Company Number: 2746616

Reed Elsevier Group plc

Annual Report and Financial Statements

For the year ended 31 December 2003

Reed Elsevier Group plc

Directors' Report

BOARD OF DIRECTORS

M Tabaksblat *	- Chairman
C H L Davis	- Chief Executive Officer
M H Armour	- Chief Financial Officer
G J A van de Aast	
J F Brock*	
M W Elliott*	- appointed 9 April 2003
D J Haank	- resigned 18 June 2003
C J A van Lede*	- appointed 9 April 2003
R J Nelissen*	- resigned 9 April 2003
S Perrick*	- resigned 9 April 2003
A Prozes	
D E Reid*	- appointed 9 April 2003
Lord Sharman of Redlynch OBE*	
R W H Stomberg*	
P J Tierney	- appointed 9 April 2003

*Indicates non-executive director

The directors present their report and the audited accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Results and dividends

Turnover for the year was £4,886 million (2002 : £4,973 million) and operating profit (including joint ventures) before exceptional items and amortisation of goodwill and intangible assets was £1,156 million (2002 : £1,115 million). The operating margin was 23.7%, 1.3 percentage points higher than the prior year.

The group profit before tax of £230 million (2002 : £5 million) includes net exceptional charges amounting to £50 million (2002 : £103 million) and charges for the amortisation of goodwill and intangible assets of £445 million (2002 : £525 million).

The effective tax rate on profits before exceptional items and amortisation of goodwill and intangible assets was 33.1% (2002 : 34.4%). The group profit for the year, after exceptional items, taxation and minority interests, amounted to £70 million (2002 : loss £77 million).

The directors do not recommend a final ordinary dividend (2002 : £nil). During the year the company paid £144 million (2002 : £135 million) on the "R" ordinary shares and preference dividends of £7,500 (2002 : £7,500). No dividend was paid on the "E" ordinary shares (2002 : £nil). Subsidiary undertakings paid a further £138 million (2002 : £94 million) to Reed Elsevier NV in respect of its holding of special dividend shares in Reed Elsevier Nederland BV. After these dividends and amounts due to minority interests of £2 million (2002 : £1 million) there was a retained loss of £212 million (2002 : £306 million).

At 31 December 2003 gross borrowings of £1,828 million (2002 : £2,014 million) were partially offset by cash and short term investments of £521 million (2002 : £498 million). In addition, net borrowings from shareholders and Elsevier Reed Finance BV group amounted to £5,053 million (2002 : £5,282 million).

Reed Elsevier Group plc

Directors' Report

Operating business review

The results of businesses are reported in four segments: Science & Medical, Legal, Education and Business, which comprise the operations of the group. Adjusted operating profit is presented as an additional performance measure and is shown after share of operating profit in joint ventures and before amortisation of goodwill and intangible assets and exceptional items. Unless otherwise stated, all prior year comparisons quoted in the following commentary refer to percentage movements at constant exchange rates, using the 2002 full year average rates, and exclude intra-affiliate transactions.

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

£ million	**2003**	2002
Adjusted operating profit	**1,156**	1,115
Amortisation of goodwill and intangible assets	**(445)**	(525)
Exceptional items	**(72)**	(99)
Reported operating profit	**639**	491

Science & Medical

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

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

In Health Sciences, growth was driven by the strong book publishing programme with successful new titles and editions coupled with increased demand from the growing healthcare professions. Electronic revenues continue to grow strongly, albeit from a much smaller base than in Science & Technology, from the expansion of online services in addition to migration from print subscriptions. Demand from the pharmaceutical industry for projects and conferences was however weaker leading to consolidation of these activities. The International business was expanded in the year through more aggressive versioning and distribution of international content in local markets and the acquisition of the Holtzbrinck STM publishing business, adding high quality German language medical publishing and strong local market and distribution channels for other international content.

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

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

Legal

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

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

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

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

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

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

Education

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

The Harcourt US K-12 schools business performed well in 2003 state adoptions, gaining the joint overall market share leadership in new state adoption opportunities. Taking into account that Harcourt did not participate in the second year implementation of the 2002 California elementary reading adoption, this is an impressive performance. Particular successes in the Elementary market were achieved in Georgia reading and in social studies in North Carolina and Texas. In the secondary market, whilst performance in social studies was below expectation, the literature and language arts programmes have maintained their leading positions with successes in California and Florida and the science programme also led with a major win in Tennessee. The market for state adoptions was however weak due to the trough in the US state textbook adoption cycle and some adoption deferrals due to the pressures on state budgets. This was compensated by good growth in backlist sales and sales to open territories in both elementary and secondary schools markets. Overall revenues were however held back by weakness in the supplemental business ahead of new publishing that addresses federally funded programmes. Underlying operating profits were up 2%, reflecting the significant cost savings achieved through supply chain rationalisation and further integration of the supplemental businesses.

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

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

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

Business

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

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

In the UK, Reed Business Information revenues were down 3%. Whilst display and recruitment advertising markets saw lower revenues, good growth was achieved in online sales. Adjusted operating profits were similar to the prior year, with operating margins improved through firm cost management. In Continental Europe, Reed Business Information saw underlying revenues down 5%. Continued focus on market share gains and improving yields mitigated to an extent the significant decline in advertising markets. Economic conditions in the Netherlands remain very weak, with only the healthcare and regulatory titles showing growth. Significant cost actions taken throughout the year resulted in adjusted operating profits 5% higher despite the revenue decline.

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

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

Future Prospects

In 2004, Elsevier should again perform well, with strong subscription renewals driven by the strength of the product and the greater utility of ScienceDirect. The Health Sciences books programme is expected, again, to go well. Further cost efficiencies will help fund substantially increased investment in online products and new navigational services.

LexisNexis is expected to have another satisfactory year, although no overall improvement in its core research markets is anticipated. Growth will be helped by further development of online research services and from the investments made in the faster growing risk management and legal tools markets. 2004 will see further major product initiatives across all markets including the rollout of the new global online delivery platform in a number of countries.

Harcourt Education expects to perform well in the 2004 adoptions but in a weaker overall market this is expected to deliver broadly flat revenues. The assessment business will benefit from new state educational testing contracts and the International business should see a recovery from the exceptional school funding constraints seen in the UK last year.

Reed Business is not budgeting for any real recovery in its markets this year and continues to take cost actions to protect margins whilst increasing investment in online services. A year on year decline in advertising volumes, particularly in continental Europe, should however be largely offset by further share growth, yield improvement and good growth in online sales. The exhibitions business will benefit from the net cycling in of non-annual shows.

If an economic recovery really does take hold and becomes more broadly based, then Reed Business should show good recovery, particularly in its advertising revenues. Given the improvements made in operational efficiency over the last three years, the flow through to increased profitability will be strong.

Reed Elsevier Group plc is excellently positioned in long term attractive growth markets, and has a clear investment led growth strategy which has delivered significant market outperformance in each of the last three years. We see good opportunities for growth and have the people and investment resources to deliver on them. We have great confidence in the group's future success.

Treasury Policies

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

Financial instruments are used to finance Reed Elsevier Group plc's business and to hedge transactions. Reed Elsevier Group plc's businesses do not enter into speculative transactions. The main treasury risks faced by Reed Elsevier Group plc and its subsidiaries are liquidity risk, interest rate risk and foreign currency risk. The board of Reed Elsevier Group plc agrees overall policy guidelines for managing each of these risks. These policies are summarised below and remained broadly unchanged during 2003.

Funding

Reed Elsevier Group plc develops and maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. It also obtains a substantial amount of funding from an affiliated company, Elsevier Finance SA. The significance of Reed Elsevier Group plc's US operations means that the majority of debt is denominated in US dollars and is raised in the US debt markets.

A mixture of short term and long term debt is utilised and Reed Elsevier Group plc maintains a maturity profile to facilitate refinancing. Reed Elsevier Group plc's policy is that not more than US$1,000 million of long term debt should mature in any 12-month period. In addition, minimum levels of net debt with maturities over three years and five years are specified, depending on the level of the total borrowings.

Interest rate exposure management

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

Foreign currency exposure management

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

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

At the year end, the amount of outstanding foreign exchange cover in respect of future transactions was £636 million.

DIRECTORS

The Reed Elsevier Group plc board consists of five executive directors and seven non-executive directors who bring a wide range of skills and experience to the deliberations of the board. The directors at the date of this Report are shown above. During the year the board of Reed Elsevier Group plc met six times.

The board considers all of the non-executive directors to be independent. As a general rule, non-executive directors serve on the board for a maximum period of ten years.

On appointment, directors receive training appropriate to their level of previous experience. All directors have access to the services of the company secretary and may take independent professional advice in the furtherance of their duties, at the company's expense.

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

Committees

Audit Committee

Reed Elsevier Group plc has established an Audit Committee which comprises only non-executive directors, all of whom are independent. The Committee, which met four times during the year, is chaired by Lord Sharman, the other members being John Brock and David Reid. The Committee is responsible for reviewing matters relating to the financial affairs of the company, internal control policies and the internal and external audit programmes. This includes, for example, reviewing accounting policies, compliance with accounting standards and other statutory requirements, and matters relating to risk management and the effectiveness of internal controls. The Committee is also responsible for the selection of auditors, and making an annual assessment of the effectiveness of the audit and the auditors' independence, prior to making a recommendation to the board in respect of the reappointment of the auditors. The Committee approves the fees for the audit and, in addition, now pre-approves the provision of all non-audit services by the auditors. The amounts paid to the auditors, both for audit and non-audit services, together with a description of the services provided, appears in note 5 to the Accounts. The chief financial officer, group chief accountant, director of internal audit and senior representatives of the external auditors attend meetings of the Committee.

Remuneration Committee

Reed Elsevier Group plc has established a Remuneration Committee which comprises only independent non-executive directors. The Committee, which met three times during the year, is chaired by Rolf Stomberg, the other members being Mark Elliott and Cees van Lede. The Committee met three times during the year. Mr van Lede was not able to attend one meeting, otherwise there was full attendance. The Committee is responsible for recommending to the board the remuneration in all its forms of executive directors of Reed Elsevier Group plc, and provides advice to the Chief Executive Officer on the remuneration of executives at a senior level below the board.

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

Strategy Committee

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

Reed Elsevier Group plc

Directors' Report

CORPORATE GOVERNANCE

Internal control

The board of Reed Elsevier Group plc is responsible for the systems of internal control. The board is also responsible for reviewing the effectiveness of the systems of internal control. The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The board has implemented an ongoing process for identifying, evaluating and managing significant risks faced by the group's businesses. This process has been in place throughout the year ended 31 December 2003 and up to the date of the approval of the Annual Report and Financial Statements.

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

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

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

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

Annual review

As part of the year end procedures, the board of Reed Elsevier Group plc has reviewed the effectiveness of the systems of internal control during the last financial year.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

GOING CONCERN

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

FORWARD LOOKING STATEMENTS

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

CORPORATE SOCIAL RESPONSIBILITY

Reed Elsevier Group plc believes that corporate social responsibility (CSR) matters. As one of the world's leading media companies we have a responsibility to all our stakeholders, our employees, customers and the communities and environments in which we live and work.

During 2003, we continued to develop our programme by:

- setting clear objectives, measurement systems and accountabilities;
- conducting a second global employee survey;
- launching a new Code of Ethics and Business Conduct;
- introducing a Vendor Code of Conduct;
- developing further our community engagement; and
- establishing our environmental management system.

We set up a CSR Forum during the year, led by CEO Crispin Davis, to bring together Reed Elsevier's key CSR issues of workplace, market place, community and the environment. This forum, which comprises a newly appointed CSR Director and other senior managers, sets the CSR goals across Reed Elsevier and monitors progress against them.

Developing and Valuing Our People

We enable our people to develop to their fullest extent through annual appraisal and objective setting using the Personal Development Programme, which now extends to every employee. Management development is a high priority and we conduct an Organisation and Talent Review annually. All senior management vacancies are regularly reviewed by executive management to ensure that we identify our best people to fill these roles. We continue to nurture a winning culture across Reed Elsevier with the engagement of all employees in the Reed Elsevier values: customer focus, valuing our people, passion for winning, innovation and boundarylessness. We monitor the progress of each business in embedding the values in their processes. Senior executives are assessed on their values leadership.

We maintain regular communication with employees through management briefings, through aREna, our global intranet for all staff and through consultations with staff and works councils including our European Works Council. aREna hosts "Crispin's Open Door ", enabling staff to address queries to our CEO, whose responses are sent directly to them and posted on the site. We further enhanced aREna, establishing an orientation site to provide the information required by new recruits.

As an equal opportunity employer, we value the diversity of our workforce. Our senior management group now comprises 13 nationalities, with women occupying 22% of these positions. Women account for approximately 50% of our total workforce, as they have done over the last three years.

We shared with employees the results of the 2003 employee survey, building on the first we conducted in 2001. The overall response was excellent with 79% (over 28,000) of all employees participating. Despite our businesses having experienced very tough market conditions in the last two years, most employees felt that Reed Elsevier was doing better at addressing key employee issues with a marked improvement in corporate performance in rewarding and recognising success, managing individual development, and providing training. The survey highlighted areas where Reed Elsevier can improve its performance and plans are being developed to address these issues. In addition, each business unit will develop local programmes to address their individual issues.

Code of Ethics

Our Code of Ethics and Business Conduct continues to provide a guide for the way we achieve our business goals, helping us behave in an open and ethical manner. During the year we revised our Code to ensure that our guidance follows current best practices and legislative developments. The Code explains how we should act in the workplace, the market place and the communities in which we live and work. It outlines confidential procedures allowing employees to report any concerns about compliance with the Code, including Reed Elsevier's financial reporting practices.

The Code also incorporates the provisions of the UN Global Compact of which Reed Elsevier is a signatory. To ensure that our business partners meet the standards we have set for ourselves, we have introduced a Code of Conduct for Vendors/Suppliers. This requires our key strategic suppliers to have minimum standards covering, for example, the environment, employee health and safety and the prohibition of child labour. We have retained an independent auditor to ensure, through a rolling audit programme, that our suppliers are in compliance, thereby encouraging good practices in our supply chain.

Community Involvement

In January 2003 we launched a global programme, Reed Elsevier Cares, outlining our mission to play a positive role in our local and global communities, primarily through employee involvement. The central focus of the programme is to provide education for disadvantaged young people and community initiatives of importance to local employees.

In October we held our first group wide Reed Elsevier Cares Month marked by almost 100 different activities supporting schools, community organisations and charities with the involvement of thousands of employees.

During 2003, we donated £1.3 million, through cash donations (including matching gift programmes) and the equivalent of £1 million in gifts of products, services, and staff time. We became members of the PerCent Club, a UK organisation that encourages corporate giving. Reed Elsevier was ranked 19th in a UK list of corporate contributors, based on data compiled by Business in the Community (BitC) and the London Benchmarking Group. Through a network of Reed Elsevier Cares Champions, we provided a range of grants for many needy charities. For example, we helped BookAid International purchase African published books to support literacy and learning among young refugees affected by conflict in Kenya and Ethiopia.

In addition the Elsevier Foundation made grants to support the learning needs of students, academics and professionals in Ghana and Tanzania, which will provide selected hospitals, universities and resource centres with higher education and medical books.

Environment

We recognise that Reed Elsevier and its businesses have an impact on the environment, principally through the use of energy and paper, print and production technologies and the generation of waste. We are committed to reducing these impacts, where practicable, by the efficient use of sustainable materials and technologies. We require our suppliers and contractors to meet these objectives too.

The Global CEOs responsible for each of our four business divisions are accountable for compliance with Reed Elsevier's environmental policy and applicable regulations.

During the year we have seen positive developments in our programme on environmental matters. In addition to Reed Elsevier's fifth consecutive year of entering the Business in the Environment benchmarking index, we participated in BitC's second Corporate Responsibility Index, a demonstration of our commitment to disclosure and involvement in all aspects of CSR. We were ranked first in the media sector, demonstrating improvements particularly in environmental management. During the year we continued expanding environmental data coverage and established more robust data collection processes throughout the group. We have strengthened our network of Environmental Champions to help drive internal performance improvement through the recently introduced Environmental Management System.

We capture environmental data and information on paper use, energy, water, waste and packaging (including recycling), printing facilities and supply chain management. The data will be published in our Corporate Social Responsibility Report later in the year.

Reed Elsevier is a member of the UK's Business in the Community; the London Benchmarking Group; the Dow Jones Sustainability Index; the FTSE4Good Index and the PerCent Club.

Our full CSR report is available at www.reedelsevier.com

POLITICAL DONATIONS

In the United States, the Reed Elsevier Group plc group contributed £70,000 to political parties. There were no donations made in the European Union for political purposes.

PAYMENTS TO SUPPLIERS

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

AUDITORS

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

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

By order of the board:

Stephen J Cowden
Secretary
18 February 2004

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

Reed Elsevier Group plc

Directors' Remuneration Report

This report has been prepared by the Remuneration Committee (the "Committee") of Reed Elsevier Group plc and approved by the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV. The report has been prepared in accordance with the UK Directors' Remuneration Report Regulations 2002 (the "Regulations"). The Report also meets the requirements of Schedule A of the Principles of Good Governance and Code of Best Practice, issued by the UK Financial Services Authority and describes how the Principles of Good Governance relating to directors' remuneration have been applied.

Information relating to the emoluments of the directors on pages 12 and 13 and directors' interests in share options on pages 14 and 15 has been audited.

REMUNERATION COMMITTEE

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

Throughout 2003 the Committee consisted wholly of independent non-executive directors. The current members of the Committee are Rolf Stomberg (Chairman of the Committee), Mark Elliott (appointed in April 2003) and Cees van Lede (appointed in April 2003). John Brock and Roelof Nelissen were members of the Committee until April 2003. At the invitation of the Chairman, the Chief Executive Officer attends meetings of the Committee, except when his own remuneration is under consideration.

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

In addition to Towers Perrin, the following provided material advice or services to the Committee during the year: Jean-Luc Augustin, Human Resources Director; Christopher Thomas, Director, Compensation and Benefits; and Crispin Davis, Chief Executive Officer.

REMUNERATION POLICY

The remuneration policy is set out below:

The principal objectives of the remuneration policy are to attract, retain and motivate people of the highest calibre and experience needed to shape and execute strategy and deliver shareholder value in the context of an ever more competitive and increasingly global employment market. The Committee also has regard to, and balances as far as is practicable, the following objectives:

(i) to link reward to individual directors' performance and company performance so as to align the interests of the directors with the shareholders of the parent companies;
(ii) to ensure that it maintains a competitive package of pay and benefits, commensurate with comparable packages available within other leading multinational companies operating in global markets;
(iii) to deliver upper quartile total remuneration for clearly superior levels of performance;
(iv) to ensure that it encourages enhanced performance by directors and fairly recognises the contribution of individual directors to the attainment of the results of Reed Elsevier, whilst also encouraging a team approach which will work towards achieving the long term strategic objectives of Reed Elsevier; and
(v) to provide a consistent approach towards senior executives, including the directors, irrespective of geographical location.

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

REMUNERATION ELEMENTS

Executive directors remuneration consists of the following elements:

- Base salary, which is based on comparable positions in leading multinational businesses of similar size and complexity. Salaries are reviewed annually by the Committee to take into account both market movement and individual performance.

- A variable annual cash bonus, based on achievement of three financial performance measures (revenue, profit and cash flow) and individual key performance objectives. Targets are set at the beginning of the year by the Committee and are aligned with the annual budget and strategic business objectives. For 2004, no bonus will become payable in respect of an individual financial performance measure unless 94% of the set target for that measure is achieved. Up to 90% of salary may be earned for the achievement of highly stretching targets set by the Committee. For exceptional performance beyond these stretching targets, the Committee has the discretion to award up to 110% of salary. The Committee has also applied the foregoing criteria in assessing the 2003 bonuses.

- A bonus investment plan, under which directors and other senior executives were able to invest up to half of their 2002 annual performance related bonus in Reed Elsevier PLC/Reed Elsevier NV shares. 38 senior executives participated in the bonus investment arrangements in respect of their 2002 bonus. Subject to continuing to hold the shares and remaining in employment, at the end of a three year period, the participants will be awarded an equivalent number of Reed Elsevier PLC/Reed Elsevier NV shares at nil cost. Following approval of the 2003 Reed Elsevier Group plc Bonus Investment Plan (the "2003 Bonus Investment Plan) by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Committee has agreed to award options under the 2003 Bonus Investment Plan to directors and selected key employees in respect of the 2003 bonus. Awards under the 2003 Bonus Investment Plan will be made annually, and will be subject to a performance condition requiring the achievement of compound growth in the average of the Reed Elsevier PLC and Reed Elsevier NV adjusted EPS (i.e. before amortisation of goodwill and intangible assets, exceptional items and UK tax credit equalisation) measured at constant exchange rates ("adjusted EPS") of 6% per annum compound during the three year vesting period.

- Share options, where the directors and other senior executives are granted options annually over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price at the date of grant. The Committee approves the grant of any option and sets performance conditions attaching to options. Following approval of the Reed Elsevier Group plc Share Option Scheme (the "Share Option Scheme") by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Remuneration Committee has agreed to award options under the Share Option Scheme to executive directors and selected employees from 2004. The size of the annual grant pool will be determined by reference to the compound annual growth in adjusted EPS over the three years prior to grant, with individual grant size determined by the Committee based on individual performance. At compound growth of between 8% and 10% per annum, the pool of options available will be broadly comparable to the level of options granted under the previous scheme. At executive director level the grants are expected to be up to 3 times salary. For executive directors, option grants will be subject to a performance condition requiring the achievement of 6% per annum compound growth in adjusted EPS at constant exchange rates during the three years following the grant. There will be no re-testing of the 3 year EPS performance period.

- Long term incentive plan. Following approval of the Reed Elsevier Group plc Long Term Incentive Share Option Scheme (the "2003 LTIS") by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Committee has decided to make the first awards under the 2003 LTIS to directors and a small number of key senior executives (approximately 40) during 2004. This award covers the period 2004 to 2006 during which time no further awards under the 2003 LTIS will be made to participants. The Rules require that approximately 50% of the total implied value of grants under the 2003 LTIS will take the form of nil cost conditional shares and 50% will take the form of conventional market value options. On the basis of the current implied values, this will result in a grant of 2.5 times salary in conditional shares and 5.5 times salary in conventional share options. Grants will vest subject to the achievement of compound annual adjusted EPS growth at constant exchange rates, achieved over a three-year performance period from 2004 to 2006, of between 8% and 12%. At 8% compound annual adjusted growth 25% of the award will vest; at 10% compound annual adjusted growth 100% of the award will vest; and at 12% compound annual adjusted growth 125% of the award would vest. Awards will vest on a straight-line basis between each of these points. There will be no re-testing of the three year performance period. Acceptance of an award under the 2003 LTIS by any individual will automatically terminate any award under the previous Reed Elsevier Group plc Senior Executive Long Term Incentive Plan (the "2000 LTIP"). Participants in the 2003 LTIS are required to build up a significant personal shareholding in Reed Elsevier PLC and/or Reed Elsevier NV. At executive director level, the requirement is that they should own shares equivalent to $1\frac{1}{2}$ times salary, to be acquired over a three year period.

- Post-retirement pensions, where different retirement schemes apply depending on local competitive market practice, length of service and age of the director. The only element of remuneration that is pensionable is base salary.

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

TOTAL SHAREHOLDER RETURN

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

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

Reed Elsevier PLC total shareholder return v FTSE100
2000-2003

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

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

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

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

SERVICE CONTRACTS

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

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

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

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

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

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

P Tierney was appointed a director on 8 April 2003. His service contract, which is dated 19 November 2002, is subject to New York law and provides that, in the event of termination without cause by the company, twelve months' base salary will be payable.

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

EXTERNAL APPOINTMENTS

Executive directors may, subject to the approval of the Chairman and the Chief Executive Officer, serve as non-executive directors on the boards of up to two non-associated companies (of which only one may be to the board of a major company). The Committee believes that Reed Elsevier can benefit from the broader experience gained by executive directors in such appointments. Directors may retain remuneration arising from such non-executive directorships. During the year CHL Davis was appointed a non-executive director of GlaxoSmithKline plc and received a fee of £28,848 during the year from that company in such capacity.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

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

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

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

EMOLUMENTS OF THE DIRECTORS

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

(a) Aggregate emoluments

£000	2003	2002
Salaries and fees	**3,457**	3,009
Benefits	**93**	91
Annual performance-related bonuses	**2,254**	1,453
Pension contributions	**243**	267
Pension to former director	**213**	231
Payment to former directors	**95**	–
Total	**6,355**	5,051

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

Details of share options exercised by the directors over shares in Reed Elsevier PLC and Reed Elsevier NV during the year are shown on pages 14 and 15. The aggregate notional pre-tax gain made by the directors on the exercise of share options during the year was £5,201,190 (2002: £306,843).

(b) Individual emoluments of executive directors

£	Salary	Benefits	Bonus	Total	2002
G J A van de Aast	369,000	17,492	294,517	681,009	538,674
M H Armour	471,000	23,466	362,764	857,230	689,127
C H L Davis	945,000	27,035	746,344	1,718,379	1,366,543
D J Haank (until 18 June 2003)	200,217	6,914	–	207,131	563,240
A Prozes	582,822	8,353	431,055	1,022,230	1,030,820
P Tierney (from 8 April 2003)	423,333	9,434	419,632	852,399	–
Total	2,991,372	92,694	2,254,312	5,338,378	4,188,404

Benefits include the provision of a company car, medical insurance and life assurance.

C H L Davis was the highest paid director in 2003, including gains of £4,960,150 on the exercise of nil cost options awarded on his appointment as Chief Executive Officer in 1999. Mr Davis invested the entire after tax gain arising from the exercise of his options in Reed Elsevier PLC/Reed Elsevier NV shares.

D J Haank served as a director until 18 June 2003 and remained an employee until 31 August 2003. During the period 18 June to 31 August 2003 he received emoluments of £87,759 comprising salary (£84,839) and other benefits (£2,920). In accordance with the terms of the share options in force at the time of their grant in 1999, Mr Haank has retained his entitlement to options over 18,497 Reed Elsevier PLC shares and 10,925 Reed Elsevier NV shares, as detailed in the schedules on pages 14 and 15. All other options granted to Mr Haank lapsed on termination of his employment.

(c) Pensions

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

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

In 1989, the Inland Revenue introduced a cap on the amount of pension that can be provided from an approved pension scheme. M H Armour's, G J A van de Aast's and C H L Davis's pension benefits will be provided from a combination of the Reed Elsevier Pension Scheme and the company's unapproved, unfunded pension arrangements.

The target pension for A Prozes, a US based director, is US$300,000 per annum, which becomes payable on retirement only if he completes a minimum of seven years' service. This pension has no associated contingent benefits for a spouse or dependants, and will be reduced in amount by the value of any other retirement benefits payable by the company or any former employer, other than those attributable to employee contributions.

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

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

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

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

Transfer values have been calculated in accordance with the guidance note "GN11" published by the UK Institute of Actuaries and Faculty of Actuaries. The transfer value in respect of individual directors represents a liability in respect of directors' pensions entitlement, and is not an amount paid or payable to the director.

(d) Individual emoluments of non-executive directors

£	2003	2002
J F Brock	**43,448**	35,849
M W Elliott (from 8 April 2003)	**36,742**	–
C J A van Lede (from 8 April 2003)	**36,897**	–
R J Nelissen (until 8 April 2003)	**10,172(i)**	35,849
S Perrick (until 8 April 2003)	**10,172**	35,849
D E Reid (from 8 April 2003)	**36,742**	–
Lord Sharman	**48,544**	35,849
R W H Stomberg	**49,655**	35,849
M Tabaksblat	**193,103**	176,101
D G C Webster (until 9 April 2002)	–	8,962
Total	**465,475**	364,308

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

SHARE OPTIONS AND INTERESTS IN SHARES

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

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

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

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

Approximately 1,600 employees participated in the SAYE Scheme during 2003.

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

(a) Over shares in Reed Elsevier PLC

	1 January 2003	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2003	Exercisable from	Exercisable until
G J A van de Aast								
– Executive Scheme	50,940		638.00p			50,940	1 Dec 2003	1 Dec 2010
	49,317		659.00p			49,317	23 Feb 2004	23 Feb 2011
	58,000		600.00p			58,000	22 Feb 2005	22 Feb 2012
		81,728	451.50p			81,728	21 Feb 2006	21 Feb 2013
– LTIP	509,404		638.00p			509,404	1 Jan 2005	31 Dec 2005
Total	667,661	81,728				749,389		
M H Armour – Executive Scheme	39,600		400.75p			39,600	26 Apr 1998	26 Apr 2005
	30,000		585.25p			30,000	23 Apr 1999	23 Apr 2006
	52,000		565.75p			52,000	21 Apr 2000	21 Apr 2007
	66,900		523.00p			66,900	17 Aug 2001	17 Aug 2008
	33,600		537.50p			33,600	21 Feb 2003	19 Apr 2009
	88,202		436.50p			88,202	2 May 2003	2 May 2010
	62,974		659.00p			62,974	23 Feb 2004	23 Feb 2011
	74,000		600.00p			74,000	22 Feb 2005	22 Feb 2012
		104,319	451.50p			104,319	21 Feb 2006	21 Feb 2013
– 2002 Bonus investment plan		11,327	Nil			11,327	21 Mar 2006	21 Mar 2006
– LTIP	882,016		436.50p			882,016	1 Jan 2005	31 Dec 2005
– SAYE Scheme	3,924		430.00p			3,924	1 Aug 2004	31 Jan 2005
Total	1,333,216	115,646				1,448,862		
C H L Davis – Executive Scheme	160,599		467.00p			160,599	21 Feb 2003	1 Sept 2009
	80,300		467.00p			80,300	1 Sept 2003	1 Sept 2009
	80,300		467.00p			80,300	1 Sept 2004	1 Sept 2009
	171,821		436.50p			171,821	2 May 2003	2 May 2010
	122,914		659.00p			122,914	23 Feb 2004	23 Feb 2011
	148,500		600.00p			148,500	22 Feb 2005	22 Feb 2012
		209,192	451.50p			209,192	21 Feb 2006	21 Feb 2013
– 2002 Bonus investment plan		22,731	Nil			22,731	21 Mar 2006	21 Mar 2006
– LTIP	1,718,213		436.50p			1,718,213	1 Jan 2005	31 Dec 2005
– Nil cost options	535,332		Nil	535,332 (i)	498.00p	–		
– SAYE Scheme	5,019		336.20p			5,019	1 Aug 2005	31 Jan 2006
Total	3,022,998	231,923		535,332		2,719,589		
D J Haank – Executive Scheme	18,498 (ii)		677.25p			–		
(resigned 18 June 2003)	18,497		537.50p			18,497 (iii)	19 Apr 1999	19 Apr 2009
	51,368		436.50p	51,368	525.00p	–		
	51,110 (ii)		659.00p			–		
	59,843 (ii)		600.00p			–		
		93,231 (ii)	451.50p			–		
– LTIP	513,680 (ii)		436.50p			–		
Total	712,996	93,231		51,368		18,497		
A Prozes – Executive Scheme	188,281		566.00p			188,281	9 Aug 2003	9 Aug 2010
	83,785		659.00p			83,785	23 Feb 2004	23 Feb 2011
	103,722		600.00p			103,722	22 Feb 2005	22 Feb 2012
		132,142	451.50p			132,142	21 Feb 2006	21 Feb 2013
– 2002 Bonus investment plan		20,040	Nil			20,040	21 Mar 2006	21 Mar 2006
– LTIP	941,406		566.00p			941,406	1 Jan 2005	31 Dec 2005
– Nil cost options	20,170		Nil	20,170 (iv)	492.00p	–		
Total	1,337,364	152,182		20,170		1,469,376		
P Tierney – Executive Scheme	396,426 (v)		451.50p			396,426	21 Feb 2006	21 Feb 2013
– LTIP	1,321,420 (v)		451.50p			1,321,420	1 Jan 2008	31 Dec 2008
Total	1,717,846					1,717,846		

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

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

(b) Options over shares in Reed Elsevier NV

	1 January 2003	Granted during the year	Option price	Exercised during the year	Market price at exercise date	31 December 2003	Exercisable from	Exercisable until
G J A van de Aast – Executive Scheme	35,866		€14.87			35,866	1 Dec 2003	1 Dec 2010
	35,148		€14.75			35,148	23 Feb 2004	23 Feb 2011
	40,699		€13.94			40,699	22 Feb 2005	22 Feb 2012
		58,191	€9.34			58,191	21 Feb 2006	21 Feb 2013
– 2002 Bonus investment plan		12,057	Nil			12,057	21 Mar 2006	21 Mar 2006
– LTIP	358,658		€14.87			358,658	1 Jan 2005	31 Dec 2005
Total	470,371	70,248				540,619		
M H Armour – Executive Scheme	20,244		€13.55			20,244	21 Feb 2003	19 Apr 2009
	61,726		€10.73			61,726	2 May 2003	2 May 2010
	44,882		€14.75			44,882	23 Feb 2004	23 Feb 2011
	51,926		€13.94			51,926	22 Feb 2005	22 Feb 2012
		74,276	€9.34			74,276	21 Feb 2006	21 Feb 2013
– 2002 Bonus investment plan		8,030	Nil			8,030	21 Mar 2006	21 Mar 2006
– LTIP	617,256		€10.73			617,256	1 Jan 2005	31 Dec 2005
Total	796,034	82,306				878,340		
C H L Davis – Executive Scheme	95,774		€12.00			95,774	21 Feb 2003	1 Sept 2009
	47,888		€12.00			47,888	1 Sept 2003	1 Sept 2009
	47,888		€12.00			47,888	1 Sept 2004	1 Sept 2009
	120,245		€10.73			120,245	2 May 2003	2 May 2010
	87,601		€14.75			87,601	23 Feb 2004	23 Feb 2011
	104,204		€13.94			104,204	22 Feb 2005	22 Feb 2012
		148,946	€9.34			148,946	21 Feb 2006	21 Feb 2013
– 2002 Bonus investment plan		16,115	Nil			16,115	21 Mar 2006	21 Mar 2006
– LTIP	1,202,446		€10.73			1,202,446	1 Jan 2005	31 Dec 2005
– Nil cost options	319,250		Nil	319,250(i)	€10.42	–		
Total	2,025,296	165,061		319,250		1,871,107		
D J Haank – Executive Scheme (resigned 18 June 2003)	30,000(ii)		€15.25			–		
	10,926(ii)		€17.07			–		
	10,925		€13.55			10,925 (iii)	19 Apr 1999	19 Apr 2009
	35,949(ii)		€10.73			–		
	36,426(ii)		€14.75			–		
	41,993(ii)		€13.94			–		
		66,381(ii)	€9.34			–		
– 2002 Bonus investment plan		14,332(ii)	Nil			–		
– LTIP	359,485(ii)		€10.73			–		
Total	525,704	80,713				10,925		
A Prozes – Executive Scheme	131,062		€13.60			131,062	9 Aug 2003	9 Aug 2010
	59,714		€14.75			59,714	23 Feb 2004	23 Feb 2011
	72,783		€13.94			72,783	22 Feb 2005	22 Feb 2012
		94,086	€9.34			94,086	21 Feb 2006	21 Feb 2013
– 2002 Bonus investment plan		14,552	Nil			14,552	21 Mar 2006	21 Mar 2006
– LTIP	655,310		€13.60			655,310	1 Jan 2005	31 Dec 2005
– Nil cost options	14,040		Nil	14,040(iv)	€9.95	–		
Total	932,909	108,638		14,040		1,027,507		
P Tierney – Executive Scheme	282,258(v)		€9.34			282,258	21 Feb 2006	21 Feb 2013
– LTIP	940,860(v)		€9.34			940,860	1 Jan 2005	31 Dec 2005
Total	1,223,118					1,223,118		

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

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

(c) Interests in shares

The interests of the directors of Reed Elsevier PLC and Reed Elsevier NV in the issued share capital of the respective companies at the beginning and end of the year are shown below:

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

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

Any ordinary shares required to fulfil entitlements under nil cost share option grants are provided by the Employee Benefit Trust ("EBT") from market purchases. As a potential beneficiary under the EBT in the same way as other employees of Reed Elsevier, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2003, amounted to 6,383,333 Reed Elsevier PLC ordinary shares and 1,327,777 Reed Elsevier NV ordinary shares.

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

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

Rolf Stomberg
Chairman of the Remuneration Committee

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

Reed Elsevier Group plc

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

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

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

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

18 February 2004

Reed Elsevier Group plc

Accounting Policies

BASIS OF CONSOLIDATION

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

FOREIGN EXCHANGE TRANSLATION

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

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

TURNOVER

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

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

DEVELOPMENT SPEND

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

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

PENSIONS

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

TAXATION

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

GOODWILL AND INTANGIBLE ASSETS

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

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

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

Accounting Policies

TANGIBLE FIXED ASSETS

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

Freehold buildings and long leases are depreciated over their estimated useful lives up to a maximum of 50 years. Short leases are written off over the duration of the lease. Plant, equipment and computer systems are depreciated on a straight line basis at rates from 5% - 33%.

INVESTMENTS

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

INVENTORIES AND PRE-PUBLICATION COSTS

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

FINANCE LEASES

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

OPERATING LEASES

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

FINANCIAL INSTRUMENTS

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

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

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

£ million		2003	2002
Turnover			
Including share of turnover of joint ventures		**4,967**	5,044
Less: share of turnover of joint ventures		**(81)**	(71)
	note 1	**4,886**	4,973
Continuing operations before acquisitions		**4,800**	4,973
Acquisitions		**86**	-
		4,886	4,973
Cost of sales	*note 2*	**(1,759)**	(1,783)
Gross profit		**3,127**	3,190
Operating expenses	*note 2*	**(2,504)**	(2,716)
Before amortisation and exceptional items		**(1,990)**	(2,095)
Amortisation of goodwill and intangible assets		**(442)**	(522)
Exceptional items	*notes 2,7*	**(72)**	(99)
Operating profit (before joint ventures)		**623**	474
Continuing operations before acquisitions		**637**	474
Acquisitions		**(14)**	-
		623	474
Share of operating profit of joint ventures	*note 14*	**16**	17
Operating profit including joint ventures	*notes 1,5*	**639**	491
Non operating exceptional items			
Net profit/(loss) on disposal of businesses and fixed asset investments	*note 7*	**22**	(4)
Profit on ordinary activities before interest		**661**	487
Net interest expense	*note 8*	**(431)**	(482)
Profit on ordinary activities before tax		**230**	5
Tax (charge)/credit on profit on ordinary activities			
Before exceptional items		**(243)**	(203)
Exceptional items		**85**	122
	note 9	**(158)**	(81)
Profit/(loss) on ordinary activities after taxation		**72**	(76)
Minority interests and preference dividends		**(2)**	(1)
Profit/(loss) attributable to the shareholders		**70**	(77)
Equity dividends paid and proposed	*note 10*	**(282)**	(229)
Retained loss taken to reserves	*note 28*	**(212)**	(306)

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

£ million		**2003**	2002
Net cash inflow from operating activities before exceptional items		**1,142**	1,135
Payments relating to exceptional items charged to operating profit	*note 7*	**(98)**	(119)
Net cash inflow from operating activities	*note 11*	**1,044**	1,016
Dividends received from joint ventures	*note 14*	**14**	13
Interest and similar income received		**13**	19
Interest and similar charges paid		**(115)**	(143)
Net interest paid to Reed Elsevier P.L.C.		**(3)**	-
Net interest paid to the Elsevier Reed Finance BV group		**(332)**	(353)
Returns on investments and servicing of finance		**(437)**	(477)
UK corporation tax paid		**(63)**	(66)
Net overseas tax paid		**(77)**	(16)
Taxation		**(140)**	(82)
Purchase of tangible fixed assets		**(155)**	(163)
Purchase of fixed asset investments		**(25)**	(9)
Proceeds from sale of tangible fixed assets		**6**	6
Exceptional proceeds from disposal of fixed asset investments	*note 7*	**19**	118
Capital expenditure and financial investment		**(155)**	(48)
Acquisitions	*note 11*	**(262)**	(184)
Exceptional net proceeds/(costs) from disposal of businesses	*note 7*	**77**	(10)
Acquisitions and disposals		**(185)**	(194)
Equity dividends paid		**(282)**	(229)
Cash outflow before changes in short term investments and financing		**(141)**	(1)
Increase in short term investments	*note 11*	**(117)**	(102)
Increase in financing	*note 11*	**151**	168
(Decrease)/increase in cash	*note 11*	**(107)**	65

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2003

£ million		2003	2002
Fixed assets			
Goodwill and intangible assets	*note 13*	**5,153**	5,808
Tangible fixed assets	*note 13*	**481**	483
Investments	*note 14*		
Investments in joint ventures:			
Share of gross assets		**118**	132
Share of gross liabilities		**(58)**	(70)
Share of net assets		**60**	62
Other investments		**78**	78
		138	140
		5,772	6,431
Current assets			
Inventories and pre-publication costs	*note 15*	**526**	500
Debtors: amounts falling due within one year	*note 16*	**1,134**	1,174
Debtors: amounts falling due after more than one year	*note 17*	**285**	357
Short term investments		**466**	342
Cash at bank and in hand		**55**	156
		2,466	2,529
Creditors: amounts falling due within one year	*note 19*	**(3,433)**	(3,702)
Net current liabilities		**(967)**	(1,173)
Total assets less current liabilities		**4,805**	5,258
Creditors: amounts falling due after more than one year	*note 20*	**(5,873)**	(6,230)
Provisions for liabilities and charges	*note 24*	**(156)**	(179)
Minority interests		**(12)**	(7)
Net liabilities		**(1,236)**	(1,158)
Capital and reserves			
Called up share capital	*note 26*	-	-
Share premium account	*note 27*	**324**	324
Profit and loss reserve	*note 28*	**(1,560)**	(1,482)
Shareholders' deficit	*note 28*	**(1,236)**	(1,158)

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

M H Armour
Chief Financial Officer

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAIN AND LOSSES

For the year ended 31 December 2003

£ million	**2003**	2002
Profit/(loss) attributable to the shareholders	**70**	(77)
Exchange translation differences	**134**	124
Total recognised gains and losses for the financial year	**204**	47

SHAREHOLDERS' FUNDS RECONCILIATION

For the year ended 31 December 2003

£ million	**2003**	2002
Shareholders' deficit at 1 January	**(1,158)**	(976)
Profit/(loss) attributable to the shareholders	**70**	(77)
Equity dividends paid and proposed	**(282)**	(229)
Exchange translation differences	**134**	124
Shareholders' deficit at 31 December	**(1,236)**	(1,158)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

1. SEGMENT ANALYSIS

	Turnover		Operating profit		Adjusted operating profit		Capital employed	
£ million	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Business segment								
Science & Medical	**1,342**	1,256	**360**	281	**451**	414	**1,492**	1,560
Legal	**1,318**	1,349	**92**	59	**298**	285	**2,000**	2,196
Education	**898**	993	**91**	103	**174**	184	**1,402**	1,575
Business	**1,328**	1,375	**96**	48	**233**	232	**773**	845
Total	**4,886**	4,973	**639**	491	**1,156**	1,115	**5,667**	6,176
Geographical origin								
North America	**2,822**	3,158	**227**	143	**603**	616	**4,636**	5,184
United Kingdom	**823**	782	**169**	130	**211**	191	**469**	501
The Netherlands	**502**	419	**163**	155	**191**	171	**4**	(21)
Rest of Europe	**508**	417	**49**	36	**112**	100	**535**	492
Rest of world	**231**	197	**31**	27	**39**	37	**23**	20
Total	**4,886**	4,973	**639**	491	**1,156**	1,115	**5,667**	6,176

Geographical market		
North America	**2,916**	3,200
United Kingdom	**550**	550
The Netherlands	**207**	208
Rest of Europe	**675**	614
Rest of world	**538**	401
Total	**4,886**	4,973

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

Adjusted operating profit is presented as an additional performance measure and is shown after share of operating profit of joint ventures and before amortisation of goodwill and intangible assets of £445m (2002 : £525m) and exceptional items of £72m (2002 : £99m). Within prior year capital employed, goodwill of £183m arising on the Harcourt acquisition has been reclassified from the Education segment to the Science & Medical segment.

Turnover is analysed before the £81m (2002 : £71m) share of joint ventures' turnover, of which £20m (2002 : £17m) relates to the Legal segment, principally to Giuffrè, and £61m (2002 : £54m) relates to the Business segment, principally to exhibition joint ventures.

Share of operating profit in joint ventures of £16m (2002 : £17m) comprises £5m (2002 : £5m) relating to the Legal segment and £11m (2002 : £12m) relating to the Business segment.

1. SEGMENT ANALYSIS (CONTINUED)

£ million	**2003**	2002
Reconciliation of capital employed to net liabilities		
Capital employed	**5,667**	6,176
Taxation	**(475)**	(459)
Net interest payable	**(56)**	(70)
Net borrowings (including amounts owed to shareholders and the Elsevier Reed Finance BV group of £5,053m (2002 : £5,282m))	**(6,360)**	(6,798)
Minority interests	**(12)**	(7)
Net liabilities	**(1,236)**	(1,158)

2. COST OF SALES AND OPERATING EXPENSES

	2003				2002			
£ million	**Before amortisation and exceptional items**	**Amortisation of goodwill and intangible assets**	**Exceptional items**	**Total**	Before amortisation and exceptional items	Amortisation of goodwill and intangible assets	Exceptional items	Total
Cost of sales								
Continuing operations								
before acquisitions	**1,726**	-	-	**1,726**	1,783	-	-	1,783
Acquisitions	**33**	-	-	**33**	-	-	-	-
Total	**1,759**	-	-	**1,759**	1,783	-	-	1,783
Distribution and selling costs								
Continuing operations								
before acquisitions	**1,030**	-	-	**1,030**	1,111	-	-	1,111
Acquisitions	**16**	-	-	**16**	-	-	-	-
	1,046	-	-	**1,046**	1,111	-	-	1,111
Administrative expenses								
Continuing operations								
before acquisitions	**924**	**417**	**66**	**1,407**	984	522	99	1,605
Acquisitions	**20**	**25**	**6**	**51**	-	-	-	-
	944	**442**	**72**	**1,458**	984	522	99	1,605
Net operating expenses								
Continuing operations								
before acquisitions	**1,954**	**417**	**66**	**2,437**	2,095	522	99	2,716
Acquisitions	**36**	**25**	**6**	**67**	-	-	-	-
Total	**1,990**	**442**	**72**	**2,504**	2,095	522	99	2,716

3. PERSONNEL

	At 31 December		Average during the year	
Number of people employed	**2003**	2002	**2003**	2002
Business segment				
Science & Medical	**6,500**	6,200	**6,400**	6,100
Legal	**12,800**	13,300	**13,200**	13,300
Education	**5,300**	5,600	**5,400**	5,800
Business	**10,100**	10,700	**10,400**	11,200
Total	**34,700**	35,800	**35,400**	36,400
Geographical location				
North America	**19,600**	20,700	**20,300**	21,300
United Kingdom	**5,900**	6,000	**5,900**	6,100
The Netherlands	**2,700**	2,800	**2,700**	2,800
Rest of Europe	**3,700**	3,600	**3,700**	3,500
Rest of world	**2,800**	2,700	**2,800**	2,700
Total	**34,700**	35,800	**35,400**	36,400

4. PENSION SCHEMES

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

The principal valuation assumptions for the main UK scheme were:

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

The principal valuation assumptions used for the US scheme were a rate of return on investments of 7.75%, increase in pensionable remuneration of 4.5%, and increase in present and future pensions in payment of 3.0%, applied under the projected unit method.

The actuarial values placed on scheme assets under SSAP24 as at their last valuation date were sufficient to cover 113% and 104% of the benefits that had accrued to members of the main UK and US schemes, respectively. Actuarial surpluses are spread as a level amount over the average remaining service lives of employees. The actuarial values of the schemes' assets as at the valuation dates, excluding assets held in respect of members' additional voluntary contributions, were £1,350m and £260m in respect of the UK and US schemes respectively.

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

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

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

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

4. PENSION SCHEMES (CONTINUED)

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

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

	Main UK Scheme				Aggregate of Schemes			
	2003		2002		**2003**		2002	
	Assumed rate of return on assets %	£m	Assumed rate of return on assets %	£m	Assumed rate of return on assets %	£m	Assumed rate of return on assets %	£m
Equities	**7.8%**	**1,050**	9.0%	825	**8.0%**	**1,341**	9.0%	1,068
Bonds	**4.8%**	**442**	4.5%	487	**5.0%**	**639**	4.9%	670
Other	**4.3%**	**38**	3.8%	45	**4.6%**	**50**	3.8%	53
Total fair value of assets		**1,530**		1,357		**2,030**		1,791
Present value of scheme liabilities		**(1,588)**		(1,305)		**(2,281)**		(1,928)
Net (deficit)/surplus		**(58)**		52		**(251)**		(137)
Related deferred tax		**17**		(16)		**84**		50
Net pension (liability)/asset		**(41)**		36		**(167)**		(87)

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

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

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

£ million	Main UK Scheme	Aggregate of Schemes
Net surplus/(deficit) in schemes at beginning of the year	**52**	**(137)**
Movement in the year:		
Total operating charge	**(32)**	**(65)**
Contributions	**-**	**38**
Finance income	**23**	**17**
Actuarial loss	**(101)**	**(113)**
Exchange translation differences	**-**	**9**
Net deficit in schemes at end of the year	**(58)**	**(251)**

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

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

The consolidated profit and loss deficit as at 31 December 2003 of £1,560m (2002 : £1,482m) would have been £1,772m (2002 : £1,623m), had the accounting methodologies of FRS17 been applied in the 2003 and 2002 financial years.

4. PENSIONS (CONTINUED)

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

	Main UK Scheme		Aggregate of Schemes	
£ million	**2003**	2002	**2003**	2002
Charged to operating profit				
Current service cost	**(32)**	(34)	**(76)**	(75)
Past service credit	**-**	-	**11**	-
Total operating charge	**(32)**	(34)	**(65)**	(75)
Credited to other finance income				
Expected return on pension scheme assets	**96**	97	**131**	137
Interest on pension scheme liabilities	**(73)**	(72)	**(114)**	(107)
Net return	**23**	25	**17**	30
Amounts recognised in the statement of total recognised gains and losses				
Actuarial return less expected return on pension scheme assets	**125**	(254)	**153**	(352)
Experience losses arising on the scheme liabilities	**(57)**	(21)	**(96)**	(13)
Changes in assumptions underlying the present value of the scheme laibilities	**(169)**	86	**(170)**	43
Actuarial loss	**(101)**	(189)	**(113)**	(322)

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	
	2003	2002	**2003**	2002
Actual return less expected return on scheme assets as a percentage of scheme assets	8%	-19%	8%	-20%
Experience losses arising on scheme liabilities as a percentage of the present value of scheme liabilities	4%	2%	4%	1%
Total actuarial loss that would have been recognised in the statement of total recognised gains and losses as a percentage of the present value of the scheme liabilities	6%	14%	5%	17%

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

5. OPERATING PROFIT

Operating profit is stated after the following:

£ million	**2003**	2002
Hire of plant and machinery	**9**	12
Other operating lease rentals	**94**	87
Depreciation (including £7m (2002 : £6m) in respect of assets held under finance leases)	**134**	135
Amortisation		
Amortisation of goodwill and intangible assets	**442**	522
Amortisation of goodwill and intangible assets in joint ventures	**3**	3
Total amortisation	**445**	525
Royalties payable to the Elsevier Reed Finance BV group	**6**	5
Auditors' remuneration		
For audit services	**2.4**	2.2
For non audit services (£0.4m relates to UK companies (2002 : £0.7m))	**2.1**	3.6

£ million		**2003**	2002
Staff costs			
Wages and salaries		**1,247**	1,268
Social security costs		**134**	126
Pensions	*note 4*	**59**	59
Total staff costs		**1,440**	1,453

Auditors remuneration for non audit services comprises £0.8m (2002: £0.7m) for audit related services, £0.6m (2002 : £1.4m) for due diligence and other transaction related services, £0.6m (2002 : £0.7m) for tax compliance and advisory work, and £0.1m (2002 : £0.8m) for other non audit services.

6. EMOLUMENTS OF DIRECTORS

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

7. EXCEPTIONAL ITEMS

£ million	**2003**	2002
Reorganisation costs (i)	**(23)**	(42)
Acquisition related costs (ii)	**(49)**	(57)
Charged to operating profit	**(72)**	(99)
Net profit/(loss) on disposal of businesses and fixed asset investments (iii)	**22**	(4)
Exceptional charge before tax	**(50)**	(103)
Net tax credit (iv)	**85**	122
Total exceptional credit	**35**	19

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

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

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

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

Cash flows in respect of exceptional items were as follows:

£ million	**2003**	2002
Reorganisation costs	**(51)**	(56)
Acquisition related costs	**(47)**	(63)
Exceptional operating cash outflow	**(98)**	(119)
Net proceeds from disposal of businesses and fixed asset investments	**96**	108
Exceptional cash outflow before tax	**(2)**	(11)
Exceptional tax cash inflow	**37**	27
Total exceptional cash inflow	**35**	16

8. NET INTEREST EXPENSE

£ million	**2003**	2002
Interest payable and similar charges		
On loan capital, promissory notes and bank borrowings:		
Repayable within 5 years, other than by instalments	**(106)**	(138)
On finance leases	**(1)**	(1)
Other interest and similar charges	**(2)**	(1)
On amounts owed to Reed Elsevier PLC	**(6)**	(6)
On amounts owed to Reed Elsevier NV	**(1)**	(1)
On amounts owed to the Elsevier Reed Finance BV group	**(343)**	(366)
	(459)	(513)
Interest receivable and similar income		
On cash deposits and short term investments	**14**	19
On amounts owed by Reed Elsevier PLC	**4**	4
On amounts owed by the Elsevier Reed Finance BV group	**10**	8
	28	31
Total net interest expense	**(431)**	(482)
Interest cover (times)	**2.7**	2.3

Interest cover is calculated as the number of times adjusted operating profit, before exceptional items and amortisation of goodwill and intangible assets, is greater than the net interest expense.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

£ million		**2003**	2002
Current tax			
United Kingdom		**1**	(6)
The Netherlands		**56**	61
Rest of world		**56**	(17)
Total current tax		**113**	38
Deferred tax			
Origination and reversal of timing differences	*note 18*	**39**	36
Sub-total		**152**	74
Share of tax attributable to joint ventures	*note 14*	**6**	7
Total		**158**	81

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

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

£ million	**2003**	2002
Profit on ordinary activities before tax	**230**	5
Tax at average standard rates	**62**	(9)
Net impact of amortisation of goodwill and intangible assets	**109**	109
Prior year disposals	**(76)**	(100)
Permanent differences and other items	**57**	74
Origination and reversal of timing differences	**(39)**	(36)
Current tax charge	**113**	38

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

10. EQUITY DIVIDENDS PAID AND PROPOSED

	£ per share		*£ million*	
	2003	2002	**2003**	2002
Subsidiary undertakings			**138**	94
Parent				
Ordinary				
Interim to "R" ordinary shareholders	**14,350**	13,460	**144**	135
Total			**282**	229

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

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

11. CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

£ million		**2003**	2002
Operating profit (before joint ventures)		**623**	474
Exceptional charges to operating profit	*note 7*	**72**	99
Operating profit before exceptional items		**695**	573
Amortisation of goodwill and intangible assets	*note 13*	**442**	522
Depreciation	*note 13*	**134**	135
Total non cash items		**576**	657
Increase in inventories and pre-publication costs		**(51)**	(51)
Increase in debtors		**(111)**	(13)
Increase/(decrease) in creditors		**33**	(31)
Movement in working capital		**(129)**	(95)
Net cash inflow from operating activities before exceptional items		**1,142**	1,135
Payments relating to exceptional items charged to operating profit	*note 7*	**(98)**	(119)
Net cash inflow from operating activities		**1,044**	1,016

Acquisitions

£ million		**2003**	2002
Purchase of businesses		**(223)**	(90)
Purchase of businesses from the Elsevier Reed Finance Group BV		**(4)**	-
	note 12	**(227)**	(90)
Payment of Harcourt change of control and other non operating liabilities assumed		**(20)**	(76)
Deferred consideration of prior year acquistions		**(15)**	(18)
Total		**(262)**	(184)

11. CASH FLOW STATEMENT (CONTINUED)

Reconciliation of net borrowings

£ million	Cash	Short term investments	Financing	Total 2003	2002
Net borrowings at 1 January	**156**	**342**	**(7,296)**	**(6,798)**	(7,425)
(Decrease)/increase in cash	**(107)**	-	-	**(107)**	65
Increase in short term investments	-	**117**	-	**117**	102
Increase in borrowings	-	-	**(151)**	**(151)**	(168)
Change in net borrowings resulting from cash flows	**(107)**	**117**	**(151)**	**(141)**	(1)
Borrowings in acquired businesses	-	-	**(9)**	**(9)**	-
Inception of finance leases	-	-	**(13)**	**(13)**	(16)
Exchange translation differences	**6**	**7**	**588**	**601**	644
Net borrowings at 31 December	**55**	**466**	**(6,881)**	**(6,360)**	(6,798)

Reconciliation of financing

£ million	Long term borrowings	Net borrowings from shareholders and Elsevier Reed Finance BV group	Bank loans and promissory notes	Total Financing 2003	2002
At 1 January	**(1,649)**	**(5,282)**	**(365)**	**(7,296)**	(7,744)
Issuance of long term loans	**(1)**	-	-	**(1)**	-
Repayment of long term loans	**102**	-	-	**102**	180
Repayment of finance leases	**11**	-	-	**11**	9
Increase in net borrowings from shareholders and the Elsevier Reed Finance BV group	-	**(174)**	-	**(174)**	(378)
Decrease in bank loans and promissory notes	-	-	**(89)**	**(89)**	21
Change in financing resulting from cash flows	**112**	**(174)**	**(89)**	**(151)**	(168)
Borrowings in acquired businesses	-	-	**(9)**	**(9)**	-
Inception of finance leases	**(13)**	-	-	**(13)**	(16)
Exchange translation differences	**155**	**403**	**30**	**588**	632
At 31 December	**(1,395)**	**(5,053)**	**(433)**	**(6,881)**	(7,296)

The repayment of long term loans in 2003 relates primarily to US\$125m (2002 : \$150m) of Public Notes which matured in the year and the redemption of subordinated debentures with a nominal value of US\$39m (2002 : Public Notes US\$110m).

During the year finance lease arrangements were entered into in respect of assets with a total capital value at inception of £13m (2002 : £16m).

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

12. ACQUISITIONS

During the year a number of acquisitions were made for a total consideration amounting to £230m, including £3m deferred to future years, and after taking account of net cash acquired of £9m. £4m of this consideration was paid to the Elsevier Reed Finance BV group for scientific and electronic businesses. The most significant acquisitions were the Holtzbrinck STM business in Germany, and, in the US, Applied Discovery Inc and the public records business of Dolan Media Company.

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

£ million	Book value on acquisition	Fair value adjustments	Fair value
Goodwill	-	97	97
Intangible fixed assets	28	108	136
Tangible fixed assets	4	(1)	3
Current assets	44	-	44
Current liabilities	(42)	1	(41)
Borrowings	(9)	-	(9)
Net assets acquired	**25**	**205**	**230**

Consideration (after taking account of £9m of net cash acquired)	**230**
Less: deferred to future years	**(3)**
Net cash flow	**227**

The fair value adjustments in relation to the acquisitions made in 2003 relate principally to the valuation of intangible assets to conform with Reed Elsevier Group plc accounting policies. Goodwill represents the excess of the consideration over the net tangible and intangible assets acquired. The businesses acquired in 2003 contributed £86m to turnover, £17m to adjusted operating profit, before the amortisation of goodwill and intangible assets and exceptional items, and £16m to net cash inflow from operating activities for the part year under Reed Elsevier Group plc ownership.

13. FIXED ASSETS - INTANGIBLE ASSETS AND TANGIBLE ASSETS

CONSOLIDATED		Goodwill and intangible assets			Tangible assets		
Cost							
£ million		Goodwill	Intangible assets	Total	Land and buildings	Computer systems, plant and equipment	Total
At 1 January 2003		4,525	4,295	8,820	206	1,012	1,218
Acquisitions	*note 12*	97	136	233	-	3	3
Capital expenditure		-	-	-	3	165	168
Disposal of businesses		(60)	(70)	(130)	-	-	-
Disposals		-	-	-	(13)	(46)	(59)
Exchange translation differences		(308)	(281)	(589)	(11)	(55)	(66)
At 31 December 2003		**4,254**	**4,080**	**8,334**	**185**	**1,079**	**1,264**
Accumulated amortisation and depreciation							
£ million							
At 1 January 2003		1,715	1,297	3,012	77	658	735
Disposal of businesses		(52)	(46)	(98)	-	-	-
Disposals		-	-	-	(7)	(36)	(43)
Amortisation of goodwill and intangible assets		258	184	442	-	-	-
Depreciation		-	-	-	7	127	134
Exchange translation differences		(107)	(68)	(175)	(5)	(38)	(43)
At 31 December 2003		**1,814**	**1,367**	**3,181**	**72**	**711**	**783**
Net book amount							
£ million							
At 1 January 2003		2,810	2,998	5,808	129	354	483
At 31 December 2003		**2,440**	**2,713**	**5,153**	**113**	**368**	**481**

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

At 31 December 2003 and 2002, all assets were included at cost. The net book amount of tangible fixed assets includes £29m (2002 : £24m) in respect of assets held under finance leases.

Land and buildings at cost

£ million	**2003**	2002
Freehold property	**131**	194
Leasehold property, 50 years or more unexpired	**43**	11
Leasehold property, less than 50 years unexpired	**11**	1
Total	**185**	206

Included in freehold property is £7m (2002 : £7m) of freehold land on which no depreciation was charged.

14. FIXED ASSETS – INVESTMENTS

£ million		Investments in joint ventures		Other investments		Total
CONSOLIDATED		Share of net assets	Loans	Unlisted	Listed	
At 1 January 2003		61	1	43	35	140
Share of profit before tax		19	-	-	-	19
Amortisation of goodwill and intangible assets		(3)	-	-	-	(3)
		16	-	-	-	16
Share of tax attributable	*note 9*	(6)	-	-	-	(6)
Dividends received from joint ventures		(14)	-	-	-	(14)
Additions		1	-	5	19	25
Transfers/disposals		-	-	3	(14)	(11)
Provided		-	-	(11)	-	(11)
Exchange translation differences		1	-	(2)	-	(1)
At 31 December 2003		**59**	**1**	**38**	**40**	**138**

The principal joint venture at 31 December 2003 is Giuffrè (an Italian legal publisher in which Reed Elsevier Group plc has a 40% shareholding).

The cost and net book amount of goodwill and intangible assets in joint ventures were £37m (2002 : £36m) and £19m (2002 : £21m) respectively.

The directors' valuation of other investments (unlisted) at 31 December 2003 is £33m (2002 : £43m). The market value of listed investments at 31 December 2003 is £45m (2002 : £46m).

At 31 December 2003, the Reed Elsevier Group plc Employee Benefit Trust ("EBT") held 6,383,333 (2002 : 2,840,047) Reed Elsevier PLC ordinary shares and 1,327,777 (2002 : 1,554,381) Reed Elsevier NV ordinary shares at a book amount of £37m (2002 : £19m). The aggregate market value at 31 December 2003 was £39m (2002 : £27m). The EBT purchases Reed Elsevier PLC and Reed Elsevier NV shares which, at the Trustee's discretion, can be used in respect of the exercise of share options. Details of the share option schemes are set out in the Remuneration Report.

£ million	Subsidiary undertakings			Associates	Total
PARENT	Shares at cost	Provisions	Net book value	Shares at cost	
At 1 January 2003	898	(4)	894	29	923
Disposal to subsidiary undertaking	(1)	-	(1)	-	(1)
At 31 December 2003	897	(4)	893	29	**922**

15. INVENTORIES AND PRE-PUBLICATION COSTS

	CONSOLIDATED	
£ million	**2003**	2002
Raw materials	**13**	15
Pre-publication costs	**322**	306
Finished goods	**191**	179
Total	**526**	500

16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		PARENT	
£ million	**2003**	2002	**2003**	2002
Trade debtors	**841**	734	-	-
Amounts owed by Reed Elsevier NV	**1**	1	**1**	-
Amounts owed by the Elsevier Reed Finance BV group	**107**	261	-	-
Amounts owed by joint ventures	**1**	-	-	-
Amounts owed by subsidiary undertakings	-	-	**54**	46
Other debtors	**81**	72	-	-
Prepayments and accrued income	**103**	106	-	-
Total	**1,134**	1,174	**55**	46

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

		CONSOLIDATED	
£ million		**2003**	2002
Trade debtors		**8**	9
Amounts owed by Reed Elsevier PLC		**36**	36
Pension prepayment	*note 4*	**115**	125
Prepayments, accrued income and other debtors		**30**	26
Deferred taxation assets	*note 18*	**96**	161
Total		**285**	357

18. DEFERRED TAXATION

	CONSOLIDATED	
£ million	**2003**	2002
Deferred taxation liabilities		
Excess of tax allowances over related amortisation	**45**	46
Pension prepayment	**32**	35
Short term timing differences	**4**	3
	81	84
Deferred taxation assets		
Excess of amortisation over related tax allowances	**(9)**	(8)
Short term timing differences	**(69)**	(151)
Tax losses carried forward	**(18)**	(2)
	(96)	(161)
Total	**(15)**	(77)

		CONSOLIDATED	
£ million		**2003**	2002
Deferred tax asset at 1 January		**(77)**	(164)
Provided	*note 9*	**39**	36
Transfers		**19**	38
Exchange translation differences		**4**	13
Deferred tax asset at 31 December		**(15)**	(77)

		CONSOLIDATED	
£ million		**2003**	2002
Included in debtors falling due after more than one year	*note 17*	**(96)**	(161)
Included in provisions for liabilities and charges	*note 24*	**81**	84
Total		**(15)**	(77)

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		CONSOLIDATED		PARENT	
£ million		**2003**	2002	**2003**	2002
Loan capital	*note 21*	**1**	79	**-**	-
Promissory notes and bank loans		**433**	347	**-**	-
Obligations under finance leases	*note 23*	**16**	8	**-**	-
Sub total: Borrowings		**450**	434	**-**	-
Trade creditors		**227**	249	**-**	-
Amounts owed to Reed Elsevier PLC		**543**	531	**-**	-
Amounts owed to the Elsevier Reed Finance BV group		**405**	690	**-**	-
Amounts owed to associated undertakings		**-**	6	**-**	-
Amounts owed to subsidiary undertakings		**-**	-	**1**	1
Other creditors		**165**	183	**-**	-
Taxation		**308**	311	**-**	-
Accruals and deferred income		**1,335**	1,298	**-**	-
Total		**3,433**	3,702	**1**	1

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

		CONSOLIDATED	
£ million		**2003**	2002
Loan capital	*note 21*		
- within one to two years		**84**	2
- within two to five years		**637**	533
- after five years		**650**	1,013
Promissory notes and bank loans			
- within two to five years		**-**	18
Obligations under finance leases	*note 23*	**7**	14
Sub total: Borrowings		**1,378**	1,580
Amounts owed to Reed Elsevier PLC		**40**	40
Amounts owed to the Elsevier Reed Finance BV group		**4,209**	4,319
Other creditors		**9**	15
Taxation		**182**	225
Accruals and deferred income		**55**	51
Total		**5,873**	6,230

21. LOAN CAPITAL

	CONSOLIDATED	
£ million	**2003**	2002
Subsidiary undertakings - unsecured		
$125m 8.5% US Dollar Privately Placed Notes 2003	-	78
$150m 6.625% US Dollar Privately Placed Notes 2023	**84**	94
$150m 7% US Dollar Public Notes 2005	**84**	94
$150m 7.5% US Dollar Public Debentures 2025	**84**	94
$550m 6.125% US Dollar Public Notes 2006	**309**	343
$440m 5.75 US Dollar Public Notes 2008	**247**	275
$550m 6.75% US Dollar Public Notes 2011	**309**	343
$150m 8.875% US Dollar Public Notes 2022	**36**	40
$150m 6.7% US Dollar Public Notes 2007	**81**	91
$200m 7.2% US Dollar Public Notes 2027	**108**	120
$150m 7.3% US Dollar Public Notes 2097	**29**	31
$55m 6.5% US Dollar Convertible Subordinated Debentures 2011	-	24
Miscellaneous Sterling	**1**	-
Total	**1,372**	1,627

22. FINANCIAL INSTRUMENTS

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

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

Currency and interest rate profile of financial liabilities

The currency and interest rate profile of the aggregate financial liabilities of £6,141m (2002 : £6,462m), after taking account of interest rate and cross currency interest rate swaps, is set out below:

CONSOLIDATED

	2003				2002			
			Fixed rate financial liabilities				Fixed rate financial liabilities	
£ million	**Floating rate financial liabilities**	**Fixed rate financial liabilities**	**Weighted average interest rate**	**Weighted average term (years)**	Floating rate financial liabilities	Fixed rate financial liabilities	Weighted average interest rate	Weighted average term (years)
US dollar	**893**	**4,650**	**5.4%**	**5.9**	567	5,246	6.8%	7.7
Sterling	**5**	**40**	**9.8%**	**4.0**	19	40	9.8%	5.0
Euro	**2**	**481**	**7.2%**	**6.0**	2	506	7.2%	8.3
Other currencies	**70**	**-**	**-**	**-**	81	1	6.7%	2.2
Total	**970**	**5,171**	**5.6%**	**5.9**	669	5,793	6.9%	7.7

Included within fixed rate financial liabilities as at 31 December 2003 are £nil (2002 : £78m) of US dollar term debt that matures within one year.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Currency and interest rate profile of financial assets

The currency and interest rate profile of the aggregate financial assets of £658m (2002 : £632m), after taking account of interest rate swaps, is set out in the table and narrative below:

	CONSOLIDATED			
	2003		2002	
£ million	**Interest bearing financial assets**	**Non interest bearing financial assets**	Interest bearing financial assets	Non interest bearing financial assets
US dollar	**38**	**54**	37	67
Sterling	**320**	**37**	198	17
Euro	**134**	**6**	232	7
Other currencies	**29**	**4**	31	7
Total	**521**	**101**	498	98

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

In addition to the amounts shown above Reed Elsevier Group plc has £36m (2002 : £36m) of fixed rate financial assets owed by affiliated companies denominated in sterling, at an interest rate of 10.5% (2002 : 10.5%) and duration of four years (2002 : five years).

Included within non interest bearing financial assets are £78m (2002 : £78m) of investments denominated principally in sterling and US dollars which have no maturity date.

At 31 December 2003 agreements totalling £100m (2002 : £nil) were in place to enter into interest rate swaps at future dates to fix the interest income on sterling short term investments for one year, at a weighted average interest rate of 3.6%.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity profile of financial liabilities

The maturity profile of financial liabilities at 31 December comprised:

	CONSOLIDATED	
£ million	**2003**	2002
Repayable:		
Within one year	**450**	434
Within one to two years	**786**	391
Within two to five years	**2,139**	1,885
After five years	**2,766**	3,752
Total	**6,141**	6,462

Financial liabilities repayable within one year include US commercial paper. Short term borrowings are supported by committed facilities and by centrally managed cash and short term investments. As at 31 December 2003, a total of £1,684m (2002 : £2,188m) of committed facilities were available, of which £51m (2002 : £63m) was drawn and is included in financial liabilities repayable within one year. Of the total committed facilities, £421m (2002 : £1,788m) matures within one year, £nil (2002 : £400m) within two to three years and £1,263m (2002 : £nil) within four to five years. These facilities are available to other affiliated businesses as well. Secured borrowings under finance leases were £23m (2002 : £22m).

Currency exposure

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities

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

	CONSOLIDATED			
	2003		2002	
£ million	**Book value**	**Fair value**	Book value	Fair value
Primary financial instruments held or issued to finance operations				
Investments	**78**	**78**	78	78
Cash	**55**	**55**	156	156
Short term investments	**466**	**466**	342	341
Amounts due from affiliated companies	**36**	**36**	36	42
Other financial assets	**23**	**23**	20	20
Short term borrowings and current portion of long term borrowings	**(450)**	**(450)**	(434)	(442)
Long term borrowings	**(1,378)**	**(1,469)**	(1,580)	(1,687)
Amounts due to affiliated companies	**(4,249)**	**(4,833)**	(4,359)	(5,128)
Other financial liabilities	**(13)**	**(13)**	(18)	(18)
Provisions	**(51)**	**(51)**	(71)	(71)
	(5,483)	**(6,158)**	(5,830)	(6,709)
Derivative financial instruments held to manage interest rate and currency exposure				
Interest rate swaps	(1)	**(13)**	(2)	(22)
Forward foreign exchange contracts	-	(1)	-	1
	(1)	**(14)**	(2)	(21)
Total financial instruments	**(5,484)**	**(6,172)**	(5,832)	(6,730)

The amounts shown as the book value of derivative financial instruments represent accruals or deferred income arising from these financial instruments. The fair value of long term debt has been based on current market rates offered to Reed Elsevier Group plc for debt of the same remaining maturities. The fair values for interest rate swaps, interest rate options and forward rate agreements represent the replacement cost calculated using market rates of interest at 31 December 2003 and 2002. The fair values of all other items have been calculated by discounting expected future cash flows at market rates.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Hedges

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

	CONSOLIDATED			
	Unrecognised		Deferred	
£ million	Gains	Losses	Gains	Losses
On hedges at 1 January 2003	2	(21)	58	(15)
Arising in previous years included in 2003 profit and loss account	(1)	8	(30)	8
Arising in previous years not included in 2003 profit and loss account	1	(13)	28	(7)
Arising in 2003 not included in 2003 profit and loss account	4	(5)	41	(18)
At 31 December 2003	5	(18)	69	(25)
Of which:				
Expected to be included in 2004 profit and loss account	2	(9)	44	(14)
Expected to be included in 2005 profit and loss account or later	3	(9)	25	(11)
	5	(18)	69	(25)

23. OBLIGATIONS UNDER LEASES

Future finance lease obligations are:

		CONSOLIDATED	
£ million		**2003**	2002
Repayable:			
Within one year		**17**	9
Within one and two years		**4**	6
Within two and five years		**4**	3
After five years		**-**	7
		25	25
Less: interest charges allocated to future periods		**(2)**	(3)
Total		**23**	22
Obligations falling due within one year	*note 19*	**16**	8
Obligations falling due after more than one year	*note 20*	**7**	14
Total		**23**	22

Annual commitments under operating leases are:

		2003		2002	
£ million		Land and buildings	Other	Land and buildings	Other
On loans expiring	- within one year	**8**	**1**	6	1
	- within one to five years	**32**	**5**	33	3
	- after five years	**59**	**-**	59	-
Total		**99**	**6**	98	4

24. PROVISIONS FOR LIABILITIES AND CHARGES

	CONSOLIDATED		
£ million	Deferred taxation liabilities	Property lease obligations	Total
At 1 January 2003	84	95	179
Provided	6	-	6
Utilised	(4)	(11)	(15)
Exchange translation differences	(5)	(9)	(14)
At 31 December 2003	**81**	**75**	**156**

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

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

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

	CONSOLIDATED	
£ million	**2003**	2002
Contracts placed	**6**	9

26. CALLED UP SHARE CAPITAL

£ and no. shares	AUTHORISED At 31 Dec 2002 and 2003	CALLED UP, ISSUED AND FULLY PAID At 31 Dec 2002 and 2003
Preference shares (cumulative) of £1 each		
- Irredeemable 7.50%	100,000	100,000
Ordinary shares of £1 each		
- "R" ordinary shares	10,000	10,000
- "E" ordinary shares	10,000	10,000
Total	120,000	120,000

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

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

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

27. SHARE PREMIUM ACCOUNT

£ million	
At 1 January and 31 December 2003	**324**

28. RECONCILIATION OF SHAREHOLDERS' FUNDS

£ million	Share capital and share premium	Profit and loss reserve	Consolidated Total	Parent Total
At 1 January 2003	324	(1,482)	(1,158)	968
Retained (loss)/profit for the year	-	(212)	(212)	8
Exchange translation differences	-	134	134	-
At 31 December 2003	**324**	**(1,560)**	**(1,236)**	**976**

Share capital includes non equity shares of £100,000 (2002 : £100,000).

Parent company total comprises the company profit and loss account and share premium account. The profit attributable to shareholders, dealt with in the accounts of the company, is £152m (2002 : £131m).

29. CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT	
£ million	**2003**	2002	**2003**	2002
Contingent liabilities in respect of borrowings of:				
Former subsidiary undertakings	**3**	7	**3**	7

There are contingent liabilities of £77m (2002 : £118m) in respect of property lease guarantees, in excess of provided amounts of £26m (2002 : £32m), given by Harcourt General, Inc in favour of GC Companies, Inc. (see note 24).

The company has accepted, in accordance with clause 403 Book 2 of the Dutch Civil Code, responsibility for the liabilities, including trade creditors and external borrowings totalling £80m (2002 : £64m), of subsidiary undertakings registered in the Netherlands.

30. RELATED PARTY TRANSACTIONS

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

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

Foreign exchange contracts entered into during 2003 by Reed Elsevier Group plc and its subsidiaries with its fellow joint ventures amounted to £622m (2002 : £835m).

31. BALANCE SHEET OF REED ELSEVIER GROUP PLC AS AT 31 DECEMBER 2003

£ million		2003	2002
Fixed assets			
Investments	*note 14*	**922**	923
Current assets			
Debtors: amounts falling due within one year	*note 16*	**55**	46
Creditors: amounts falling due within one year	*note 19*	**(1)**	(1)
Net current assets		**54**	45
Net assets		**976**	**968**
Capital and reserves			
Called up share capital	*note 26*	**-**	-
Share premium account	*note 27*	**324**	324
Revenue reserves		**652**	644
Shareholders' funds	*note 28*	**976**	**968**

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

M H Armour

Chief Financial Officer

SUPPLEMENTARY INFORMATION

Principal Subsidiary Undertakings at 31 December 2003

Holding Companies	
Reed Elsevier (UK) Limited (1)(8)	
Reed Elsevier Holdings B.V. (8)	(The Netherlands)
Reed Elsevier Nederland B.V.	(The Netherlands)
Reed Elsevier Overseas B.V.	(The Netherlands)
Reed Elsevier US Holdings Inc	(USA)
Reed Elsevier Inc. (1)	(USA)
Reed Elsevier Capital Inc.	(USA)
Harcourt, Inc. (1)	(USA)
HGI Investment Trust	(USA)
Reed Elsevier Properties Inc.	(USA)
Science & Medical	
Elsevier Limited	
Elsevier B.V.	(The Netherlands)
Excerpta Medica Medical Communications B.V.	(The Netherlands)
Elsevier Inc.	(USA)
Excerpta Medica, Inc	(USA)
Academic Press (2)	(USA)
Elsevier Health Sciences (2)	(USA)
Mosby, Inc.	(USA)
MDL Information Systems, Inc.	(USA)
Endeavor Information Systems, Inc.	(USA)
MDL Information Systems GmbH	(Germany)
Legal	
LexisNexis Butterworths Tolley (3)	
Eclipse Group Limited	
LexisNexis (4)	(USA)
Matthew Bender and Company, Inc.	(USA)
Martindale-Hubbell (4)	(USA)
Riskwise International L.L.C.	(USA)
Editions du Juris-Classeur SA	(France)
Butterworths Australia (5)	(Australia)
Education	
Harcourt Education Limited	
Harcourt School Publishers (6)	(USA)
Holt, Rinehart and Winston (6)	(USA)
Harcourt Achieve Inc.	(USA)
The Psychological Corporation	(USA)
Harcourt Assessment, Inc. (7)	(USA)
Business	
Reed Business Information Limited	
Reed Exhibitions Limited	
Reed Business Information B.V.	(The Netherlands)
Reed Business Information US (4)	(USA)
Reed Construction Data Inc.	(USA)
Reed Exhibitions (4)	(USA)
Reed Expositions France SA	(France)
Reed Midem Organisation SA	(France)
Groupe Strategies SA	(France)
Reed Exhibitions Japan Limited	(Japan)

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

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

Principal joint ventures at 31 December 2003

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