

set by the Committee. For exceptional performance beyond these stretching targets, the Committee has the discretion to award up to 110% of salary. The Committee has also applied the foregoing criteria in assessing the 2003 bonuses.

- A bonus investment plan, under which directors and other senior executives were able to invest up to half of their 2002 annual performance related bonus in Reed Elsevier PLC/Reed Elsevier NV shares. 38 senior executives participated in the bonus investment arrangements in respect of their 2002 bonus. Subject to continuing to hold the shares and remaining in employment, at the end of a three year period, the participants will be awarded an equivalent number of Reed Elsevier PLC/Reed Elsevier NV shares at nil cost. Following approval of the 2003 Reed Elsevier Group plc Bonus Investment Plan (the "2003 Bonus Investment Plan") by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Committee has agreed to award options under the 2003 Bonus Investment Plan to directors and selected key employees in respect of the 2003 bonus. Awards under the 2003 Bonus Investment Plan will be made annually, and will be subject to a performance condition requiring the achievement of compound growth in the average of the Reed Elsevier PLC and Reed Elsevier NV adjusted EPS (i.e. before amortisation of goodwill and intangible assets, exceptional items and UK tax credit equalisation) measured at constant exchange rates ("adjusted EPS") of 6% per annum compound during the three year vesting period.
- Share options, where the directors and other senior executives are granted options annually over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price at the date of grant. The Committee approves the grant of any option and sets performance conditions attaching to options. Following approval of the Reed Elsevier Group plc Share Option Scheme (the "Share Option Scheme") by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Remuneration Committee has agreed to award options under the Share Option Scheme to executive directors and selected employees from 2004. The size of the annual grant pool will be determined by reference to the compound annual growth in adjusted EPS over the three years prior to grant, with individual grant size determined by the Committee based on individual performance. At compound growth of between 8% and 10% per annum, the pool of options available will be broadly comparable to the level of options granted under the previous scheme. At executive director level the grants are expected to be up to 3 times salary. For executive directors, option grants will be subject to a performance condition requiring the achievement of 6% per annum compound growth in adjusted EPS at constant exchange rates during the three

years following the grant. There will be no re-testing of the 3 year EPS performance period.

- Long term incentive plan. Following approval of the Reed Elsevier Group plc Long Term Incentive Share Option Scheme (the "2003 LTIS") by shareholders of Reed Elsevier PLC and Reed Elsevier NV in April 2003, the Committee has decided to make the first awards under the 2003 LTIS to directors and a small number of key senior executives (approximately 40) during 2004. This award covers the period 2004 to 2006 during which time no further awards under the 2003 LTIS will be made to participants. The Rules require that approximately 50% of the total implied value of grants under the 2003 LTIS will take the form of nil cost conditional shares and 50% will take the form of conventional market value options. On the basis of the current implied values, this will result in a grant of 2.5 times salary in conditional shares and 5.5 times salary in conventional share options. Grants will vest subject to the achievement of compound annual adjusted EPS growth at constant exchange rates, achieved over a three-year performance period from 2004 to 2006, of between 8% and 12%. At 8% compound annual adjusted growth 25% of the award will vest; at 10% compound annual adjusted growth 100% of the award will vest; and at 12% compound annual adjusted growth 125% of the award would vest. Awards will vest on a straight-line basis between each of these points. There will be no re-testing of the three year performance period. Acceptance of an award under the 2003 LTIS by any individual will automatically terminate any award under the previous Reed Elsevier Group plc Senior Executive Long Term Incentive Plan (the "2000 LTIP"). Participants in the 2003 LTIS are required to build up a significant personal shareholding in Reed Elsevier PLC and/or Reed Elsevier NV. At executive director level, the requirement is that they should own shares equivalent to 1½ times salary, to be acquired over a three year period.
- Post-retirement pensions, where different retirement schemes apply depending on local competitive market practice, length of service and age of the director. The only element of remuneration that is pensionable is base salary.

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

TOTAL SHAREHOLDER RETURN

The graphs below show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested. The top two graphs compare the Reed Elsevier PLC performance with the