There is no retrospective restatement of the acquired goodwill and intangible asset values as at the 1 January 2004 transition date.

Employee benefits
The accounting for the costs of defined benefit pension schemes and other post-retirement employee benefits under IFRS is governed by IAS19 – Employee Benefits, which differs from UK GAAP in that the net expense is determined using assumptions that are based on market conditions at the start of each financial year, principally in relation to salary inflation, investment returns and discount rates. Similarly, the assets and liabilities of defined benefit pension schemes and other employee benefit schemes are determined based on market conditions at the balance sheet date. Previously, under UK GAAP, determinations were made based on long run actuarial assumptions. The adoption of IAS19 valuation methodologies increases the expense for employee benefits by £27m/€40m compared to the amount reported under UK GAAP. Net pension obligations calculated using the IAS19 valuation methodologies were £321m/€453m as at 31 December 2004, which compares with a net pension prepayment less accrued liabilities under UK GAAP of £84m/€118m.

Reed Elsevier is adopting the approach available under IAS19 to reflect all actuarial gains and losses in the balance sheet in full and to report the amounts of such gains and losses arising each year through the Statement of Recognised Income and Expenditure. Actuarial losses of £74m/€109m arising in the year ended 31 December 2004 are reflected in the amount of net pension obligations at the balance sheet date.

Share based payments
For share based payments, the expense under IFRS2 – Share Based Payment is determined based on the fair value of such payments at the date of grant, spread over the vesting period taking account of the number of shares that are expected to vest. Under UK GAAP, only the intrinsic value is expensed e.g. where options are granted over shares with an exercise price below the market price of the shares at the date of grant. The charge under IFRS2 in 2004 is £48m/€71m higher than the £11m/€16m charge under UK GAAP. There is no effect on net assets as the profit and loss charge is offset by an equivalent amount credited to reserves.

Deferred taxation
IAS12 – Income Taxes requires deferred taxation to be provided for nearly all differences between the balance sheet amounts of assets and liabilities and their corresponding tax bases. Previously, under UK GAAP, deferred tax was provided for timing differences only and deferred tax assets were not recognised unless realisable in the near term. Net deferred tax liabilities as at 31 December 2004 are £643m/€907m higher under IFRS than under UK GAAP. This relates principally to deferred tax of £785m/€1,107m on the difference between the balance sheet amount of acquired intangible assets and the historic tax bases of the underlying assets, partly offset by deferred tax assets in respect of net pension obligations. The goodwill on acquisitions is grossed up by the amount of deferred tax liabilities on acquired intangible assets, other than in respect of intangible assets acquired prior to the transition date of 1 January 2004. (Under transition rules, the deferred tax liability as at the 1 January 2004 transition date in respect of intangible assets acquired prior to that date is charged directly to reserves and not added to goodwill.) The tax charge under IFRS for 2004 is £80m/€118m lower than under UK GAAP due to the unwinding of deferred tax liabilities and the deferred tax effects of other IFRS adjustments.

Dividends payable
Under UK GAAP, dividends are provided for in the year in respect of which they are declared or proposed by the directors. Under IAS10 – Post Balance Sheet Events,

dividends are only provided for when declared. Current liabilities have been reduced by £248m/€350m as at 31 December 2004 in respect of proposed dividends not formally declared as at the balance sheet date.

Joint ventures
Under IFRS, the equity accounted share of joint ventures results is included within operating profit on a post-tax basis. Under UK GAAP, the equity share of the taxes in joint ventures has been included in taxation and not deducted within operating profit. The effect is to reduce both the operating profit and the taxation charge under IFRS by £7m/€10m for 2004. There is no effect on profit attributable and net assets.

Financial instruments
IAS39 – Financial Instruments is not applicable until the 2005 financial year, and there is no restatement of prior year comparatives required (due to the impracticality of applying the new rules to past transactions). Accordingly there is no restatement of the 2004 financial statements for IAS39. Reed Elsevier uses financial instruments such as interest rate derivatives and forward exchange contracts to hedge interest rate and currency transaction exposures. Not all such instruments will in future necessarily qualify for hedge accounting treatment under the prescriptive rules of IAS39. For financial instruments not qualifying for hedge accounting, changes in their market value will be reported through the income statement.

For those debt instruments designated under IFRS as hedged by derivatives, such as cross currency swaps, qualifying as fair value hedges, both the debt and derivatives will be included separately in the balance sheet at fair value, resulting in variations in the balance sheet values of the gross debt and the offsetting derivatives as market values fluctuate. The balance sheet value of the net debt, including the associated derivatives, will be unaffected. Under UK GAAP, the balance sheet amount of debt hedged by derivatives has previously been recorded at historical cost at hedged rates and not revalued.

In respect of currency risk, Reed Elsevier hedges cross border transactions in foreign currencies, the most significant of which relate to the global scientific journals business. Hedge accounting treatment will still apply for these transactions under IAS39. However, whereas under UK GAAP hedge accounting applied to both revenues and costs where the net exchange risk is hedged in the market, under IFRS there is no grossing up of the hedge for the foreign currency revenues and the offsetting costs and a portion of the revenues and the costs are therefore treated as if unhedged. There should however be no net impact on profit and loss.

Performance measures
Reed Elsevier has for many years presented adjusted profit and cash flow figures as additional performance measures, which have been stated before the amortisation of goodwill and intangible assets, exceptional items and related tax effects. These have been important measures used in establishing budgets across the business and in monitoring performance, and in expressing Reed Elsevier's financial targets.

Whilst the adoption of IFRS has no effect on the cash flow of the business, it will inevitably have an influence on the way management and investors view performance. Maintaining existing benchmarks, whilst providing consistency and avoiding the inherent volatility under IFRS, would require too many adjustments to reported figures.

In future, Reed Elsevier is likely to focus on adjusted figures that include the additional expense of share based payments and pension expense under IFRS. Additionally, restructuring costs will be included in the benchmark. Acquisition integration costs will be excluded as they are entirely dependent on acquisition activity and are budgeted as an integral component of acquisition cost. Amortisation of acquired intangible assets will, as before, be excluded from the adjusted figures. Whilst the impact of mark-to-market adjustments on any financial instruments which fail to qualify for hedge accounting treatment is believed to be manageable, it is intended to exclude these effects from the benchmark figures, at least initially, whilst we gain practical experience. The effective tax rate used in the benchmark will exclude the effect of movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term. This will, as before, more closely approximate the cash tax rate. Adjusted operating profits and taxation will be grossed up for the equity share of taxes in joint ventures.

The new proposed additional performance measures under an IFRS regime would for 2004 be: adjusted operating profit of £1,066m/€1,567m, adjusted operating cash flow of £1,013m/€1,490m, adjusted pre-tax profits of £934m/€1,373m, and adjusted earnings per share for Reed Elsevier PLC of 28.7p and for Reed Elsevier NV of €0.64. The derivation of these new benchmark figures for 2004 from the results presented under IFRS is set out on page 130.

Reported results under IFRS will inherently be more volatile than under previous UK GAAP due to the inclusion of fair value and market based assets and liabilities and income and expense. Of most significance to the new additional performance measures will be the volatility in respect of pension expense. A relatively small market change in the corporate bond yields that are used to determine discount rates or in inflation rates implied by index-linked government bonds can have a significant impact, favourable and adverse, on the annual service cost for defined benefit pension schemes. Targets in respect of future financial performance will therefore be set in this context.

Reed Elsevier combined businesses

Combined income statement (IFRS)

For the year ended 31 December 2004

	Note	£ Unaudited 2004 £m	€ Unaudited 2004 €m
Revenue	1	**4.812**	**7,074**
Cost of sales		**(1,733)**	**(2,548)**
Gross profit		**3,079**	**4,526**
Selling and distribution costs		**(1,065)**	**(1,566)**
Administration and other expenses		**(1,265)**	**(1,860)**
Before amortisation and exceptional items		**(954)**	**(1,403)**
Amortisation of acquired intangible assets		**(255)**	**(375)**
Exceptional items		**(56)**	**(82)**
Operating profit		**749**	**1,100**
Share of result of joint ventures		**17**	**26**
Operating profit including joint ventures	1,2	**766**	**1,126**
Net interest expense		**(132)**	**(194)**
Exceptional losses on disposals		**(3)**	**(4)**
Profit before tax		**631**	**928**
Tax	3	**(170)**	**(250)**
Profit on ordinary activities after taxation		**461**	**678**
Attributable to:			
Parent companies' shareholders		**459**	**675**
Minority interests		**2**	**3**
Net profit for the year		**461**	**678**

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 119 to 122.

A reconciliation of the combined income statement under IFRS to the combined profit and loss account under UK GAAP is set out in note 6.

Adjusted (benchmark) profit figures under IFRS are presented in note 7 as additional performance measures.

Reed Elsevier combined businesses

Combined cash flow statement (IFRS)

For the year ended 31 December 2004

	£ Unaudited 2004 £m	€ Unaudited 2004 €m
Cash flows from operating activities		
Cash generated from operations	1,154	1,696
Interest paid	(146)	(215)
Interest received	16	24
Tax paid	(209)	(307)
Net cash from operating activities	815	1,198
Cash flows from investing activities		
Acquisitions	(647)	(951)
Proceeds from sale of businesses	2	3
Purchases of property, plant and equipment	(82)	(120)
Proceeds on disposal of property, plant and equipment	4	7
Expenditure on internally developed intangible assets	(110)	(162)
Purchases of available-for-sale investments	(13)	(19)
Proceeds from disposal of available-for-sale investments	10	15
Dividends received from joint ventures	17	25
Net cash used in investing activities	(819)	(1,202)
Cash flows from financing activities		
Dividends paid to shareholders of the parent companies	(309)	(454)
Decrease in borrowings	(82)	(120)
Proceeds on issue of ordinary shares	21	31
Purchase of treasury shares	(29)	(43)
Net cash used in financing activities	(399)	(586)
Decrease in cash and cash equivalents	**(403)**	**(590)**
Movement in cash and cash equivalents		
At start of year	638	906
Decrease	(403)	(590)
Effect of foreign exchange rate changes	(10)	1
At end of year	**225**	**317**

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 119 to 122.

Adjusted (benchmark) operating cash flow figures under IFRS are presented in note 7 as additional performance measures.

Reed Elsevier combined businesses

Combined balance sheet (IFRS)

As at 31 December 2004

	Note	£ Unaudited 2004 £m	€ Unaudited 2004 €m
Assets			
Non-current assets			
Goodwill	4	2,611	3,682
Intangible assets	5	2,835	3,997
Investments in joint ventures		60	86
Available-for-sale investments		50	71
Property, plant and equipment		292	411
Deferred tax assets		235	331
		6,083	8,578
Current assets			
Inventories and pre-publication costs		541	763
Trade and other receivables		1,103	1,555
Cash and cash equivalents		225	317
		1,869	2,635
Total assets		7,952	11,213
Liabilities			
Current liabilities			
Trade and other payables		1,791	2,525
Borrowings		1,051	1,482
Taxation		497	701
		3,339	4,708
Non-current liabilities			
Borrowings		1,706	2,405
Deferred tax liabilities		857	1,208
Employee benefit obligations		321	453
Provisions		52	73
		2,936	4,139
Total liabilities		6,275	8,847
Net assets		1,677	2,366
Equity			
Capital and reserves			
Combined share capitals		191	269
Combined share premium accounts		1,805	2,545
Combined shares held in treasury		(66)	(93)
Translation reserve		(122)	(175)
Other combined reserves		(144)	(200)
		1,664	2,346
Minority interest		13	20
Total equity		1,677	2,366

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 119 to 122.

A reconciliation of the combined balance sheet under IFRS to the combined balance sheet under UK GAAP is set out in note 6.

Reed Elsevier combined businesses

Combined statement of recognised income and expenditure (IFRS)

For the year ended 31 December 2004

	£ Unaudited 2004 £m	€ Unaudited 2004 €m
Net profit for the year	461	678
Exchange difference on translation of foreign operations	(121)	(196)
Actuarial losses on defined benefit pension schemes	(74)	(109)
Tax on items taken directly to reserves	12	18
Net expense recognised directly in equity	(183)	(287)
Total recognised income and expense for the year	278	391
Attributable to:		
Parent companies' shareholders	276	388
Minority interests	2	3
	278	391

Combined shareholders' funds reconciliation (IFRS)

For the year ended 31 December 2004

	£ Unaudited 2004 £m	€ Unaudited 2004 €m
Total recognised net income attributable to the parent companies' shareholders	276	388
Dividends declared in the year	(309)	(454)
Issue of ordinary shares, net of expenses	21	31
Increase in shares held in treasury	(29)	(43)
Increase in share based payment reserve	59	87
Net increase in combined shareholders' funds	18	9
Combined shareholders' funds at 1 January	1,646	2,337
Combined shareholders' funds at 31 December	1,664	2,346

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 119 to 122.

Reed Elsevier combined businesses

Accounting policies (IFRS)

Basis of preparation
Under a regulation adopted by the European Parliament in 2002, the Reed Elsevier combined financial statements and the financial statements of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV, will be prepared under International Financial Reporting Standards (IFRS) with effect from the 2005 financial year.

The Reed Elsevier accounting policies under IFRS are set out below. The financial statement information summarises the results and financial position of the Reed Elsevier combined businesses and the two parent companies for the year ended 31 December 2004 in accordance with these accounting policies.

The financial statement information presented is unaudited.

Transition date
The date of transition to IFRS is 1 January 2004, which is the beginning of the prior year comparative period for the 2005 financial year.

Foreign exchange translation
Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rate prevailing on the balance sheet date.

Assets and liabilities of foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items of foreign operations are translated at the average exchange rate for the period. Exchange differences arising are classified as equity and transferred to the translation reserve. Cumulative translation differences are recognised within the income statement in the period in which operations are disposed of.

As permitted under the transition rules of IFRS1 – First Time Adoption of International Financial Reporting Standards, cumulative translation differences in respect of foreign operations have been deemed to be nil at the date of transition.

Reed Elsevier uses derivative financial instruments, primarily forward contracts, in order to hedge its exposure to certain foreign exchange risks. Details of Reed Elsevier's accounting policies in respect of derivative financial instruments are set out below.

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

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

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

Employee benefits
The expense of defined benefit pension schemes and other post-retirement employee benefits is determined using the projected unit credit method and charged to the income statement as an operating expense, based on actuarial assumptions reflecting market conditions at the beginning of the financial year. Actuarial gains and losses are recognised in full in the statement of recognised income and expenditure in the period in which they occur. Past service costs are recognised immediately to the extent that benefits have vested, or, if not vested, on a straight line basis over the period until the benefits vest.

Net pension obligations in respect of defined benefit schemes are included in the balance sheet at the present value of scheme liabilities, less the fair value of scheme assets. Where assets exceed liabilities, any net pension asset is limited to the extent that the asset is not recoverable through reductions in future contributions.

The expense of defined contribution pension schemes and other employee benefits is charged in the income statement as incurred.

Share-based payments
The fair value of share-based remuneration is determined at date of grant and recognised as an expense in the income statement on a straight line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of a binomial model. All share-based remuneration is equity settled.

In accordance with the transitional provisions of IFRS2 – Share-Based Payment, the expense recognised in the income statement relates to grants made during the

Reed Elsevier combined businesses

financial period and all grants made before the transition date that had not fully vested at that date.

Taxation
The tax expense represents the sum of the tax payable on the current year taxable profits and the movements on deferred tax.

The tax payable on current year taxable profits is calculated using the applicable tax rates that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is the tax arising on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is not recognised on temporary differences arising in respect of goodwill that is not deductible for tax purposes.

No provision is made for deferred tax which would become payable on the distribution of retained profits by foreign subsidiaries, joint ventures or associates, unless there is an intention to distribute such retained profits.

Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Movements in deferred tax are charged or credited in the income statement, except when they relate to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and may not be subsequently reversed.

On disposal of a subsidiary, joint venture, associate or business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the 1 January 2004 date of transition to IFRS is included in the balance sheet at the previously stated net book amount under UK GAAP. An impairment review was carried out as at the transition date and no impairment identified.

Intangible assets
Intangible assets acquired as part of a business combination are stated in the balance sheet at their fair value as at date of acquisition, less accumulated amortisation. Internally generated intangible assets are stated in the balance sheet at the directly attributable cost of creation of the asset, less accumulated amortisation.

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trade marks, imprints, brands); customer based assets (e.g. subscription bases, customer lists, customer relationships); editorial content; software and systems (e.g. application infrastructure, product delivery platforms, in-process research and development); contract based assets (e.g. publishing rights, exhibition rights, supply contracts); and other intangible assets. Internally generated intangible assets typically comprise software and systems development where an identifiable asset is created that is probable to generate future economic benefits. All other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets, other than brands and imprints determined to have indefinite lives, are amortised systematically over their estimated useful lives, typically up to a maximum of 20 years. Brands and imprints determined to have indefinite lives are not amortised and are subject to impairment review at least annually.

Intangible assets recognised on acquisitions made before the 1 January 2004 date of transition to IFRS have been included in the balance sheet at their previously stated cost less amortisation under UK GAAP. An impairment review was carried out as at the transition date and no impairment identified.

Property, plant and equipment
Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation. No depreciation is provided on freehold land. Freehold buildings and long leases are depreciated over their estimated useful lives up to a maximum of 50 years. Short leases are written off over the duration of the lease. Depreciation is provided on other assets on a straight line basis over their estimated useful lives: leasehold improvements – shorter of life of lease and 10 years; plant – 3 to 20 years; office furniture, fixtures and fittings – 5 to 10 years; computer systems, communication networks and equipment – 3 to 7 years.

Investments, joint ventures and associates
Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value.

Investments held as part of the Reed Elsevier Ventures portfolio are classified as available-for-sale venture capital investments, with changes in fair value reported through the income statement. All other investments are classified as available-for-sale investments with changes in fair value recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is brought into the net profit or loss for the period.

Investments in joint ventures and associates are accounted for under the equity method and stated in the balance sheet at cost as adjusted for post-acquisition changes in share of net assets, less any impairment in value.

Impairment
At each balance sheet date, reviews are carried out of the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, estimates are made of the cash flows of the cash generating unit to which the asset belongs. Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Leases
Assets held under leases which confer rights and obligations similar to those attaching to owned assets are capitalised within property, plant and equipment and the corresponding liability to pay rentals is shown net of interest in the balance sheet as obligations under finance leases. The capitalised value of the assets is depreciated 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 lease rentals are charged to the income statement on a straight line basis over the period of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Financial instruments
Derivative financial instruments are used to hedge interest rate and foreign exchange risks.

In accordance with the transitional provisions of IFRS1 – First Time Adoption of International Financial Reporting Standards, derivative financial instruments have been accounted for and presented on the UK GAAP basis for the year ended 31 December 2004.

Under IAS39 – Financial Instruments, derivative financial instruments are stated in the balance sheet at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. If a hedged firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time that the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss. Any ineffective portion of hedges is recognised immediately in the income statement.

Where an effective hedge is in place against changes in the fair value of fixed rate borrowings, the hedged borrowings are adjusted for changes in fair value attributable to the risk being hedged with a corresponding income or expense included in the income statement. The offsetting gains or losses from re-measuring the fair value of the related derivatives are also recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time,

Reed Elsevier combined businesses

any cumulative gain or loss on the hedging instrument recognised in equity is either retained in equity until the forecasted transaction occurs, or, where a hedged transaction is no longer expected to occur, is immediately credited or expensed in the income statement.

Derivatives embedded in other host contracts are treated as separate derivatives where their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

As at 1 January 2005, adjustments are to be made either to the carrying value of hedged items or to equity, as appropriate, to reflect the differences between the UK GAAP carrying values of derivative financial instruments and their carrying values required to be reported under IAS39. Any transition gains or losses on derivative financial instruments that qualify for hedge accounting and are reflected in equity will remain in equity until either the forecasted transaction occurs or is no longer expected to occur.

Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

1 Segment analysis (IFRS)

	Revenue	Operating profit	Adjusted (benchmark) operating profit	Revenue	Operating profit	Adjusted (benchmark) operating profit
	Unaudited 2004 £m	Unaudited 2004 £m	Unaudited 2004 £m	Unaudited 2004 €m	Unaudited 2004 €m	Unaudited 2004 €m
Business segment						
Elsevier	1,363	402	445	2,004	591	654
LexisNexis	1,292	188	287	1,899	276	422
Harcourt Education	868	67	157	1,276	99	231
Reed Business	1,289	126	194	1,895	185	285
Subtotal	4,812	783	1,083	7,074	1,151	1,592
Corporate costs		(29)	(29)		(43)	(43)
Unallocated net pension credit		12	12		18	18
Total	4,812	766	1,066	7,074	1,126	1,567
Geographical origin						
North America	2,656	315	539	3,904	462	792
United Kingdom	846	129	159	1,244	190	234
The Netherlands	503	182	189	739	268	278
Rest of Europe	545	102	138	801	150	203
Rest of world	262	38	41	386	56	60
Total	4,812	766	1,066	7,074	1,126	1,567

Adjusted (benchmark) operating profit figures are presented as additional performance measures and reconciled to the reported figures in note 7. The unallocated net pension credit of £12m/€18m comprises the expected return on pension scheme assets of £139m/€204m less interest on pension scheme liabilities of £127m/€186m. Share of post-tax results of joint ventures of £17m/€26m included in operating profit comprises £3m/€5m relating to LexisNexis and £14m/€21m relating to Reed Business.

	Capital additions	Depreciation and amortisation	Capital additions	Depreciation and amortisation
	Unaudited 2004 £m	Unaudited 2004 £m	Unaudited 2004 €m	Unaudited 2004 €m
Business segment				
Elsevier	67	67	98	98
LexisNexis	300	140	441	206
Harcourt Education	94	85	138	125
Reed Business	47	85	70	125
Subtotal	508	377	747	554
Corporate amounts	5	4	7	6
Total	513	381	754	560
Geographical origin				
North America	407	277	598	407
United Kingdom	45	47	66	69
The Netherlands	40	15	59	22
Rest of Europe	15	36	22	53
Rest of world	6	6	9	9
Total	513	381	754	560

Capital additions comprise expenditure on property, plant and equipment and intangible assets, both acquired and internally developed, and exclude goodwill.

Reed Elsevier combined businesses

1 Segment analysis (IFRS) continued

	Total assets Unaudited 2004 £m	Total liabilities Unaudited 2004 £m	Net assets Unaudited 2004 £m	Total assets Unaudited 2004 €m	Total liabilities Unaudited 2004 €m	Net assets Unaudited 2004 €m
Business segment						
Elsevier	2,099	704	1,395	2,960	993	1,967
LexisNexis	2,616	329	2,287	3,689	464	3,225
Harcourt Education	1,542	177	1,365	2,174	249	1,925
Reed Business	1,194	515	679	1,683	726	957
	7,451	1,725	5,726	10,506	2,432	8,074
Tax	235	1,354	(1,119)	331	1,909	(1,578)
Cash and borrowings	225	2,757	(2,532)	317	3,887	(3,570)
Employee benefit obligations	–	321	(321)	–	453	(453)
Other assets and liabilities	41	118	(77)	59	166	(107)
Total	7,952	6,275	1,677	11,213	8,847	2,366
Geographical origin						
North America	5,622	3,403	2,219	7,927	4,798	3,129
United Kingdom	927	581	346	1,307	819	488
The Netherlands	417	623	(206)	588	878	(290)
Rest of Europe	841	1,531	(690)	1,186	2,159	(973)
Rest of world	145	137	8	205	193	12
Total	7,952	6,275	1,677	11,213	8,847	2,366

Share of net assets in joint ventures of £60m/€86m included above comprises £26m/€37m relating to LexisNexis and £34m/€49m relating to Reed Business.

2 Operating profit (IFRS)

Operating profit is stated after charging/(crediting):

	Unaudited 2004 £m	Unaudited 2004 €m
Staff costs		
Wages and salaries	1,216	1,788
Social security costs	130	191
Pensions	84	123
Share based payments	59	87
Total staff costs	1,489	2,189
Operating lease rentals payable	105	154
Operating lease rentals receivable	(12)	(18)
Amortisation of acquired intangible assets	255	375
Amortisation of internally developed intangible assets	55	81
Depreciation of property, plant and equipment	71	104

The accounting for pensions under IAS19 is very similar to the requirements of UK FRS 17, disclosures in respect of which are set out in pages 54 to 56.

Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

3 Tax (IFRS)

	Unaudited 2004 £m	Unaudited 2004 €m
Current tax:		
United Kingdom	73	107
The Netherlands	52	77
Other	60	88
	185	272
Deferred tax:		
Current year	(15)	(22)
Total	170	250
Effective tax rate on reported profit before tax	27%	27%

4 Goodwill (IFRS)

	Unaudited 2004 £m	Unaudited 2004 €m
At 1 January 2004	2,437	3,461
Acquisitions	345	507
Exchange translation differences	(171)	(286)
At 31 December 2004	2,611	3,682

Reed Elsevier combined businesses

5 Intangible assets (IFRS)

	Acquired intangible assets Unaudited £m	Internally developed intangible assets Unaudited £m	Total Unaudited £m	Acquired intangible assets Unaudited €m	Internally developed intangible assets Unaudited €m	Total Unaudited €m
Cost						
At 1 January 2004	**4,091**	**419**	**4,510**	**5,809**	**595**	**6,404**
Additions	**310**	**110**	**420**	**456**	**162**	**618**
Disposals	**(13)**	**–**	**(13)**	**(19)**	**–**	**(19)**
Exchange translation differences	**(236)**	**(17)**	**(253)**	**(391)**	**(36)**	**(427)**
At 31 December 2004	**4,152**	**512**	**4,664**	**5,855**	**721**	**6,576**
Amortisation						
At 1 January 2004	**1,375**	**229**	**1,604**	**1,953**	**325**	**2,278**
Disposals/write off on acquisitions	**(13)**	**10**	**(3)**	**(19)**	**15**	**(4)**
Charge for the year	**255**	**55**	**310**	**375**	**81**	**456**
Exchange translation differences	**(73)**	**(9)**	**(82)**	**(131)**	**(20)**	**(151)**
At 31 December 2004	**1,544**	**285**	**1,829**	**2,178**	**401**	**2,579**
Net book amount						
At 31 December 2003	2,716	190	2,906	3,856	270	4,126
At 31 December 2004	**2,608**	**227**	**2,835**	**3,677**	**320**	**3,997**

Acquired intangible assets as at 31 December 2004 include brands and imprints totalling £610m/€860m determined to have indefinite lives based on an assessment of their longevity and stable market positions.

Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

6 Reconciliations to UK GAAP

Reconciliation of combined profit

	Note	UK GAAP 2004 £m	Adjustments Unaudited 2004 £m	IFRS Unaudited 2004 £m	UK GAAP 2004 €m	Adjustments Unaudited 2004 €m	IFRS Unaudited 2004 €m
Revenue		4,812	–	4,812	7,074	–	7,074
Cost of sales		(1,733)	–	(1,733)	(2,548)	–	(2,548)
Gross profit		3,079	–	3,079	4,526	–	4,526
Selling and distribution costs		(1,065)	–	(1,065)	(1,566)	–	(1,566)
Administration and other expenses		(1,339)	74	(1,265)	(1,968)	108	(1,860)
Before amortisation and exceptional items	(i)	(879)	(75)	(954)	(1,292)	(111)	(1,403)
Amortisation of goodwill and acquired intangible assets	(ii)	(404)	149	(255)	(594)	219	(375)
Exceptional items		(56)	–	(56)	(82)	–	(82)
Operating profit		675	74	749	992	108	1,100
Share of result of joint ventures	(iii)	22	(5)	17	32	(6)	26
Operating profit including joint ventures		697	69	766	1,024	102	1,126
Net interest expense		(132)	–	(132)	(194)	–	(194)
Exceptional losses on disposals		(3)	–	(3)	(4)	–	(4)
Profit before tax		562	69	631	826	102	928
Tax	(iv)	(257)	87	(170)	(378)	128	(250)
Profit on ordinary activities after taxation		305	156	461	448	230	678
Attributable to:							
Parent companies' shareholders		303	156	459	445	230	675
Minority interests		2	–	2	3	–	3
Net profit for the year		305	156	461	448	230	678

Notes in respect of the IFRS adjustments are set out on page 129.

Reed Elsevier combined businesses

6 Reconciliations to UK GAAP continued

Reconciliation of combined balance sheet

	Note	UK GAAP 2004 £m	Adjustments Unaudited 2004 £m	IFRS Unaudited 2004 £m	UK GAAP 2004 €m	Adjustments Unaudited 2004 €m	IFRS Unaudited 2004 €m
ASSETS							
Non-current assets							
Goodwill	(v)	2,349	262	2,611	3,312	370	3,682
Intangible assets	(vi)	2,657	178	2,835	3,746	251	3,997
Investments in joint ventures	(vii)	58	2	60	82	4	86
Available-for-sale investments		50	–	50	71	–	71
Property, plant and equipment	(viii)	519	(227)	292	732	(321)	411
Deferred tax assets	(ix)	97	138	235	137	194	331
		5,730	353	6,083	8,080	498	8,578
Current assets							
Inventories and pre-publication costs		541	–	541	763	–	763
Trade and other receivables	(x)	1,240	(137)	1,103	1,748	(193)	1,555
Cash and cash equivalents		225	–	225	317	–	317
		2,006	(137)	1,869	2,828	(193)	2,635
Total assets		7,736	216	7,952	10,908	305	11,213
LIABILITIES							
Current liabilities							
Trade and other payables	(xi)	2,074	(283)	1,791	2,924	(399)	2,525
Borrowings		1,051	–	1,051	1,482	–	1,482
Taxation		497	–	497	701	–	701
		3,622	(283)	3,339	5,107	(399)	4,708
Non-current liabilities							
Borrowings		1,706	–	1,706	2,405	–	2,405
Deferred tax liabilities	(ix)	76	781	857	107	1,101	1,208
Employee benefit obligations	(xii)	–	321	321	–	453	453
Provisions		52	–	52	73	–	73
		1,834	1,102	2,936	2,585	1,554	4,139
Total liabilities		5,456	819	6,275	7,692	1,155	8,847
Net assets		2,280	(603)	1,677	3,216	(850)	2,366
EQUITY							
Capital and reserves							
Combined share capitals		191	–	191	269	–	269
Combined share premium accounts		1,805	–	1,805	2,545	–	2,545
Combined shares held in treasury		(66)	–	(66)	(93)	–	(93)
Translation reserves	(xiii)	–	(122)	(122)	–	(175)	(175)
Other combined reserves	(xiv)	337	(481)	(144)	475	(675)	(200)
		2,267	(603)	1,664	3,196	(850)	2,346
Minority interest		13	–	13	20	–	20
Total equity		2,280	(603)	1,677	3,216	(850)	2,366

Notes in respect of the IFRS adjustments are set out on page 129.

Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

6 Reconciliations to UK GAAP continued

Notes on the IFRS adjustments

(i) Administration and other expenses before amortisation and exceptional items: additional pension expense £27m/€40m; share option expense £48m/€71m.

(ii) Amortisation of goodwill and acquired intangible assets: non-amortisation of goodwill (excluding in joint ventures) £204m/€300m; higher amortisation of acquired intangible assets £55m/€81m.

(iii) Share of result of joint ventures: non-amortisation of goodwill £2m/€4m; joint ventures tax reclassification £7m/€10m.

(iv) Tax: reduced deferred tax charge £80m/€118m; joint ventures tax reclassification £7m/€10m.

(v) Goodwill: non-amortisation £204m/€300m; gross up for deferred tax liabilities £68m/€96m; exchange £10m/€26m (differences between average rates and year end balance sheet rates on profit and loss adjustments).

(vi) Intangible assets: higher amortisation £55m/€81m; reclassification of capitalised software £227m/€321m; exchange £6m/€11m.

(vii) Investments in joint ventures: non-amortisation of goodwill £2m/€4m.

(viii) Property, plant and equipment: reclassification of capitalised software £227m/€321m.

(ix) Deferred tax: additional deferred tax assets principally in relation to net pension obligations £138m/€194m; additional deferred tax liabilities principally in relation to acquired intangible assets £781m/€1,101m.

(x) Trade and other receivables: reversal of pension prepayments £137m/€193m (including £115m/€162m over one year).

(xi) Trade and other payables: reversal of proposed dividends £248m/€350m; reversal of unfunded defined benefit pension liability £53m/€74m; other £18m/€25m.

(xii) Employee benefit obligations: net pension obligations £321m/€453m.

(xiii) Translation reserve: exchange differences on translation of foreign operations £143m/€224m; translation effects of IFRS adjustments £21m/€49m (difference between average rates and year end balance sheet rates on profit and loss adjustments).

(xiv) Other combined reserves: adjustments to net profit for the year £156m/€230m; additional net deferred tax liabilities at 1 January 2004 date of transition £686m/€974m; additional net pension obligations at 1 January 2004 date of transition £310m/€440m; actuarial losses arising during the year on defined benefit pension schemes net of related deferred tax £62m/€91m; reversal of proposed dividends £248m/€350m; reclassification to translation reserve of exchange differences on translation of foreign operations £143m/€224m; other £30m/€26m.

UK GAAP figures (before IFRS adjustments) have been recategorised so as to conform to the presentation under IFRS.

Reed Elsevier combined businesses

7 Adjusted (benchmark) figures (IFRS)

Adjusted (benchmark) profit figures, proposed as additional performance measures on adoption of IFRS, are derived from the reported figures (unaudited) under IFRS for the 2004 financial year as follows:

For the year ended 31 December 2004	Adjusted operating profit Unaudited £m	Adjusted pre-tax profit Unaudited £m	Adjusted attributable profit Unaudited £m	Adjusted operating profit Unaudited €m	Adjusted pre-tax profit Unaudited €m	Adjusted attributable profit Unaudited €m
Reported figures under IFRS	766	631	459	1,126	928	675
Adjustments:						
Amortisation of acquired intangible assets	255	255	288	375	375	423
Acquisition integration and related costs	38	38	29	56	56	43
Exceptional losses on disposals	–	3	2	–	4	3
Reclassification of tax on joint ventures	7	7	–	10	10	–
Deferred tax adjustment	–	–	(91)	–	–	(134)
Adjusted (benchmark) figures under IFRS	1,066	934	687	1,567	1,373	1,010

A reconciliation of adjusted profit figures previously used as additional performance measures under UK GAAP to the new proposed adjusted (benchmark) figures to be used on adoption of IFRS for the 2004 financial year is set out below.

For the year ended 31 December 2004	Adjusted operating profit Unaudited £m	Adjusted pre-tax profit Unaudited £m	Adjusted attributable profit Unaudited £m	Adjusted operating profit Unaudited €m	Adjusted pre-tax profit Unaudited €m	Adjusted attributable profit Unaudited €m
Adjusted figures for UK GAAP	1,159	1,027	760	1,704	1,510	1,117
Reconciling items:						
Additional pension expense	(27)	(27)	(17)	(40)	(40)	(25)
Share option expense	(48)	(48)	(41)	(71)	(71)	(60)
Restructuring costs	(18)	(18)	(15)	(26)	(26)	(22)
Adjusted (benchmark) figures under IFRS	1,066	934	687	1,567	1,373	1,010

Adjusted (benchmark) operating cash flow, proposed as an additional performance measure on adoption of IFRS, is derived from the reported cash generated from operations (unaudited) under IFRS for the 2004 financial year as follows:

For the year ended 31 December 2004	Unaudited £m	Unaudited €m
Cash generated from operations	1,154	1,696
Dividends received from joint ventures	17	25
Purchases of property, plant and equipment	(82)	(120)
Proceeds on disposal of property, plant and equipment	4	7
Expenditure on internally developed intangible assets	(110)	(162)
Payments in relation to acquisition integration and related costs	30	44
Adjusted (benchmark) operating cash flow	1,013	1,490
Adjusted (benchmark) operating cash flow conversion	95%	95%

Adjusted (benchmark) operating cash flow conversion expresses adjusted (benchmark) operating cash flow as a percentage of adjusted (benchmark) operating profit.

A reconciliation of adjusted operating cash flow previously used as an additional performance measure under UK GAAP to the new proposed adjusted (benchmark) operating cash flow figure to be used on adoption of IFRS for the 2004 financial year is set out below.

	Unaudited £m	Unaudited €m
Adjusted operating cash flow under UK GAAP	1,050	1,544
Exceptional restructuring payments	(37)	(54)
Adjusted (benchmark) operating cash flow under IFRS	1,013	1,490

Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

8 Interim results (IFRS)

The combined IFRS income statement (unaudited) for the six months ended 30 June 2004 is set out below:

Six months ended 30 June 2004	Unaudited £m	Unaudited €m
Revenue	**2,263**	**3,349**
Cost of sales	(821)	(1,215)
Gross profit	1,442	2,134
Selling and distribution costs	(495)	(732)
Administration and other expenses	(640)	(947)
Before amortisation and exceptional items	(506)	(749)
Amortisation of acquired intangible assets	(116)	(172)
Exceptional items	(18)	(26)
Operating profit	**307**	**455**
Share of result of joint ventures	13	19
Operating profit including joint ventures	**320**	**474**
Net interest expense	(64)	(95)
Profit before tax	**256**	**379**
Tax	(64)	(95)
Profit on ordinary activities after taxation	**192**	**284**
Attributable to:		
Parent companies' shareholders	191	283
Minority interests	1	1
Net profit for the year	**192**	**284**

Reed Elsevier combined businesses

8 Interim results (IFRS) continued

The IFRS segment analysis (unaudited) of revenue, operating profit and adjusted (benchmark) operating profit for the six months ended 30 June 2004, is as follows:

Six months ended 30 June 2004	Unaudited £m	Unaudited €m
Revenue		
Elsevier	631	934
LexisNexis	614	909
Harcourt Education	359	531
Reed Business	659	975
Total	2,263	3,349
Operating profit		
Elsevier	178	263
LexisNexis	83	123
Harcourt Education	(19)	(27)
Reed Business	88	130
Subtotal	330	489
Unallocated corporate costs	(16)	(24)
Unallocated net pension credit	6	9
Total	320	474
Adjusted (benchmark) operating profit		
Elsevier	198	293
LexisNexis	122	181
Harcourt Education	23	34
Reed Business	118	175
Subtotal	461	683
Unallocated corporate costs	(16)	(24)
Unallocated net pension credit	6	9
Total	451	668

Notes to the combined financial statements

For the year ended 31 December 2004

8 Interim results (IFRS) continued

Adjusted (benchmark) figures, proposed as additional performance measures on adoption of IFRS, for the six months ended 30 June 2004 are derived from the reported figures (unaudited) as follows:

	Adjusted operating profit Unaudited £m	Adjusted pre-tax profit Unaudited £m	Adjusted net profit Unaudited £m	Adjusted operating profit Unaudited €m	Adjusted pre-tax profit Unaudited €m	Adjusted net profit Unaudited €m
Reported figures under IFRS	**320**	**256**	**191**	**474**	**379**	**283**
Adjustments:						
Amortisation of acquired intangible assets	**116**	**116**	**130**	**172**	**172**	**192**
Acquisition integration and related costs	**10**	**10**	**9**	**15**	**15**	**13**
Exceptional losses on disposals	**–**	**–**	**–**	**–**	**–**	**–**
Reclassification of tax on joint ventures	**5**	**5**	**–**	**7**	**7**	**–**
Deferred tax adjustment	**–**	**–**	**(42)**	**–**	**–**	**(62)**
Adjusted (benchmark) figures under IFRS	**451**	**387**	**288**	**668**	**573**	**426**

A reconciliation of adjusted figures previously used as additional performance measures under UK GAAP to the new proposed adjusted (benchmark) figures for the six months ended 30 June 2004 to be used on adoption of IFRS is set out below.

	Adjusted operating profit Unaudited £m	Adjusted pre-tax profit Unaudited £m	Adjusted net profit Unaudited £m	Adjusted operating profit Unaudited €m	Adjusted pre-tax profit Unaudited €m	Adjusted net profit Unaudited €m
Adjusted figures for UK GAAP	**497**	**433**	**319**	**736**	**641**	**472**
Reconciling items:						
Additional pension expense	**(14)**	**(14)**	**(10)**	**(21)**	**(21)**	**(15)**
Share option expense	**(24)**	**(24)**	**(15)**	**(35)**	**(35)**	**(22)**
Restructuring costs	**(8)**	**(8)**	**(6)**	**(12)**	**(12)**	**(9)**
Adjusted (benchmark) figures under IFRS	**451**	**387**	**288**	**668**	**573**	**426**

Proposed adjusted (benchmark) earnings per share under IFRS for the six months ended 30 June 2004 are 12.1p for Reed Elsevier PLC and €0.27 for Reed Elsevier NV.

Reed Elsevier PLC

Consolidated income statement (IFRS)

For the year ended 31 December 2004

	£ Unaudited 2004 £m
Administrative expenses	(2)
Effect of tax credit equalisation on distributed earnings	(8)
Share of results of joint ventures	247
Operating profit including joint ventures	237
Investment income	3
Profit before tax	240
Tax	(5)
Profit for the year attributable to ordinary shareholders	235

Earnings per ordinary share (EPS) (IFRS)

	£ Unaudited 2004 pence
Basic EPS	18.6p
Diluted EPS	18.5p
EPS based on 52.9% economic interest in the Reed Elsevier combined businesses	19.2p
Adjusted (benchmark) EPS	28.7p

Adjusted (benchmark) earnings per ordinary share, proposed as an additional performance measure on adoption of IFRS, is derived from the basic earnings per share (unaudited) under IFRS as follows:

	£ Unaudited 2004 pence
Basic earnings per ordinary share	18.6p
Effect of tax credit equalisation on distributed earnings	0.6p
Earnings per share based on 52.9% economic interest in the Reed Elsevier combined business	19.2p
Adjustments:	
Amortisation of acquired intangible assets	12.0p
Acquisition integration and related costs	1.2p
Exceptional losses on disposals	0.1p
Deferred tax adjustment	(3.8p)
Adjusted (benchmark) earnings per ordinary share	28.7p

Reed Elsevier PLC

Balance sheets (IFRS)

As at 31 December 2004

	£ Consolidated Unaudited 2004 £m	£ Company Unaudited 2004 £m
Assets		
Non-current assets		
Investment in joint ventures	**334**	**1,411**
Current assets		
Amounts due from joint ventures	**595**	**595**
Total assets	**929**	**2,006**
Liabilities		
Current liabilities		
Payables	**1**	**1**
Amounts owed to joint ventures	**36**	**36**
Taxation	**12**	**12**
Amounts owed to group undertakings	**–**	**77**
Total liabilities	**49**	**126**
Net assets	**880**	**1,880**
Equity		
Capital and reserves		
Called up share capital	**159**	**159**
Share premium account	**974**	**974**
Shares held in treasury	**(35)**	**–**
Capital redemption reserve	**4**	**4**
Translation reserve	**(64)**	**–**
Profit and loss reserve	**(158)**	**743**
Total equity	**880**	**1,880**

Consolidated statement of recognised income and expenditure (IFRS)

For the year ended 31 December 2004

	£ Unaudited 2004 £m
Net profit for the year	**235**
Share of exchange difference on translation of foreign operations in joint ventures	**(64)**
Share of actuarial losses on defined benefit pension schemes	**(39)**
Share of tax on items taken directly to reserves	**6**
Net expense recognised directly in equity	**(97)**
Total recognised income and expense for the year	**138**

Reed Elsevier PLC

Reconciliations to UK GAAP

Reconciliation of profit

	Unaudited 2004 £m
Net profit under UK GAAP	152
Adjustments to IFRS	
Share of IFRS adjustments in joint ventures	83
Net profit for the year under IFRS	**235**

Reconciliation of equity

	Consolidated	Company
	Unaudited 2004 £m	Unaudited 2004 £m
Shareholders' funds under UK GAAP	1,199	1,760
Adjustments to IFRS		
Dividends	120	120
Share of IFRS adjustments in joint ventures	(439)	–
	(319)	120
Equity under IFRS	**880**	**1,880**

Reed Elsevier NV

Group income statement (IFRS)

For the year ended 31 December 2004

	€ Unaudited 2004 €m
Administrative expenses	(3)
Share of results of joint ventures	339
Operating profit including joint ventures	336
Investment income	2
Profit before tax	338
Tax	–
Profit for the year attributable to ordinary shareholders	338

Group earnings per ordinary share (EPS) (IFRS)

	€ Unaudited 2004 euro
Basic EPS	€0.43
Diluted EPS	€0.43
Adjusted (benchmark) EPS	€0.64

Adjusted (benchmark) group earnings per ordinary share, proposed as an additional performance measure on adoption of IFRS, is derived from the basic earnings per share (unaudited) under IFRS as follows:

	€ Unaudited 2004 euro
Basic group earnings per ordinary share	€0.43
Adjustments:	
Amortisation of acquired intangible assets	€0.27
Acquisition integration and related costs	€0.03
Exceptional losses on disposals	–
Deferred tax adjustments	€(0.09)
Adjusted (benchmark) group earnings per ordinary share	€0.64

Reed Elsevier NV

Balance sheets (IFRS)

As at 31 December 2004

	€ Group Unaudited 2004 €m	€ Parent company Unaudited 2004 €m
Assets		
Non-current assets		
Investment in joint ventures	1,183	2,161
Current assets		
Amounts due from joint ventures	30	30
Receivables	7	7
Short term investments	25	25
Total assets	1,245	2,223
Liabilities		
Current liabilities		
Payables	3	3
Taxation	4	4
	7	7
Non-current liabilities		
Debenture loans	7	7
Taxation	58	58
	65	65
Total liabilities	72	72
Net assets	1,173	2,151
Equity		
Capital and reserves		
Share capital issued	47	47
Paid in surplus	1,477	1,477
Shares held in treasury	(47)	–
Translation reserve	(98)	–
Profit and loss reserve	(206)	627
Total equity	1,173	2,151

Reed Elsevier NV

Group statement of recognised income and expenditure (IFRS)

For the year ended 31 December 2004

	€ Unaudited 2004 €m
Net profit for the year	338
Share of exchange difference on translation of foreign operations in joint ventures	(98)
Share of actuarial losses on defined benefit pension schemes	(55)
Share of tax on items taken directly to reserves	9
Net expense recognised directly in equity	(144)
Total recognised income and expense for the year	**194**

Reconciliations to UK GAAP

Reconciliation of group profit

	Unaudited 2004 €m
Net group profit under UK GAAP	223
Adjustments to IFRS	
Share of IFRS adjustments in joint ventures	115
Net group profit for the year under IFRS	**338**

Reconciliation of equity

	Group	Parent company
	Unaudited 2004 €m	Unaudited 2004 €m
Shareholders' funds under UK GAAP	1,598	1,974
Adjustments to IFRS		
Dividends	177	177
Share of IFRS adjustments in joint ventures	(602)	–
	(425)	177
Equity under IFRS	**1,173**	**2,151**

Additional information for US investors

Reed Elsevier combined businesses

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

	2004 US$	2003 US$
Sterling		
Profit and loss and cash flow	**1.83**	1.63
Balance sheet	**1.93**	1.78
Euro		
Profit and loss and cash flow	**1.245**	1.124
Balance sheet	**1.369**	1.254

Profit and loss account

For the year ended 31 December 2004

	2004 US$m	2003 US$m
Net sales	**8,806**	8,028
Operating profit	**1,276**	1,077
Profit before tax	**1,028**	846
Profit attributable	**554**	544
Adjusted operating profit	**2,121**	1,920
Adjusted profit before tax	**1,879**	1,646
Adjusted profit attributable to parent companies' shareholders	**1,391**	1,213

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 2004

	2004 US$m	2003 US$m
Net cash inflow from operating activities	**2,112**	1,736
Dividends received from joint ventures	**31**	23
Returns on investments and servicing of finance	**(238)**	(289)
Taxation (including US$57m (2003: US$59m) exceptional net inflow)	**(382)**	(238)
Capital expenditure and financial investment	**(350)**	(223)
Acquisitions and disposals	**(1,180)**	(295)
Equity dividends paid to shareholders of the parent companies	**(566)**	(476)
Cash (outflow)/inflow before changes in short term investments and financing	**(573)**	238
Decrease/(increase) in short term investments	**736**	(269)
Financing	**(165)**	(140)
Decrease in cash	**(2)**	(171)
Adjusted operating cash flow	**1,922**	1,676
Adjusted operating cash flow conversion	**91%**	87%

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.

Balance sheet

As at 31 December 2004

	2004 US$m	2003 US$m
Goodwill and intangible assets	**9,662**	9,172
Tangible fixed assets and investments	**1,210**	1,038
Fixed assets	**10,872**	10,210
Inventories and pre-publication costs	**1,044**	936
Debtors – amounts falling due within one year	**2,119**	1,858
Debtors – amounts falling due after more than one year	**461**	443
Cash and short term investments	**434**	1,136
Current assets	**4,058**	4,373
Creditors: amounts falling due within one year	**(6,479)**	(6,183)
Net current liabilities	**(2,421)**	(1,810)
Total assets less current liabilities	**8,451**	8,400
Creditors: amounts falling due after more than one year	**(3,804)**	(3,747)
Provisions for liabilities and charges	**(247)**	(299)
Minority interests	**(25)**	(21)
Net assets	**4,375**	4,333

Reed Elsevier combined businesses

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 146. The Reed Elsevier Annual Report 2004 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 2004, the carrying value of goodwill is £3,958m/€5,581m (2003: £3,872m/€5,498m), the gross cost of intangible assets is £4,153m/€5,856m (2003: £4,090m/€5,809m) and accumulated amortisation of intangible assets is £1,497m/€2,111m (2003: £1,332m/€1,891m). Net income and combined shareholders' funds under US GAAP have been restated for 2003 to reflect a reclassification from intangible assets to goodwill of amounts arising under US GAAP in relation to deferred tax on acquired intangible assets, with a consequential adjustment to amortisation. Net income for 2003 and combined shareholders' funds as at 31 December 2003 are accordingly £52m/€75m and £107m/€152m higher than the amounts previously reported.

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 £39m/€57m in 2004 (2003: £43m/€62m).

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 £4m/€6m was charged to US GAAP net income in 2004 (2003: £7m/€10m).

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.

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 2004 of £1,043m/€1,471m (2003: £1,182m/€1,678m) would be excluded from current liabilities under US GAAP and shown as long term obligations.

Reed Elsevier combined businesses

Effects on net income of material differences to US GAAP

For the year ended 31 December 2004

	2004 £m	2003 £m	2004 €m	2003 €m
Net income as reported	**303**	334	**445**	484
US GAAP adjustments:				
Goodwill and intangible assets	**154**	173	**226**	251
Deferred taxation	**(3)**	(40)	**(4)**	(58)
Pensions	**(30)**	75	**(44)**	109
Stock based compensation	**(7)**	7	**(10)**	10
Derivative instruments	**32**	41	**47**	59
Net income under US GAAP	**449**	590	**660**	855

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

As at 31 December 2004

	2004 £m	2003 £m	2004 €m	2003 €m
Combined shareholders' funds as reported	**2,267**	2,434	**3,196**	3,456
US GAAP adjustments:				
Goodwill and intangible assets	**1,593**	1,461	**2,246**	2,075
Deferred taxation	**(822)**	(828)	**(1,159)**	(1,176)
Pensions	**77**	185	**109**	263
Derivative instruments	**12**	(69)	**17**	(98)
Available for sale investments	**–**	3	**–**	4
Equity dividends	**248**	226	**350**	321
Other items	**(2)**	(2)	**(3)**	(3)
Combined shareholders' funds under US GAAP	**3,373**	3,410	**4,756**	4,842

Net income and combined shareholders' funds under US GAAP have been restated for 2003 to reflect a reclassification from intangible assets to goodwill of amounts arising under US GAAP in relation to deferred taxation with a consequential adjustment to amortisation. Net income for 2003 and combined shareholders' funds as at 31 December 2003 are accordingly £52m/€75m and £107m/€152m higher respectively than the amounts previously reported.

Reed Elsevier PLC

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)

	2004	2003
Profit and loss	**1.83**	1.63
Balance sheet	**1.93**	1.78

Consolidated profit and loss account

For the year ended 31 December 2004

	2004 US$m	2003 US$m
Profit attributable to ordinary shareholders: statutory	**278**	275
Profit attributable to 52.9% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	**736**	642
Amortisation of goodwill and intangible assets	**(397)**	(386)
Exceptional items	**(46)**	33
	293	289

Data per American Depositary Share

	2004 US$	2003 US$
Earnings per American Depositary Share based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	**$2.33**	$2.03
Basic	**$0.93**	$0.91
Net dividend per American Depositary Share	**$0.95**	$0.78

Consolidated balance sheet

As at 31 December 2004

	2004 US$m	2003 US$m
Shareholders' funds	**2,314**	2,293

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.)

Reed Elsevier PLC

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 144 and 145. The Reed Elsevier Annual Report 2004 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 2004

	2004 £m	2003 £m
Net income under UK GAAP	**152**	169
Impact of US GAAP adjustments to combined financial statements	**77**	137
Net income under US GAAP	**229**	306
Earnings per ordinary share under US GAAP	**18.1p**	24.2p

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

As at 31 December 2004

	2004 £m	2003 £m
Shareholders' funds under UK GAAP	**1,199**	1,288
Impact of US GAAP adjustments to combined financial statements	**464**	407
Equity dividends not declared in the period	**120**	110
Shareholders' funds under US GAAP	**1,783**	1,805

Net income and shareholders' funds under US GAAP have been restated for 2003 to reflect the restated US GAAP adjustments to the combined financial statements. Net income and shareholders' funds under US GAAP in 2003 are higher than previously reported by £28m and £57m respectively. Earnings per ordinary share under US GAAP in 2003 are 2.2p higher than previously reported.

Reed Elsevier NV

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)

	2004	2003
Profit and loss	**0.803**	0.890
Balance sheet	**0.731**	0.798

Group profit and loss account

For the year ended 31 December 2004

	2004 US$m	2003 US$m
Profit attributable to 50% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	**696**	607
Amortisation of goodwill and intangible assets	**(376)**	(365)
Exceptional items	**(42)**	30
	278	272

Data per American Depositary Share

	2004 US$	2003 US$
Earnings per American Depositary Share based on 50% interest in Reed Elsevier combined businesses		
Adjusted	**$1.77**	$1.55
Basic	**$0.70**	$0.70
Net dividend per American Depositary Share	**$0.82**	$0.67

Group balance sheet

As at 31 December 2004

	2004 US$m	2003 US$m
Shareholders' funds	**2,186**	2,165

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.)

Reed Elsevier NV

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 144 and 145. The Reed Elsevier Annual Report 2004 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 2004

	2004 €m	2003 €m
Group net income under UK GAAP	**223**	242
Impact of US GAAP adjustments to combined financial statements	**119**	197
Net income under US GAAP	**342**	439
Group earnings per share under US GAAP	**€0.44**	€0.56

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

As at 31 December 2004

	2004 €m	2003 €m
Group shareholders' funds as reported under UK GAAP	**1,598**	1,728
Impact of US GAAP adjustments to combined financial statements	**601**	531
Equity dividends not declared in the period	**177**	162
Group shareholders' funds under US GAAP	**2,376**	2,421

Net income and shareholders' funds under US GAAP have been restated for 2003 to reflect the restated US GAAP adjustments to the combined financial statements. Net income and shareholders' funds under US GAAP in 2003 are higher than previously reported by €38m and €76m respectively. Group earnings per share under US GAAP in 2003 are €0.05 higher than previously reported.

Principal operating locations

Reed Elsevier
1-3 Strand, London WC2N 5JR, UK
Tel: +44 (0)20 7930 7077
Fax: +44 (0)20 7166 5799

Radarweg 29
1043 NX Amsterdam, The Netherlands
Tel: +31 (0)20 485 2434
Fax: +31 (0)20 618 0325

125 Park Avenue, 23rd Floor
New York, NY 10017, USA
Tel: +1 212 309 5498
Fax: +1 212 309 5480

Elsevier Reed Finance BV
Radarweg 29
1043 NX Amsterdam, The Netherlands
Tel: +31 (0)20 485 2434
Fax: +31 (0)20 618 0325

For further information or contact details, please consult our website:
www.reedelsevier.com

Elsevier

Elsevier
Radarweg 29
1043 NX Amsterdam,
The Netherlands
www.elsevier.com

Elsevier
The Boulevard, Langford Lane
Kidlington, Oxford OX5 1GB, UK
www.elsevier.com

Elsevier
360 Park Avenue South
New York
NY 10010-1710, USA
www.elsevier.com

Elsevier
Independence Square West
Suite 300, The Curtis Centre
Philadelphia, PA 19106-3399, USA
www.us.elsevierhealth.com

Elsevier
11830 Westline Industrial Drive
St. Louis, M063146, USA
www.us.elsevierhealth.com

LexisNexis

LexisNexis US
9393 Springboro Pike
Miamisburg, Ohio 45342, USA
www.lexisnexis.com

LexisNexis US
121 Chanlon Road
New Providence, N107974, USA
www.martindale.com

LexisNexis UK
Halsbury House, 35 Chancery Lane
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www.lexisnexis.co.uk

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Reed Business

Reed Business Information US
360 Park Avenue South
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www.reedbusiness.com

Reed Business Information UK
Quadrant House, The Quadrant
Sutton, Surrey SM2 5AS, UK
www.reedbusiness.co.uk

Reed Business Information Netherlands
Hanzestraat 1
7006 RH Doetinchem
The Netherlands
www.reedbusiness.nl

Reed Exhibitions
Oriel House, 26 The Quadrant
Richmond, Surrey TW9 1DL, UK
www.reedexpo.com

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