

Form 20-F

Annual Report 2006 on Form 20-F



Inspiring

discovery

customer workflow

connections

global

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
Or
- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006
Or
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Or
- ☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-3334

REED ELSEVIER PLC

(Exact name of Registrant as specified in its charter)

England

(Jurisdiction of incorporation or organisation)

1-3 Strand

London WC2N 5JR

England

(Address of principal executive offices)

REED ELSEVIER NV

(Exact name of Registrant as specified in its charter)

The Netherlands

(Jurisdiction of incorporation or organisation)

Radarweg 29

1043 NX Amsterdam

The Netherlands

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which
registered

Reed Elsevier PLC:

American Depositary Shares

(each representing four Reed Elsevier PLC ordinary shares)

New York Stock Exchange

Ordinary shares of 12.5p each

(the "Reed Elsevier PLC ordinary shares")

New York Stock Exchange*

Reed Elsevier NV:

American Depositary Shares

(each representing two Reed Elsevier NV ordinary shares)

New York Stock Exchange

Ordinary shares of €0.06 each

(the "Reed Elsevier NV ordinary shares")

New York Stock Exchange*

* Listed, not for trading, but only in connection with the listing of the applicable Registrant's American Depositary Shares issued in respect thereof.
Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuers' classes of capital or common stock as of December 31, 2006:

Reed Elsevier PLC:

Number of outstanding shares

Ordinary shares of 12.5p each 1,287,364,048

Reed Elsevier NV:

Ordinary shares of €0.06 each 748,597,124

R-shares of €0.60 each (held by a subsidiary of Reed Elsevier PLC) 4,679,249

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, or non-accelerated filers. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which financial statement item the registrants have elected to follow:

Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act):

Yes ☐ No ☒

TABLE OF CONTENTS

	<u>Page</u>
GENERAL	1
SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS	2
 PART I	
ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	N/A
ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE.....	N/A
ITEM 3: KEY INFORMATION	3
Selected financial data	3
Risk factors	8
ITEM 4: INFORMATION ON REED ELSEVIER	11
History and development	11
Business overview	13
Organisational structure	21
Property, plants and equipment	22
ITEM 4A: UNRESOLVED STAFF COMMENTS.....	N/A
ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS	23
Operating results — Reed Elsevier	23
Liquidity and capital resources — Reed Elsevier	35
Operating results — Reed Elsevier PLC and Reed Elsevier NV	38
Trend information	39
ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	40
Directors	40
Senior management	42
Compensation	42
Board practices	51
Employees	52
Share ownership	54
ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	65
Major shareholders	65
Related party transactions	65
ITEM 8: FINANCIAL INFORMATION	66
ITEM 9: THE OFFER AND LISTING	67
Trading markets	67
ITEM 10: ADDITIONAL INFORMATION	69
Memorandum and articles of association	69
Material contracts	70
Exchange controls	70
Taxation	70
Documents on display	72
ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK ...	73
ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	N/A

	<u>Page</u>
PART II	
ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	N/A
ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	N/A
ITEM 15: CONTROLS AND PROCEDURES.....	75
ITEM 16A: AUDIT COMMITTEE FINANCIAL EXPERT	78
ITEM 16B: CODES OF ETHICS	78
ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES	78
ITEM 16D: EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES ...	79
ITEM 16E: PURCHASES OF EQUITY SECURITIES BY THE ISSUERS AND AFFILIATED PURCHASERS	79
PART III	
ITEM 17: FINANCIAL STATEMENTS*	80
ITEM 18: FINANCIAL STATEMENTS	F-1
ITEM 19: EXHIBITS	F-92

* The registrants have responded to Item 18 in lieu of responding to this Item.

THIS PAGE INTENTIONALLY BLANK

GENERAL

Reed Elsevier PLC and Reed Elsevier NV conduct their business through two jointly owned companies, Reed Elsevier Group plc and Elsevier Reed Finance BV. Reed Elsevier PLC and Reed Elsevier NV have retained their separate legal and national identities. Reed Elsevier is not a legal entity but a collective reference to the separate legal entities of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures. The businesses of all of the entities comprising Reed Elsevier are collectively referred to in this annual report as “Reed Elsevier”, and the financial statements of the combined businesses are referred to as the “combined financial statements”. In this annual report, references to “we”, “our”, or “us” are to all of the entities comprising Reed Elsevier.

In this annual report, references to US dollars, \$ and ¢ are to US currency; references to sterling, £, pence or p are to UK currency; references to euro and € are to the currency of the European Economic and Monetary Union.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This document contains or incorporates by reference a number of forward looking statements within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act 1934, as amended, with respect to:

- financial condition;
- results of operations;
- competitive positions;
- the features and functions of and markets for the products and services we offer; and
- our business plans and strategies.

We consider any statements that are not historical facts to be “forward looking statements”. These statements are based on the current expectations of the management of our businesses and are subject to risks and uncertainties that could cause actual results or outcomes to differ from those expressed in any forward looking statement. These differences could be material; therefore, you should evaluate forward looking statements in light of various important factors, including those set forth or incorporated by reference in this annual report.

Important factors that could cause actual results to differ materially from estimates or forecasts contained in the forward looking statements include, among others:

- general economic and business conditions;
- exchange rate fluctuations;
- the impact of technological change, including the impact of electronic or other distribution formats, on our businesses;
- competitive factors in the industries in which we operate;
- demand for our products and services;
- uncertainties as to whether our strategies and business plans will produce the expected returns;
- changes in the market values of defined benefit pension scheme assets and in the market related assumptions used to value scheme liabilities;
- significant failures or interruptions of our electronic delivery platforms;
- breaches of our data security systems or other unauthorised access to our databases;
- our ability to maintain high quality management;
- changes in law and legal interpretation affecting our intellectual property rights and internet communications;
- legislative, fiscal and regulatory developments and political risks;
- requirements or actions of anti-trust authorities;
- changes in the seasonal and cyclical nature of the markets for our products and services;
- changes in, and the timing of, public funding and spending by schools, academic institutions and states;
- disruption to our business or markets arising from natural disasters, international security or public health concerns and acts of terrorism or war; and
- other risks referenced from time to time in the filings of Reed Elsevier PLC and Reed Elsevier NV with the Securities and Exchange Commission (the “SEC”).

The terms “estimate”, “project”, “plan”, “intend”, “expect”, “believe”, “should” and similar expressions identify forward looking statements. These forward looking statements are found at various places throughout this annual report and the other documents incorporated by reference in this annual report (see “Item 19: Exhibits” on page F-92 of this annual report).

You should not place undue reliance on these forward looking statements, which speak only as of the date of this annual report. We undertake no obligation to publicly update or release any revisions to these forward looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events.

PART I

ITEM 3: KEY INFORMATION

SELECTED FINANCIAL DATA

REED ELSEVIER

The selected combined financial data for Reed Elsevier should be read in conjunction with, and is qualified by, the combined financial statements included in this annual report. In addition, as separate legal entities, Reed Elsevier PLC and Reed Elsevier NV prepare separate consolidated financial statements which reflect their respective shareholders' economic interest in Reed Elsevier accounted for on an equity basis.

All of the selected financial data for Reed Elsevier set out below has been extracted or derived from the combined financial statements which have been audited by Deloitte & Touche LLP, London and Deloitte Accountants BV, Amsterdam.

Combined Income Statement Data

	As at December 31,					
	2006 ⁽²⁾	2006	2005	2004	2003	2002
	(in millions)					
<i>Amounts in accordance with IFRS:</i> ⁽¹⁾						
Revenue ⁽³⁾	\$10,580	£5,398	£5,166	£4,812	n/a	
Operating profit ⁽³⁾	1,725	880	839	766		
Net finance costs	(310)	(158)	(140)	(132)		
Disposals and other non operating items ⁽⁴⁾	(2)	(1)	2	(3)		
Profit before tax	1,413	721	701	631		
Taxation	(188)	(96)	(237)	(170)		
Minority interests	(4)	(2)	(2)	(2)		
Profit attributable to parent companies' shareholders ..	1,221	623	462	459		
<i>Amounts in accordance with US GAAP:</i>						
Revenue	\$10,580	£5,398	£5,166	£4,812	£4,925	£5,020
Operating income	1,427	728	748	804	940	746
Taxes	(255)	(130)	(234)	(252)	(202)	(150)
Net income	782	399	374	418	568	389

Combined Balance Sheet Data

	As at December 31,					
	2006 ⁽²⁾	2006	2005	2004	2003	2002
	(in millions)					
<i>Amounts in accordance with IFRS:</i> ⁽¹⁾						
Total assets	\$16,723	£8,532	£9,127	£7,952	n/a	
Long term obligations less current portion	(4,087)	(2,085)	(2,264)	(1,706)		
Net borrowings ⁽⁵⁾	(4,535)	(2,314)	(2,694)	(2,532)		
Minority interests	(26)	(13)	(15)	(13)		
Combined shareholders' equity	3,853	1,966	1,970	1,664		
<i>Amounts in accordance with US GAAP:</i>						
Total assets	\$19,224	£9,808	£10,620	£9,462	£9,889	£10,279
Long term obligations less current portion	(5,880)	(3,000)	(3,153)	(2,749)	(2,994)	(3,294)
Combined shareholders' funds ⁽⁶⁾	6,311	3,220	3,763	3,431	3,462	3,436
Net assets ⁽⁶⁾	6,337	3,233	3,778	3,444	3,474	3,443

(1) The combined financial statements are prepared in accordance with accounting policies that are in conformity with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU"). As permitted, following the transition to IFRS on January 1, 2004 only three years of IFRS information are presented. IFRS differs in certain significant respects from US GAAP. The principal differences between IFRS and US GAAP relevant to Reed Elsevier are set out in note 34 to the combined financial statements.

(2) Noon buying rates as at December 31, 2006 have been used to provide a convenience translation into US dollars, see "— Exchange Rates" on page 7. At December 31, 2006, the noon buying rate was \$1.96 per £1.00.

(3) All revenue and operating profit is derived from continuing operations. Operating profit under IFRS is stated after charging £297 million in respect of amortisation of acquired intangible assets (2005: £276 million; 2004: £255 million); £23 million in

respect of acquisition integration costs (2005: £21 million; 2004: £38 million); and £10 million in respect of taxation in joint ventures (2005: £6 million; 2004: £7 million).

- (4) Disposals and other non operating items comprise a £2 million loss on disposal of businesses and other assets (2005: £1 million loss; 2004: £3 million loss) and a £1 million gain relating to the revaluation of held for trading investments (2005: £3 million gain; 2004: nil).
- (5) Net borrowings comprise gross borrowings of £3,006 million (2005: £3,164 million; 2004: £2,757 million), less related derivative financial instrument assets of £173 million (2005: £174 million; 2004: nil) and cash and cash equivalents of £519 million (2005: £296 million; 2004: £225 million).
- (6) Combined shareholders' funds and net assets under US GAAP in 2006 reflect the adoption of SFAS 158 — Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans, under which the full funded status of defined benefit pension schemes is required to be recognised as an asset or liability in the balance sheet. Combined shareholders' funds and net assets were reduced by £153 million on adoption of SFAS 158 as at December 31, 2006. Prior year comparatives are not restated.

REED ELSEVIER PLC

The selected financial data for Reed Elsevier PLC should be read in conjunction with, and is qualified by, the consolidated financial statements of Reed Elsevier PLC included in this annual report. The results and financial position of Reed Elsevier PLC reflect the 52.9% economic interest of Reed Elsevier PLC's shareholders in Reed Elsevier, after taking account of results arising in Reed Elsevier PLC and its subsidiaries. These interests have been accounted for on an equity basis.

All of the selected consolidated financial data for Reed Elsevier PLC set out below has been extracted or derived from the financial statements of Reed Elsevier PLC, which have been audited by Deloitte & Touche LLP, London.

	As at December 31,					
	2006 ⁽³⁾	2006	2005	2004	2003	2002
	(in millions, except per share amounts)					
<i>Amounts in accordance with IFRS:</i> ⁽¹⁾						
Profit before tax ⁽²⁾	\$643	£328	£242	£240	n/a	
Taxation	(16)	(8)	(7)	(5)		
Profit attributable to ordinary shareholders	627	320	235	235		
Basic earnings per Reed Elsevier PLC ordinary share	50.2¢	25.6p	18.6p	18.6p		
Diluted earnings per Reed Elsevier PLC ordinary share	49.6¢	25.3p	18.4p	18.5p		
Dividends per Reed Elsevier PLC ordinary share ⁽⁴⁾ ..	29.0¢	14.8p	13.3p	12.1p		
Total assets	\$2,136	£1,090	£1,090	£929		
Long term obligations	—	—	(36)	(36)		
Total equity/Net assets	2,038	1,040	1,042	880		
Weighted average number of shares	1,251.9	1,251.9	1,266.2	1,264.6		
<i>Amounts in accordance with US GAAP:</i>						
Net income	\$396	£202	£188	£213	£294	£199
Basic earnings per Reed Elsevier PLC ordinary share	31.6¢	16.1p	14.8p	16.8p	23.3p	15.7p
Diluted earnings per Reed Elsevier PLC ordinary share	31.4¢	16.0p	14.7p	16.7p	23.3p	15.6p
Total assets	\$3,436	£1,753	£2,038	£1,864	£1,876	£1,864
Long term obligations	—	—	(36)	(36)	(36)	(36)
Shareholders' funds/Net assets ⁽⁵⁾	3,338	1,703	1,990	1,815	1,831	1,817

(1) The consolidated financial statements of Reed Elsevier PLC are prepared in accordance with accounting policies that are in conformity with IFRS, as issued by the IASB and adopted by the EU. As permitted, following the transition to IFRS on January 1, 2004 only three years of IFRS information are presented. IFRS differs in certain significant respects from US GAAP. The principal differences between IFRS and US GAAP relevant to Reed Elsevier PLC are set out in note 21 to the Reed Elsevier PLC consolidated financial statements.

(2) All profit before tax is derived from continuing operations.

(3) Noon buying rates as at December 31, 2006 have been used to provide a convenience translation into US dollars, see "— Exchange Rates" on page 7. At December 31, 2006 the noon buying rate was \$1.96 per £1.00.

(4) The amount of dividends per Reed Elsevier PLC ordinary share shown excludes the UK tax credit available to certain Reed Elsevier PLC shareholders, including beneficial owners of Reed Elsevier PLC ADSs who are residents of the United States for the purposes of the UK Tax Treaty, and do not include any deduction on account of UK withholding taxes, currently at the rate of 15% of the sum of the dividend and the related tax credit in most cases; see "Item 10: Additional Information — Taxation".

Dividends declared in the year, in amounts per ordinary share, comprise a 2005 final dividend of 10.7p and 2006 interim dividend of 4.1p giving a total of 14.8p (2005: 13.3p; 2004: 12.1p). The directors of Reed Elsevier PLC have proposed a 2006 final dividend of 11.8p (2005: 10.7p; 2004: 9.6p), giving a total dividend for the year of 15.9p (2005: 14.4p; 2004: 13.0p).

Dividends per Reed Elsevier PLC ordinary share for the year ended December 31, 2005, translated into cents at the noon buying rate on December 31, 2005, were 23.0 cents. See “— Exchange Rates” on page 7.

- (5) Shareholders’ funds and net assets under US GAAP in 2006 reflect the adoption by the combined businesses of SFAS 158 — Employers’ Accounting for Defined Benefit Pension and Other Post Retirement Plans, under which the full funded status of defined benefit pension schemes is required to be recognised as an asset or liability in the balance sheet. Prior year comparatives are not restated.

REED ELSEVIER NV

The selected financial data for Reed Elsevier NV should be read in conjunction with, and is qualified by, the consolidated financial statements of Reed Elsevier NV included in this annual report. The results and financial position of Reed Elsevier NV reflect the 50% economic interest of Reed Elsevier NV's shareholders in Reed Elsevier. These interests are accounted for on an equity basis.

All of the selected financial data for Reed Elsevier NV set out below has been extracted or derived from the consolidated financial statements of Reed Elsevier NV, which have been audited by Deloitte Accountants BV, Amsterdam.

	As at December 31,					
	2006 ⁽³⁾	2006	2005	2004	2003	2002
	(in millions, except per share amounts)					
<i>Amounts in accordance with IFRS:</i> ⁽¹⁾						
Profit before tax ⁽²⁾	\$606	€459	€338	€338	n/a	
Taxation	(1)	(1)	—	—		
Profit attributable to ordinary shareholders	605	458	338	338		
Basic earnings per Reed Elsevier NV ordinary share ..	77.9¢	€0.59	€0.43	€0.43		
Diluted earnings per Reed Elsevier NV ordinary share	77.9¢	€0.59	€0.43	€0.43		
Dividends per Reed Elsevier NV ordinary share ⁽⁴⁾	48.7¢	€0.369	€0.332	€0.310		
Total assets	\$2,029	€1,537	€1,510	€1,245		
Total equity/Net assets	1,934	1,465	1,438	1,173		
Weighted average number of shares	772.1	772.1	783.3	783.3		
<i>Amounts in accordance with US GAAP:</i>						
Net income	\$407	€308	€287	€320	€423	€322
Basic earnings per Reed Elsevier NV ordinary share ..	52.8¢	€0.40	€0.37	€0.41	€0.54	€0.41
Diluted earnings per Reed Elsevier NV ordinary share	51.5¢	€0.39	€0.36	€0.41	€0.54	€0.41
Total assets	\$3,262	€2,471	€2,819	€2,491	€2,533	€2,704
Long term obligations	—	—	—	—	(7)	(6)
Shareholders' funds/Net assets ⁽⁵⁾	3,167	2,399	2,747	2,419	2,456	2,628

(1) The consolidated financial statements of Reed Elsevier NV are prepared in accordance with accounting policies that are in conformity with IFRS, as issued by the IASB and adopted by the EU. As permitted, following the transition to IFRS on January 1, 2004 only three years of IFRS information are presented. IFRS differs in certain significant respects from US GAAP. The principal differences between IFRS and US GAAP relevant to Reed Elsevier NV are set out in note 20 to the Reed Elsevier NV consolidated financial statements.

(2) All profit before tax is derived from continuing operations.

(3) Noon buying rates as at December 31, 2006 have been used to provide a convenience translation into US dollars, see "— Exchange Rates" on page 7. At December 31, 2006 the Noon Buying Rate was \$1.32 per €1.00.

(4) Dividends declared in the year comprise, in amounts per ordinary share, a 2005 final dividend of €0.267 and 2006 interim dividend of €0.102 giving a total of €0.369 (2005: €0.332; 2004: €0.310). The directors of Reed Elsevier NV have proposed a 2006 final dividend of €0.304 (2005: €0.267; 2004: €0.240), giving a total dividend for the year of €0.406 (2005: €0.359; 2004: €0.330).

Dividends per Reed Elsevier NV ordinary share for the year ended December 31, 2005, translated into cents at the noon buying rate on December 31, 2005, were 39.2 cents. See "— Exchange Rates" on page 7.

(5) Shareholders' funds and net assets under US GAAP in 2006 reflect the adoption by the combined businesses of SFAS 158 — Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans, under which the full funded status of defined benefit pension schemes is required to be recognised as an asset or liability in the balance sheet. Prior year comparatives are not restated.

EXCHANGE RATES

For a discussion of the impact of currency fluctuations on Reed Elsevier's combined results of operations and combined financial position, see "Item 5: Operating and Financial Review and Prospects".

The following tables illustrate, for the periods and dates indicated, certain information concerning the Noon Buying Rate for pounds sterling expressed in US dollars per £1.00 and for the euro expressed in US dollars per €1.00. The exchange rate on February 14, 2007 was £1.00 = \$1.96 and €1.00 = \$1.31.

US dollars per £1.00 — Noon Buying Rates

<u>Year ended December 31,</u>	<u>Period</u>			
	<u>End</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
2006.....	1.96	1.85	1.98	1.73
2005.....	1.73	1.82	1.93	1.71
2004.....	1.93	1.83	1.95	1.75
2003.....	1.78	1.64	1.78	1.55
2002.....	1.61	1.50	1.61	1.41

<u>Month</u>	<u>High</u>	<u>Low</u>
February 2007 (through February 14, 2007)	1.97	1.94
January 2007.....	1.98	1.93
December 2006.....	1.98	1.95
November 2006	1.97	1.89
October 2006	1.91	1.85
September 2006	1.91	1.86
August 2006	1.91	1.87

US dollars per €1.00 — Noon Buying Rates

<u>Year ended December 31,</u>	<u>Period</u>			
	<u>End</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
2006.....	1.32	1.26	1.33	1.18
2005.....	1.18	1.24	1.37	1.17
2004.....	1.37	1.24	1.36	1.18
2003.....	1.26	1.13	1.26	1.04
2002.....	1.05	0.95	1.05	0.86

<u>Month</u>	<u>High</u>	<u>Low</u>
February 2007 (through February 14, 2007)	1.31	1.29
January 2007.....	1.33	1.29
December 2006.....	1.33	1.31
November 2006	1.33	1.27
October 2006	1.28	1.25
September 2006	1.28	1.26
August 2006	1.29	1.27

(1) The average of the Noon Buying Rates on the last day of each month during the relevant period.

Noon Buying Rates have not been used in the preparation of the Reed Elsevier combined financial statements, the Reed Elsevier PLC consolidated financial statements or the Reed Elsevier NV consolidated financial statements but have been used for certain convenience translations where indicated.

RISK FACTORS

The key risks to our business are included below. Additional risks not presently known to us or that we currently deem immaterial may also impair our business.

We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive.

Our businesses operate in highly competitive markets. These markets continue to change in response to technological innovations, changing legislation and other factors. We cannot predict with certainty the changes that may occur and the effect of those changes on the competitiveness of our businesses. In particular, the means of delivering our products and services, and the products and services themselves, may be subject to rapid technological and other changes. We cannot predict whether technological innovations will, in the future, make some of our products wholly or partially obsolete. We may be required to invest significant resources to further adapt to the changing competitive environment.

We cannot assure you that there will be continued demand for our products and services.

Our businesses are dependent on the continued acceptance by our customers of our products and services and the prices which we charge for our products and services. We cannot predict whether there will be changes in the future, either in the market demand or from the actions of competitors, which will affect the acceptability of products, services and prices to our customers.

Fluctuations in exchange rates may affect our reported results.

Our financial statements are expressed in pounds sterling and euros and are, therefore, subject to movements in exchange rates on the translation of the financial information of businesses whose operational currencies are other than our reporting currencies. The United States is our most important market and, accordingly, significant fluctuations in US dollar/sterling and US dollar/euro exchange rates can significantly affect our reported results from year to year. In addition, in some of our businesses we incur costs in currencies other than those in which revenues are earned. The relative movements between the exchange rates in the currencies in which costs are incurred and the currencies in which revenues are earned can significantly affect the results of those businesses.

Changes in tax laws or uncertainty over their application and interpretation may adversely affect our reported results.

Our businesses operate in over 100 locations worldwide and our earnings are subject to taxation in many differing jurisdictions and at differing rates. We seek to organise our affairs in a tax efficient manner, taking account of the jurisdictions in which we operate. Tax laws that apply to Reed Elsevier businesses may be amended by the relevant authorities, for example as a result of changes in fiscal circumstances or priorities. Such amendments, or their application to Reed Elsevier businesses, may adversely affect our reported results.

Changes in regulation on information collection and use could adversely affect our revenues and our costs.

Legal regulation relating to internet communications, data protection, e-commerce, direct marketing and digital advertising and use of public records is becoming more prevalent. Existing and proposed legislation and regulations, including changes in the manner in which such legislation and regulations are interpreted by courts, in the United States, the European Union and other jurisdictions may impose limits on our collection and use of certain kinds of information about individuals and our ability to communicate such information effectively with our customers. We are unable to predict in what form laws and regulations will be adopted or how they will be construed by the courts, or the extent to which any changes might adversely affect our business.

Breaches of our data security systems or other unauthorised access to our databases could adversely affect our business and operations.

Our businesses provide customers with access to database information such as caselaw, treatises, journals, and publications as well as other data. Our LexisNexis risk management business also provides authorised customers with access to public records and other information on US individuals made available in accordance with applicable privacy laws and regulations. There are persons who try to breach our data security systems or gain other unauthorised access to our databases in order to misappropriate such information for potentially fraudulent purposes and we have previously disclosed incidents of such unauthorised access. Because the techniques used by such persons change frequently, we may be unable to anticipate or protect against the threat of breaches of data security or other unauthorised access. Breaches of our data security systems or other unauthorised access to our databases could damage our reputation and expose us to a risk of loss or litigation and possible liability, as well as increase the likelihood of more extensive governmental regulation of these activities in a way that could adversely affect this aspect of our business.

Changes in government funding of, or spending by, schools, academic institutions and states may adversely affect demand for the products and services of our education and science and medical businesses.

The customers of our Harcourt Education business in the United States include state boards of education and local school districts, which rely on various sources of governmental funding, primarily from state and local governments, to purchase products and services offered by our education business. The principal customers for the information products and services offered by our Elsevier science and medical publishing business are academic institutions, which fund purchases of these products and services from limited budgets that may be sensitive to changes in private and governmental sources of funding. Accordingly any decreases or delays in governmental funding for schools, decreases in budgets of academic institutions or changes in the spending patterns of schools or academic institutions could adversely affect our businesses.

Our intellectual property rights may not be adequately protected under current laws in some jurisdictions, which may adversely affect our results and our ability to grow.

Our products and services are largely comprised of intellectual property content delivered through a variety of media, including journals, books, CDs, and online, including the internet. We rely on trademark, copyright, patent and other intellectual property laws to establish and protect our proprietary rights in these products and services. However, we cannot assure you that our proprietary rights will not be challenged, limited, invalidated or circumvented. Despite trademark and copyright protection and similar intellectual property protection laws, third parties may be able to copy, infringe or otherwise profit from our proprietary rights without our authorisation. These unauthorised activities may be facilitated by the internet.

In addition, whilst there is now certain internet-specific copyright legislation in the United States and in the European Union, there remains significant uncertainty as to the date from which these will be enforced and the form copyright law regulating digital content may ultimately take. In the United States, copyright laws are increasingly coming under legal challenge and, in the European Union, national legislation by the member states implementing the EU Copyright Directive has not yet been adopted. These factors create additional challenges for us in protecting our proprietary rights to content delivered through the internet and electronic platforms. Moreover, whilst non-copyrightable databases are protected in many circumstances by law in the European Union, there is no equivalent legal protection in the United States.

Changes in the market values of defined benefit pension scheme assets and in the assumptions used to value defined benefit pension scheme obligations may adversely affect our businesses.

We operate a number of pension schemes around the world, the largest schemes being of the defined benefit type in the United Kingdom, the United States and the Netherlands. The assets and obligations associated with defined benefit pension schemes are particularly sensitive to changes in the market values of assets and the market related assumptions used to value scheme liabilities. In particular, a decrease in the discount rate used to value scheme liabilities, an increase in life expectancy of scheme members, an increase in the rate of inflation or a decline in the market value of investments held by the defined benefit pension schemes (absent any change in their expected long term rate of return) may adversely affect the reported results and financial position of the combined businesses.

We may be unable to implement and execute our strategic and business plans if we cannot maintain high quality management.

The implementation and execution of our strategic and business plans depend on the availability of high quality management resources across all our businesses. We cannot predict that in the future such resources will be available.

We cannot assure you whether our substantial investment in electronic product and platform initiatives will produce satisfactory, long term returns.

We are investing significant amounts to develop and promote electronic products and platforms. The provision of electronic products and services is very competitive and we may experience difficulties developing this aspect of our business due to a variety of factors, many of which are beyond our control. These factors may include competition from comparable and new technologies, new business models and changes in regulation.

Our businesses may be adversely affected if their electronic delivery platforms, networks or distribution systems experience a significant failure or interruption.

Our businesses are increasingly dependent on electronic platforms and distribution systems, primarily the internet, for delivery of their products and services. Although plans and procedures are in place to reduce such risks, our businesses could be adversely affected if their electronic delivery platforms and networks experience a significant failure or interruption.

Our scientific, technical and medical primary journals could be adversely affected by changes in the market.

The scientific, technical and medical (STM) primary publications of Elsevier, like those of most of our competitors, are published on a paid subscription basis. There has been recent debate in the academic and library communities, which are the principal customers for our STM publications, regarding whether such publications should be free and funded instead through fees charged to authors and from governmental and other subsidies or made freely available after a period following publication. If these methods of STM publishing are widely adopted, it could adversely affect our revenue from Elsevier's paid subscription publications.

A significant portion of our revenue is derived from advertising and exhibitions and spending by companies on advertising and other marketing activities has historically been cyclical.

Approximately 13% of our revenue in 2006 was derived from advertising and 10% from exhibitions. The Reed Business segment in particular is highly dependent on advertising and exhibitions revenue. In 2006, 36% of Reed Business segment revenue was derived from advertising and 36% from exhibitions.

Traditionally, spending by companies on advertising and other marketing activities has been cyclical with companies spending significantly less on advertising in times of economic slowdown or recession. Our results could be adversely affected by a reduction of advertising revenues following economic slowdown or recession.

The exhibitions business is similarly affected by cyclical pressures on spending by companies. Additionally, participation and attendance at exhibitions is affected by the availability of exhibition venues and the propensity of exhibitors and attendees to travel. Our results could be adversely affected if the availability of venues or the demand from exhibitors and attendees were reduced, for example due to international security or public health concerns or acts of terrorism or war.

ITEM 4: INFORMATION ON REED ELSEVIER

HISTORY AND DEVELOPMENT

Corporate structure

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

Equalisation arrangements

Reed Elsevier PLC and Reed Elsevier NV each hold a 50% interest in Reed Elsevier Group plc. Reed Elsevier PLC holds a 39% interest in Elsevier Reed Finance BV, with Reed Elsevier NV holding a 61% interest. Reed Elsevier PLC additionally holds a 5.8% indirect equity interest in Reed Elsevier NV, reflecting the arrangements entered into between the two companies at the time of the merger, which determined the equalisation ratio whereby one Reed Elsevier NV ordinary share is, in broad terms, intended to confer equivalent economic interests to 1.538 Reed Elsevier PLC ordinary shares. The equalisation ratio is subject to change to reflect share splits and similar events that affect the number of outstanding ordinary shares of either Reed Elsevier PLC or Reed Elsevier NV.

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

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

The principal assets of Reed Elsevier PLC comprise its 50% interest in Reed Elsevier Group plc, its 39% interest in Elsevier Reed Finance BV, its indirect equity interest in Reed Elsevier NV and certain amounts receivable from subsidiaries of Reed Elsevier Group plc. The principal assets of Reed Elsevier NV comprise its 50% interest in Reed Elsevier Group plc, its 61% interest in Elsevier Reed Finance BV and certain amounts receivable from subsidiaries of Reed Elsevier Group plc and Elsevier Reed Finance BV. Reed Elsevier NV also owns shares, carrying special dividend rights, in certain of the Dutch subsidiaries of Reed Elsevier Group plc. These shares enable Reed Elsevier NV to receive dividends from companies within its tax jurisdiction, thereby mitigating Reed Elsevier's potential tax costs.

Material acquisitions and disposals

Total acquisition expenditure in the three years ended December 31, 2006 was £1,125 million, after taking into account borrowings and cash acquired. During 2006 a number of acquisitions were made for a total consideration of £171 million, none of which were individually material. During 2005 a number of acquisitions were made for a total consideration amounting to £307 million, the most significant of which was MediMedia MAP, a medical books and journals publishing business based principally in France, Spain, Italy and the United States, for £188 million in August, 2005. During 2004 a number of acquisitions were made for a total consideration amounting to £647 million, the most significant of which were Seisint Inc., a risk management business, for £414 million and Saxon Publishers, a supplemental educational publishing business, for £117 million. There were no significant disposals in the three years ended December 31, 2006.

At December 31, 2006, Reed Elsevier had commitments of £174 million in relation to acquisitions conditional on regulatory and other approvals.

On February 14, 2007, Reed Elsevier approved a plan to sell the Harcourt Education division and to return the net proceeds to shareholders by way of a special distribution in the equalisation ratio. It is expected that the sale will be completed in 2007.

Capital expenditure

Capital expenditure on property, plant, equipment and internally developed intangible assets principally relates to investment in systems infrastructure to support electronic publishing activities, computer equipment and office facilities. Total such capital expenditure, which is financed from operating cash flows, amounted to £206 million in 2006 (2005:

£205 million; 2004: £203 million). Further information on capital expenditure is given in notes 15 and 17 to the combined financial statements.

Principal Executive Offices

The principal executive offices of Reed Elsevier PLC are located at 1-3 Strand, London WC2N 5JR, England. Tel: +44 20 7930 7077. The principal executive offices of Reed Elsevier NV are located at Radarweg 29, 1043 NX Amsterdam, the Netherlands. Tel: +31 20 485 2434. The principal executive office located in the United States is at 125 Park Avenue, 23rd Floor, New York, New York, 10017. Tel +1 212 309 5498. Our internet address is www.reedelsevier.com. The information on our website is not incorporated by reference into this report.

BUSINESS OVERVIEW

We are one of the world's leading publishers and information providers. Our activities include science and medical, legal, education and business publishing. Our principal operations are in North America and Europe. For the year ended December 31, 2006, we had total revenue of approximately £5.4 billion and an average of approximately 36,800 employees. As at December 31, 2006, we had approximately 36,800 employees. In 2006, North America represented our largest single geographic market, based on revenue by destination, contributing 57% of our total revenue.

Our businesses provide products and services that are organised to serve four business sectors: Elsevier serves the science and medical sector; LexisNexis, the legal and other professional sectors; Harcourt Education, the education sector; and Reed Business, the business to business sector.

Revenue is derived principally from subscriptions, circulation sales, advertising sales and exhibition fees. In 2006, 39% of Reed Elsevier's revenue was derived from subscriptions; 32% from circulation sales; 13% from advertising sales; 10% from exhibition fees; and 6% from other sources. An increasing proportion of revenue is derived from electronic information products, principally internet based, and in 2006, 37% of our revenue was derived from such sources, including 65% of LexisNexis revenue, 47% of Elsevier revenue and 15% of Reed Business revenue.

Subscription sales are defined as revenue derived from the periodic distribution or update of a product or from the provision of access to online services, which is often prepaid. Circulation sales include all other revenue from the distribution of a product and transactional sales of online services, usually on cash or credit terms. The level of publishing related advertising sales and exhibition fees has historically been tied closely to the economic and business investment cycle with changes in the profit performance of advertisers, business confidence and other economic factors having a high correlation with changes in the size of the market. Subscription sales and circulation sales have tended to be more stable than advertising sales through economic cycles.

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

Certain of our businesses are seasonal in nature. In Elsevier, a significant proportion of annual revenue is derived from calendar year based journal subscriptions, with the substantial majority of annual cash inflow from these arising in the fourth quarter of each financial year. The majority of new Health Sciences publishing arises in the second half of the year. In Harcourt Education, the US Schools and Assessment businesses have a significant cash outflow in the first half of each year as product is produced and expenses incurred ahead of the main sales period in June through September, and after which there is substantial cash inflow. This, together with the phasing of other subscription receipts and exhibition deposits, results in significant cash flow seasonality whereby the substantial majority of annual operating cash inflows normally arise in the second half of the year.

Our businesses compete for subscription, circulation and marketing expenditures in scientific and medical, legal, education and business sectors. The bases of competition include, for readers and users of the information, the quality and variety of the editorial content, the quality of the software to derive added value from the information, the timeliness and the price of the products and, for advertisers, the quality and the size of the audiences targeted.

On February 14, 2007, Reed Elsevier approved a plan to sell the Harcourt Education division and to return the net proceeds to shareholders by way of a special distribution in the equalisation ratio. It is expected that the sale will be completed in 2007.

	Revenue Year ended December 31,					
	2006		2005		2004	
	(in millions, except percentages)					
Elsevier	£1,521	28%	£1,436	28%	£1,363	28%
LexisNexis	1,570	29	1,466	28	1,292	27
Harcourt Education	889	17	901	18	868	18
Reed Business	1,418	26	1,363	26	1,289	27
Total	£5,398	100%	£5,166	100%	£4,812	100%

ELSEVIER

	Year ended December 31,		
	2006	2005	2004
	(in millions)		
<i>Revenue</i>			
Elsevier			
Science & Technology	£792	£785	£779
Health Sciences	729	651	584
	<u>£1,521</u>	<u>£1,436</u>	<u>£1,363</u>

Elsevier comprises worldwide scientific, technical and medical publishing and communications businesses. Elsevier's principal operations are located in Amsterdam, London, Oxford, New York, Philadelphia, St. Louis, San Francisco, Paris, Munich, Madrid, Singapore, Tokyo and Delhi.

Elsevier is managed as two customer-facing divisions: Science & Technology and Health Sciences, supported by shared service functions that provide production, information technology, fulfilment and distribution services.

Science & Technology

The Science & Technology division contributed 52% of the total Elsevier revenue in 2006. Of this revenue, 75% came from journals (both print and electronic), 10% from books and the rest mainly from databases and software. Approximately 39% of Science & Technology revenue in 2006 was derived from North America, 33% from Europe and the remaining 28% from the rest of the world.

Through a number of imprints, including *Elsevier*, *Academic Press* and *Butterworth Heinemann*, Elsevier supplies scientific and technical information through journals and books, in print and electronic media, to libraries, scientists and professionals serving a wide range of research fields including the life sciences, social sciences, materials, engineering, chemistry, physics, economics, mathematics, earth sciences, computer sciences, management and psychology. Among Elsevier's scientific journals well known in their fields are *Cell*, *Brain Research*, *Neuroscience*, *Journal of Molecular Biology*, *Molecular Therapy* and *Developmental Biology* in the life sciences; *Tetrahedron* and *Journal of Chromatography A* in chemistry; *Physics Letters A*, *Solid State Communications*, *Journal of Computational Physics* and *Journal of Sound and Vibration* in physics; *Journal of Financial Economics* in economics; and *Artificial Intelligence* in the computer sciences field.

Science & Technology's flagship electronic product, *ScienceDirect*, is a full text online scientific research service. *ScienceDirect* now holds over 8 million scientific research articles and an expanding portfolio of books currently comprising 55 major reference works, 151 book series and seven handbooks in 170 volumes. Elsevier also publishes secondary material in the form of supporting bibliographic data, indexes and abstracts, and tertiary information in the form of review and reference works.

Following its launch in 2004, Elsevier has continued to develop its major new electronic product, *Scopus*, which provides scientists with a comprehensive database and intuitive tool to navigate their way quickly through the world's accumulated scientific research. The *Scopus* database now has nearly 30 million abstracts of scientific research articles from 15,000 peer reviewed publications, 15 million patents, and it references over 200 million web pages.

Elsevier offers secondary databases, available electronically, online or on CD. These include: *EMBASE*, covering pharmaceutical and biomedical sciences; *Compendex*, which is largely distributed through the online discovery platform *Engineering Village*, covering the engineering disciplines; and *Geobase*, focusing on geoscience and related areas.

Elsevier offers software solutions provided by MDL Information Systems ("MDL"). MDL provides research tools and software solutions to the life sciences industry.

Competition within the science and technology publishing fields is generally on a title by title and product by product basis. Competing journals, books and databases are typically published by other professional publishers and learned societies such as the American Chemical Society, the Institute of Electrical and Electronics Engineers and the American Institute of Physics in the United States and the Royal Society of Chemistry in the United Kingdom.

Elsevier's print science journals are generally sold to libraries on a paid subscription basis, with subscription agents facilitating the administrative process. Electronic products, such as *ScienceDirect*, are sold directly to libraries, corporations and other end users through our dedicated sales force which has offices around the world including Amsterdam, New York, Rio de Janeiro, Singapore and Tokyo. Books are sold through book stores, both traditional and online, and wholesalers.

Health Sciences

The Health Sciences division of Elsevier operates an international network of nursing, health professions and medical publishing and communications businesses under the *Saunders*, *Mosby*, *Churchill Livingstone*, *Excerpta Medica*, *Masson*, *Doyma* and *Netter* imprints and brands. Its principal geographic markets are the United States, the United Kingdom, Germany, France and Spain, while other important markets include Italy, Canada, Australia, Japan, China, India and South East Asia.

Health Sciences contributed approximately 48% of the total Elsevier revenue in 2006. Of this revenue, 47% came from journals and related activities, 44% from books and related activities, both delivered in print and electronic form, and the remainder mainly from the pharmaceutical communication business. Approximately 56% of Health Sciences revenue by destination in 2006 was derived from North America, 29% from Europe and the remaining 15% from the rest of the world.

Elsevier publishes a broad range of journals serving both the healthcare researcher and practitioner, such as *The Lancet*, *The Journal of the American College of Cardiology*, *Gastroenterology*, *The Journal of Allergy and Clinical Immunology*, *Pain*, *Journal of Emergency Medical Services* and *European Journal of Cancer*. Within its journal publishing program, Elsevier publishes a number of journals for learned societies.

Elsevier publishes English language textbooks and reference works for students and practising professionals in the medical, nursing and health professions in the United States, the United Kingdom, Canada and Australia. Elsevier also publishes local language medical books and journals and provides communications services in many other geographies. Elsevier's medical textbooks include *Gray's Anatomy*, *Cecil Textbook of Medicine*, *Guyton's Textbook of Physiology*, *Robbins & Cotran Pathologic Basis of Disease*, and *Rang's Pharmacology*. Elsevier's nursing titles include *Mosby's Medical, Nursing and Allied Health Dictionary*, *Mosby's Nursing Drug Reference*, *Medical-Surgical Nursing*, *Potter and Perry's Fundamentals of Nursing* and *Wong's Essentials of Pediatric Nursing*. In the allied health professions markets, Elsevier publishes *Chabner's Language of Medicine*, *Merrill's Atlas of Radiographic Positions & Radiologic Procedures*, *Ettinger's Textbook of Veterinary Internal Medicine* and *Roberson's Art and Science of Operative Dentistry*. Elsevier's local language book and journal titles include *Encyclopédie Médico-Chirurgicale* and the book series *Les Conférences d'Enseignement* in France, *Medicina Interna* in Spain and *Sobotta's Atlas der Anatomie des Menschen* in Germany.

As an extension of its medical reference works programme, Elsevier publishes electronic editions of a number of reference titles. These are online versions whose functionality includes continuous updates, search facilities and medical, literature and drug updates.

Elsevier offers a suite of electronic products serving both students and practising professionals across health science markets. In addition to offering medical journals online through *ScienceDirect* and other electronic platforms, Health Sciences' *Consult* suite of products provides web access to major medical reference works, databases, clinical journals, drug information, practice guidelines, education programmes, expert commentaries and medical news for medical students, physicians and other healthcare professionals. In 2006, Elsevier has continued to develop its online health sciences education platform, *Evolve*, which provides electronic content, services and course management tools to support and develop its health sciences textbook programme.

Through *Excerpta Medica*, Elsevier publishes customised information for healthcare professionals, medical societies and pharmaceutical companies internationally. *Excerpta Medica* also works closely with pharmaceutical companies to provide international marketing and communications platforms for new drugs.

The medical publishing field is fragmented with competition generally on a title by title and product by product basis. In the United States, Elsevier faces regional competition from a number of information publishers and service providers, such as Wolters Kluwer's Ovid, Adis Press, Springhouse and Lippincott Williams & Wilkins divisions, The Thomson Corporation, McGraw Hill, Pearson, John Wiley & Sons, Taylor & Francis, the American Medical Association and the Massachusetts Medical Society (New England Journal of Medicine).

Books are sold by book stores and wholesalers, and directly, generally through our dedicated sales force. Print journals are generally sold to libraries, with subscription agents facilitating the administrative process, and to individuals, through direct mail and through societies. Electronic products, such as *MDConsult*, are generally sold directly to hospitals, medical practitioners and other end users directly through our dedicated sales force.

Shared services

The shared service functions provide book and journal production, information technology, fulfilment and distribution services for both the Science & Technology and Health Sciences divisions.

Much of the pre-press production for journals and books is outsourced. An electronic production system manages the journal production process from author submission to delivery of the full text of journal articles in whichever format the customer requires, via *ScienceDirect*, *MDConsult*, learned society websites, on CD or in print.

Printing is primarily sourced through a variety of unaffiliated printers located in the United Kingdom, the Netherlands, the United States, China, Hong Kong and South America. Distribution of hard copy journals is mainly outsourced. Book distribution in Europe is mostly outsourced and in the United States is mostly handled in-house.

LEXISNEXIS

	Year ended December 31,		
	2006	2005	2004
	(in millions)		
<i>Revenue</i>			
LexisNexis			
United States	£1,129	£1,061	£925
International	441	405	367
	<u>£1,570</u>	<u>£1,466</u>	<u>£1,292</u>

LexisNexis provides legal, tax, regulatory, risk management, information analytics and business information solutions aligned to the workflow of professional, business and government customers internationally and comprises LexisNexis United States and LexisNexis International. Management responsibility for LexisNexis Canada has been transferred from the LexisNexis United States business to the LexisNexis International business, with which it is more closely aligned. LexisNexis United States has been renamed from LexisNexis North America and prior year comparatives have been restated accordingly.

Legal and regulatory markets worldwide are seeing continuing growth driven by the increasing level of legislation and litigation, as well as the increasing number of lawyers. Additional opportunities are also developing beyond the core research market, through the delivery of value added solutions to meet demands for greater legal efficiency and productivity.

Increasingly legal information and services are being delivered online, with potential to deliver such products and solutions in markets outside the United States where online migration is at significantly lower levels than in the US legal market. In recent years, LexisNexis has, with its comprehensive US public records databases, expanded in the market for risk and information analytics management, which is growing due to increasing consumer credit losses and fraud and the demand for identity verification.

In 2006, LexisNexis United States contributed approximately 72% of the total LexisNexis revenue, with LexisNexis International accounting for 28%.

LexisNexis United States

LexisNexis United States comprises US Legal Markets and US Corporate and Public Markets. In 2006, approximately 63%, of LexisNexis United States' revenue came from subscription sales, including online services, 18% from transactional sales, including online services, 8% from advertising, including directory listings, 2% from circulation sales and the remaining 9% from other sources.

US Legal Markets develops, markets and sells LexisNexis information products and services in electronic and print formats to law firms and practitioners, law schools and state and local governments. During 2006, we have selectively acquired a number of small businesses, including providers of software tools for litigation professionals that complement the assets and customer relationships we already have.

The flagship online legal research service, *lexisnexis.com*, provides online access to state and federal case law; codes and statutes; court documents; over 5.0 billion searchable documents from over 35,000 sources online; business news, legal news, and regional news; expert commentary on the law; and sophisticated searching and linking tools customized for the needs of legal researchers.

US Legal Markets is increasingly providing Total Practice Solutions, combining content with online workflow tools to provide products and solutions in Client Development, Research, Practice Management and Litigation Services.

Client Development solutions include the Martindale-Hubbell electronic network that showcases the qualifications and credentials of over one million lawyers and law firms worldwide. In addition, it provides a suite of business intelligence tools that help lawyers find and target clients, along with customer relationship management workflow tools. The Research division provides statutes and case law for all 50 US states as well as research, analysis and citation services. They include Matthew Bender publications *Collier on Bankruptcy*, *Moore's Federal Practice* and *Nimmer on Copyright*, Michie's 600 practice-enhancing titles, 400 custom legal publications and annotated codes as well as its *United States Code Service* and *United States Supreme Court Reports, Lawyer's Edition*. It also includes Shepard's, the publisher of *Shepard's Citations Service*, a legal citation service delivered online and in print. "Shepardizing" is a common process

for US lawyers checking the continuing authority of cases or statutory references. Practice Management solutions include time and billing, case management, cost recovery and document management. Litigation Services include a range of workflow solutions for litigators including *Total Litigator*, Applied Discovery's electronic discovery services platform, evidence management through Casesoft's Casemap product, Concordance's Dataflight case analysis product, court docket tracking and e-filing with our Courtlink service, expert identification and legal document preparation.

US Corporate and Public Markets develops, markets and sells LexisNexis products and services to corporations, federal government agencies and academic institutions and also manages news, business, financial and public records content acquisition and enhancements. The risk management and information analytic applications of US Corporate and Public Markets are designed to assist customers in managing risk through fraud detection and prevention, identity verification, pre-employment screening and due diligence; and allow business, financial services, legal and government customers to quickly and easily extract valuable knowledge from a vast array of data.

We announced in 2005 that LexisNexis had identified a number of incidents of potentially fraudulent access to information about US individuals. The incidents arose primarily from the misappropriation by third parties of IDs and passwords from legitimate customers. The information concerned related to names and addresses and other personal identifying information such as social security and drivers' license numbers. LexisNexis has notified all individuals whose information may have been accessed, and is offering free support services, including credit bureau reports, credit monitoring for one year, and fraud insurance to monitor and protect them from possible fraud associated with identity theft. LexisNexis also provides fraud consulting services or specialised assistance to any individual who becomes the victim of identity theft related to those incidents. We do not believe that such unauthorised access, the related notification and individual assistance measures, and additional and enhanced security measures taken by LexisNexis will have a material adverse effect on our financial position or results of operations. In 2005, two putative class actions, since consolidated, relating to the incidents described above were filed. See Item 8: "Financial Information — Legal Proceedings" on page 66.

In US legal markets, LexisNexis United States' principal competitor is West (The Thomson Corporation). The principal competitors in corporate and public markets are West and Dialog (The Thomson Corporation), Factiva (Dow Jones) and Choicepoint.

LexisNexis International

The LexisNexis International division comprises LexisNexis Europe, Canada, Latin America and Africa, headquartered in London, and LexisNexis Asia Pacific, headquartered in Singapore. In 2006, approximately 64% of LexisNexis International's revenue was derived from subscriptions, 28% from circulation sales, 2% from advertising and 6% from other sources. In the same year, approximately 40% of revenue came from the UK, 29% from Continental Europe and 31% from the rest of the world. The most significant business within Continental Europe is in France.

LexisNexis Butterworths in the United Kingdom is a professional publisher, providing legal, tax and business information and solutions via online, print and CD media. The web-based *LexisNexis Butterworths* service provides a resource for legal, tax, regulatory and business information, including access to a range of UK, US, Australian, New Zealand, South African and other legal materials, via a single gateway. LexisNexis Butterworths's principal publications are *Halsbury's Laws of England*, *The Encyclopaedia of Forms and Precedents*, *Simon's Taxes* and *Butterworths Company Law Service*. The principal competitors in the United Kingdom are Sweet & Maxwell and Westlaw (both part of the Thomson Corporation) in legal markets; CCH Croner (Wolters Kluwer) in tax and regulatory markets; and Factiva (a Dow Jones company) in corporate markets.

LexisNexis in France is a provider of information to lawyers, notaries and courts, with *JurisClasseur* and *La Semaine Juridique* being the principal publications. Under the brand of *Infolib* LexisNexis also provides practice management and computation software tools for lawyers, notaries and accountants. The major competitors of LexisNexis in France are Editions Francis Lefebvre, Editions Legislatives, Dalloz (Lefebvre) and Lamy (Wolters Kluwer).

HARCOURT EDUCATION

	Year ended December 31,		
	2006	2005	2004
	(in millions)		
<i>Revenue</i>			
Harcourt Education			
US Schools and Testing	£796	£806	£774
International	93	95	94
	<u>£889</u>	<u>£901</u>	<u>£868</u>

Harcourt Education comprises: the Harcourt Education US Schools and Testing businesses, which provide print and multimedia teaching and assessment materials, principally for pre-kindergarten to 12th grade students in the United States; and Harcourt Education International, which provides educational content to students and teachers, principally in the United Kingdom, Australia, New Zealand and southern Africa.

In 2006, the Harcourt Education US Schools and Testing businesses contributed approximately 90% of the total revenue of Harcourt Education, with Harcourt Education International accounting for 10%. Approximately 85% of Harcourt Education revenue in 2006 was derived from North America, 9%, from Europe and the remaining 6% from the rest of the world.

Harcourt Education US Schools and Testing

Harcourt Education US Schools and Testing businesses provide textbooks and related instructional materials to US schools, and comprise Harcourt School Publishers; Holt, Rinehart and Winston; Greenwood-Heinemann; Harcourt Trade Publishers; and Harcourt Assessment.

Harcourt School Publishers, based in Orlando, Florida, is a publisher of print and technology-enabled instructional materials for students in pre-kindergarten to 6th grade. It publishes educational material covering seven principal disciplines: reading, mathematics, social studies, science, language arts, health and art. Its programmes include *Trophies*, *Harcourt Language*, *Harcourt Math*, *Horizons*, *Harcourt Science* and *Your Health*. Harcourt School Publishers also offers supplemental materials, interactive programmes and products to support its basal programmes directly to the teacher, parent, and the home-school market through its internet site. Supplemental programmes within Harcourt School Publishers include *Saxon Math* and *Rigby Literacy*.

Holt, Rinehart and Winston, based in Austin, Texas, offers educational textbooks and related instructional materials, including print-based and online products, CDs and videos, internet-based support and assessments, and reference materials to middle and secondary schools. It publishes educational material covering, in particular, literature and language arts, science, mathematics, world languages, social studies and health. Its programmes include *Elements of Literature*, *Holt Middle School Math*, *Holt Science and Technology* and *Holt Social Studies*. Holt Rinehart and Winston also publishes supplemental education materials, including skills-based programmes, remedial learning, test preparation, professional development materials and general equivalency diploma preparation. Supplemental programmes within Holt, Rinehart and Winston include *READS* and *Power Up!*

Greenwood-Heinemann, headquartered in Westport, Connecticut, is a non-fiction publisher of books and online products focused on current events, reference content targeting the library market, as well as professional and classroom material for teachers.

Harcourt Trade Publishers, based in San Diego, California publishes fiction and non-fiction books for readers of all ages using several imprints including *Harcourt* for hardcover books, the *Harvest Books* imprint for paperbacks, and *Harcourt Children's Books*.

The principal warehouse and distribution facilities of the Harcourt Education US Schools businesses are in Bellmawr, New Jersey; Lewisville, Texas; and Troy, Missouri. Printing and binding is sourced through unaffiliated printers.

The major customers of Harcourt Education US Schools' pre-kindergarten to 12th grade businesses are state boards of education and local district and school boards. In the United States, 20 states periodically purchase educational programmes through an adoption process. This process entails state education committees approving a short-list of education materials from which the school districts can purchase. We seek to keep our products on the approved list within each adoption state and market these products directly to the school districts. The 30 states without an adoption process, known as open territories, allow individual school districts to purchase any educational programmes. In the open territories, we actively market our products to individual school districts.

The principal competitors of the Harcourt Education US Schools businesses are Pearson, McGraw Hill HM Riverdeep (formerly Houghton-Mifflin) and Scholastic/Grolier.

Harcourt Assessment, headquartered in San Antonio, Texas, is a provider of educational, clinical and performance measurement.

In educational testing, Harcourt Assessment provides a range of educational achievement, aptitude and guidance testing services for measuring pre-kindergarten to 12th grade student progress. Principal products are norm-referenced, criterion-referenced and formative instructional assessments and include the *Stanford Achievement Test Series*.

In clinical testing, Harcourt Assessment provides practising and research psychologists with psychological, speech and occupational therapy assessment tests for many aspects of human behaviour, intelligence and development. Products include the *Wechsler Intelligence Scales*, the *Bayley Scales of Infant Development*, the *Beck Inventories*, and *Clinical Evaluation of Language Fundamentals*.

The principal competitors of Harcourt Assessment in educational testing are CTB (McGraw Hill), Riverside (HM Riverdeep) and NCS (Pearson). Competition in clinical testing is fragmented, with competitors including NCS and American Guidance Services (Pearson), Riverside (HM Riverdeep) and Pro-Ed.

Harcourt Education International

Harcourt Education International comprises the UK Schools publishing business; Rigby-Heinemann in Australia; Heinemann in southern Africa and Reed Publishing in New Zealand. In 2006, approximately 50%, of revenue was derived from the United Kingdom, 6% from the United States, 13%, from Australia and the remaining 31% from the rest of the world.

The UK Schools business is a provider of textbooks and related instructional materials to the UK primary, secondary and vocational schools and college markets through the *Heinemann*, *Ginn* and *Rigby* imprints. Rigby-Heinemann is a publisher of primary and secondary school books in Australia. In southern Africa, Heinemann is a publisher of school books and, in New Zealand, Reed Publishing publishes both textbooks and consumer books for the local market. Global Library, headquartered in Oxford, United Kingdom, publishes reference materials for school libraries, principally in the United Kingdom, the United States and Australia.

Printing and binding are performed by unaffiliated printers both in the country of origin and around the world. Harcourt Education International has its own warehouse and distribution facilities in its principal territories. Harcourt Education International's principal UK competitors are Longman (Pearson), Oxford University Press, Nelson Thornes (Wolters Kluwer) and Cambridge University Press. In Australia, the principal commercial competitors include Thomson Nelson Learning, Macmillan, AWL (Pearson) and Jacaranda (John Wiley Inc). In the international library market, the principal competitors are Scholastic/Grolier, Wayland (WH Smith) and Watts (Lagardere).

REED BUSINESS

	Year ended December 31,		
	2006	2005	2004
	(in millions)		
<i>Revenue</i>			
Reed Business Information	£896	£892	£868
Reed Exhibitions	522	471	421
	<u>£1,418</u>	<u>£1,363</u>	<u>£1,289</u>

Reed Business comprises Reed Business Information, the business magazine, website and information businesses operating principally in the United States, the United Kingdom, Continental Europe and Asia Pacific, and Reed Exhibitions, an international exhibition organising business.

Reed Business Information

Reed Business Information contributed approximately 63% of Reed Business revenue in 2006. In the United States, business to business magazines are primarily distributed on a "controlled circulation" basis, whereby the product is delivered without charge to qualified buyers within a targeted industry group based upon circulation lists developed and maintained by the publisher. Magazines distributed on a "controlled circulation" basis are therefore wholly dependent on advertising for their revenues. In the United Kingdom, business magazines are distributed both on a "controlled circulation" basis and a "paid circulation" basis, with "paid circulation" titles also dependent on advertising for a significant proportion of their revenues. In the Netherlands, a higher proportion of publications is sold by "paid circulation".

In 2006, approximately 56% of Reed Business Information revenue came from advertising, 26% from subscription sales, 5% from circulation sales, 3% from training and 10% from other sources. Approximately 37% of Reed Business Information revenue in 2006 came from the United States, 24%, from the United Kingdom, 33% from Continental Europe and 6% from the rest of the world.

Online revenue grew by 24% in 2006 to over £200 million reflecting user and advertising demand for our community websites (webzines), recruitment and search, as well as our online data services. Increasingly web based products are sold by dedicated online sales teams, supported by well established e-marketing channels, search engines optimisation and taxonomy developments. Attracting and retaining appropriately skilled people is critical as the business continues to expand and develop its online portfolio.

Reed Business Information US ("RBI US") is a publisher of business information, with over 60 trade magazines. Amongst the RBI US titles are *Variety*, *Broadcasting & Cable*, *Multichannel News*, *Publishers Weekly*, *EDN*, *Design News* and *Interior Design*. Through its Reed Construction Data business, RBI US provides national coverage of construction project information, through subscription newsletters, CD and the online service *Connect*. Other products and services include websites, direct mail, newspapers, newsletters and custom published supplements. RBI US acquired BuyerZone in January 2007. The acquisition will enhance and grow the business' presence in online services.

RBI US operates circulation management and fulfilment facilities in Colorado and the Caribbean island of St Kitts, through which it identifies, qualifies and maintains subscriber lists for substantially all of its titles. Paper and printing services are purchased on a coordinated basis with other Reed Elsevier businesses in the United States. Distribution of magazines is conducted primarily through the US postal service, supplemented by news-stand sales through unaffiliated wholesalers.

Reed Elsevier's US business titles compete on an individual basis with the titles, print and digital, of individual publishers, including Advanstar, CMP Media (United Business Media), Hanley Wood, McGraw Hill, Prism and Nielsen (formerly VNU).

Reed Business Information UK ("RBI UK"), a business information publisher, has a portfolio of over 100 business magazines, directories, market access products and online services. Its business magazines include *Computer Weekly*, *Farmers Weekly*, *Estates Gazette*, *Flight International*, *New Scientist*, *Caterer & Hotelkeeper*, *Commercial Motor* and *Community Care*. Its online services include recruitment sites such as *totaljobs.com* and *CWjobs.co.uk*, an industrial search engine, *Kellysearch.com*, and data services supplying information to the aerospace, human resources, property, banking and chemicals industries. During the year RBI UK acquired a majority stake in eMedia Ltd, a provider of requested online newsletters.

Paper and printing services are purchased from unaffiliated third parties, primarily on a coordinated basis with other Reed Elsevier businesses in the United Kingdom. RBI UK's distribution is generally through public postal systems, with news-stand distribution for some titles through outside wholesalers. RBI UK competes directly with EMAP Business Communications, Nielsen and CMP Media in a number of sectors in the United Kingdom, and also with many smaller companies on an individual title by title basis.

Reed Business Information competes for online advertising with other business-to-business websites as well as Google and other internet search engines.

In Continental Europe, the principal business is Reed Business Information Netherlands ("RBI NL"), a business magazine and information publisher, publishing over 160 titles. Through trade journals, product news tabloids, directories, documentary systems, databases, newspapers, and websites, RBI NL serves industries which include agriculture, catering, construction, engineering, food, fashion, horticulture, tourism and travel. Its principal titles include *Elsevier*, a current affairs weekly, *Beleggers Belangen* and *FEM* in business and management, *Boerderij* in agriculture and *Distrifood* in retail. Its titles are predominantly subscription based and revenue is principally divided between subscriptions and advertising. Other publications within Continental Europe include *Stratégies* and *Editions Prat* in France and *Detail* in Germany. In Asia Pacific, principal titles include *Australian Doctor* and *Money Management* in Australia and *EDN*, a design news magazine for the electronics industry, in Asia.

Printing and production is contracted out to third parties and distribution is mainly through the postal system. RBI NL competes with a number of companies on a title by title basis in individual market sectors, the largest competitors in print being Wolters Kluwer and Nielsen.

Reed Exhibitions

Reed Exhibitions organises trade exhibitions and conferences internationally, with 460 events in 38 countries, attracting 90,000 exhibitors and 6 million visitors annually. The business contributed approximately 37% of the revenue of Reed Business in 2006. 72% of Reed Exhibitions' revenue is derived from exhibition participation fees, with the balance primarily attributable to conference fees, advertising in exhibition guides, sponsorship fees and admission charges. In 2006, approximately 23% of Reed Exhibitions' revenue came from North America, 47% from Continental Europe, 9%

from the United Kingdom and the remaining 21% from the rest of the world. As some events are held other than annually, revenue in any single year may be affected by the cycle of non-annual exhibitions.

Reed Exhibitions' events are concentrated primarily in the following industries: aerospace/defence; building and construction; electronics; energy; oil and gas; food and hospitality; jewellery; pharmaceuticals; property; publishing; sport and recreation; and travel. They include *JCK International Jewellery Shows*, *Professional Golfers Association (PGA) Merchandise Show* and *National Hardware Show* in North America; *DSEi* and *London Book Fair* in the United Kingdom; *Batimat*, *MIDEM*, *MIPTV*, *MIPcom*, *MIPIM*, *MIPIC*, *Salon Nautique* and *Maison et Objet* in France; *AIMEX* and *Australian Gift Fairs* in Australia; *International Jewellery Tokyo* in Japan; *Thai Metalex* in South-East Asia; and the *Travel* series of international events.

The exhibition industry has historically been extremely fragmented. The main US competitor is Nielsen. Outside the United States, competition comes primarily from industry focused trade associations and convention centre and exhibition hall owners who are also seeking an international presence.

ELSEVIER REED FINANCE BV

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

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

EPSA is responsible for the exploitation of tangible and intangible property rights whilst ERSa is responsible for insurance activities relating to risk retention.

In 2006, EFSA acted as arranger of a Euro Commercial Paper programme and a term debt issue on behalf of Reed Elsevier (Investments) plc, a subsidiary of Reed Elsevier Group plc, renegotiated various banking and cash management arrangements in Continental Europe and Asia and continued to provide advice to Reed Elsevier Group plc companies regarding interest and foreign currency exposures and electronic collections and payment solutions.

The average balance of cash under management in 2006, on behalf of Reed Elsevier Group plc and its parent companies, was approximately \$0.5 billion.

At the end of 2006, 88% (2005: 87%) of ERF's gross assets were held in US dollars and 10% (2005: 12%) in euros, including \$8.5 billion (2005: \$8.1 billion) and €0.8 billion (2005: €0.9 billion) in loans to Reed Elsevier Group plc subsidiaries. Loans made to Reed Elsevier Group plc businesses are funded from equity, long term debt of \$1.3 billion and short term debt of \$0.8 billion backed by committed bank facilities. Term debt is derived from a Swiss domestic public bond issue, bilateral term loans and private placements. Short term debt is primarily derived from euro and US commercial paper programmes.

ORGANISATIONAL STRUCTURE

A description of the corporate structure is included under "— History and Development" on page 11. A list of significant subsidiaries, associates, joint ventures and business units is included as an exhibit, see "Item 19: Exhibits" on page F-92.

PROPERTY, PLANTS AND EQUIPMENT

We own or lease over 400 properties around the world, the majority being in the United States. The table below identifies the principal owned and leased properties which we use in our business.

<u>Location</u>	<u>Business segment(s)</u>	<u>Principal use(s)</u>	<u>Floor space (square feet)</u>
<i>Owned properties</i>			
Troy, Missouri.....	Harcourt Education	Office and warehouse	575,000
Miamisburg, Ohio	LexisNexis	Office	403,638
Bellmawr, New Jersey	Harcourt Education	Office and warehouse	380,000
Linn, Missouri	Elsevier	Warehouse	206,659
Albany, New York	LexisNexis	Office	194,780
Oak Brook, Illinois	Reed Business	Office	181,659
Colorado Springs, Colorado.....	LexisNexis	Office	181,197
<i>Leased properties</i>			
San Antonio, Texas	Harcourt Education	Office and warehouse	559,258
New York, New York	Reed Business and Elsevier	Office	451,800
Lewisville, Texas	Harcourt Education	Office and warehouse	434,898
Amsterdam, Netherlands.....	Reed Business and Elsevier	Office	429,308
Orlando, Florida	Harcourt Education	Office	372,468
Miamisburg, Ohio	LexisNexis and Elsevier	Office and data centre	213,802
Austin, Texas	Harcourt Education	Office	195,230
Sutton, England	Reed Business	Office	191,960
Rushden, England	Harcourt Education and Elsevier	Warehouse	186,000

All of the above properties are substantially occupied by Reed Elsevier businesses.

None of the real property owned or leased by Reed Elsevier which is considered material to Reed Elsevier taken as a whole is presently subject to liabilities relating to environmental regulations.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OPERATING RESULTS — REED ELSEVIER

The following discussion is based on the combined financial statements of Reed Elsevier for the three years ended December 31, 2006, which have been prepared in accordance with IFRS. IFRS differs in certain significant respects from US GAAP as set out in note 34 to the combined financial statements.

The following discussion should be read in conjunction with, and is qualified by reference to, the combined financial statements.

Reed Elsevier derives its revenue principally from subscriptions, circulation sales, advertising sales and exhibition fees.

Revenue by source for continuing operations						
Year ended December 31,						
	2006		2005		2004	
	(in millions, except percentages)					
Subscriptions	£2,085	39%	£1,932	38%	£1,836	38%
Circulation	1,760	32	1,722	33	1,575	33
Advertising	699	13	668	13	640	13
Exhibition fees	516	10	479	9	429	9
Other	338	6	365	7	332	7
Total	£5,398	100%	£5,166	100%	£4,812	100%

Revenue by geographic market for continuing operations⁽¹⁾						
Year ended December 31,						
	2006		2005		2004	
	(in millions, except percentages)					
North America	£3,082	57%	£2,974	57%	£2,779	58%
United Kingdom	592	11	568	11	545	11
The Netherlands	202	4	202	4	202	4
Rest of Europe	880	16	804	16	725	15
Rest of world	642	12	618	12	561	12
Total	£5,398	100%	£5,166	100%	£4,812	100%

(1) Reed Elsevier's geographic markets are North America, the United Kingdom, the Netherlands, the Rest of Europe (excluding the United Kingdom and the Netherlands) and the rest of the world (other than North America, the United Kingdom, the Netherlands and the Rest of Europe).

The cost profile of individual businesses within Reed Elsevier varies widely and costs are controlled on an individual business unit basis. The most significant cost item for Reed Elsevier as a whole is staff costs, which in 2006 represented 39% of Reed Elsevier's total cost of sales and operating expenses before amortisation of acquired intangible assets (2005: 40%; 2004: 39%).

The following tables show revenue, operating profit and adjusted operating profit for each of Reed Elsevier's business segments in each of the three years ended December 31, 2006, together with the percentage change in 2006 and 2005 at both actual and constant exchange rates. Adjusted operating profit is included on the basis that it is a key financial measure used by management to evaluate performance and allocate resources to the business segments, as reported under SFAS 131 in note 3 to the combined financial statements. Adjusted operating profit represents operating profit before amortisation of acquired intangible assets and acquisition integration costs, and is grossed up to exclude the equity share of taxes in joint ventures. A reconciliation of adjusted operating profit to operating profit is included below.

Revenue										
Year ended December 31,										
	2006		2005		% change		2004		% change	
					actual rates	constant rates ⁽¹⁾			actual rates	constant rates ⁽²⁾
(in millions, except percentages)										
Elsevier	£1,521	28%	£1,436	28%	+6%	+8%	£1,363	28%	+5%	+8%
LexisNexis	1,570	29	1,466	28	+7	+8	1,292	27	+13	+13
Harcourt Education	889	17	901	18	—1	0	868	18	+4	+3
Reed Business	1,418	26	1,363	26	+4	+5	1,289	27	+6	+5
Total	£5,398	100%	£5,166	100%	+4%	+6%	£4,812	100%	+7%	+7%

Operating Profit										
Year ended December 31,										
	2006		2005		% change		2004		% change	
					actual rates	constant rates ⁽¹⁾			actual rates	constant rates ⁽²⁾
(in millions, except percentages)										
Elsevier	£395	44%	£396	46%	0%	+7%	£402	51%	—1%	+3%
LexisNexis	264	30	218	26	+21	+23	188	24	+16	+15
Harcourt Education	43	5	87	10	—51	—50	67	9	+30	+29
Reed Business	183	21	158	18	+16	+18	126	16	+25	+26
Subtotal	£885	100%	£859	100%			£783	100%		
Corporate costs	(39)		(32)				(29)			
Unallocated net pension credit ⁽⁴⁾	34		12				12			
Total	£880		£839		+5%	+9%	£766		+10%	+12%

Adjusted Operating Profit ⁽³⁾										
Year ended December 31,										
	2006		2005		% change		2004		% change	
					actual rates	constant rates ⁽¹⁾			actual rates	constant rates ⁽²⁾
(in millions, except percentages)										
Elsevier	£465	38%	£449	39%	+4%	+10%	£445	41%	+1%	+5%
LexisNexis	380	31	338	29	+12	+13	287	27	+18	+17
Harcourt Education	129	11	161	14	—20	—19	157	14	+3	+2
Reed Business	241	20	214	18	+13	+14	194	18	+10	+9
Subtotal	£1,215	100%	£1,162	100%			£1,083	100%		
Corporate costs	(39)		(32)				(29)			
Unallocated net pension credit ⁽⁴⁾	34		12				12			
Total	£1,210		£1,142		+6%	+9%	£1,066		+7%	+8%

Adjusted operating profit is derived from operating profit as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		(in millions)	
Operating profit	£880	£839	£766
Adjustments:			
Amortisation of acquired intangible assets	297	276	255
Acquisition integration costs	23	21	38
Reclassification of tax in joint ventures	<u>10</u>	<u>6</u>	<u>7</u>
Adjusted operating profit	<u>£1,210</u>	<u>£1,142</u>	<u>£1,066</u>

- (1) Represents percentage change in 2006 over 2005 at constant rates of exchange, which have been calculated using the average and hedge exchange rates for the 2005 financial year. These rates were used in the preparation of the 2005 combined financial statements.
- (2) Represents percentage change in 2005 over 2004 at constant rates of exchange, which have been calculated using the average and hedge exchange rates for the 2004 financial year. These rates were used in the preparation of the 2004 combined financial statements.
- (3) Adjusted operating profit represents operating profit before the amortisation of acquired intangible assets and acquisition integration costs, and is grossed up to exclude the equity share of taxes in joint ventures, and is reconciled to operating profit above.
- (4) The unallocated net pension credit of £34 million (2005: £12 million; 2004: £12 million) comprises the expected return on pension scheme assets of £178 million (2005: £149 million; 2004: £139 million) less interest on pension scheme liabilities of £144 million (2005: £137 million; 2004: £127 million).

In the commentary below, percentage movements are at actual exchange rates unless otherwise stated. Percentage movements at constant exchange rates are calculated using the average and hedge exchange rates for the previous financial year. Percentage movements at both actual rates and constant rates are shown in tables on page 24. The effect of currency movements on the 2006 results is further described separately below (see “— Effect of Currency Translation” on page 33). References to operating profit relate to operating profit including joint ventures. References to underlying performance are calculated to exclude the effects of acquisitions and disposals in the current and prior year and the impact of currency.

Results of Operations for the Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

General

Revenue increased by 4% to £5,398 million. At constant exchange rates, revenue was 6% higher, or 5% higher on an underlying basis.

Operating profits of £880 million were up 5%, or 9% at constant exchange rates, compared with £839 million in 2005. Operating profit is stated after amortisation of acquired intangible assets of £297 million (2005: £276 million), acquisition integration costs of £23 million (2005: £21 million) and includes tax charges in respect of joint ventures of £10 million (2005: £6 million). Excluding these items, operating profits would have been up 6% at £1,210 million (2005: £1,142 million), or up 9% at constant exchange rates, and up 8% on an underlying basis. The increase in operating profits at constant exchange rates principally reflects improved operating performance and the contribution from acquisitions.

Operating margin, including amortisation of acquired intangible assets and acquisition integration costs, was 16.3% (2005: 16.2%). Excluding amortisation of acquired intangible assets, acquisition integration costs and the equity share of taxes in joint ventures, the margin would have been 22.4%, up 0.3 percentage points compared to 2005, or up 0.7 percentage points on an underlying basis. The increase in the reported margin was held back by the inclusion of lower margin acquisitions and currency effects, most particularly the year on year movement in hedge rates for Elsevier journal subscriptions. For further explanation of the effects of currency translation, see “— Effect of Currency Translation” on page 33.

The amortisation charge for acquired intangible assets of £297 million was up £21 million on the prior year principally as a result of recent acquisitions.

Net finance costs, at £158 million, were £18 million higher than in the prior year due to higher short term interest rates, the financing costs of acquisitions and the share repurchase programme, partly offset by the benefit of free cash flow.

Profit before tax was £721 million, compared with £701 million in 2005, an increase of 3%, or 8% at constant exchange rates. The increase in profit before tax principally reflects the increased operating profits, partially offset by increased net finance costs.

The tax expense was £96 million in 2006, compared with £237 million in 2005, a decrease of £141 million. The effective tax rate on earnings for 2006 was 13% (2005: 34%), reflecting the favourable settlement of tax on prior year disposals and movements in deferred tax balances arising on unrealised exchange differences on long term inter-affiliate lending. These deferred tax movements are recognised in the income statement under IFRS but are not expected to crystallise in the foreseeable future.

The profit attributable to shareholders of £623 million was up 35%, or 42% at constant exchange rates, compared to £462 million in 2005, reflecting the operating performance of the business and the reduction in tax expense referred to above.

In 2006, US GAAP net income was £399 million, compared with £374 million in 2005. The increase in US GAAP net income in 2006 compared to 2005 primarily reflects the factors described above, partially offset by additional charges arising in 2006 under US GAAP related to accounting for pensions, where amortisation of deferred actuarial losses increased to £127 million (2005: £78 million), additional losses on disposals and lower tax charges.

Elsevier

Revenue and adjusted operating profits were up 6% and 4% respectively compared to 2005. At constant exchange rates, revenue and adjusted operating profits were up 8% and 10% respectively, or 5% and 8% on an underlying basis. Excluding the effects of acquisitions, disposals and currency, the operating margin was 0.9 percentage points higher in 2006 than in 2005, driven by revenue growth, stabilising investment levels and further supply chain efficiency.

The Science & Technology business saw underlying revenue growth of 5% at constant exchange rates reflecting a journal subscription renewal rate of 97%, widening distribution through an expanded sales force, and growth in online databases. ScienceDirect usage continues to grow at over 20% per annum and e-only contracts now account for 45% of journal subscription revenues. The Scopus abstract and indexing database has been well received in the market and is seeing conversion of trials into firm contracts.

In Health Sciences, revenue growth was 13% at constant exchange rates, or 6% on an underlying basis, reflecting growth in the nursing and allied health professional sectors and in new society journal publishing. Online revenues are growing, up 37% in total, as the medical community increasingly adopts online information services to drive productivity and enhance outcomes. The year saw increasing penetration of the ScienceDirect and MDConsult products and further launches made and planned of electronic reference materials, medical education resources, and specialist information services and workflow tools.

The integration of the MediMedia MAP businesses acquired in August 2005 is now complete with revenue growth initiatives building momentum and improving margins. The acquisition in May of the Gold Standard drug information database and related products is accelerating our market strategies in electronic health information services to enhance the efficacy of clinical diagnosis and treatment. In December, the Endeavor software business was sold following a reappraisal of its position within Elsevier's overall market strategies.

Operating profit of Elsevier, including amortisation of acquired intangible assets and acquisition integration costs, decreased by £1 million to £395 million (a 7% increase at constant exchange rates). This decrease reflects the 4% increase in adjusted operating profit described above offset by currency effects, higher amortisation of acquired intangible assets and higher acquisition integration costs in respect of MediMedia MAP and other recent acquisitions.

LexisNexis

Revenue and adjusted operating profits were up 7% and 12% respectively compared to 2005. At constant exchange rates, revenue and adjusted operating profits were up by 8% and 13% respectively, or 7% and 13% on an underlying basis. This 7% organic revenue growth compares with 6% in 2005 and 4% in 2004 and reflects the momentum in the business. The adjusted operating margin was 1.1 percentage points higher reflecting the revenue growth and tight cost control.

In US Legal Markets, subscription renewals and additional online information and solutions sales to both large and small firms drove underlying revenue growth of 6%. The Total Solutions strategy launched in the year has gained traction in the market, focused on the distinctive needs of lawyers across four major areas of their workflow: litigation, client development, research and practice management. An integrated solutions product was also launched for the risk management market. The product portfolio was expanded through organic development and selective acquisition: Casesoft (litigation case analysis) and Dataflight (online repository and tools for evidence management).

In Corporate and Public Markets underlying revenue growth was 8% reflecting improvement in online news and business information, higher patent volumes and demand in risk management. The Seisint business acquired in 2004 saw continued revenue growth and LexisNexis' existing risk management business has now been fully migrated to the Seisint technology platform.

The LexisNexis International business outside the US saw underlying revenue growth of 8% driven by the growing demand for LexisNexis' online information services across its markets, notably in the UK, France, Germany, Canada and South Africa, and new publishing. The Total Solutions strategy is also being rolled out in these international markets

behind increasing online penetration. In the UK this was accelerated with the acquisition of Visualfiles (case management and compliance tools).

Operating profit of LexisNexis, including amortisation of acquired intangible assets and acquisition integration costs, increased by £46 million to £264 million. This reflects the increase in adjusted operating profit described above and a reduction in acquisition integration costs following the completion of the integration of Seisint.

Harcourt Education

Revenue and adjusted operating profits were down 1% and 20% respectively compared to 2005. At constant exchange rates, revenues were flat, whilst adjusted operating profits were 19% lower than in 2005. Adjusted operating margins declined to 14.5% compared with 17.9% in 2005, largely reflecting sales and marketing investment ahead of the 2007 adoption market, sales mix and lower profits from the assessment business discussed below.

The Harcourt US K-12 basal and supplemental businesses have both achieved 1% revenue growth in a US textbook market estimated to be down around 6%. (The weaker market reflects the state textbook adoption cycle and reduced spending by elementary schools in non-adoption states following significant prior year spending on federally supported Reading First programmes.) Harcourt won the leading market share, at 38%, in new state textbook adoptions in which it participated, with particular success from new publishing, notably in the secondary schools market in literature and language arts, science and social studies. The market response to new publishing in the supplemental business, and more manageable backlist attrition, continues the recovery in this business as it replaces traditional supplemental product with more comprehensive intervention programmes, and reorientates sales and marketing activities from individual school to district level.

The assessment business saw revenues 4% lower on an underlying basis reflecting the net loss of state testing contracts and lower catalog sales. Operational difficulties surrounding a major state testing contract and knock on effects on other contracts resulted in significant cost overruns. Whilst revenues are expected to decline further due to lost contracts, the actions taken by new management appointed in the year have positioned the business for a marked recovery in performance and margin this year and next.

The Harcourt Education International business saw revenues 1% higher on an underlying basis. Growth in South Africa and in UK export sales was offset by performance in a flat UK market.

Operating profit of Harcourt Education, including amortisation of acquired intangible assets and acquisition integration costs, decreased by £44 million to £43 million. This reflects the decrease in adjusted operating profit described above and higher amortisation charges.

Reed Business

Revenue and adjusted operating profits were up 4% and 13% respectively compared to 2005. At constant exchange rates, revenue and adjusted operating profits were up 5% and 14%, with acquisitions and disposals having no overall effect on these growth rates. Adjusted operating margins increased by 1.3 percentage points to 17.0% reflecting the growth in the exhibitions business and tight cost control.

At Reed Exhibitions, revenues were 12% higher, or 10% on an underlying basis. Growth was seen in key shows across the principal geographies in the US, Europe and Asia Pacific, notably in Japan and in the international Midem entertainment and property shows held in Cannes. Whilst much of business-to-business marketing is moving online, the demand for exhibitions remains as exhibitors and buyers place great value on physical meetings and events to balance other information sources and connections. Underlying profit growth was 16% including 6% from share of joint ventures cycling in. The net effect of other biennial shows cycling in and out is broadly neutral. The Sinopharm exhibitions acquired in a joint venture in China in 2005 are performing ahead of plan and new shows are to be launched in 2007.

The Reed Business Information magazine and information businesses saw continued underlying revenue growth in online services of over 20%, more than compensating for the 3% decline in print as the business migrates online. Overall RBI revenues were up 2% on an underlying basis. With 24% of revenues now from online services, the overall growth trajectory is encouraging. Adjusted operating profits were up 12% through continued action on costs as resources are rebalanced to the digital opportunity.

In the US, RBI underlying revenues were 2% lower. Online revenues are growing, particularly from advertising in community sites and new services, and are close to offsetting the print decline seen across most sectors. In the UK, RBI underlying revenues were up 6% reflecting the growth in online recruitment (up 39%) and online subscription services (up 17%). Online revenues now account for 41% of RBI UK revenues with growth and new launches set to increase this further. Print revenues benefited from innovative publishing and design. In continental Europe underlying revenues were up 3%, with again growth in new online services and some further recovery in advertising markets. Revenues in Asia grew 6%.

As part of a repositioning of the portfolio, the US manufacturing product news tabloid business was sold during the year as well as a number of other titles and North American manufacturing shows. In January 2007 RBI acquired

BuyerZone, a fast growing online service for matching vendors and buyers in procurement tendering that can be leveraged across RBI's categories.

Operating profit of Reed Business, including amortisation of acquired intangible assets and acquisition integration costs, increased by £25 million to £183 million. This principally reflects the increase in adjusted operating profit.

Results of Operations for the Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

General

Revenue increased by 7% to £5,166 million. At constant exchange rates, revenue was also 7% higher, or 5% higher excluding acquisitions and disposals.

Operating profits of £839 million were up 10%, or 12% at constant exchange rates, compared with £766 million in 2004. Operating profit is stated after amortisation of acquired intangible assets of £276 million (2004: £255 million), acquisition integration costs of £21 million (2004: £38 million) and includes tax charges in respect of joint ventures of £6 million (2004: £7 million). Excluding these items, operating profits would have been up 7% at £1,142 million (2004: £1,066 million), or up 8% at constant exchange rates, and up 6% on an underlying basis. The increase in operating profits principally reflects improved operating performance (described for each business segment below) and the contribution from acquisitions.

Operating margin, including amortisation of acquired intangible assets and acquisition integration costs, was 16.2%. Excluding amortisation of acquired intangible assets, acquisition integration costs and the equity share of taxes in joint ventures, the margin would have been 22.1%, down 0.1 percentage points compared to 2004, reflecting the inclusion of lower margin acquisitions and currency effects, most particularly the year on year movement in hedge rates for Elsevier journal subscriptions. For further explanation of the effects of currency translation, see “— Effect of Currency Translation” on page 33.

The amortisation charge for acquired intangible assets of £276 million was up £21 million on the prior year principally as a result of a full year's amortisation for the Seisint and Saxon acquisitions made in 2004 and the MediMedia MAP acquisition from August 2005.

Net finance costs, at £140 million, were £8 million higher than in the prior year and included a £8 million net credit on the mark-to-market of non-qualifying hedges and undesignated instruments under IAS39 — Financial Instruments which applies from January 1, 2005. The increase in costs reflects higher interest rates and the financing of current and prior year acquisitions. Profit before tax was £701 million, compared with £631 million in 2004, an increase of 11%, or 14% at constant exchange rates. The increase in profit before tax principally reflects the increased operating profits, partially offset by increased net finance costs.

The effective tax rate on earnings was 34% (2004: 27%). The increase principally reflects movements in deferred tax balances, arising on unrealised exchange differences on long term inter-affiliate lending, that are recognised in the income statement under IFRS but are not expected to crystallise in the foreseeable future.

The profit attributable to shareholders of £462 million was up 1%, or 3% at constant exchange rates, compared to £459 million in 2004, reflecting the operating performance of the business offset by the swing in non-cash deferred tax balances referred to above.

In 2005, US GAAP net income was £374 million, compared with £418 million in 2004. The decrease in US GAAP net income in 2005 compared to 2004 primarily reflects the factors described above together with additional charges arising in 2005 under US GAAP related to accounting for pensions under SFAS 87 — Employers' Accounting for Pensions, where amortisation of deferred actuarial losses and other deferred amounts was £78 million (2004: £17 million). Net income under US GAAP for 2004 has been restated to reflect the adoption of SFAS 123(R) — Share-Based Payment, which requires an expense to be recorded based on the fair value of the award at the date of grant, and related deferred tax effects. Net income under US GAAP for 2004 is accordingly £31 million lower than the amount previously reported.

Elsevier

Revenue and adjusted operating profits were up 5% and 1% respectively compared to 2004. At constant exchange rates, revenue and adjusted operating profits were up 8% and 5% respectively, or 5% and 5% before acquisitions and disposals. Underlying operating margins were similar to the prior year despite the significant costs of the newly launched *Scopus* product ahead of revenues building and additional restructuring charges. Adjusted operating margins, at 31.3%, were 1.3 percentage points lower, reflecting the inclusion of lower margin acquisitions and currency effects, most particularly the year on year movement in hedge rates in journal subscriptions.

The Science & Technology division saw underlying revenue growth of 5% at constant exchange rates. Subscription renewals were strong at 97%, slightly higher than in the prior year, and online growth was seen in widening distribution

through *ScienceDirect* and in secondary databases including initial sales of *Scopus*. There has been continued take up of e-only contracts which now account for over 40% of journal subscriptions by value, up from 35% a year ago. *ScienceDirect* continues to see growth in usage, up over 20% year on year. The MDL software business saw only modest growth as a result of the extended sales cycle as pharmaceutical companies adopt the new platform.

The Health Sciences division saw underlying revenue growth of 6% at constant exchange rates, primarily attributable to US book sales, particularly for the expanding nursing and allied healthcare sectors, journals and pharma communications. 2005 saw online revenue growth with new product and platform releases. Outside the US, growth was seen in Continental Europe and in Asia Pacific and Latin America with the UK held back by comparison with the prior year. Total revenue growth at constant currencies was 11% including MediMedia MAP and other smaller acquisitions.

Operating profit of Elsevier, including amortisation of acquired intangible assets and acquisition integration costs, decreased by £6 million to £396 million. This reflects the 1% increase in adjusted operating profit described above offset by higher amortisation of acquired intangible assets.

LexisNexis

LexisNexis' results for 2005 reflect revenue growth resulting from continuing demand for online information and related productivity tools, and improvement in operating margins.

Revenue and adjusted operating profits were up 13% and 18% respectively compared to 2004, including a full year contribution from Seisint and other recent acquisitions. At constant exchange rates, revenue and adjusted operating profits were up by 13% and 17% respectively, or 6% and 9% before acquisitions and disposals. Overall adjusted operating margins improved by 0.9 percentage points to 23.1%, reflecting revenue growth and firm cost management.

In North America, LexisNexis saw revenue growth at constant exchange rates of 15%, or 6% before acquisitions and disposals. In North American Legal Markets, increased demand was seen from law firms for online information and workflow tools to deliver organic revenue growth of 5%. In Corporate and Federal Markets, organic revenue growth was 8% with continued recovery in online news and business, higher volumes for the US patent and trademark office and increased demand in risk management. Additionally, the Seisint business acquired in September 2004 achieved 20% pro-forma year on year sales growth with adjusted operating profits higher year on year despite higher security and other costs following the unauthorised access to its databases reported earlier in the year. Adjusted operating profits for LexisNexis North America were up 20%, or 11% underlying, with a 1.1 percentage point increase in adjusted operating margins due to the revenue growth and the gearing in the business.

The International business outside North America saw growth in demand for online information and from new publishing, notably in Europe and Africa. At constant exchange rates, organic revenue growth was 7%, driven by a 16% increase in online revenues, with underlying adjusted operating profits up 5% after further investment in Germany, Asia Pacific and Latin America.

Operating profit of LexisNexis, including amortisation of acquired intangible assets and acquisition integration costs, increased by £30 million to £218 million. This reflects the increase in adjusted operating profit described above partially offset by an increase in amortisation of acquired intangible assets arising from a full year charge in respect of the 2004 Seisint acquisition.

Harcourt Education

Revenue and adjusted operating profits were up 4% and 3% respectively compared to 2004. At constant exchange rates, revenue and adjusted operating profits were up 3% and 2% respectively. Organic revenue growth at constant exchange rates, excluding acquisitions and disposals was 2%, with underlying profits flat. Adjusted operating margins were slightly lower by 0.2 percentage points to 17.9%, as the revenue shortfall was mostly mitigated by sales mix and firm cost management throughout the year.

The Harcourt US Schools and Testing business saw underlying revenue and operating profits up 2% at constant currencies.

The Harcourt US K-12 basal business saw revenue growth of 9% despite a lower than 75% implementation rate in relevant Texas adoptions due to funding delays. Harcourt won a leading market share in new state textbook adoptions in the core curriculum subjects in which we compete, coming no. 1 in Elementary and no. 2 in Secondary. Particular adoption successes were seen in Texas health and Florida social studies in Elementary and in literature and language arts and in Texas health and world languages in Secondary.

The supplemental business saw revenue decline of 11% excluding acquisitions and disposals driven by reduced sales of the literacy backlist titles that are not aligned to the approaches prompted by the No Child Left Behind Act, and tighter budgets at the school level, partly caused by funds moving to large scale intervention programmes sold at the district level. Firm remedial action has been taken: a major repositioning of the frontlist publishing programmes to fit with NCLB orientation; a new product line under development to address the more comprehensive intervention need at a district level; and significant upgrading and re-staffing of the sales force.

Harcourt Assessment saw underlying revenue decline 1% reflecting the failure to win a satisfactory share of significant state testing contracts, limited new clinical frontlist publishing and an unexpected cutback on schools spending on traditional catalog product. Again, significant action is being implemented to address the issues. Changes are being made at a senior management level, a major upgrade in sales management and in program servicing is underway, the clinical publishing frontlist is being strengthened, and a step change is targeted in margin through an extensive cost reduction and efficiency programme.

The Harcourt Education International business saw underlying revenue 1% lower, reflecting a weak UK instructional materials market as schools held back spending in the face of considerable funding uncertainties surrounding government initiatives. Adjusted operating profits were down 10% underlying, due to the revenue decline and investment in new assessment product.

Operating profit of Harcourt Education, including amortisation of acquired intangible assets and acquisition integration costs, increased by £20 million to £87 million. This reflects the increase in adjusted operating profit described above and the non recurrence of acquisition integration costs arising on the Saxon acquisition in 2004.

Reed Business

Revenue and adjusted operating profits were up 6% and 10% respectively compared to 2004. At constant exchange rates, revenue and adjusted operating profits were up 5% and 9%. Organic revenue growth, excluding acquisitions and disposals, was 5%, up from 2% in 2004. Adjusted operating profits were up 10% at constant exchange rates excluding acquisitions and disposals. The exhibitions business grew underlying revenues 11% whilst the magazines and information publishing businesses saw underlying revenue growth of 2%, which compares with a flat performance in the prior year. Adjusted operating margins increased by 0.7 percentage points to 15.7% despite the net cycling out of contribution from biennial joint venture exhibitions.

The Reed Business Information magazine and information publishing businesses saw continued growth in online services whilst print advertising remains variable by geography and sector, in part reflecting migration to growing online services. In the US, revenue increased 1% at constant exchange rates from continuing titles, i.e. excluding the manufacturing product news titles which are currently being sold, with adjusted operating profits up 20% through continuing cost actions. The Media division continued to perform well with other divisions broadly flat as print advertising migrates online. In the UK, organic revenue growth was 7% driven by growth in online recruitment and paid search. The property, science, aerospace and agriculture sectors performed well with weakness in the social care market. Adjusted operating profits were 15% ahead underlying due to revenue growth and firm cost control. In Continental Europe, underlying revenue and adjusted operating profits were 1% and 6% lower respectively, with a continuing depressed market environment in the Netherlands in particular. Focus on new online services, market share performance and yield management largely mitigated the weakness in the advertising market. Asia Pacific saw 8% underlying revenue growth with strong performances in Japan and Singapore.

Reed Exhibitions saw underlying revenue growth of 11% whilst adjusted operating profits grew 7%, or 15% before the cycling out of the contribution from a number of biennial joint venture exhibitions. Growth was seen across the business, in the United States, Europe and Asia-Pacific geographies with increased demand, new launches and a turnaround in some underperforming sectors.

Operating profit of Reed Business, including amortisation of acquired intangible assets and acquisition integration costs, increased by £32 million to £158 million. This principally reflects the increase in adjusted operating profit and lower amortisation of acquired intangible assets as some past acquisitions become fully amortised.

Critical Accounting Policies

Introduction

The accounting policies of the Reed Elsevier combined businesses under IFRS are described in note 2 to the combined financial statements. IFRS differs from US GAAP in certain significant respects. The principal differences that affect net income and combined shareholders' equity are explained in note 34 to the combined financial statements. The most critical accounting policies and estimates used in determining the financial condition and results of the combined businesses, and those requiring the most subjective or complex judgments, relate to the valuation of goodwill and acquired intangible assets, pensions, share based remuneration, financial instruments, taxation and deferred taxation. These critical accounting policies and estimates are discussed further below.

Revenue recognition policies, while an area of management focus, are generally straightforward in application as the timing of product or service delivery and customer acceptance for the various revenue types can be readily determined. Allowances for product returns are deducted from revenue based on historical return rates. Where sales consist of two or more independent components, revenue is recognised on each component as it is completed by performance, based on attribution of relative value. Sales commissions are recognised as an expense on sale, other than in respect of certain subscription products, where sales commissions may be expensed over the period of the subscription.

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

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

The Audit Committees of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc have reviewed the development and selection of critical accounting estimates, and the disclosure of critical accounting policies in this annual report.

Goodwill and acquired intangible assets

We target acquisitions and alliances that accelerate our strategic development and meet our financial criteria. We have spent £1,125 million on acquisitions in the last three years, including the £414 million acquisition in 2004 of Seisint Inc., a leading risk management business in the United States, and the £188 million acquisition in 2005 of MediMedia MAP, a leading medical publisher in France, Spain, Italy and the United States.

Publishing businesses generally have relatively modest requirements for physical property, plant and equipment. The principal assets acquired through acquisitions are intangible assets, such as market related assets (e.g. trademarks, imprints, brands), customer based assets (e.g. subscription bases, customer lists, customer relationships), editorial content, software and systems (e.g. application infrastructure, product delivery platforms, in-process research and development), contract based assets (e.g. other publishing rights, exhibition rights, supply contracts) and goodwill. The total cost of acquired intangible assets other than goodwill as at December 31, 2006 was £4.2 billion, on which accumulated amortisation of £2.0 billion had been charged. The total carrying value of acquired goodwill, which is not amortised under IFRS, as at December 31, 2006 was £2.8 billion.

Reed Elsevier's accounting policy is that, on acquisition of a subsidiary or business, the purchase consideration is allocated between the net tangible and intangible assets other than goodwill on a fair value basis, with any excess purchase consideration representing goodwill. The valuation of identifiable intangible assets represents the estimated economic value in use, using standard valuation methodologies, including as appropriate, discounted cash flow, relief from royalty and comparable market transactions. Under IFRS and US GAAP, acquired intangible assets with indefinite lives are not amortised, while those with definite lives are amortised systematically over their estimated useful lives, subject to annual impairment review. Capitalised goodwill is not amortised and is subject to annual impairment review. Appropriate amortisation periods are selected based on assessments of the longevity of the brands and imprints, the market positions of the acquired assets and the technological and competitive risks that they face. Certain intangible assets, more particularly in relation to acquired science and medical publishing businesses, have been determined to have indefinite lives. The longevity of these assets is evidenced by their long established and well regarded brands and imprints, and their characteristically stable market positions.

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

The recoverable amount is the higher of fair value, less costs to sell, and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit. The pre-tax discount rates used are 10-12%, including a risk premium appropriate to the unit being reviewed. Estimated future cashflows are based on latest budgets and forecasts for the next five years, with a 3% long term growth rate assumed thereafter.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Pensions and other retirement benefits

We operate a number of pension schemes around the world, the most significant of which are defined benefit plans. Pension costs are accounted for in accordance with IAS19 — Employee Benefits and are assessed in accordance with the advice of qualified actuaries. Net pension obligations in respect of defined benefit schemes are included in the balance

sheet at the present value of scheme liabilities, less the fair value of scheme assets. Where assets exceed liabilities, any net pension asset is limited to the extent that it is recoverable through reductions in future contributions. The expense of defined benefit pension schemes and other post-retirement benefits is determined using the projected unit credit method and charged to the income statement as an operating expense, based on actuarial assumptions reflecting market conditions at the beginning of the financial year. Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur. For defined contribution schemes, the charge to income represents contributions payable.

Under US GAAP, pensions are accounted for under SFAS 87 — Employers' Accounting for Pensions, as amended by SFAS 158 — Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans. The objective of SFAS 87 is to recognise the cost of an employee's pension benefits over that employee's approximate service period, with actuarial gains and losses deferred and recognised in net income over the average remaining service lives of employees. The amendments to SFAS 87 made by SFAS 158 require the full funded status of defined benefit pension plans to be recognised as an asset or liability in the balance sheet as at December 31, 2006. Changes in the funded status are recognised in equity in the year in which they occur thus aligning the balance sheet accounting with IFRS.

Under both IFRS and US GAAP, accounting for these pension schemes involves judgment about uncertain events, including the life expectancy of the members, salary and pension increases, inflation, the rate of return on scheme assets and the rate at which the future pension payments are discounted. We use estimates for all of these factors in determining the pension cost and obligations recorded in our combined financial statements. These best estimates of future developments are made in conjunction with independent actuaries and each scheme is subject to a periodic review by the independent actuaries. Although we believe the estimates are appropriate, differences arising from actual experience or future changes in assumptions may materially affect future pensions charges. In particular, a decline in the market value of pension scheme assets, absent any change in their estimated rate of return, and/or a reduction to discount rates would result in an increase to future pension costs. These estimates and the sensitivity to them of pension costs and obligations are described in further detail in note 6 to the combined financial statements.

Share based remuneration

Under both IFRS and US GAAP, the share based remuneration charge is determined based on the fair value of the award at the date of grant, and is spread over the vesting period on a straight line basis, taking account of the number of shares that are expected to vest. The number of awards that will ultimately vest is dependent on the extent to which any performance conditions are met. These conditions are regularly monitored to ensure that appropriate assumptions are used.

Under both IFRS and US GAAP, the fair value of awards is determined at the date of grant by use of a binomial or Monte Carlo simulation model as appropriate, which require assumptions to be made regarding share price volatility, dividend yield, risk free rate of return and expected option lives. The number of awards that are expected to vest requires assumptions to be made regarding forfeiture rates and the extent to which performance conditions will be met. We use estimates for all of these factors in determining the share based remuneration charge and these are made in conjunction with independent actuaries. Although we believe the estimates used are appropriate, differences arising from the number of awards that ultimately vest and changes to the assumptions used to determine the fair value of future grants may materially affect future charges to net income.

Financial instruments

The main treasury risks faced by Reed Elsevier include interest rate risk and foreign currency risk. Reed Elsevier's treasury policies to manage the exposures to fluctuations in interest rates and exchange rates, which are set out on pages 36 and 37, include the use of interest rate swaps, forward interest rate agreements, interest rate options and foreign exchange forward contracts. Under both IFRS and US GAAP, all such derivative financial instruments are required to be carried at fair value on the balance sheet. Changes in fair value are accounted for through the income statement or equity depending on the derivative's designation and effectiveness as a hedging instrument.

Derivative instruments used by Reed Elsevier as fair value hedges are designated as qualifying hedge instruments under both IFRS and US GAAP. Fair value movements in these instruments are recorded in net income and are offset, to the extent that the hedge is effective, by fair value movements to the carrying value of the hedged item, which are also recognised in net income. In addition certain interest rate swaps and forward exchange rate contracts have been designated as qualifying cash flow hedges under both IFRS and US GAAP. Accordingly the fair value of these instruments is recorded in the balance sheet and to the extent that the hedges are effective, fair value movements are recorded in equity until the hedged transaction affects net income. Other than in relation to these interest rate swaps and forward exchange contracts, other derivative instruments, which act as economic hedges, have not been designated as qualifying hedge instruments and accordingly a charge or credit to net income is recorded under both IFRS and US GAAP for changes in the fair value of those instruments. The fair values of the instruments used are determined by reference to quoted market rates.

Taxation and deferred tax

Reed Elsevier operates in over 100 locations worldwide and seeks to organise its affairs in a tax efficient manner, taking account of the jurisdictions in which it operates. A number of acquisitions and disposals have been made in recent years giving rise to complex tax issues requiring management to use its judgment to make various tax determinations. Although we are confident that tax returns have been appropriately compiled, there are risks that further tax may be payable on certain transactions or that the deductibility of certain expenditure for tax purposes may be disallowed. Reed Elsevier's policy is to make provision for tax uncertainties where it is considered probable that tax payments may arise.

Under IFRS, deferred taxation is provided for nearly all differences between the balance sheet amounts of assets and liabilities and their tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that they are considered recoverable based on forecasts of available taxable profits in jurisdictions where such assets have arisen. This assessment of the recoverability of deferred tax assets is judgmental. Forecasts are made of taxable profits, taking into account any unresolved tax risks.

Effect of Currency Translation

The combined financial statements on pages F-1 to F-60 are expressed in sterling and are therefore subject to the impact of movements in exchange rates on the translation of the financial information of individual businesses whose operational currencies are other than sterling. The principal exposures in relation to the results reported in sterling are to the US dollar and the euro, reflecting Reed Elsevier's business exposure to the US and the Euro Zone, its most important markets outside the United Kingdom.

The currency profile of Reed Elsevier's revenue, operating profit and profit before tax for 2006, taking account of the currencies of the interest on its borrowings and cash over that period, is set forth below.

Revenue, operating profit and profit before tax in each currency as a percentage of total revenue, operating profit and profit before tax respectively

	<u>US Dollars</u>	<u>Sterling</u>	<u>Euro</u>	<u>Other</u>	<u>Total</u>
Revenue	54%	17%	21%	8%	100%
Operating profit	40%	19%	33%	8%	100%
Profit before tax	<u>32%</u>	<u>24%</u>	<u>34%</u>	<u>10%</u>	<u>100%</u>

Currency differences decreased Reed Elsevier's revenue by £69 million in 2006 compared to 2005. Excluding amortisation of acquired intangible assets, currency differences would have decreased operating profits by £38 million in 2006 compared to 2005. Acquired intangible assets are predominantly denominated in US dollars and, after charging amortisation, currency differences decreased operating profits by £36 million in 2006 compared to 2005. Borrowings are predominantly denominated in US dollars and, after charging net finance costs, currency differences decreased profit before tax by £35 million in 2006 compared to 2005. The currency effects described above include the effect of the year on year movement in hedge rates in Elsevier journal subscriptions, the net benefit of which is lower in 2006 than in 2005 as the effect of the weaker US dollar is systematically incorporated within the three year rolling hedging programme.

To help protect Reed Elsevier PLC's and Reed Elsevier NV's shareholders' equity from the effect of currency movements, Reed Elsevier will, if deemed appropriate, hedge foreign exchange translation exposures by borrowing in those currencies where significant translation exposure exists or by selling forward surplus cash flow into one of the shareholders' currencies. Hedging of foreign exchange translation exposure is undertaken only by the regional centralised treasury departments and under policies agreed by the boards of Reed Elsevier PLC and Reed Elsevier NV. Borrowing in the operational currency of individual businesses provides a structural hedge for the assets in those markets and for the income realised from those assets. The currencies of Reed Elsevier's borrowings, therefore, reflect two key objectives, namely to minimise funding costs and to hedge currencies where it has significant business exposure.

Individual businesses within Reed Elsevier Group plc and ERF are subject to foreign exchange transaction exposures caused by the effect of exchange rate movements on their revenue and operating costs, to the extent that such revenue and costs are not denominated in their operating currencies. Individual businesses are encouraged to hedge their exposures at market rates with the centralised treasury department within ERF. Hedging of foreign exchange transaction exposure is the only hedging activity undertaken by the individual businesses. For further details see note 18 to the combined financial statements.

Recently Issued Accounting Pronouncements

In August 2005, the IASB issued IFRS7 — Financial Instruments: Disclosures, which introduces new requirements to improve the information on financial instruments given in financial statements. The standard replaces some of the requirements in IAS32 — Financial Instruments: Disclosure and Presentation. IFRS7 is effective for fiscal years

beginning on or after January 1, 2007. As a disclosure only standard, IFRS7 will not have an impact on the results of operations, or financial position of the combined businesses.

In August 2005, the IASB issued an amendment to IAS1 — Presentation of Financial Statements — Capital Disclosures, which introduces new disclosures about an entity's capital and how it manages capital. The amendment is effective for fiscal years beginning on or after January 1, 2007. As a disclosure only requirement, the amendment will not have an impact on the results of operations, or financial position of the combined businesses.

In November 2006, the IASB issued IFRS8 — Operating Segments, which replaces IAS14 — Segment Reporting. The standard requires an entity to adopt a 'management approach' to reporting the financial performance of its operating segments, and is similar to the equivalent US standard, SFAS 131. The information reported would be what management uses internally, which may be different from what is used to prepare the income statement and balance sheet. IFRS8 is effective for fiscal years beginning on or after January 1, 2009. As a disclosure only standard, IFRS8 will not have an impact on the results of operations, or financial position of the combined businesses.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Instruments — an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). This statement resolves issues addressed in FASB Statement No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". The standard permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of a fiscal year that begins after September 15, 2006. SFAS 155 would not have had a material effect on the financial position, results of operations or cash flows of the combined businesses under US GAAP as at December 31, 2006.

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140" ("SFAS 156"). This statement permits an entity to choose either the amortisation method or the fair value method for each class of separately recognised servicing assets and servicing liabilities. SFAS 156 is effective for fiscal years that begin after September 15, 2006. SFAS 156 would not have had a material effect on the financial position, results of operations or cash flows of the combined businesses under US GAAP as at December 31, 2006.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The interpretation clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognised in the financial statements and provides guidance on the measurement of any recognised tax benefits. The interpretation also introduces requirements for disclosure of unrecognised tax benefits. FIN 48 is effective for fiscal years beginning after December 15, 2006. The evaluation of the impact of adoption on the combined businesses' financial position and results has not yet been completed.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, the statement does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 would not have had a material effect on the financial position, results of operations or cash flows of the combined businesses under US GAAP as at December 31, 2006.

LIQUIDITY AND CAPITAL RESOURCES — REED ELSEVIER

Cash Flow

Reed Elsevier's net cash generated from operations in 2006 amounted to £1,304 million (2005: £1,223 million; 2004: £1,154 million). Included in these net cash inflows are cash outflows relating to acquisition integration costs charged to operating profit of £26 million (2005: £28 million; 2004: £30 million). Reed Elsevier generates significant cash inflows as its principal businesses do not generally require major fixed or working capital investments. A substantial proportion of revenue is received through subscription and similar advanced receipts, principally for scientific and medical journals and exhibition fees. At December 31, 2006 subscriptions and other revenues in advance totalled £969 million (2005: £979 million; 2004: £947 million).

Reed Elsevier's cash outflow on the purchase of property, plant and equipment in 2006 was £88 million (2005: £93 million; 2004: £82 million), while proceeds from the sale of property, plant and equipment amounted to £2 million (2005: £8 million; 2004: £4 million). The cash outflow on internally developed intangible assets in 2006 was £108 million (2005: £102 million; 2004: £110 million), principally relating to investment in software and systems development.

During 2006, Reed Elsevier paid a total of £171 million (2005: £307 million; 2004: £647 million) for acquisitions, after taking account of net cash acquired of £7 million (2005: £8 million; 2004: £17 million) and of which £22 million (2005: £14 million; 2004: £7 million) is deferred to future years. In addition, £1 million (2005: £15 million; 2004: £nil) was paid in respect of investments in joint ventures and £13 million (2005: £9 million; 2004: £7 million) of deferred payments were made in respect of acquisitions made in prior years. These payments were financed by net cash inflow from operating activities, available cash resources and commercial paper borrowings. Proceeds from sale of equity investments and businesses were £48 million (2005: £36 million; 2004: £12 million).

During 2006, Reed Elsevier paid dividends totalling £371 million to the shareholders of the parent companies (2005: £336 million; 2004: £309 million). In addition, £217 million was spent in buying back Reed Elsevier PLC and Reed Elsevier NV ordinary shares under the share repurchase programme announced in February 2006. A further £68 million (2005: £27 million; 2004: £29 million) was paid by the Reed Elsevier Group plc Employee Benefit Trust to purchase Reed Elsevier PLC and Reed Elsevier NV shares to meet commitments under the Reed Elsevier share option and conditional share schemes.

Net borrowings at December 31, 2006 were £2,314 million (2005: £2,694 million; 2004: £2,532 million), comprising gross borrowings of £3,006 million, less £173 million of gains on related derivative financial instruments and cash and cash equivalents of £519 million. The decrease of £380 million from the prior year end principally reflects foreign exchange translation effects following the significant weakening of the US dollar between the beginning and end of the year. These translation effects increase net borrowings by £277 million. Additionally, net borrowings benefitted from free cash flow less dividend and acquisition spend and spend on the share repurchase programme.

The directors of Reed Elsevier PLC and Reed Elsevier NV, having made appropriate enquiries, consider that adequate resources exist for the combined businesses to continue in operational existence for the foreseeable future.

Contractual Obligations

The contractual obligations of Reed Elsevier relating to debt finance, operating leases and acquisition obligations at December 31, 2006, analysed by when payments are due, are summarised below.

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(in millions)				
Short term debt ⁽¹⁾⁽²⁾	£574	£574	£—	£—	£—
Long term debt (including finance leases) ⁽²⁾ ..	3,573	491	560	739	1,783
Operating leases	827	115	198	156	358
Acquisition obligations ⁽³⁾	174	174	—	—	—
Total	<u>£5,148</u>	<u>£1,354</u>	<u>£758</u>	<u>£895</u>	<u>£2,141</u>

(1) Short term debt is supported by committed facilities and by centrally managed cash and cash equivalents, and primarily comprises commercial paper.

(2) Short and long term debt obligations comprise undiscounted principal and interest cash flows.

(3) Acquisition obligations at December 31, 2006 were conditional on regulatory and other approvals.

Information on retirement benefit obligations is set out in note 6 to the combined financial statements.

Off-Balance Sheet Arrangements

At December 31, 2006 Reed Elsevier had outstanding guarantees in respect of property lease guarantees. The maximum amount guaranteed as at December 31, 2006 is £41 million for certain property leases up to 2016, of which an amount of £5 million is held as a provision. These guarantees, which would crystallise in the event that existing lessees default on payment of their lease commitments, are unrelated to the ongoing business.

Save as disclosed above and under contractual obligations, Reed Elsevier has no off-balance sheet arrangements that currently have or are reasonably likely to have a material effect on the combined businesses' financial condition, results of operations, liquidity, capital expenditure or capital resources.

Treasury Policies

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

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

Liquidity

Reed Elsevier maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. The significance of Reed Elsevier Group plc's US operations means that the majority of debt is denominated in US dollars and is raised in the US debt markets. A mixture of short term and long term debt is utilised and Reed Elsevier maintains a maturity profile to facilitate refinancing. Reed Elsevier's policy is that no more than \$1.0 billion of term debt issues should mature in any 12-month period. In addition, minimum levels of net debt with maturities over three and five years are specified, depending on the level of the total borrowings.

During 2006, Reed Elsevier (Investments) plc, a subsidiary of Reed Elsevier Group plc, issued a £0.4 billion Eurobond due in 2016 and established a £1.0 billion Euro-commercial paper programme. Term debt of US\$0.55 billion issued by Reed Elsevier Capital Inc. in 2001 matured on August 1, 2006. Reed Elsevier may from time to time repurchase outstanding debt in the open market depending on market conditions, however no such purchases were made in 2006.

After taking account of the maturity of committed bank facilities that back short term borrowing and after utilising available cash resources, at December 31, 2006 no borrowings mature in the next two years, 25% of borrowings mature in the third year, 24% in the fourth and fifth years, 37% in the sixth to tenth years, and 14% beyond the tenth year.

In April 2006 Reed Elsevier renegotiated and amended the terms of its \$3.0 billion committed credit facility. At December 31, 2006, Reed Elsevier had access to \$3.0 billion (2005: \$3.0 billion) of committed bank facilities, of which \$77 million was drawn. These facilities principally provide back up for short term debt but also security of funding for future acquisition spend in the event that commercial paper markets are not available. All these committed facilities expire within two to three years (2005: two to three years).

Interest Rate Exposure Management

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

At December 31, 2006, after taking account of interest rate and currency derivatives in a designated hedging relationship, \$3.8 billion of Reed Elsevier's net debt was denominated in US dollars and net interest expense was fixed or capped on approximately \$2.7 billion of forecast US dollar net debt for the next 12 months. This fixed or capped net debt reduces to approximately \$1.2 billion by the end of the third year and reduces further thereafter with all but \$0.1 billion of fixed rate term debt (not swapped back to floating rate) having matured by the end of 2012.

At December 31, 2006, fixed rate US dollar term debt (not swapped back to floating rate) amounted to \$1.3 billion (2005: \$1.9 billion) and had a weighted average life remaining of 8.3 years (2005: 6.7 years) and a weighted average interest coupon of 6.0% (2005: 6.0%). Designated interest rate derivatives in place at December 31, 2006, which fix or cap the interest cost on an additional \$1.5 billion (2005: \$0.7 billion) of variable rate US dollar debt, have a weighted average maturity of 1.4 years (2005: 2.2 years) and a weighted average interest rate of 4.5% (2005: 5.2%).

Foreign Currency Exposure Management

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

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

As at December 31, 2006, the amount of outstanding foreign exchange cover designated against future transactions was \$1.2 billion.

OPERATING RESULTS — REED ELSEVIER PLC AND REED ELSEVIER NV

The following discussion is based on the financial statements of Reed Elsevier PLC and Reed Elsevier NV for the three years ended December 31, 2006. The results of Reed Elsevier PLC reflect its shareholders' 52.9% economic interest in the Reed Elsevier combined businesses. The results of Reed Elsevier NV reflect its shareholders' 50% economic interest in the Reed Elsevier combined businesses. The respective economic interests of the Reed Elsevier PLC and Reed Elsevier NV shareholders take account of Reed Elsevier PLC's 5.8% interest in Reed Elsevier NV. Both parent companies equity account for their respective share in the Reed Elsevier combined businesses. The financial statements of Reed Elsevier PLC and Reed Elsevier NV have been prepared in accordance with IFRS, which differs in certain respects from US GAAP as set out in note 21 to the Reed Elsevier PLC financial statements and note 20 to the Reed Elsevier NV financial statements.

Results of Operations for the Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

The earnings per share of Reed Elsevier PLC and Reed Elsevier NV were 25.6p and €0.59 respectively in 2006, compared to 18.6p and €0.43 in 2005. The earnings per share reflect the interests of the respective shareholders of Reed Elsevier PLC and Reed Elsevier NV in the results of the combined businesses.

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

Dividends declared in the year, in amounts per ordinary share, comprise: a 2005 final dividend of 10.7p and 2006 interim dividend of 4.1p giving a total of 14.8p (2005: 13.3p) for Reed Elsevier PLC; and a 2005 final dividend of €0.267 and 2006 interim dividend of €0.102 giving a total of €0.369 (2005: €0.332) for Reed Elsevier NV.

The board of Reed Elsevier PLC has proposed a 2006 final dividend of 11.8p, giving a total dividend of 15.9p for the year, up 10% on 2005. The boards of Reed Elsevier NV, in accordance with the dividend equalisation arrangements, have proposed a 2006 final dividend of €0.304, which results in a total dividend of €0.406 for the year, up 13% on 2005. The difference in dividend growth rates reflects the movement in the euro:sterling exchange rate between dividend announcement dates.

Shares repurchased in the year under the annual share repurchase plan announced in February 2006 totalled 20.6 million ordinary shares of Reed Elsevier PLC and 13.4 million ordinary shares of Reed Elsevier NV. Taking into account the associated financing cost, these share repurchases are estimated to have added 0.5% to earnings per share in 2006.

Results of Operations for the Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

The earnings per share of Reed Elsevier PLC and Reed Elsevier NV were 18.6p and €0.43 respectively in 2005, compared to 18.6p and €0.43 in 2004. The earnings per share reflect the interests of the respective shareholders of Reed Elsevier PLC and Reed Elsevier NV in the results of the combined businesses.

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

Dividends declared in the year, in amounts per ordinary share, comprise: a 2004 final dividend of 9.6p and 2005 interim dividend of 3.7p giving a total of 13.3p (2004: 12.1p) for Reed Elsevier PLC; and a 2004 final dividend of €0.240 and 2005 interim dividend of €0.092 giving a total of €0.332 (2004: €0.310) for Reed Elsevier NV.

The board of Reed Elsevier PLC has proposed a 2005 final dividend of 10.7p, giving a total dividend of 14.4p for the year, up 11% on 2004. The boards of Reed Elsevier NV, in accordance with the dividend equalisation arrangements, have proposed a 2005 final dividend of €0.267, which results in a total dividend of €0.359 for the year, up 9% on 2004. The difference in dividend growth rates reflects the movement in the euro:sterling exchange rate between dividend announcement dates.

Following a review of the financial position and outlook of Reed Elsevier PLC and Reed Elsevier NV, the respective boards have approved the introduction of an annual share repurchase programme in 2006 to further improve capital efficiency. The boards expect, subject to prevailing market and business conditions, to spend approximately \$350 million (£200 million) on share repurchases in 2006 and approximately \$1 billion (£600 million) over three years. The repurchase of shares in Reed Elsevier PLC and Reed Elsevier NV will reflect the equalisation ratio.

TREND INFORMATION

Trends, uncertainties and events which can affect the revenue, operating profit and liquidity and capital resources of the Reed Elsevier combined businesses include the usage, penetration and customer renewal of our print and electronic products, the migration of print and CD products to online services, investment in new products and services, cost control and the impact of our cost reduction programmes on operational efficiency, the levels of academic library funding and US state and federal funding for education, the impact of economic conditions on corporate budgets and the level of advertising demand.

Trends, uncertainties and events which could have a material impact on Reed Elsevier's revenue, operating profit and liquidity and capital resources are discussed in further detail in "Item 3: Key Information — Risk Factors"; "Item 4: Information on Reed Elsevier"; and "Item 5: Operating and Financial Review and Prospects — Operating Results Reed Elsevier — Liquidity and Capital Resources — Reed Elsevier; Operating Results — Reed Elsevier PLC and Reed Elsevier NV".

ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

The directors of each of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV at February 14, 2007 were:

Name (Age)	Reed Elsevier PLC	Reed Elsevier NV	Reed Elsevier Group plc	Elsevier Reed Finance BV
Gerard van de Aast (49) ..	Executive Director	Member of the Executive Board	Executive Director	—
Mark Armour (52)	Executive Director and Chief Financial Officer	Member of the Executive Board and Chief Financial Officer	Executive Director and Chief Financial Officer	Member of the Supervisory Board
Jacques Billy (36)	—	—	—	Member of the Management Board
Willem Boellaard (76)	—	—	—	Member of the Management Board
Dien de Boer-Kruyt (62) ..	—	Member of the Supervisory Board ⁽⁴⁾	—	Member of the Supervisory Board
Rudolf van den Brink (59)	—	—	—	Chairman of the Supervisory Board
Sir Crispin Davis (57)	Executive Director and Chief Executive Officer ⁽³⁾	Chairman of the Executive Board and Chief Executive Officer ⁽³⁾	Executive Director and Chief Executive Officer	—
Mark Elliott (57)	Non-executive Director ⁽⁴⁾	Member of the Supervisory Board ⁽⁴⁾	Non-executive Director ⁽²⁾	—
Erik Engstrom (43)	Executive Director	Member of the Executive Board	Executive Director	—
Jan Hommen (63)	Non-executive Chairman ⁽³⁾⁽⁴⁾	Chairman of the Supervisory Board ⁽³⁾⁽⁴⁾	Non-executive Chairman ⁽²⁾	—
Lisa Hook (49)	Non-executive Director ⁽¹⁾⁽⁴⁾	Member of the Supervisory Board ⁽¹⁾⁽⁴⁾	Non-executive Director ⁽¹⁾	—
Cees van Lede (64)	Non-executive Director ⁽³⁾⁽⁴⁾	Member of the Supervisory Board ⁽³⁾⁽⁴⁾	Non-executive Director ⁽²⁾	—
Andrew Prozes (61)	Executive Director	Member of the Executive Board	Executive Director	—
David Reid (60)	Non-executive Director ⁽¹⁾⁽⁴⁾	Member of the Supervisory Board ⁽¹⁾⁽⁴⁾	Non-executive Director ⁽¹⁾	—
Lord Sharman (63)	Non-executive Director ⁽¹⁾⁽³⁾⁽⁴⁾	Member of the Supervisory Board ⁽¹⁾⁽³⁾⁽⁴⁾	Non-executive Director ⁽¹⁾	—
Rolf Stomberg (66)	Non-executive Director ⁽³⁾⁽⁴⁾⁽⁵⁾	Member of the Supervisory Board ⁽³⁾⁽⁴⁾⁽⁵⁾	Non-executive Director ⁽²⁾⁽⁵⁾	—
Patrick Tierney (61)	Executive Director	Member of the Executive Board	Executive Director	—
Strauss Zelnick (49)	Non-executive Director ⁽¹⁾⁽⁴⁾	Member of the Supervisory Board ⁽¹⁾⁽⁴⁾	Non-executive Director ⁽¹⁾	—

(1) Member of the Audit Committees of the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc.

(2) Member of the Remuneration Committee of the board of Reed Elsevier Group plc.

- (3) Member of the joint Nominations Committee of the boards of Reed Elsevier PLC and Reed Elsevier NV.
- (4) Member of the joint Corporate Governance Committee of the boards of Reed Elsevier PLC and Reed Elsevier NV.
- (5) Senior independent non-executive director, as defined by The Combined Code: Principles of Good Governance and Code of Best Practice in the United Kingdom.

A person described as a non-executive director of Reed Elsevier PLC or Reed Elsevier Group plc or a member of the Supervisory Board of Reed Elsevier NV is a director not employed by such company in an executive capacity.

Gerard van de Aast is Chief Executive Officer of the Reed Business division. Appointed a director of Reed Elsevier Group plc and Reed Elsevier PLC in December 2000 and director of Reed Elsevier NV in April 2001. Member of the Supervisory Board of Océ NV. Prior to joining Reed Elsevier was Vice President and General Manager of Compaq's Enterprise business in Europe, Middle East and Africa.

Mark Armour was appointed Chief Financial Officer of Reed Elsevier Group plc and Reed Elsevier PLC in 1996, and of Reed Elsevier NV in April 1999. Appointed a member of the Supervisory Board of Elsevier Reed Finance BV in December 1998. Prior to joining Reed Elsevier as Deputy Chief Financial Officer in 1995, was a partner in Price Waterhouse.

Jacques Billy was appointed a member of the Management Board of Elsevier Reed Finance BV in February 2002. He is Managing Director of Elsevier Finance SA, having joined that company as Finance Manager in 1999.

Willem Boellaard was appointed a member of the Management Board of Elsevier Reed Finance BV in December 1998. He joined Reed Elsevier PLC in 1990.

Dien de Boer-Kruyt was appointed a member of the Supervisory Board of Reed Elsevier NV and of Elsevier Reed Finance BV in 2000. A member of the Supervisory Boards of Sara Lee International (a subsidiary of Sara Lee Corporation), Imtech NV and Allianz Nederland Group NV. Member of the Supervisory Board of the National Registry of non-executive directors and director of the leadership programmes Call and Ravel, for leaders in business, government and universities.

Rudolf van den Brink was appointed Chairman of the Supervisory Board of Elsevier Reed Finance BV in January 2006. A former member of the Managing Board of ABN AMRO Bank NV and of the Advisory Board of Deloitte & Touche. A member of the supervisory boards of Akzo Nobel NV, Van der Moolen Holding NV and Samas-Groep NV.

Sir Crispin Davis was appointed Chief Executive Officer of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV in September 1999. Knighted in 2004 for his services to the information industry. Non-executive director of GlaxoSmithKline plc. Prior to joining Reed Elsevier, was Chief Executive Officer of Aegis Group plc. From 1990 to 1993 was a member of the main board at Guinness plc, and Group Managing Director of United Distillers. Spent his early career with Procter and Gamble.

Mark Elliott was appointed a non-executive director of Reed Elsevier Group plc, Reed Elsevier PLC and a member of the Supervisory Board of Reed Elsevier NV in April 2003. General Manager IBM Global Solutions. Held a number of positions with IBM, including Managing Director of IBM Europe, Middle East and Africa. Served on the board of IBAX, a hospital software company jointly owned by IBM and Baxter Healthcare, and as chairman of the Dean's Advisory council of the Kelly School of Business, Indiana University. Non-executive director of Group 4 Securicor plc.

Erik Engstrom is Chief Executive Officer of the Elsevier division. He joined Reed Elsevier in August 2004, when he was also appointed a director of Reed Elsevier Group plc and Reed Elsevier PLC. Appointed to the board of Reed Elsevier NV in April 2005. Prior to joining Reed Elsevier, was a partner at General Atlantic Partners. Before that was president and chief operating officer of Random House. Began his career as a consultant with McKinsey. Served as a non-executive director of Eniro AB.

Jan Hommen was appointed non-executive Chairman of Reed Elsevier PLC and Reed Elsevier Group plc, and Chairman of the Supervisory Board of Reed Elsevier NV in April 2005. Chairman of the Supervisory Board of TNT NV, Academisch Ziekenhuis Maastricht and TiasNimbas, business school of the University of Tilburg. A member of the Supervisory Board of Koninklijke Ahold NV, ING NV and Campina. Was vice-chairman of the board of management and chief financial officer of Royal Philips Electronics NV until his retirement in 2005.

Lisa Hook was appointed a non-executive director of Reed Elsevier Group plc, Reed Elsevier PLC and a member of the Supervisory Board of Reed Elsevier NV in April 2006. President, Chief Executive Officer and Chairman of Sun Rocket, Inc. Before that was President of AOL Broadband Premium and Developer Services. Prior to joining AOL was a partner at Brera Capital Partners LLC. Previously was Chief Operating Officer of Time Warner Telecom. Has served as Senior Advisor to the Federal Communications Commission Chairman and as senior counsel to Viacom Cable.

Cees van Lede was appointed a non-executive director of Reed Elsevier Group plc, Reed Elsevier PLC and a member of the Supervisory Board of Reed Elsevier NV in April 2003. Chairman of the Supervisory Board of Heineken NV and a member of the Supervisory Boards of Akzo Nobel NV and Royal Philips Electronics NV. Non-executive director of Air France KLM, Air Liquide SA and Sara Lee Corporation. Chairman of INSEAD and a Senior Advisor for Europe of JPMorgan. Was chairman of the board of management of Akzo Nobel NV until his retirement in May 2003.

Mr van Lede will retire as a director of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc on April 18, 2007.

Andrew Prozes is Chief Executive Officer of the LexisNexis division. Appointed a director of Reed Elsevier Group plc and Reed Elsevier PLC in July 2000 and director of Reed Elsevier NV in April 2001. Non-executive director of Cott Corporation. Prior to joining Reed Elsevier was an Executive Vice President with the West Group, part of the Thomson Corporation and prior to that was Group President of Southam Inc.

David Reid was appointed a non-executive director of Reed Elsevier Group plc, Reed Elsevier PLC and a member of the Supervisory Board of Reed Elsevier NV in April 2003. Non-executive Chairman of Tesco plc, having previously been executive deputy chairman until December 2003, and finance director from 1985 to 1997. Chairman of Kwik-Fit and previously a non-executive director of De Vere plc, Legal & General plc and Westbury plc.

Lord Sharman was appointed a non-executive director of Reed Elsevier Group plc and Reed Elsevier PLC in January 2002, and a member of the Supervisory Board of Reed Elsevier NV in April 2002. Non-executive chairman of Aviva plc and Aegis Group plc, non-executive director of BG Group plc and a member of the Supervisory Board of ABN-AMRO NV. Member of the House of Lords since 1999. Joined KPMG in 1966 where he was elected UK Senior Partner in 1994 and also joined both the International and Executive Committees of KPMG. Between 1997 and 1999 he was Chairman of KPMG Worldwide.

Rolf Stomberg was appointed a non-executive director of Reed Elsevier Group plc and Reed Elsevier PLC in January 1999 and a member of the Supervisory Board of Reed Elsevier NV in April 1999. Chairman of Management Consulting Group plc and of the Supervisory Board of Lanxess AG and Francotype AG. Non-executive director of Smith & Nephew plc, AOA Severstal, TNT NV, Deutsche BP AG, HOYER GmbH and Biesterfeld AG. Formerly a director of The British Petroleum Company plc where he spent 27 years, latterly as Chief Executive of BP Oil International.

Patrick Tierney is Chief Executive Officer of the Harcourt Education division. Joined Reed Elsevier in January 2003 and appointed a director of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV in April 2003. Prior to joining Reed Elsevier was chief executive officer of Thomson Financial, part of the Thomson Corporation.

Strauss Zelnick was appointed a non-executive director of Reed Elsevier PLC and Reed Elsevier Group plc, and a member of the Supervisory Board of Reed Elsevier NV in April 2005. Founder of ZelnickMedia Corporation in 2001. Chairman of Columbia Music Entertainment Inc, ITN Networks and OTX Corporation. Prior to founding ZelnickMedia, was President and Chief Executive Officer of BMG Entertainment from 1998, and before that President and Chief Executive Officer of BMG Entertainment North America. He served as the Chief Executive Officer of Crystal Dynamics and as the President and Chief Operating Officer of 20th Century Fox.

SENIOR MANAGEMENT

The executive officers of Reed Elsevier Group plc, other than directors, at February 14, 2007 were:

Nick Baker: Chief Strategy Officer. A member of the Reed Elsevier management committee. He has been with Reed Elsevier since 1986 and within Corporate Strategy since 1997.

Stephen Cowden: General Counsel and Company Secretary of Reed Elsevier PLC and Reed Elsevier Group plc. A UK lawyer. Joined Reed Elsevier in 2000 as General Counsel, and was appointed Company Secretary of Reed Elsevier Group plc and Reed Elsevier PLC in 2001. Prior to joining Reed Elsevier, was Group Company Secretary of Glaxo Wellcome plc.

Erik Ekker: Legal Director Continental Europe and Company Secretary Reed Elsevier NV and Company Secretary of Elsevier Reed Finance BV. A Dutch lawyer. Has been Legal Director (Continental Europe) of Reed Elsevier Group plc since 1993. Joined Reed Elsevier NV in 1977 as Legal Counsel.

Ian Fraser: Group HR Director. A member of the Reed Elsevier management committee. Joined Reed Elsevier in 2005. Prior to joining Reed Elsevier, he was Human Resources Director at BHP Billiton plc and, before that, held senior positions in human resources at Charter plc and Woolworths plc.

COMPENSATION

Remuneration Committee

The Remuneration Committee (the “Committee”) is responsible for:

- recommending to the boards the remuneration (in all its forms) of the Chairman and the executive directors, including terms of service contracts and all other terms and conditions of employment;

- providing advice to the boards and to the Chief Executive Officer on major policy issues affecting the remuneration of executives at a senior level below the boards; and
- the operation of all share-based plans.

A copy of the Terms of Reference of the Committee can be found on the Reed Elsevier website, www.reedelsevier.com. The information on our website is not incorporated by reference into this report.

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 provide actuarial and other Human Resources consultancy services directly to some Reed Elsevier companies.

The following individuals also provided material advice or services to the Committee during the year:

- Sir Crispin Davis (Chief Executive Officer);
- Ian Fraser (Group HR Director); and
- Philip Wills (Director, Compensation and Benefits).

Throughout 2006, the Committee consisted wholly of independent non-executive directors: Rolf Stomberg (“Chairman”), Mark Elliott, Cees van Lede and with effect from July 24, 2006, the Chairman of Reed Elsevier, Jan Hommen. At the invitation of the Chairman, the Chief Executive Officer attends the meetings of the Committee except when his own remuneration is under consideration.

Executive Directors — Remuneration policy and objectives

Our remuneration policy has been designed to meet the needs of a group of global business divisions, each of which operates internationally by line of business. In order to support this business structure, it is essential to have a remuneration policy which aids the attraction and retention of the best executive talent from anywhere in the world and underpins Reed Elsevier’s demanding performance standards.

The challenges and demands created by the need for global market competitiveness as well as for internal consistency have led the Committee to apply a common and consistent set of standards to the design and operation of its incentive plans, including the level of incentive opportunity.

The Committee believes that in order to meet its remuneration objectives, the remuneration of executive directors should comprise a balance between fixed and variable (performance-related) pay elements with the greater proportion of potential reward being linked to performance. For superior performance, some 60% of each director’s total target remuneration is performance-related.

The Committee regularly reviews remuneration policy to ensure that it is sufficiently flexible to take account both of future changes in Reed Elsevier’s business operations and environment and of key developments in remuneration practice. Consequently, the policy set out in this report has applied during 2006 and will apply in 2007 subject to any necessary changes. Any changes will be described in full in future reports.

Remuneration objectives

The principal objectives of the policy are to attract and motivate executives of the highest calibre and experience, who are capable of shaping and executing strategy and delivering shareholder value in a competitive and increasingly global employment market. The Committee believes that this requires the following:

- (i) a pay and benefits package which is competitive with packages offered by other leading multinational companies operating in global markets, i.e. one which provides upper quartile total remuneration for the sustained delivery of the clearly superior levels of performance;
- (ii) a reward structure that links individual performance, company performance and parent company share price performance so as to align the interests of the directors with those of the group as a whole and its shareholders; and
- (iii) an approach to performance management that stimulates enhanced performance by directors, recognises their individual contribution to the attainment of our short and longer-term results and also encourages the teamwork which is essential to achieve the long-term strategic objectives.

Base salary and the annual incentive plan (“AIP”) aim to position the executive within the relevant market for executive talent and to provide a focus on the delivery of our shorter-term strategic objectives.

The Executive Share Option Scheme (“ESOS”) and Long-Term Incentive Scheme (“LTIS”) encourage a focus on longer-term earnings growth and total shareholder return and increase executives’ alignment with shareholders’ interests.

The Committee believes that the main driver of long-term shareholder value is sustained growth in profitability. In relation to shareholders, the primary measure of profitability is growth in the average of the Reed Elsevier PLC and Reed Elsevier NV adjusted earnings per share (i.e. before the amortisation of acquired intangible assets, acquisition integration costs, disposals and other non operating items, related tax effects and movements on deferred tax balances not expected to crystallise in the near term) at constant exchange rates (“Adjusted EPS”), which is supported, at an operational level, by the measures of revenue growth, profitability, cash generation and return on invested capital. In addition, recognising shareholders’ preference for longer term incentive arrangements to include a performance measure based on shareholder return, a further measure of total shareholder return relative to a focused peer group applies to awards made under the LTIS from 2006. These measures are integrated into our reward structure. In all cases, payments are made against a sliding scale of performance achievement, since this is the most direct way to link pay with performance.

Remuneration in practice

The Committee’s practice is to review the market competitiveness of base salary on the following basis:

- UK-based directors against FTSE 50 companies (excluding financial services); and
- US-based directors (or directors on US-market based reward packages) against US Media Industry companies.

Benefits, including medical and retirement benefits, are positioned to reflect local country practice. UK directors are eligible to participate in the all-employee SAYE (savings related) share option scheme.

Recognising the more global approach to the design of its incentive plans, referred to earlier, the annual and longer-term incentive plans for executive directors are operated with common incentive opportunity levels, irrespective of geographical location.

In relation to long-term incentives, the performance measures are tested once at the end of the specific performance period and are not subsequently re-tested.

This overall approach is set out in greater detail below with reference to the individual elements of the reward package for executive directors:

Base Salary

Salaries are reviewed annually to take account of two factors: firstly, market movement and individual performance during the previous year; secondly, the increased and sustainable contribution of the individual to the group which may position the individual at a higher value relative to the market. The review of an individual salary does not automatically result in an increase to that salary.

The annual salary increases made to executive directors with effect from January 1, 2006 were consistent with US and UK norms, respectively, for increases paid to senior executives during 2006. The increases to US-based executives were in a range from 3% to 7%; the increases to UK-based executives were in a range from 4% to 6%, except in the case of Mr van de Aast, who was given an increase to align him more appropriately to the global market within which he operates, rather than to the UK market, which accounts for less than 20% of his business.

Because of the many countries in which we operate, there is no practical basis on which to compare directors’ pay increases with those of other employees. However, the same factors, in terms of market, personal contribution and performance determine the level of increase across all employee populations globally.

Annual Incentive Plan (“AIP”)

- Based on achievement of financial performance targets set against the critical measures of revenue growth, profit, cash generation and Key Performance Objectives (“KPOs”).
- Directors have a target bonus opportunity of 90% of salary, which is payable for the achievement of highly stretching financial targets, (which align with the annual budget and the parent companies’ minimum 10% constant currency Adjusted EPS objective), and for outstanding performance against KPOs. For 2007, a maximum of 150% of salary could be paid for exceptional performance (for 2006 this was 110%). All targets are approved by the Committee at the beginning of the year.
- The target 90% bonus opportunity is allocated as follows, as a percentage of salary:

— Revenue	27%
— Profit	27%
— Cash Flow Conversion Rate	9%
— KPOs	27%

The four elements are measured separately, such that there could be a pay-out on one element and not on others.

- For 2007, payment against each financial performance measure will only commence if a threshold of 97.5% of the target is achieved (for 2006 this was 94%).
- Each director is typically set around six KPOs. These represent critical, non-financial priorities, for which they are accountable. Against each objective, a number of measurable “milestone targets” are defined. These must be achieved during the annual performance period for the KPO payout to be made.

Bonus Investment Plan (“BIP”)

- Designed to encourage increased personal shareholding by the participant.
- Directors and other designated key senior executives may invest up to half of any payment they receive under the AIP in shares of Reed Elsevier PLC or Reed Elsevier NV.
- Subject to continued employment, and to their retaining these investment shares during a three-year performance period, they will be awarded an equivalent number of matching shares.
- The award of matching shares is dependent on the achievement of a performance condition. In 2006, this was the achievement of at least 6% per annum compound growth in the average of Reed Elsevier PLC and Reed Elsevier NV Adjusted EPS — measured at constant exchange rates over the three year vesting period.

Executive Share Options (“ESOS”)

- Annual grants of options are made over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price at date of grant.
- The level of option grant and the performance conditions are determined and reviewed by the Committee annually.
- The standard performance condition, which governs the size of grant for all participants, relates to the compound annual growth in Adjusted EPS (at constant currencies) over the three years prior to grant. The “Target Grant Pool” for all participants is defined with reference to share usage during the base year of 2003, as follows:

<u>Adjusted EPS Growth (constant currencies) per annum</u>	<u>Target Grant Pool (as a % of 2003 Grant)</u>
<i>Less than 6%</i>	<i>50%</i>
<i>6% or more</i>	<i>75%</i>
<i>8% or more</i>	<i>100%</i>
<i>10% or more</i>	<i>125%</i>
<i>12% or more</i>	<i>150%</i>

- The awards made to executive directors are subject to an annual maximum of three times base salary. The awards are subject to the following three performance criteria:

On grant

- corporate performance as measured by Adjusted EPS growth in accordance with the criteria above, and
- individual performance over the three year period prior to grant;

On vesting

- a further performance condition such that the compound growth in Adjusted EPS (at constant currencies) during the three years following grant must be at least 6% per annum. There is no retesting of the performance condition.
- The combination of the tests on grant and vesting require sustained high level profit growth over a continuous six year period in respect of each individual grant to executive directors.
- Options are normally exercisable between three and ten years from the date of grant.

Long-term Incentive (“LTIS”)

In line with its previous commitment to shareholders the Committee reviewed the operation of the LTIS in 2006 and shareholders approved changes to its operation which apply to awards made from 2006.

- All executive directors will be eligible to receive an annual grant of performance shares with a target value of around 135% of salary. (Lower levels of grant will apply to other senior executives invited to participate in the LTIS).

- Awards consist solely of performance shares.
- In addition to achieving a demanding EPS performance target over a three year performance period, an additional Total Shareholder Return (“TSR”) performance target over the same three year period is also applied.

The minimum level of compound Adjusted EPS growth (at constant currencies) will continue to be 8% per annum, with maximum vesting (under the EPS measure) being achieved for growth of 12% per annum. Any award earned through EPS performance may then be increased in line with Reed Elsevier’s TSR performance against a comparator group over the three year period. No increase will be applied for TSR performance which is below median, and the maximum increase will be applied at upper quartile or higher levels of TSR achievement. No award will be made to participants if Reed Elsevier fails to achieve the minimum threshold of 8% p.a. Adjusted EPS growth (at constant currencies), irrespective of the associated TSR performance.

The effect of the combination of these two measures is shown in the following table, which sets out the potential payment as a percentage of the initial target award:

<u>Adjusted EPS Growth (constant currencies) per annum</u>	<u>TSR Ranking</u>			
	<u>Below median</u>	<u>Median</u>	<u>62.5 percentile</u>	<u>Upper quartile</u>
Below 8%	0%	0%	0%	0%
8%	28%	35%	42%	49%
10%	80%	100%	120%	140%
12% & over	108%	135%	162%	189%

For executive directors, the target award of 135% of salary could therefore be increased to a maximum of around 255% of salary (135% x 189%). Any shares which vest will be treated as attracting dividends during the performance period. This could increase the maximum to around 270% of salary depending on dividend payments.

The Committee considers this performance condition to be tougher than normal UK practice because the TSR element can improve the reward to participants if, but only if, the Adjusted EPS test has first been achieved.

- Reed Elsevier’s TSR will be tested against a selected international group of competitor companies over a three year period. For awards made in 2007, these companies will be as follows:

The Thomson Corporation	United Business Media
McGraw Hill	Fair Isaac
Reuters Group	John Wiley & Sons
Pearson	DMGT
Wolters Kluwer	Lagardere
ChoicePoint	Dun & Bradstreet
EMAP	WPP
Informa	Taylor Nelson
Dow Jones	

Note: VNU became a private company during 2006 and has been removed from the peer group.

The TSR of Reed Elsevier and each of the comparator companies will be calculated in the currency of its primary listing, which the Committee considers to be the fairest test of management’s relative performance. Reed Elsevier’s TSR will be taken as a simple average of the TSR of Reed Elsevier PLC and Reed Elsevier NV.

- The Committee continues to have full discretion to reduce or cancel awards granted to participants based on its assessment as to whether the EPS and TSR performance fairly reflects the progress of the business having regard to underlying revenue growth, cash generation, return on capital and any significant changes in inflation as well as individual performance.

Retirement Benefits

- The Committee reviews retirement benefit provision in the context of the total remuneration package for each director, bearing in mind their age and service and against the background of evolving legislation and practice in the group’s major countries of operation.
- Base salary is the only pensionable element of remuneration.

- The three UK-based executive directors are provided with conventional UK “defined benefit” pension arrangements targeting two-thirds (Sir Crispin Davis 45%) of salary at a normal retirement age of 60. The targeted pension is provided through a combination of:
 - the main UK Reed Elsevier Pension Scheme for salary restricted to a cap, determined annually on the same basis as the pre-April 2006 Inland Revenue earnings cap; and
 - Reed Elsevier’s unfunded unapproved pension arrangement for salary above the cap.
- P. Tierney and A. Prozes are covered by a mix of defined benefit and defined contribution arrangements. In accordance with US legislation, these directors have no defined retirement age. Reed Elsevier pays a contribution of 19.5% of salary to E. Engstrom’s personal pension plan.
- These arrangements are set out in further detail on pages 49 and 50.

Shareholding Requirement

Participants in the LTIS are required to build up a significant personal shareholding in Reed Elsevier PLC and/or Reed Elsevier NV. Following shareholders’ approval of the revised terms of the LTIS in 2006, the shareholding requirement for the Group Chief Executive Officer is now three times salary (previously 1.5 times salary) and for other executive directors is two times salary (previously 1.5 times salary). These revised shareholding requirements must be met by February 2009 at the latest.

Details of directors’ shareholdings, as at December 31, 2006 and March 22, 2007, are set out on page 63.

Service Contracts

Executive directors are employed under service contracts which generally provide for one year’s notice and neither specify a pre-determined level of severance payment nor contain specific provisions in respect of change in control.

Each of the executive directors has a service contract, as summarised below:

	<u>Contract Date</u>	<u>Expiry date (subject to notice period)</u>	<u>Notice period</u>	<u>Subject to:</u>
G J A van de Aast ⁽ⁱ⁾	November 15, 2000	July 17, 2017	12 months	English law
M H Armour ⁽ⁱ⁾	October 7, 1996	July 29, 2014	12 months	English law
Sir Crispin Davis ⁽ⁱ⁾	July 19, 1999	March 19, 2009	12 months	English law
E Engstrom ⁽ⁱ⁾	June 25, 2004	June 14, 2025	12 months	English law
A Prozes ⁽ⁱⁱ⁾	July 5, 2000	Indefinite	12 months base salary payable for termination without cause	New York law
P Tierney ⁽ⁱⁱ⁾	November 19, 2002	Indefinite	12 months base salary payable for termination without cause	New York law

(i) Employed by Reed Elsevier Group plc

(ii) Employed by Reed Elsevier Inc

The Committee believes that as a general rule, notice periods should be twelve months and that the directors should, subject to practice within their base country, be required to mitigate their damages in the event of termination. The Committee will, however, note local market conditions so as to ensure that the terms offered are appropriate to attract and retain top executives operating in global businesses.

No loans, advances or guarantees have been provided for the benefit of any director.

The service contracts for executive directors (and for approximately 130 other senior executives) contain the following provisions:

- covenants which prevent them from working with specified competitors, recruiting Reed Elsevier employees and soliciting Reed Elsevier customers for a period of 12 months after leaving employment;
- in the event of their resigning, they will immediately lose all rights to any outstanding awards under the LTIS, ESOS and BIP granted from 2004 onwards, including any vested but unexercised options; and

- in the event that they join a specified competitor within 12 months of termination, any gains made in the six months prior to termination on the exercise or vesting of an LTIS, ESOS and BIP award made from 2004 onwards shall be repayable.

Policy on External Appointments

The Committee believes that the experience gained by allowing executive directors to serve as non-executive directors on the boards of other organisations is of benefit to Reed Elsevier. Accordingly, 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) and they may retain remuneration arising from such appointments.

- Sir Crispin Davis is a non-executive director of GlaxoSmithKline plc and received a fee of £70,000 during 2006.
- Erik Engstrom was a non-executive director of Eniro AB (until April 5, 2006) and received a fee of £5,527 during 2006.
- Andrew Prozes is a non-executive director of the Cott Corporation and received a fee of £30,435 during 2006.
- Gerard van de Aast is a non-executive director of Océ NV (since May 1, 2006) and received a fee of £15,879 during 2006.

Non-executive directors — Remuneration policy

Reed Elsevier seeks to recruit non-executive directors with the experience to contribute to the board of a dual-listed global business and with a balance of personal skills which will make a major contribution to the boards and their committee structures.

With the exception of GJ de Boer-Kruyt, who serves only on the Supervisory Board of Reed Elsevier NV, non-executive directors, including the Chairman, are appointed to the boards of Reed Elsevier Group plc, Reed Elsevier PLC and the Supervisory Board of Reed Elsevier NV.

Non-executive directors' remuneration is determined by the three boards as appropriate to the director concerned. The primary source for comparative market data is the practice of FTSE50 companies, although reference is also made to AEX companies.

Non-executive directors, including the Chairman, serve under letters of appointment, do not have contracts of service and are not entitled to notice of, or payments following, termination.

In 2005 the Reed Elsevier Group plc board introduced a charity donation matching programme for non-executive directors. Under the policy, where a non-executive director donates all or part of their fees to a registered charity, the company may, at its sole discretion, make a matching donation to any charity, provided the charity's objectives are judged to be appropriate and are not political or religious in nature. Messrs Reid, Zelnick and van Lede each donated a proportion of their fees in respect of 2006 to charity and, in accordance with the programme the company made matching charitable donations of £22,500, £42,065 and £20,408, respectively.

Fee levels

Non-executive directors receive one annual fee in respect of their memberships of the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc. The fee paid to GJ de Boer-Kruyt, who serves only on the Supervisory Board of Reed Elsevier NV, reflects her time commitment to that company and to other companies within the Reed Elsevier combined businesses. Non-executive directors are reimbursed for expenses incurred in attending meetings. They do not receive any performance related bonuses, pension provisions, share options or other forms of benefit. Fees may be reviewed annually, although in practice they have changed on a less frequent basis and were last reviewed with effect from May 1, 2003. The fee for Mrs de Boer-Kruyt was last reviewed with effect from January 1, 2004.

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

	2006	2005
	(In thousands)	
Salaries and fees	£4,502	£4,234
Benefits	126	111
Annual performance-related bonuses	3,273	3,001
Pension contributions	139	135
Pension to former director	221	223
Payment to former director	—	10
Total	£8,261	£7,714

No compensation payments have been made for loss of office or termination in 2005 and 2006.

Details of long-term share based incentives exercised by the directors over shares in Reed Elsevier PLC and Reed Elsevier NV during the year are shown on pages 54 to 57. The aggregate notional pre-tax gain made by the directors on the exercise of such incentives during the year was £1,408,072 (2005: £471,482).

(b) Individual emoluments of executive directors

	2006				2005
	Salary	Benefits	Bonus	Total	Total
G J A van de Aast	£503,946	£18,795	£538,862	£1,061,603	£855,203
M H Armour	561,750	21,765	488,790	1,072,305	1,029,361
Sir Crispin Davis	1,081,600	39,048	919,360	2,040,008	1,991,516
E Engstrom	593,478	18,661	541,341	1,153,480	1,050,436
A Prozes	604,783	16,857	572,282	1,193,922	1,148,440
P Tierney	582,174	10,445	212,843	805,462	755,878
Total	£3,927,731	£125,571	£3,273,478	£7,326,780	£6,830,834

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

Messrs. Prozes and Tierney, together with certain other senior US-based executives and managers, participate in a bonus deferral plan that affords participants the ability to defer payment of all or part of the annual incentive bonuses otherwise payable to them, provided that such deferral is elected before the amount of such bonus is determined. Deferral can be for a stated term or until termination of employment. The deferred funds are credited with income based on the performance of specified reference investment funds or indices. Deferred funds may be drawn at any time subject to a 10% forfeiture, or without forfeiture in the event of severe financial hardship resulting from illness or accident to the participant or a beneficiary, loss of principal residence due to casualty or other circumstances beyond the control of the participant determined to constitute severe financial hardship by the Remuneration Committee that administers the plan.

Sir Crispin Davis was the highest paid director in 2006. His aggregate notional pre-tax gain on the exercise of share based incentives during the year was £252,260 (2005: £9,576).

(c) Pensions in more detail

The target pension for Sir Crispin Davis at a normal retirement age of 60 is 45% of base salary in the 12 months prior to retirement. Other 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 A Prozes, a US-based director, after completion of seven years' pensionable service is US\$300,000 per annum. In the event that Mr. Prozes completes more than seven years' pensionable service, the pension payable will be increased on a pro rata basis by US\$42,857 per annum. The pension will be reduced in amount by the value of any other retirement benefits payable by Reed Elsevier or which become payable by any former employer, other

than those attributable to employee contributions. The target pension for P Tierney, a US-based director, after completion of five years' pensionable service is US\$440,000 per annum, inclusive of any other retirement benefits payable by Reed Elsevier or any former employer, other than those attributable to employee contributions. In the event of termination of employment before completion of five years' pensionable service, the pension payable will be reduced proportionately. As US employees Messrs Prozes and Tierney also are eligible to participate in the Reed Elsevier 401k plan, to which Reed Elsevier contributed £3,654 and £3,552 respectively for the year.

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

E Engstrom is not a member of a company pension scheme and Reed Elsevier made a contribution to Mr. Engstrom's designated retirement account of £115,728, equivalent to 19.5% of his annual salary. In addition, Mr. Engstrom is provided with life assurance cover whilst in employment.

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

	Age December 31, 2006	Directors' contributions	Transfer value of accrued pension December 31, 2005	Transfer value of accrued pension December 31, 2006	Increase in transfer value during the period (net of directors' contributions)	Accrued annual pension December 31, 2006	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	49	£5,393	£721,552	£1,074,289	£347,344	£102,216	£29,332	£27,728	£286,033
M H Armour	52	5,393	2,259,816	2,866,803	601,594	223,097	28,454	24,179	305,304
Sir Crispin Davis	57	5,393	5,563,704	7,361,487	1,792,390	373,869	63,395	56,564	1,108,360
A Prozes	60	—	—	—	—	—	—	—	—
P Tierney	61	—	1,704,782	2,130,248	425,466	172,196	22,425	22,425	275,942

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

	2006	2005
G J de Boer-Kruyt	£22,993	£23,151
J F Brock (until April 28, 2005)	—	11,130
M W Elliott	45,000	45,000
J Hommen (from April 27, 2005)	238,095	159,817
L Hook (from April 19, 2006)	30,000	—
C J A van Lede	44,218	44,521
D E Reid	45,000	45,000
Lord Sharman	52,000	52,000
R W H Stomberg	52,381	52,740
M Tabaksblat (until April 28, 2005)	—	47,945
S Zelnick (from April 27, 2005)	45,000	33,750
Total	<u>£574,687</u>	<u>£515,054</u>

Compensation of executive officers

The aggregate compensation paid to all executive officers (other than directors) of Reed Elsevier Group plc (five persons) as a group, for services in such capacities for the year ended December 31, 2006, was £2,581,398 which included contributions made to the pension plans in respect of such officers of £83,833.

BOARD PRACTICES

REED ELSEVIER

The boards of directors of Reed Elsevier PLC and Reed Elsevier NV manage their respective shareholdings in Reed Elsevier Group plc and Elsevier Reed Finance BV. The boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc are harmonised. Subject to shareholders of Reed Elsevier PLC and Reed Elsevier NV re-electing retiring directors at their respective Annual General Meetings in 2007, all the directors of Reed Elsevier Group plc will also be directors of Reed Elsevier PLC and of Reed Elsevier NV. For a complete description of the board membership positions and executive officer positions within Reed Elsevier, see “— Directors” on page 40. Details of the Audit Committees of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV are given under “Item 15: Controls and Procedures” and details of the Remuneration Committee are given under “— Compensation” on pages 42 and 43.

REED ELSEVIER GROUP PLC

The Reed Elsevier Group plc board currently consists of six executive directors and eight independent non-executive directors. A person may only be appointed or proposed or recommended for appointment to the board if that person has been nominated for that appointment by the joint Nominations Committee of Reed Elsevier PLC and Reed Elsevier NV. Persons nominated by the joint Nominations Committee will be required to be approved by the Reed Elsevier Group plc board, prior to appointment to the Reed Elsevier Group plc board.

Decisions of the board of directors of Reed Elsevier Group plc require a simple majority, and the quorum required for meetings of the board of Reed Elsevier Group plc is any two directors.

The Reed Elsevier Group plc board has established the following committees:

- Audit — comprising four independent non-executive directors
- Remuneration — comprising four independent non-executive directors

Arrangements established at the time of the merger of Reed Elsevier PLC’s and Reed Elsevier NV’s businesses provide that, if any person (together with persons acting in concert with him) acquires shares, or control of the voting rights attaching to shares, carrying more than 50% of the votes ordinarily exercisable at a general meeting of Reed Elsevier PLC or Reed Elsevier NV and has not made a comparable take-over offer for the other party, the other party may by notice suspend or modify the operation of certain provisions of the merger arrangements, such as (i) the right of the party in which control has been acquired (the “Acquired Party”) to appoint or remove directors of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc and (ii) the Standstill Obligations (defined below) in relation to the Acquired Party. Such a notice will cease to apply if the person acquiring control makes a comparable offer for all the equity securities of the other within a specified period or if the person (and persons acting in concert with him) ceases to have control of the other.

In the event of a change of control of one parent company and not the other (where there has been no comparable offer for the other), the parent company which has not suffered the change in control will effectively have the sole right to remove and appoint directors of Reed Elsevier Group plc. Also, a director removed from the board of a parent company which has suffered a change in control will not have to resign from the board of the other parent company or Reed Elsevier Group plc.

The Articles of Association of Reed Elsevier Group plc contain certain restrictions on the transfer of shares in Reed Elsevier Group plc. In addition, pursuant to arrangements established at the time of the merger, neither Reed Elsevier PLC nor Reed Elsevier NV may acquire or dispose of any interest in the share capital of the other or otherwise take any action to acquire the other without the prior approval of the other (the “Standstill Obligations”). The Panel on Take-overs and Mergers in the United Kingdom (the “Panel”) has stated that in the event of a change of statutory control of either Reed Elsevier PLC or Reed Elsevier NV, the person or persons acquiring such control will be required to make an offer to acquire the share capital of Reed Elsevier Group plc (but not Elsevier Reed Finance BV) held by the other, in accordance with the requirements of the City Code on Take-overs and Mergers in the United Kingdom. This requirement would not apply if the person acquiring statutory control of either Reed Elsevier PLC or Reed Elsevier NV made an offer for the other on terms which are considered by the Panel to be appropriate.

REED ELSEVIER PLC

The Reed Elsevier PLC board currently consists of six executive directors and eight independent non-executive directors. A person may only be appointed or proposed or recommended for appointment to the board if that person has been nominated for that appointment by the joint Nominations Committee of Reed Elsevier PLC and Reed Elsevier NV. Persons nominated by the joint Nominations Committee will be required to be approved by the Reed Elsevier PLC board, prior to the appointment to the Reed Elsevier PLC board. A copy of the terms of reference of the Nominations Committee is available on request and can be viewed on the Reed Elsevier website, www.reedelsevier.com. The

information on our website is not incorporated by reference into this report. The joint Nominations Committee comprises four non-executive directors, all of whom are independent, plus the Chief Executive Officer.

Notwithstanding the provisions outlined above in relation to the appointment to the board, Reed Elsevier PLC shareholders retain their rights under Reed Elsevier PLC's Articles of Association to appoint directors to the Reed Elsevier PLC board by ordinary resolution. Reed Elsevier PLC shareholders may also, by ordinary resolution, remove a director from the board of Reed Elsevier PLC, and in such circumstances that director will also be required to be removed or resign from the boards of Reed Elsevier NV and Reed Elsevier Group plc (except in circumstances where there has been a change of control of Reed Elsevier PLC and not Reed Elsevier NV).

The Reed Elsevier PLC board has also established the following committees:

- Audit — comprising four independent non-executive directors; and
- Corporate Governance — a joint committee of Reed Elsevier PLC and Reed Elsevier NV, comprising all non-executive directors and members of the supervisory board of each company, all of whom are independent.

Each director on the Reed Elsevier PLC board is required to retire by rotation at least every three years, and are able then to make themselves available for re-election by shareholders at the Annual General Meeting.

REED ELSEVIER NV

Reed Elsevier NV has a two-tier board structure currently comprising six executive directors (the “executive board”) and nine independent non-executive directors (the “Supervisory Board” and, together with the executive board, the “combined board”). A person may only be appointed or proposed or recommended for appointment to the boards if that person has been nominated for that appointment by the joint Nominations Committee of Reed Elsevier PLC and Reed Elsevier NV. Persons nominated by the joint Nominations Committee will be required to be approved by the Reed Elsevier NV combined board prior to appointment to the Reed Elsevier NV executive or supervisory board and by Reed Elsevier NV shareholders. The joint Nominations Committee comprises four members of the Supervisory Board, all of whom are independent, plus the Chief Executive Officer.

Notwithstanding the provisions outlined above in relation to the appointment to the board, Reed Elsevier NV shareholders retain their rights under Reed Elsevier NV's Articles of Association to appoint directors to the Reed Elsevier NV boards by ordinary resolution if such appointment has been proposed by the Reed Elsevier NV combined board and, if such appointment has not, by an ordinary resolution of shareholders requiring a majority of at least two-thirds of the votes cast if less than one half of Reed Elsevier NV's issued share capital is represented. Reed Elsevier NV shareholders may also, by ordinary resolution, remove a director from the board of Reed Elsevier NV, and in such circumstances that director will also be required to be removed or resign from the boards of Reed Elsevier PLC and Reed Elsevier Group plc (except in circumstances where there has been a change of control of Reed Elsevier NV and not Reed Elsevier PLC).

The Reed Elsevier NV supervisory board has also established the following committees:

- Audit — comprising four independent members of the Reed Elsevier NV Supervisory Board; and
- Corporate Governance — a joint committee of Reed Elsevier NV and Reed Elsevier PLC, comprising all members of the Supervisory Board and non-executive directors of each company, all of whom are independent.

Each director on the Reed Elsevier NV executive and supervisory boards is required to retire by rotation at least every three years, and is able then to make themselves available for re-election by shareholders at the Annual General Meeting.

ELSEVIER REED FINANCE BV

Elsevier Reed Finance BV has a two-tier board structure comprising a management board, consisting of two members, and a supervisory board, consisting of three non-executive directors. The members of the management board and of the supervisory board are appointed by the shareholders of Elsevier Reed Finance BV. The Articles of Association of Elsevier Reed Finance BV provide that certain material resolutions of the management board will require the approval of the supervisory board. At a meeting of the supervisory board valid resolutions can be taken with a simple majority if the majority of the members are present or represented. Pursuant to the Articles of Association of Elsevier Reed Finance BV, there are specific provisions governing the appointment and dismissal of managing directors and supervisory directors during periods when a notice of suspension as mentioned in the governing agreement between Reed Elsevier PLC and Reed Elsevier NV is in force. These provisions intend to neutralise the influence of a party which has acquired control over either Reed Elsevier PLC or Reed Elsevier NV without having also acquired control in the other.

EMPLOYEES

Reed Elsevier's average number of employees in the year ended December 31, 2006 was 36,800 (2005: 36,100; 2004: 35,100). Approximately 5,900 were located in the UK (2005: 5,800; 2004: 5,700); 20,000 in North America (2005:

20,100; 2004: 19,800); 2,500 in the Netherlands (2005: 2,500; 2004: 2,600); 4,600 in the rest of Europe (2005: 4,300; 2004: 4,000); and 3,800 in the rest of the world (2005: 3,400; 2004: 3,000). The average number of employees in the business segments in the year ended December 31, 2006 was 7,300 in Elsevier (2005: 7,100; 2004: 6,700); 13,700 in LexisNexis (2005: 13,200; 2004: 12,800); 5,300 in Harcourt Education (2005: 5,400; 2004: 5,300); 10,300 in Reed Business (2005: 10,200; 2004: 10,100); and 200 in corporate/shared functions (2005: 200; 2004: 200). At December 31, 2006, the number of employees was approximately 36,800, which comprised 7,200 in Elsevier; 13,800 in LexisNexis; 5,300 in Harcourt Education; 10,300 in Reed Business; and 200 in corporate/shared functions.

The board of Reed Elsevier Group plc is fully committed to the concept of employee involvement and participation, and encourages each of its businesses to formulate its own tailor-made approach with the co-operation of employees. Reed Elsevier is an equal opportunity employer, and recruits and promotes employees on the basis of suitability for the job. Appropriate training and development opportunities are available to all employees. A code of ethics and business conduct applicable to employees within Reed Elsevier has been adopted throughout its businesses.

SHARE OWNERSHIP

REED ELSEVIER PLC

Share options

The following table sets forth the details of options held by directors over Reed Elsevier PLC ordinary shares as at December 31, 2006 under share option schemes which are described below under “Reed Elsevier — Share option schemes”:

Over shares in Reed Elsevier PLC

	January 1, 2006	Granted during the year	Option price	Exercised during the year	Market price at exercise date	December 31, 2006	Exercisable from	Exercisable until
G J A van de Aast — ESOS	50,940		638.00p			50,940	Dec 1, 2003	Dec 1, 2010
	49,317		659.00			49,317	Feb 23, 2004	Feb 23, 2011
	58,000		600.00			58,000	Feb 22, 2005	Feb 22, 2012
	81,728		451.50	81,728 ⁽ⁱ⁾	565.00p	—		
	124,956		487.25			124,956	Feb 19, 2007	Feb 19, 2014
	120,900		533.50			120,900	Feb 17, 2008	Feb 17, 2015
		127,662	530.50			127,662	Mar 13, 2009	Mar 13, 2016
— BIP	31,217		Nil			31,217	Mar 26, 2007	Mar 26, 2007
		18,633	Nil			18,633	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	229,087		487.25			229,087	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	104,130		Nil			104,130	Feb 19, 2007	Feb 19, 2007
		70,364	Nil			70,364	Apr 19, 2009	Apr 19, 2009
Total	850,275	216,659		81,728		985,206		
M H Armour — ESOS	30,000		585.25p	30,000 ⁽ⁱⁱ⁾		—		
	52,000		565.75			52,000	Apr 21, 2000	Apr 21, 2007
	66,900		523.00			66,900	Aug 17, 2001	Aug 17, 2008
	33,600		537.50			33,600	Feb 21, 2003	Apr 19, 2009
	88,202		436.50			88,202	May 2, 2003	May 2, 2010
	62,974		659.00			62,974	Feb 23, 2004	Feb 23, 2011
	74,000		600.00			74,000	Feb 22, 2005	Feb 22, 2012
	104,319		451.50			104,319	Feb 21, 2006	Feb 21, 2013
	155,147		487.25			155,147	Feb 19, 2007	Feb 19, 2014
	150,422		533.50			150,422	Feb 17, 2008	Feb 17, 2015
		158,836	530.50			158,836	Mar 13, 2009	Mar 13, 2016
— BIP	11,327		Nil	11,327	545.50p	—		
	19,225		Nil			19,225	Mar 26, 2007	Mar 26, 2007
	21,861		Nil			21,861	Apr 14, 2008	Apr 14, 2008
		21,653	Nil			21,653	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	284,437		487.25			284,437	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	129,289		Nil			129,289	Feb 19, 2007	Feb 19, 2007
		75,075	Nil			75,075	Apr 19, 2009	Apr 19, 2009
— SAYE	4,329		377.60			4,329	Aug 1, 2009	Jan 31, 2010
Total	1,288,032	255,564		41,327		1,502,269		
Sir Crispin Davis — ESOS	160,599		467.00p			160,599	Feb 21, 2003	Sept 1, 2009
	80,300		467.00			80,300	Sept 1, 2003	Sept 1, 2009
	80,300		467.00			80,300	Sept 1, 2004	Sept 1, 2009
	171,821		436.50			171,821	May 2, 2003	May 2, 2010
	122,914		659.00			122,914	Feb 23, 2004	Feb 23, 2011
	148,500		600.00			148,500	Feb 22, 2005	Feb 22, 2012
	209,192		451.50			209,192	Feb 21, 2006	Feb 21, 2013
	305,303		487.25			305,303	Feb 19, 2007	Feb 19, 2014
	292,409		533.50			292,409	Feb 17, 2008	Feb 17, 2015
		305,824	530.50			305,824	Mar 13, 2009	Mar 13, 2016
— BIP	22,731		Nil	22,731 ⁽ⁱⁱⁱ⁾	545.50p	—		
	39,554		Nil			39,554	Mar 26, 2007	Apr 26, 2007
	86,042		Nil			86,042	Apr 14, 2008	Apr 14, 2008
		42,092	Nil			42,092	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	559,722		487.25			559,722	Feb 19, 2007	Feb 19, 2014

	January 1, 2006	Granted during the year	Option price	Exercised during the year	Market price at exercise date	December 31, 2006	Exercisable from	Exercisable until
— LTIS (shares)	254,419		Nil			254,419	Feb 19, 2007	Feb 19, 2007
		144,550	Nil			144,550	Apr 19, 2009	Apr 19, 2009
— SAYE		3,793	424.40			3,793	Aug 1, 2011	Jan 31, 2012
Total	2,533,806	496,259		22,731		3,007,334		
		62						
E Engstrom — ESOS	63,460		478.00p			63,460	Aug 23, 2007	Aug 23, 2014
	154,517		533.50			154,517	Feb 17, 2008	Feb 17, 2015
		178,895	530.50			178,895	Mar 13, 2009	Mar 13, 2016
— BIP	14,020		Nil			14,020	Apr 14, 2008	Apr 14, 2008
— LTIS (options)	318,398		478.00			318,398	Aug 23, 2007	Aug 23, 2014
— LTIS (shares)	144,726		Nil			144,726	Feb 19, 2007	Feb 19, 2007
		82,092	Nil			82,092	Apr 19, 2009	Apr 19, 2009
— Restricted shares	77,186		Nil	38,593 ^(iv)	560.00p	38,593	Aug 23, 2005	Aug 23, 2007
Total	772,307	260,987		38,593		994,701		
A Prozes — ESOS	188,281		566.00p			188,281	Aug 9, 2003	Aug 9, 2010
	83,785		659.00			83,785	Feb 23, 2004	Feb 23, 2011
	103,722		600.00			103,722	Feb 22, 2005	Feb 22, 2012
	132,142		451.50			132,142	Feb 21, 2006	Feb 21, 2013
	162,666		487.25			162,666	Feb 19, 2007	Feb 19, 2014
	154,517		533.50			154,517	Feb 17, 2008	Feb 17, 2015
		182,303	530.50			182,303	Mar 13, 2009	Mar 13, 2016
— BIP	20,040		Nil	20,040 ^(v)	545.50p	—		
	20,104		Nil			20,104	Mar 26, 2007	Mar 26, 2007
	23,756		Nil			23,756	Apr 14, 2008	Apr 14, 2008
		26,400	Nil			26,400	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	298,221		487.25			298,221	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	135,555		Nil			135,555	Feb 19, 2007	Feb 19, 2007
		83,656	Nil			83,656	Apr 19, 2009	Apr 19, 2009
Total	1,322,789	292,359		20,040		1,595,108		
P Tierney — ESOS	396,426		451.50p	25,000 ^(vi)	559.00p	371,426	Feb 21, 2006	Feb 21, 2013
	162,666		487.25			162,666	Feb 19, 2007	Feb 19, 2014
	154,517		533.50			154,517	Feb 17, 2008	Feb 17, 2015
		175,488	530.50			175,488	Mar 13, 2009	Mar 13, 2016
— BIP	19,572		Nil			19,572	Mar 26, 2007	Mar 26, 2007
	24,156		Nil			24,156	Apr 14, 2008	Apr 14, 2008
		8,124	Nil			8,124	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	298,221		487.25			298,221	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	135,555		Nil			135,555	Feb 19, 2007	Feb 19, 2007
		80,528	Nil			80,528	Apr 19, 2009	Apr 19, 2009
Total	1,191,113	264,140		25,000		1,430,253		

(i) Retained an interest in 9,652 shares

(ii) Lapsed unexercised

(iii) Retained an interest in 13,666 shares

(iv) Retained an interest in 10,226 shares

(v) Retained an interest in 13,244 shares

(vi) Retained an interest in all of the shares

Awards granted under BIP and ESOS which become exercisable from 2007 onwards are subject to post-grant performance conditions, as set out on pages 59 to 61.

The proportion of the award capable of vesting in 2007 under LTIS was subject to the annual growth in Adjusted EPS at constant currencies during the performance period. The numbers of LTIS options and shares included in the above table are calculated by reference to a target annual growth rate of 10%, which would result in 100% of the award vesting. Based on actual Adjusted EPS growth, 102.125% of the target award has vested.

The proportion of the award that may vest in 2009 under LTIS is subject to the annual growth in Adjusted EPS and relative total shareholder return (“TSR”) measured against a group of competitor companies during the performance period. The numbers of LTIS shares included in the above table are calculated by reference to an assumed achievement of 10% per annum averaged compound growth in Adjusted EPS at constant currencies and median TSR, which would

result in 100% of the award vesting. Depending on actual Adjusted EPS growth and TSR, the proportion of the award that may vest could be lower or higher, as outlined on page 61.

Options under the SAYE scheme, in which all eligible UK employees are invited to participate, are granted at a maximum discount of 20% to the market price at time of grant. They are normally exercisable after the expiry of 3 or 5 years from the date of grant. No performance targets are attached to this scheme as it is an all-employee scheme.

The middle market price of a Reed Elsevier PLC ordinary share on the date of the 2006 award under BIP and LTIS was 549.50p and 535.00p respectively.

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range 503.50p to 607.50p and at December 31, 2006 was 560.50p.

REED ELSEVIER NV

Share options

The following table sets forth the details of options held by directors over Reed Elsevier NV ordinary shares as at December 31, 2006 under share option schemes which are described below under “Reed Elsevier — Share option schemes”:

Over shares in Reed Elsevier NV

	January 1, 2006	Granted during the year	Option price	Exercised during the year	Market price at exercise date	December 31, 2006	Exercisable from	Exercisable until
G J A van de Aast — ESOS	35,866		€14.87			35,866	Dec 1, 2003	Dec 1, 2010
	35,148		14.75			35,148	Feb 23, 2004	Feb 23, 2011
	40,699		13.94			40,699	Feb 22, 2005	Feb 22, 2012
	58,191		9.34	58,191 ⁽ⁱ⁾	€12.11	—		
	85,805		10.57			85,805	Feb 19, 2007	Feb 19, 2014
	82,478		11.31			82,478	Feb 17, 2008	Feb 17, 2015
		85,775	11.47			85,775	Mar 13, 2009	Mar 13, 2016
— BIP	12,057		Nil	12,057 ⁽ⁱⁱ⁾	11.70	—		
	26,347		Nil			26,347	Apr 14, 2008	Apr 14, 2008
		12,311	Nil			12,311	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	157,309		10.57			157,309	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	71,504		Nil			71,504	Feb 19, 2007	Feb 19, 2007
		46,332	Nil			46,332	Apr 19, 2009	Apr 19, 2009
Total	605,404	144,418		70,248		679,574		
M H Armour — ESOS	20,244		€13.55			20,244	Feb 21, 2003	Apr 19, 2009
	61,726		10.73			61,726	May 2, 2003	May 2, 2010
	44,882		14.75			44,882	Feb 23, 2004	Feb 23, 2011
	51,926		13.94			51,926	Feb 22, 2005	Feb 22, 2012
	74,276		9.34			74,276	Feb 21, 2006	Feb 21, 2013
	106,536		10.57			106,536	Feb 19, 2007	Feb 19, 2014
	102,618		11.31			102,618	Feb 17, 2008	Feb 17, 2015
		106,720	11.47			106,720	Mar 13, 2009	Mar 13, 2016
— BIP	8,030		Nil	8,030	€11.70	—		
	12,842		Nil			12,842	Mar 26, 2007	Mar 26, 2007
	15,098		Nil			15,098	Apr 14, 2008	Apr 14, 2008
		14,306	Nil			14,306	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	195,317		10.57			195,317	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	88,780		Nil			88,780	Feb 19, 2007	Feb 19, 2007
		49,434	Nil			49,434	Apr 19, 2009	Apr 19, 2009
Total	782,275	170,460		8,030		944,705		

	January 1, 2006	Granted during the year	Option price	Exercised during the year	Market price at exercise date	December 31, 2006	Exercisable from	Exercisable until
Sir Crispin Davis — ESOS	95,774		€12.00			95,774	Feb 21, 2003	Sept 1, 2009
	47,888		12.00			47,888	Sept 1, 2003	Sept 1, 2009
	47,888		12.00			47,888	Sept 1, 2004	Sept 1, 2009
	120,245		10.73			120,245	May 2, 2003	May 2, 2010
	87,601		14.75			87,601	Feb 23, 2004	Feb 23, 2011
	104,204		13.94			104,204	Feb 22, 2005	Feb 22, 2012
	148,946		9.34			148,946	Feb 21, 2006	Feb 21, 2013
	209,645		10.57			209,645	Feb 19, 2007	Feb 19, 2014
	199,481		11.31			199,481	Feb 17, 2008	Feb 17, 2015
		205,480	11.47			205,480	Mar 13, 2009	Mar 13, 2016
— BIP	16,115		Nil	16,115 ⁽ⁱⁱⁱ⁾	€11.70	—		
	26,421		Nil			26,421	Mar 26, 2007	Mar 26, 2007
		27,810	Nil			27,810	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	384,349		10.57			384,349	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	174,704		Nil			174,704	Feb 19, 2007	Feb 19, 2007
		95,181	Nil			95,181	Apr 19, 2009	Apr 19, 2009
Total	<u>1,663,261</u>	<u>328,471</u>		<u>16,115</u>		<u>1,975,617</u>		
E Engstrom — ESOS	43,866		€10.30			43,866	Aug 23, 2007	Aug 23, 2014
	105,412		11.31			105,412	Feb 17, 2008	Feb 17, 2015
		120,198	11.47			120,198	Mar 13, 2009	Mar 13, 2016
— BIP		29,442	Nil			29,442	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	220,090		10.30			220,090	Aug 23, 2007	Aug 23, 2014
— LTIS (shares)	100,040		Nil			100,040	Feb 19, 2007	Feb 19, 2007
		54,055	Nil			54,055	Apr 19, 2009	Apr 19, 2009
— Restricted shares	53,354		Nil	26,677 ^(iv)	€12.39	26,677	Aug 23, 2005	Aug 23, 2007
Total	<u>522,762</u>	<u>203,695</u>		<u>26,677</u>		<u>699,780</u>		
A Prozes — ESOS	131,062		€13.60			131,062	Aug 9, 2003	Aug 9, 2010
	59,714		14.75			59,714	Feb 23, 2004	Feb 23, 2011
	72,783		13.94			72,783	Feb 22, 2005	Feb 22, 2012
	94,086		9.34			94,086	Feb 21, 2006	Feb 21, 2013
	111,699		10.57			111,699	Feb 19, 2007	Feb 19, 2014
	105,412		11.31			105,412	Feb 17, 2008	Feb 17, 2015
		122,487	11.47			122,487	Mar 13, 2009	Mar 13, 2016
— BIP	14,552		Nil	14,552 ^(v)	€11.70	—		
	13,612		Nil			13,612	Mar 26, 2007	Mar 26, 2007
	16,522		Nil			16,522	Apr 14, 2008	Apr 14, 2008
		17,636	Nil			17,636	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	204,782		10.57			204,782	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	93,083		Nil			93,083	Feb 19, 2007	Feb 19, 2007
		55,085	Nil			55,085	Apr 19, 2009	Apr 19, 2009
Total	<u>917,307</u>	<u>195,208</u>		<u>14,552</u>		<u>1,097,963</u>		
P Tierney — ESOS	282,258		€9.34	16,000 ^(iv)	€12.90	266,258	Feb 21, 2006	Feb 21, 2013
	111,699		10.57			111,699	Feb 19, 2007	Feb 19, 2014
	105,412		11.31			105,412	Feb 17, 2008	Feb 17, 2015
		117,908	11.47			117,908	Mar 13, 2009	Mar 13, 2016
— BIP	13,252		Nil			13,252	Mar 26, 2007	Mar 26, 2007
	16,800		Nil			16,800	Apr 14, 2008	Apr 14, 2008
		5,426	Nil			5,426	Apr 4, 2009	Apr 4, 2009
— LTIS (options)	204,782		10.57			204,782	Feb 19, 2007	Feb 19, 2014
— LTIS (shares)	93,083		Nil			93,083	Feb 19, 2007	Feb 19, 2007
		53,025	Nil			53,025	Apr 19, 2009	Apr 19, 2009
Total	<u>827,286</u>	<u>176,359</u>		<u>16,000</u>		<u>987,645</u>		

(i) Retained an interest in 7,411 shares

(ii) Retained an interest in 7,836 shares

(iii) Retained an interest in 9,708 shares

(iv) Retained an interest in all of the shares

(v) Retained an interest in 9,598 shares

Awards granted under BIP and ESOS which become exercisable from 2007 onwards are subject to post-grant performance conditions, as set out on pages 59 to 61.

The proportion of the award capable of vesting in 2007 under LTIS was subject to the annual growth in Adjusted EPS at constant currencies during the performance period. The numbers of LTIS options and shares included in the above table are calculated by reference to a target annual growth rate of 10%, which would result in 100% of the award vesting. Based on actual Adjusted EPS growth, 102.125% of the target award has vested.

The proportion of the award that may vest in 2009 under LTIS is subject to the annual growth in Adjusted EPS at constant currencies and relative total shareholder return ("TSR") measured against a group of competitor companies during the performance period. The numbers of LTIS shares included in the above table are calculated by reference to an assumed achievement of 10% per annum averaged compound growth in Adjusted EPS at constant currencies and median TSR, which would result in 100% of the award vesting. Depending on actual adjusted EPS growth and TSR, the proportion of the award that may vest could be lower or higher, as outlined on page 61.

The market price of a Reed Elsevier NV ordinary share on the date of the 2006 award under BIP and LTIS was €11.78 and €11.76, respectively.

The market price of a Reed Elsevier NV ordinary share during the year was in the range €11.08 to €13.72 and at December 31, 2006 was €12.92.

Options awarded since December 31, 2006

The following options were awarded to directors of Reed Elsevier PLC and Reed Elsevier NV on February 15, 2007:

(a) Under the Reed Elsevier Group plc Share Option Scheme

	Number of Reed Elsevier PLC options granted at 644.50p per share	Number of Reed Elsevier NV options granted at €14.51 per share	Exercisable from	Exercisable to
G J A van de Aast	122,536	80,928	Feb 15, 2010	Feb 15, 2017
M H Armour	130,740	86,347	Feb 15, 2010	Feb 15, 2017
Sir Crispin Davis	251,730	166,254	Feb 15, 2010	Feb 15, 2017
E Engstrom.....	130,060	85,897	Feb 15, 2010	Feb 15, 2017
A Prozes	132,537	87,533	Feb 15, 2010	Feb 15, 2017
P Tierney	121,628	80,329	Feb 15, 2010	Feb 15, 2017

Exercise of the above options is subject to a post grant performance condition, requiring the achievement of 6% per annum compound growth in Adjusted EPS expressed at constant exchange rates, during the three years following the grant. There is no re-testing of the three year EPS performance.

(b) Under the Reed Elsevier Group plc Long Term Incentive Share Option Scheme

	Number of Reed Elsevier PLC nil cost conditional shares awarded	Number of Reed Elsevier NV nil cost conditional shares awarded	Exercisable from	Exercisable to
G J A van de Aast	57,898	38,238	Feb 15, 2010	Feb 15, 2010
M H Armour	61,775	40,799	Feb 15, 2010	Feb 15, 2010
Sir Crispin Davis	118,942	78,555	Feb 15, 2010	Feb 15, 2010
E Engstrom.....	61,453	40,586	Feb 15, 2010	Feb 15, 2010
A Prozes	62,623	41,359	Feb 15, 2010	Feb 15, 2010
P Tierney	57,412	37,917	Feb 15, 2010	Feb 15, 2010

Vesting of the above award is subject to the achievement of 10% per annum averaged compound growth in adjusted earnings per share (EPS) at constant currencies of Reed Elsevier PLC and Reed Elsevier NV and the achievement of median total shareholder return (TSR) against a comparator group of seventeen media companies, over the three year performance period 2007-2009. The actual number of conditional shares that will vest will be determined by the Remuneration Committee, and in accordance with the Rules of the Scheme, by reference to the actual EPS and TSR performance over the three year performance period. No awards will vest if EPS is below 8% per annum. If EPS is 12% per annum and above and TSR is upper quartile and above, 189% of the award will vest.

REED ELSEVIER

Share option schemes

As of December 31, 2006, Reed Elsevier operated and had granted share options under a number of equity-based compensation plans as follows

(i) All-Employee Option Plans

Reed Elsevier's All-Employee Option Plans comprise:

(a) Reed Elsevier Group plc SAYE Share Option Scheme (the "SAYE Scheme")

Options over Reed Elsevier PLC ordinary shares have been granted under the SAYE Scheme. Shares may be acquired at not less than the higher of (i) 80% of the closing middle market price for the relevant share on The London Stock Exchange three days before invitations to apply for options are issued, and (ii) if new shares are to be subscribed, their nominal value.

All UK employees of Reed Elsevier Group plc and participating companies under its control in employment at the date of invitation are entitled to participate in the SAYE Scheme. In addition, the directors of Reed Elsevier Group plc may permit other employees of Reed Elsevier Group plc and participating companies under its control to participate.

Invitations to apply for options may normally only be issued within 42 days after the announcement of the combined results of Reed Elsevier for any period. No options may be granted more than 10 years after the approval of the scheme.

On joining the SAYE Scheme, a save as you earn contract (a "Savings Contract") must be entered into with an appropriate savings body, under which savings of between £5 and £250 per month may be made to such savings body for a period of three or five years. A bonus is payable under the Savings Contract at the end of the savings period. The amount of the monthly contributions may be reduced if applications exceed the number of Reed Elsevier PLC ordinary shares available for the grant of options on that occasion.

The number of Reed Elsevier PLC ordinary shares over which an option may be granted is limited to that number of shares which may be acquired at the exercise price out of the repayment proceeds (including any bonus) of the Savings Contract.

Options under the SAYE Scheme may normally only be exercised for a period of six months after the bonus date under the relevant Savings Contract. However, options may be exercised earlier than the normal exercise date in certain specified circumstances, including death, reaching age 60, or on ceasing employment on account of injury, disability, redundancy, reaching contractual retirement age, or the sale of the business or subsidiary for which the participant works, or provided the option has been held for at least three years, on ceasing employment for any other reason. Exercise is allowed in the event of an amalgamation, reconstruction or take-over of the company whose shares are under option; alternatively, such options may, with the agreement of an acquiring company or a company associated with it, be exchanged for options over shares in the acquiring company or that associated company. Options may also be exercised in the event of the voluntary winding-up of the company whose shares are under option. In the event that options are exercised before the bonus date, the participant may acquire only the number of shares that can be purchased with the accumulated savings up to the date of exercise, plus interest (if any).

In the event of any capitalisation or rights issue by Reed Elsevier PLC or Reed Elsevier NV, or of any consolidation, subdivision or reduction of their share capital, the number of shares subject to any relevant option and/or the exercise price may be adjusted with the approval of the UK Inland Revenue, subject to the independent auditors of Reed Elsevier Group plc confirming in writing that such adjustment is, in their opinion, fair and reasonable.

(b) Convertible debenture stock arrangements

This facility consists of an annual issue by Reed Elsevier NV of a convertible debenture loan (the "Netherlands Convertible Debenture Stock Scheme") that is open for subscription by Dutch staff employed by Reed Elsevier companies in the Netherlands or temporarily seconded to affiliates abroad. The interest rate of the scheme is determined on the basis of the average interest for 10-year loans at the end of the year preceding the year in which the loan would be issued and be open for subscription. With effect from February 19, 2004, for new issues interest is determined quarterly on the basis of market rates on internet savings accounts in the Netherlands. Employees can annually subscribe for one or more debentures of €200 each, up to a maximum amount equal to 20% of the equivalent of their fixed annual salary components. Interest is payable in arrears in the month of January following the subscription year. The loans have a term of 10 years. During the 10 year term of the loan employees can decide to convert their claim on the Company into shares at an exercise price equal to the price of a Reed Elsevier NV ordinary share on Euronext Amsterdam at the end of the month in which the employee has subscribed for the loan (the "exercise price"). Each debenture of €200 can be converted into 50 ordinary shares in Reed Elsevier NV against payment of 50 times the exercise price, less €200.

(ii) Executive option plans

Reed Elsevier's executive option plans comprise:

(a) Reed Elsevier Group plc executive share option schemes

Schemes in this group comprise the Reed Elsevier Group plc Executive UK Share Option Scheme (the "Executive UK Scheme"), the Reed Elsevier Group plc Executive Overseas Share Option Scheme (the "Executive Overseas Scheme") and the Reed Elsevier Group plc Executive Share Option Schemes (No. 2) (the "No. 2 Scheme") and the Reed Elsevier Group plc Share Option Scheme (together the "Executive Schemes").

The Executive Schemes provide for the grant of options to employees of Reed Elsevier Group plc and participating companies under its control. All directors and employees of Reed Elsevier Group plc and participating companies under its control who are contracted to work for at least 25 hours per week are eligible to be nominated for participation. The grant of options is administered by a committee of non-executive directors of Reed Elsevier Group plc. No payment is required for the grant of an option under the Executive Schemes.

Options granted under the Executive Schemes may be exercised within a period of 10 years and entitle the holder to acquire shares at a price which may not be less than the higher of (i) in the case of a Reed Elsevier PLC ordinary share, the closing middle market price for the relevant share on The London Stock Exchange at the date of grant, (ii) in the case of a Reed Elsevier NV ordinary share, the closing market price for the relevant share on Euronext, Amsterdam at the date of grant and (iii) if new shares are to be subscribed, their nominal value.

Employees may be granted options under the Executive Schemes to replace those which have been exercised. In granting such replacement options, the committee of non-executive directors must satisfy itself that the grant of such options is justified by the performance of Reed Elsevier in the previous two to three years.

Options may normally only be granted under the Executive Schemes within 42 days after the announcement of the combined results of Reed Elsevier for any period. No option may be granted under the Executive Schemes more than 10 years after the approval of the respective scheme.

Options granted under the Executive Schemes will normally be exercisable only after the expiry of three years from the date of their grant and by a person who remains a director or employee of Reed Elsevier Group plc and participating companies under its control. Options granted to directors are subject to performance criteria 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 three year EPS performance period.

Early exercise of such options is permitted in substantially similar circumstances to those set out in relation to the Reed Elsevier Group plc SAYE Scheme. The committee of non-executive directors has discretion to permit the exercise of options by a participant in certain circumstances where it would not otherwise be permitted.

The size of the annual grant pool under the Reed Elsevier Group plc Share Option Scheme is determined by reference to the compound annual growth in Adjusted EPS, at constant exchange rates, 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 three times salary.

In the event of any capitalisation or rights issue by Reed Elsevier PLC or Reed Elsevier NV, or of any consolidation, subdivision or reduction of their share capital, the number of shares subject to any relevant option and/or the exercise price may be adjusted with the approval of the UK Inland Revenue, subject to the independent auditors of Reed Elsevier Group plc confirming in writing that such adjustment is, in their opinion, fair and reasonable.

Options under the Executive UK Scheme and the Executive Overseas Scheme may be satisfied from new issues or market purchase Reed Elsevier PLC ordinary shares or Reed Elsevier NV ordinary shares. Options under the No. 2 Scheme may be satisfied only from market purchase Reed Elsevier PLC ordinary shares or Reed Elsevier NV ordinary shares.

In 2006 participants in the Executive Schemes (other than directors) were able to choose to convert a proportion of their award into restricted shares — see "Long term incentive plans" on page 61.

(b) Reed Elsevier NV executive option arrangements

Under arrangements operated by Reed Elsevier NV (the "Reed Elsevier NV Executive Option Arrangements"), options to subscribe for Reed Elsevier NV ordinary shares were granted in 1999 to the members of the executive board and to a small number of other senior executives based in the Netherlands. Such options give the beneficiary the right, at any time during periods of either five years or ten years following the date of the grant, to purchase Reed Elsevier NV ordinary shares. Options were granted at an exercise price equal to the market price on the date of grant. During 1999, options were granted with an exercise period of five years at an exercise price 26% above the market price at the date of

grant, or with an exercise period of 10 years at an exercise price equal to the market price at the date of grant, or a combination of both.

(c) Long term incentive plans

In 2006 onwards a small number of key senior executives (approximately 120) received an annual award, consisting solely of performance shares, under the Reed Elsevier Group plc Long Term Incentive Share Option Scheme (the “2003 LTIS”). Grants will vest subject to the achievement of a demanding EPS performance target over a three year performance period, and an additional TSR performance target over the same three year period. The minimum level of compound Adjusted EPS growth will continue to be 8% per annum, with maximum vesting (under the EPS measure) being achieved for growth of 12% per annum. Any award earned through EPS performance may then be increased in line with Reed Elsevier’s TSR performance against a selected international comparator group over the three year period. No increase will be applied for TSR performance which is below median, and the maximum increase will be applied at upper quartile or higher levels of TSR achievement. No award will be made to participants if Reed Elsevier fails to achieve the minimum threshold of 8% p.a. EPS growth, irrespective of the associated TSR performance. Any shares which vest will be treated as attracting dividends during the performance period. A copy of the restated LTIS scheme rules is filed as an exhibit to this Annual Report on Form 20-F see “Item 19: Exhibits” on page F-92.

Prior to 2006 awards were made under the 2003 LTIS to directors and a small number of key senior executives (approximately 40). Approximately 50% of the total implied value of a grant took the form of nil cost conditional shares and 50%, took the form of conventional market value options. For executive directors, grant levels comprised conditional shares of 2.5 times salary and conventional options of 5.5 times salary. Grants will vest subject to the achievement of compound annual Adjusted EPS growth, at constant exchange rates, 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 straightline 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 automatically terminated any option award under the Reed Elsevier Group plc long term incentive arrangement (the “LTIP”).

Participants in the 2003 LTIS are required to build up a significant personal shareholding in Reed Elsevier PLC and/or Reed Elsevier NV. The shareholding requirement for the Group Chief Executive Officer is now three times salary (previously 1.5 times salary) and for other executive directors the requirement is two times salary (previously 1.5 times salary). These increased shareholding requirements must be met by February 2009 at the latest.

The Committee continues to have full discretion to reduce or cancel awards granted to participants based on its assessment as to whether the EPS and TSR performance fairly reflects the progress of the business having regard to underlying revenue growth, cash generation, return on capital and any significant changes in inflation as well as individual performance.

In 2006 participants in the Reed Elsevier Group plc Executive Share Option Scheme were able to choose to convert a proportion of their award into restricted shares, on a pre-determined formula of one restricted share for every five share options that they would otherwise have been awarded. The restricted shares vest after the expiry of three years from the date of their grant, subject to the participant remaining a director or employee of Reed Elsevier Group plc or a participating company under its control. Awards are made under the Reed Elsevier Group plc Retention Share Plan, and will be satisfied by market purchase shares. A copy of the Reed Elsevier Group plc Retention Plan as amended is filed as an exhibit to this Annual Report on Form 20-F see “Item 19: Exhibits” on page F-92.

(d) Bonus investment plan

Directors and other senior executives are able to invest up to half of their annual performance related bonus in Reed Elsevier PLC/Reed Elsevier NV shares under the Reed Elsevier Group plc Bonus Investment Plan (the “Bonus Investment Plan”). Subject to continuing to hold the shares and remaining in employment, at the end of a three year period, the participants are awarded an equivalent number of Reed Elsevier PLC/Reed Elsevier NV shares at nil cost. Awards are subject to a performance condition requiring the achievement of compound growth in the average of the Reed Elsevier PLC and Reed Elsevier NV Adjusted EPS, at constant exchange rates, of 6% per annum compound during the three year vesting period.

Limits over option grants

No options may be granted over new issue shares under the SAYE Scheme, the Executive UK Scheme and the Executive Overseas Scheme if they would cause the number of Reed Elsevier PLC ordinary shares issued or issuable in any 10 year period to exceed in aggregate 10% of the issued share capital of Reed Elsevier PLC from time to time. The number of Reed Elsevier NV ordinary shares which may be issued or issuable under the Netherlands Convertible Debenture Scheme, the Executive UK Scheme, the Executive Overseas Scheme and the Reed Elsevier NV Executive Option arrangements will be determined by the combined board of Reed Elsevier NV, but shall not exceed the percentage limits set out above in relation to Reed Elsevier PLC ordinary shares.

Share options and conditional share awards

At February 14, 2007, the total number of ordinary shares subject to outstanding options were:

	Number of outstanding options	Options over shares	Option price range
Reed Elsevier Group plc SAYE Share Option Schemes	3,273,226	Reed Elsevier PLC	336.20p – 543.20p
Reed Elsevier NV Convertible Debenture Stock Scheme	1,912,900	Reed Elsevier NV	€9.23 – €15.43
Reed Elsevier Group plc Executive Share Option Schemes	46,595,970	Reed Elsevier PLC	424.00p – 700.00p
	31,751,382	Reed Elsevier NV	€9.29 – €16.00
Reed Elsevier NV Executive Options Arrangements	110,463	Reed Elsevier NV	€13.55
Reed Elsevier Group plc Long Term Incentive Share Option Scheme	4,883,376	Reed Elsevier PLC	478.00p – 524.50p
	3,307,467	Reed Elsevier NV	€10.30 – €11.35

Share options are expected, upon exercise, to be met principally by the issue of new ordinary shares, but may also be met from shares held by the Reed Elsevier Group plc Employee Benefit Trust.

At February 14, 2007, the following nil cost conditional share awards were also outstanding:

	Number of outstanding awards	Awards over shares in
Reed Elsevier Group plc Long Term Incentive Share Option Scheme	4,173,191	Reed Elsevier PLC
	2,809,764	Reed Elsevier NV
Reed Elsevier Group plc Retention Share Plan	2,990,452	Reed Elsevier PLC
	1,973,045	Reed Elsevier NV
Reed Elsevier Group plc Bonus Investment Plan	1,725,478	Reed Elsevier PLC
	645,419	Reed Elsevier NV

These awards will be met by the Reed Elsevier Employee Benefit Trust from shares purchased in the market.

Options and awards granted under the schemes are not transferable and may be exercised only by the persons to whom they are granted or their personal representatives.

REED ELSEVIER

Share ownership

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	
	January 1, 2006 ⁽ⁱ⁾	December 31, 2006	January 1, 2006 ⁽ⁱ⁾	December 31, 2006
G J A van de Aast	18,600	39,169	35,445	57,941
M H Armour	99,321	112,007	38,727	47,150
G J de Boer-Kruyt	—	—	—	—
Sir Crispin Davis	528,847	567,174	298,261	324,344
M W Elliott	—	—	—	—
E Engstrom	19,253	29,479	26,678	73,415
J Hommen	—	—	—	—
L Hook	—	—	—	—
C J A van Lede	—	—	11,100	—
A Prozes	91,444	123,740	73,632	95,954
D E Reid	—	—	—	—
Lord Sharman	—	—	—	—
R W H Stomberg	—	—	—	—
P Tierney	42,440	72,212	28,902	48,090
S Zelnick	—	—	—	—

(i) On date of appointment if subsequent to January 1, 2006.

Following the vesting of performance shares granted in 2004 under the Long Term Incentive Scheme, the interests of the executive directors of Reed Elsevier PLC and Reed Elsevier NV in the issued share capital of the respective companies as at March 22, 2007 were:

	Interest in Reed Elsevier PLC ordinary shares	Interest in Reed Elsevier NV ordinary shares
G J A van de Aast	102,974	101,754
M H Armour	189,908	100,642
Sir Crispin Davis	720,470	429,609
E Engstrom	69,047	175,580
A Prozes	204,793	151,612
P Tierney	124,896	84,266

Any ordinary shares required to fulfil entitlements under nil cost restricted share awards and certain share options 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 March 22, 2007, amounted to 15,437,933 Reed Elsevier PLC ordinary shares and 7,993,511 Reed Elsevier NV ordinary shares.

Shares and options held by executive officers

The following table indicates the total aggregate number of Reed Elsevier PLC ordinary shares and Reed Elsevier NV ordinary shares beneficially owned and the total aggregate number of share options and conditional share awards granted to the executive officers (other than directors) of Reed Elsevier Group plc (three persons) as a group, as of February 14, 2007:

	Reed Elsevier PLC ordinary shares	Reed Elsevier PLC ordinary shares subject to options	Reed Elsevier PLC conditional share awards	Reed Elsevier NV ordinary shares⁽¹⁾⁽²⁾	Reed Elsevier NV ordinary shares subject to options	Reed Elsevier NV conditional share awards
Executive officers (other than directors) as a group	96,589	657,912	313,007	—	497,113	156,553

(1) The Reed Elsevier NV ordinary shares may be issued in registered or bearer form.

(2) No individual executive officer of Reed Elsevier Group plc has notified Reed Elsevier NV that he holds more than 5% of the issued share capital of Reed Elsevier NV pursuant to the Dutch law requirement described under “Item 7: Major Shareholders and Related Party Transactions-Reed Elsevier NV”.

The options over Reed Elsevier PLC ordinary shares included in the above table are exercisable at prices ranging from 451.50p to 700.00p per share and between the date hereof and 2016. The options over Reed Elsevier NV ordinary shares included in the above table are exercisable at prices ranging from €9.34 to €15.66 per share and between the date hereof and 2016. The Reed Elsevier PLC and Reed Elsevier NV conditional share awards included in the above table will vest between 2007 and 2009.

ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR SHAREHOLDERS

REED ELSEVIER PLC

As of February 14, 2007, Reed Elsevier PLC is aware of the following disclosable interests in the issued Reed Elsevier PLC ordinary shares:

<u>Identity of Person or Group</u> ⁽¹⁾	<u>Number of Reed Elsevier PLC ordinary shares owned</u>	<u>% of Class</u>
The Capital Group Companies, Inc	104,787,120	8.26
FMR Corporation	100,849,175	7.95
Prudential plc	52,109,466	4.11
Legal & General Group plc	49,863,553	3.93
Directors and Officers	1,040,370	—

(1) Under UK Law, subject to certain limited exceptions, persons or groups owning or controlling 3% or more of the issued Reed Elsevier PLC ordinary shares are required to notify Reed Elsevier PLC of the level of their holdings.

As far as Reed Elsevier PLC is aware, except as disclosed herein, it is neither directly or indirectly owned nor controlled by one or more corporations or by any government.

At December 31, 2006, there were 21,562 ordinary shareholders, including the depository for Reed Elsevier PLC's ADR programme, with a registered address in the United Kingdom, representing 99.50% of shares issued.

Reed Elsevier PLC is not aware of any arrangements the operation of which may at a subsequent date result in a change in control of Reed Elsevier PLC. The major shareholders of Reed Elsevier PLC do not have different voting rights to other ordinary shareholders.

REED ELSEVIER NV

As of February 14, 2007, Reed Elsevier NV is aware of the following disclosable interests in the issued Reed Elsevier NV ordinary shares, in addition to the 4,679,249 R-shares in Reed Elsevier NV held by a subsidiary of Reed Elsevier PLC and representing a 5.8% indirect equity interest in the total share capital of Reed Elsevier NV:

<u>Identity of Person or Group</u> ⁽¹⁾	<u>Number of Reed Elsevier NV ordinary shares owned</u>	<u>% of Class</u>
Directors and Officers ⁽²⁾	646,894	—

(1) Under Dutch law, any person acquiring or disposing of shares or voting rights in public companies listed on a stock exchange in the European Union, is required to notify the company without delay if such person knows, or should know, that such interest therein reaches a 5-10% range or a 10-25% range, or subsequently drops below the 5-10% range. As of February 14, 2007 Reed Elsevier PLC, ING Group and Mondrian Investment Partners Limited, had informed Reed Elsevier NV of an interest in its shares in the 5-10% range, but it had received no notification of any interest in its shares or voting rights reaching the 10-25% range, nor of an interest dropping below the 5-10% range.

(2) No individual member of the Supervisory Board or the Executive Board of Reed Elsevier NV or executive officer of Reed Elsevier NV has notified Reed Elsevier NV that they hold more than 5% of the issued share capital of Reed Elsevier NV pursuant to the Dutch law described in the immediately preceding footnote.

As far as Reed Elsevier NV is aware, except as disclosed herein, it is neither directly nor indirectly owned or controlled by one or more corporations or by any government.

Reed Elsevier NV is not aware of any arrangements the operation of which may at a subsequent date result in a change in control of Reed Elsevier NV. The major shareholders of Reed Elsevier NV do not have different voting rights to other ordinary shareholders.

RELATED PARTY TRANSACTIONS

Transactions with joint ventures and key management personnel, comprising the executive directors of Reed Elsevier PLC and Reed Elsevier NV, are set out in note 32 to the combined financial statements. Further details of remuneration of key management personnel are set out in "Item 6 — Directors, Senior Management and Employees".

ITEM 8: FINANCIAL INFORMATION

FINANCIAL STATEMENTS

See Item 18: Financial Statements.

DIVIDEND POLICY

Dividends to Reed Elsevier PLC and Reed Elsevier NV shareholders are, other than in special circumstances, equalised at the gross level, including the benefit of the UK attributable tax credit of 10% received by certain Reed Elsevier PLC shareholders. The exchange rate used for each dividend calculation as defined in the Reed Elsevier merger agreement is the spot euro/sterling exchange rate, averaged over a period of five business days commencing with the tenth business day before the announcement of the proposed dividend. The dividend policy of the boards of Reed Elsevier PLC and Reed Elsevier NV is that, subject to the effects of currency movements on dividend equalisation, increases in full year dividends are expected to closely align with adjusted earnings growth (i.e. before the amortisation of acquired intangible assets, acquisition integration costs, disposals and other non operating items, related tax effects and movements in deferred tax assets and liabilities that are not expected to crystallise in the near term).

LEGAL PROCEEDINGS

We are party to various legal proceedings, the ultimate resolutions of which are not expected to have a material adverse effect on our financial position or the results of our operations.

In March and April 2005, Reed Elsevier announced that unauthorised persons, predominantly using IDs and passwords of legitimate customers of LexisNexis, might have fraudulently acquired personal identifying information from its US risk management (including Seisint, Inc.) databases. Investigations have shown that approximately 447,000 consumers' records have been accessed. LexisNexis has notified, and is working with, Federal authorities in investigating these issues, and has notified all the potentially affected consumers of possible security compromises. LexisNexis has offered affected consumers credit monitoring and anti-fraud assistance. An intensive review of these breaches was completed to identify ways of better protecting against future breaches. Intensified data security policies and practices have been implemented.

A putative class action against LexisNexis is pending in California arising from these events, *Syran v. LexisNexis Group et al.* In April 2005, this putative class action was filed in the US District Court for the Southern District of California. The lawsuit alleges that LexisNexis violated the federal Fair Credit Reporting Act and similar state consumer protection legislation by failing to maintain reasonable procedures to protect consumer credit information from unauthorized access by third parties. A second action, *Witriol v. LexisNexis Group et al.*, filed in June 2005 in the US District Court for the Northern District of California and based on the same set of facts, has been consolidated with the *Syran* action. The plaintiffs seek unspecified punitive and statutory damages, attorneys' fees and costs, and injunctive relief.

Motion practice in the early stages of the litigation has served to frame the issues. Further, LexisNexis believes that it has strong procedural and substantive defences to these actions, which it will continue to vigorously pursue.

Reed Elsevier, Inc. ("REI") is among several defendants in a putative class action, *Richard Fresco, et al. v. Automotive Directions, Inc., et al.*, brought in the federal district court in Florida. The plaintiffs allege that REI (through both LexisNexis and Seisint) violated certain provisions of the Driver's Privacy Protection Act, (the "DPPA"), when it obtained and disclosed information originating from various state departments of highway safety and motor vehicles without the consent of the individuals to whom the information related. A settlement agreement in the *Fresco* case was negotiated, signed and submitted to the court for preliminary approval in December 2006. Under the proposed settlement, Reed Elsevier Inc. and Seisint would pay a total of US\$12 million, substantially all of which would be reimbursed by insurance and third-party indemnities, and enter into certain behavioural undertakings that would codify existing practices adopted since 2003 and that substantially would expand practices for the handling of protected data as a result of the settlement. This enhanced and multifaceted compliance program would be subject to a series of external certifications over a several year period. On January 3, 2007, an objection to the proposed settlement was lodged with the court, and a collateral putative class action, *Taylor v. Acxiom*, was filed in federal court in Texas.

ITEM 9: THE OFFER AND LISTING

TRADING MARKETS

REED ELSEVIER PLC

The Reed Elsevier PLC ordinary shares are listed on the London Stock Exchange and the New York Stock Exchange. The London Stock Exchange is the principal trading market for Reed Elsevier PLC ordinary shares. Trading on the New York Stock Exchange is in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs) issued by The Bank of New York, as depositary. Each ADS represents four Reed Elsevier PLC ordinary shares.

The table below sets forth, for the periods indicated, the high and low closing middle market quotations for the Reed Elsevier PLC ordinary shares on the London Stock Exchange as derived from the Daily Official List of the London Stock Exchange and the high and low last reported sales prices in US dollars for the Reed Elsevier PLC ADSs on the New York Stock Exchange, as derived from the New York Stock Exchange Composite Tape, and reported by Datastream International Ltd:

Calendar Periods	Pence per ordinary share		US dollars per ADS	
	High	Low	High	Low
2006	608	504	46.17	35.90
2005	554	475	42.67	35.26
2004	543	450	39.75	33.33
2003	552	392	37.14	26.15
2002	696	488	41.00	31.35
2006				
Fourth Quarter	608	555	46.17	42.70
Third Quarter	594	514	45.06	37.65
Second Quarter	556	504	40.92	37.82
First Quarter	568	515	39.48	35.90
2005				
Fourth Quarter	553	505	38.20	35.26
Third Quarter	543	519	39.50	36.86
Second Quarter	544	510	41.10	38.57
First Quarter	554	475	42.67	35.80
Month				
February 2007 (through February 14, 2007)	605	591	47.48	46.58
January 2007	612	561	48.24	44.02
December 2006	571	557	45.22	43.47
November 2006	601	555	45.79	42.70
October 2006	608	589	46.17	43.89
September 2006	594	565	45.06	42.31
August 2006	569	528	43.18	39.92

REED ELSEVIER NV

The Reed Elsevier NV ordinary shares are quoted on Euronext Amsterdam NV and the New York Stock Exchange. Euronext Amsterdam NV is the principal trading market for Reed Elsevier NV ordinary shares. Trading on the New York Stock Exchange is in the form of ADSs, evidenced by ADRs issued by The Bank of New York, as depositary. Each ADS represents two Reed Elsevier NV ordinary shares.

The table below sets forth, for the periods indicated, the high and low closing middle market quotations for the Reed Elsevier NV Ordinary Shares on Euronext Amsterdam NV as derived from the *Officiële Prijscourant* of Euronext Amsterdam NV and the high and low last reported sales prices in US dollars for the Reed Elsevier NV ADSs on the New

York Stock Exchange, as derived from the New York Stock Exchange Composite Tape, and reported by Datastream International Ltd.

Calendar Periods	€ per ordinary share		US dollars per ADS	
	High	Low	High	Low
2006	13.72	11.08	35.25	26.72
2005	11.91	10.03	31.06	26.25
2004	12.19	9.61	29.16	24.55
2003	12.03	8.13	26.08	18.14
2002	16.01	10.86	28.60	21.70
2006				
Fourth Quarter	13.72	12.68	35.25	33.31
Third Quarter	13.22	11.26	33.72	28.22
Second Quarter	12.17	11.08	30.40	28.29
First Quarter	12.20	11.18	29.32	26.62
2005				
Fourth Quarter	11.91	11.04	27.95	26.25
Third Quarter	11.85	11.11	29.41	27.28
Second Quarter	11.81	10.78	29.56	27.67
First Quarter	11.69	10.03	31.06	26.32
Month				
February 2007 (through February 14, 2007)	13.90	13.67	36.20	35.60
January 2007	14.14	12.92	36.60	33.91
December 2006	13.00	12.75	34.67	33.64
November 2006	13.72	12.68	35.25	33.31
October 2006	13.68	13.15	34.90	33.43
September 2006	13.22	12.56	33.72	31.93
August 2006	12.59	11.56	32.43	29.71

ITEM 10: ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

REED ELSEVIER PLC

A summary of Reed Elsevier PLC's equity capital structure and related summary information concerning provisions of its Memorandum and Articles of Association and applicable English law as at March 2001 is incorporated by reference from the 2000 Annual Report on Form 20-F filed with the SEC on March 13, 2001. Since March 2001 a number of amendments have been made to the Articles of Association. A summary of those changes is incorporated by reference from the 2002 Annual Report on Form 20-F filed with the SEC on March 10, 2003. Being summaries, they do not contain all the information that may be important to you, and they are qualified in their entirety by reference to the UK Companies Act 1985 and the Reed Elsevier PLC Memorandum and Articles of Association. For more complete information, you should read Reed Elsevier PLC's Memorandum and Articles of Association. A copy of Reed Elsevier PLC's Memorandum and Articles of Association is incorporated by reference from the 2002 Annual Report on Form 20-F filed with the SEC on March 10, 2003 — see "Item 19: Exhibits" on page F-92.

REED ELSEVIER NV

A summary of Reed Elsevier NV's equity capital structure and related summary information concerning provisions of its Articles of Association and applicable Dutch law as at March 2001 is incorporated by reference from the 2000 Annual Report on Form 20-F filed with the SEC on March 13, 2001. At the 2002 Annual General Meeting of Shareholders a number of amendments were approved to the Articles of Association, and a summary of those amendments is incorporated by reference from the 2002 Annual Report on Form 20-F filed with the SEC on March 10, 2003. In 2005 a number of further amendments were made to the Articles of Association and a summary of those amendments is incorporated by reference from the 2005 Annual Report on Form 20-F filed with the SEC on March 16, 2006. Being summaries they do not contain all the information that may be important to you, and they are qualified in their entirety by reference to Dutch law and the Articles of Association of Reed Elsevier NV. For more complete information, you should read Reed Elsevier NV's Articles of Association. A copy of Reed Elsevier NV's Articles of Association is incorporated by reference from the 2005 Annual Report on Form 20-F filed with the SEC on March 16, 2006 — see "Item 19: Exhibits" on page F-92.

MATERIAL CONTRACTS

Reed Elsevier has not entered into any material contract within the last two years.

EXCHANGE CONTROLS

There is currently no UK or Dutch legislation restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of, respectively, Reed Elsevier PLC ordinary shares who are non-residents of the United Kingdom and Reed Elsevier NV ordinary shares who are non-residents of the Netherlands.

There are no limitations relating only to non-residents of the United Kingdom under UK law or Reed Elsevier PLC's Memorandum and Articles of Association on the right to be a holder of, and to vote, Reed Elsevier PLC ordinary shares, or to non-residents of the Netherlands under Dutch law or Reed Elsevier NV's Articles of Association on the right to be a holder of, and to vote, Reed Elsevier NV ordinary shares.

TAXATION

The following discussion is a summary under present law and tax authority practice of the material UK, Dutch and US federal income tax considerations relevant to the purchase, ownership and disposal of Reed Elsevier PLC ordinary shares or ADSs and Reed Elsevier NV ordinary shares or ADSs. This discussion applies to you only if you are a US holder, you hold your ordinary shares or ADSs as capital assets and you use the US dollar as your functional currency. It does not address the tax treatment of US holders subject to special rules, such as banks, dealers or traders in securities or currencies, insurance companies, tax-exempt entities, partnerships or other pass-through entities for US federal income tax purposes, holders of 10% or more of Reed Elsevier PLC or Reed Elsevier NV voting shares, persons holding ordinary shares or ADSs as part of a hedging, straddle, conversion or constructive sale transaction, persons that are resident or ordinarily resident in the UK (or who have ceased to be resident or ordinarily resident within the past five years of assessment) and persons that are resident in the Netherlands. The summary also does not discuss the US federal alternative minimum tax or the tax laws of particular states or localities in the US.

This summary does not consider your particular circumstances. It is not a substitute for tax advice. **We urge you to consult your own independent tax advisors about the income, capital gains and/or transfer tax consequences to you in light of your particular circumstances of purchasing, holding and disposing of ordinary shares or ADSs.**

As used in this discussion, "US holder" means a beneficial owner of ordinary shares or ADSs that is for US federal income tax purposes: (i) an individual US citizen or resident, (ii) a corporation, partnership or other business entity created or organised under the laws of the United States, any state thereof or the District of Columbia, (iii) a trust (a) that is subject to the control of one or more US persons and the primary supervision of a US court, or (b) that has a valid election in effect under US Treasury regulations to be treated as a US person or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

UK Taxation

Dividends

Under current UK taxation legislation, no tax is required to be withheld at source from dividends paid on the Reed Elsevier PLC ordinary shares or ADSs.

Capital Gains

You may be liable for UK taxation on capital gains realised on the disposal of your Reed Elsevier PLC ordinary shares or ADSs if at the time of the disposal you carry on a trade, profession or vocation in the United Kingdom through a branch or agency, or in the case of a company a permanent establishment, and such ordinary shares or ADSs are or have been used, held or acquired for the purposes of such trade, profession, vocation, branch, agency or permanent establishment.

UK Stamp Duty and Stamp Duty Reserve Tax

UK stamp duty reserve tax (SDRT) or UK stamp duty is payable upon the transfer or issue of Reed Elsevier PLC ordinary shares to the depositary in exchange for Reed Elsevier PLC ADSs evidenced by ADRs. For this purpose, the current rate of stamp duty and SDRT of 1.5% would be applied, in each case, to: (i) the issue price when the ordinary shares are issued; (ii) the amount or value of the consideration where shares are transferred for consideration in money or money's worth; or (iii) the value of the ordinary shares in any other case.

Provided that the relevant instrument of transfer is not executed in the UK and remains outside the UK, no UK stamp duty will be payable on the acquisition or subsequent transfer of Reed Elsevier PLC ADSs. An agreement to transfer Reed Elsevier PLC ADSs will not give rise to a liability to SDRT.

A transfer of Reed Elsevier PLC ordinary shares by the depositary to an ADS holder where there is no transfer of beneficial ownership will give rise to UK stamp duty at the rate of £5 per transfer.

Purchases of Reed Elsevier PLC ordinary shares, as opposed to ADSs, will give rise to UK stamp duty or SDRT at the time of transfer or agreement to transfer, normally at the rate of 0.5% of the amount payable for the ordinary shares. SDRT and UK stamp duty are usually paid by the purchaser. If the ordinary shares are later transferred to the depositary, additional UK stamp duty or SDRT will normally be payable as described above.

Dutch Taxation

Withholding tax

Dividends distributed to you by Reed Elsevier NV before January 1, 2007 were normally subject to a withholding tax imposed by the Netherlands at a rate of 25%. Under the US-Netherlands income tax treaty, the rate of Dutch withholding tax on dividends distributed to you could be reduced from 25% to 15%. Dividends include, among other things, stock dividends unless the dividend is distributed out of recognised paid-in share premium for Dutch tax purposes.

You could claim the benefits of the reduced US-Netherlands income tax treaty withholding rate by submitting a Form IB 92 U.S.A. that includes an affidavit of a financial institution (typically the entity that holds the Reed Elsevier NV ordinary shares or ADSs for you as custodian). If Reed Elsevier NV receives the required documentation before the relevant dividend payment date, it may apply the reduced withholding rate at source. If you fail to satisfy these requirements, you can claim a refund of the excess amount withheld by filing Form IB 92 U.S.A. with the Dutch tax authorities within three years after the calendar year in which the withholding tax was levied and describing the circumstances that prevented you from claiming withholding tax relief at source.

From January 1, 2007 the Dutch dividend withholding tax rate has been reduced to 15%. As a consequence, no administrative procedures for a partial relief at source from or a refund of Dutch dividend withholding tax need be complied with in respect of dividend distributions that are made available for payment on or after this date.

Taxation of dividends and capital gains

You will not be subject to any Dutch taxes on dividends distributed by Reed Elsevier NV (other than the withholding tax described above) or any capital gain realised on the disposal of Reed Elsevier NV ordinary shares or ADSs provided that (i) the Reed Elsevier NV ordinary shares or ADSs are not attributable to an enterprise or an interest in an enterprise that you carry on, in whole or part through a permanent establishment or a permanent representative in the Netherlands, (ii) you do not have a substantial interest or a deemed substantial interest in Reed Elsevier NV (generally, 5% or more of either the total issued and outstanding capital or the issued and outstanding capital of any class of shares) or, if you have such an interest, it forms part of the assets of an enterprise, and (iii) if you are an individual, such dividend or capital gain from your Reed Elsevier NV ordinary shares or ADSs does not form benefits from miscellaneous activities (*“resultaat uit overige werkzaamheden”*) in the Netherlands.

US Federal Income Taxation

Holders of the ADSs generally will be treated for US federal income tax purposes as owners of the ordinary shares represented by the ADSs. Accordingly deposits or withdrawals of ordinary shares for ADSs will not be subject to US federal income tax.

Dividends

Dividends on Reed Elsevier PLC ordinary shares or ADSs or Reed Elsevier NV ordinary shares or ADSs (including any Dutch tax withheld) will generally be included in your gross income as ordinary income from foreign sources. The dollar amount recognised on receiving a dividend in pounds sterling or euros will be based on the exchange rate in effect on the date the depositary receives the dividend, or in the case of ordinary shares on the date you receive the dividend, as the case may be, whether or not the payment is converted into US dollars at that time. Any gain or loss recognised on a subsequent conversion of pounds sterling or euros for a different amount will be US source ordinary income or loss. Dividends received will not be eligible for the dividends-received deduction available to corporations.

On March 31, 2003, representatives of the United Kingdom and United States exchanged instruments of ratification for a new income tax convention (the “New UK Treaty”). The New UK Treaty has the force and effect of law in respect of withholding taxes on dividends from May 1, 2003. Investors who qualified for benefits under the terms of the prior treaty between the United Kingdom and United States (the “Old UK Treaty”) were eligible, subject to generally applicable limitations, to receive a special US foreign tax credit equal to one-ninth of the amount of certain cash dividends that they received on the Reed Elsevier PLC ordinary shares or Reed Elsevier PLC ADSs, so long as they made an election to include in their income, as an additional notional dividend, an amount equal to the tax credit.

This foreign tax credit benefit is not available under the New UK Treaty, and thus generally is unavailable with respect to dividends paid after May 1, 2003. However, the New UK Treaty provides for an election pursuant to which

persons eligible for the benefits of the Old UK Treaty may elect to apply the Old UK Treaty in its entirety, in lieu of the New UK Treaty, for an optional 12-month extension period. Thus, if an investor were to elect the application of the Old UK Treaty, that investor could obtain the special foreign tax credit benefit described above with respect to any dividends received on the Reed Elsevier PLC ordinary shares or Reed Elsevier PLC ADSs prior to May 1, 2004.

If you hold Reed Elsevier NV ordinary shares or ADSs and are eligible to claim benefits under the US-Netherlands income tax treaty, you may claim a reduced rate of Dutch dividend withholding tax equal to 15% with respect to dividend distributions that were made available for payment before January 1, 2007. Dividend distributions that are made available for payment on or after January 1, 2007 are subject to the new (domestic) Dutch dividend withholding tax rate of 15%. With respect to these dividend distributions it is therefore no longer necessary to claim the reduced rate of Dutch dividend withholding tax under the US-Netherlands income tax treaty. For purposes of calculating the foreign tax credit, dividends paid on the ordinary shares or ADSs will be treated as income from sources outside the US and will generally constitute passive income. Further, in certain circumstances, if you have held the ordinary shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on the dividends on the ordinary shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

With respect to US holders who are individuals, certain dividends received before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of certain comprehensive income tax treaties with the United States. United States Treasury Department guidance indicates that the United Kingdom is a country with which the United States has a treaty in force that meets these requirements, and Reed Elsevier PLC believes it is eligible for the benefits of this treaty. Additionally, the same guidance indicates that the Netherlands is also a country with which the United States has a treaty in force that meets the above requirements, and Reed Elsevier NV believes it is eligible for the benefits of this treaty. Individuals that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to section 163(d)(4) of the US Internal Revenue Code of 1986, as amended, will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. US holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

Dispositions

You will recognise a gain or loss on the sale or other disposition of ordinary shares or ADSs in an amount equal to the difference between your basis in the ordinary shares or ADSs and the amount realised. The gain or loss will be capital gain or loss. It will be long term capital gain or loss if you have held the ordinary shares or ADSs for more than one year at the time of sale or other disposition. Long term capital gains of individuals are eligible for reduced rates of taxation. Deductions for capital losses are subject to limitations.

If you receive pounds sterling or euros on the sale or other disposition of your ordinary shares or ADSs, you will realise an amount equal to the US dollar value of the pounds sterling or euros on the date of sale or other disposition (or in the case of cash basis and electing accrual basis taxpayers, if the ordinary shares or ADSs are traded on an established securities market, the settlement date for the sale or other disposition). You will have a tax basis in the pounds sterling or the euros that you receive equal to the US dollar amount received. Any gain or loss realised by a US holder on a subsequent conversion of pounds sterling or euros into US dollars will be US source ordinary income or loss.

Information Reporting and Backup Withholding Tax

Dividends from ordinary shares or ADSs and proceeds from the sale of the ordinary shares or ADSs may be reported to the Internal Revenue Service (“IRS”) unless the shareholder is a corporation or other exempt recipient. A backup withholding tax may apply to such amounts unless the shareholder (i) is a corporation, (ii) provides an accurate taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules, or (iii) otherwise establishes a basis for exemption. The amount of any backup withholding tax will be allowed as a credit against the holder’s US federal income tax liability and may entitle the holder to a refund, provided the required information is furnished to the IRS.

DOCUMENTS ON DISPLAY

You may read and copy documents referred to in this annual report that have been filed with the SEC at the SEC’s public reference room located at 100 F Street NE, Washington, DC 20549-2521. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges.

ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reed Elsevier's primary market risks are to interest rate fluctuations and to exchange rate movements. Net finance costs are exposed to interest rate fluctuations on borrowings, cash and cash equivalents. Upward fluctuations in interest rates increase the interest cost of floating rate borrowings whereas downward fluctuations in interest rates decrease the interest return on floating rate cash and cash equivalents. Interest expense payable on fixed rate borrowings is protected against upward fluctuations in interest rates but does not benefit from downward fluctuations. In addition, Reed Elsevier companies engage in foreign currency denominated transactions and are subject to exchange rate risk on such transactions.

Reed Elsevier seeks to limit these risks by means of derivative financial instruments, including interest rate swaps, interest rate options, forward rate agreements and forward foreign exchange contracts. Reed Elsevier only enters into derivative financial instruments to hedge (or reduce) the underlying risks described above, and therefore has no net market risk on derivative financial instruments held at the end of the year. Reed Elsevier does, however, have a credit risk from the potential non-performance by the counterparties to these financial instruments, which are unsecured. The amount of this credit risk is normally restricted to the amount of the hedge gain and not the principal amount being hedged. This credit risk is controlled by means of regular credit reviews of these counterparties and of the amounts outstanding with each of them. Reed Elsevier does not expect non-performance by the counterparties, which are principally licensed commercial banks and investment banks with strong long term credit ratings.

Reed Elsevier enters into interest rate swaps in order to achieve an appropriate balance between fixed and variable rate borrowings, cash and cash equivalents. They are used to hedge the effects of fluctuating interest rates on variable rate borrowings, cash and cash equivalents by allowing Reed Elsevier to fix the interest rate on a notional principal amount equal to the principal amount of the underlying floating rate cash, cash equivalents or borrowings being hedged. They are also used to swap fixed interest rates payable on long term borrowings for a variable rate. Such swaps may be used to swap a whole fixed rate bond for variable rate or they may be used to swap a portion of the period or a portion of the principal amount for the variable rate.

Forward swaps and forward rate agreements are entered into to hedge interest rate exposures known to arise at a future date. These exposures may include new borrowings or cash deposits to be entered into at a future date or future rollovers of existing borrowings or cash deposits. Interest exposure arises on future, new and rollover borrowings and cash deposits because interest rates can fluctuate between the time a decision is made to enter into such transactions and the time those transactions are actually entered into. The business purpose of forward swaps and forward rate agreements is to fix the interest cost on future borrowings or interest return on cash investments at the time it is known such a transaction will be entered into. The fixed interest rate, the floating rate index (if applicable) and the time period covered by forward swaps and forward rate agreements are known at the time the agreements are entered into. The use of forward swaps and forward rate agreements is limited to hedging activities; consequently no trading position results from their use. The impact of forward swaps and forward rate agreements is the same as interest rate swaps. Similarly, Reed Elsevier utilises forward foreign exchange contracts to hedge the effects of exchange rate movements on its foreign currency revenue and operating costs.

Interest rate options protect against fluctuating interest rates by enabling Reed Elsevier to fix the interest rate on a notional principal amount of borrowings or cash deposits (in a similar manner to interest rate swaps and forward rate agreements) whilst at the same time allowing Reed Elsevier to improve the fixed rate if the market moves in a certain way. Reed Elsevier uses interest rate options from time to time when it expects interest rates to move in its favour but it is deemed imprudent to leave the interest rate risk completely unhedged. In such cases, Reed Elsevier may use an option to lock in at certain rates whilst at the same time maintaining some freedom to benefit if rates move in its favour.

Reed Elsevier's net finance cost is also exposed to changes in the fair value of interest rate and foreign exchange derivatives which are not part of a designated hedging relationship under IAS39 — Financial Instruments, and to ineffectiveness that may arise on designated hedging relationships. Reed Elsevier manages these risks by designating derivatives in a highly effective hedging relationship unless the potential change in their fair value is deemed to be insignificant.

Derivative financial instruments are utilised to hedge (or reduce) the risks of interest rate or exchange rate movements and are not entered into unless such risks exist. Derivatives utilised, while appropriate for hedging a particular kind of risk, are not considered specialised or high-risk and are generally available from numerous sources.

The following analysis sets out the sensitivity of the fair value of Reed Elsevier's financial instruments to selected changes in interest rates and exchange rates. The range of changes represents Reed Elsevier's view of the changes that are reasonably possible over a one year period.

The fair values of interest rate swaps, interest rate options, forward rate agreements and forward foreign exchange contracts set out below represent the replacement costs calculated using market rates of interest and exchange at December 31, 2006. The fair value of long term borrowings has been calculated by discounting expected future cash flows at market rates.

Reed Elsevier's use of financial instruments and its accounting policies for financial instruments are described more fully in notes 2 and 18 to the combined financial statements.

(a) Interest Rate Risk

The following sensitivity analysis assumes an immediate 100 basis point change in interest rates for all currencies and maturities from their levels at December 31, 2006 with all other variables held constant.

Financial Instrument	Fair Value December 31, 2006	Fair Value Change		Fair Value December 31, 2005	Fair Value Change	
		+100 basis points (in millions)	−100 basis points		+100 basis points (in millions)	−100 basis points
Short term borrowings	£(574)	£—	£—	£(536)	£—	£—
Long term borrowings (including current portion)	(2,541)	107	(121)	(2,685)	110	(125)
Interest rate swaps (swapping fixed rate debt to floating)	169	(38)	44	175	(56)	64
Interest rate swaps (swapping floating rate debt to fixed)	7	11	(11)	(1)	17	(17)

A 100 basis point change in interest rates would not result in a material change to the fair value of other financial instruments.

At December 31, 2006, the majority of borrowings are either fixed rate or have been fixed through the use of interest rate swaps, forward rate agreements and options. A 100 basis point reduction in interest rates would result in an estimated decrease in net interest expense of £3 million (2005: £5 million), based on the composition of financial instruments including cash, cash equivalents, bank loans and commercial paper borrowings at December 31, 2006. A 100 basis points rise in interest rates would result in an estimated increase in net interest expense by £3 million (2005: £5 million).

(b) Foreign Exchange Rate Risks

The following sensitivity analysis assumes an immediate 10% change in all foreign currency exchange rates against sterling from their levels at December 31, 2006, with all other variables held constant. A +10% change indicates a strengthening of the currency against sterling and a −10% change indicates a weakening of the currency against sterling.

Financial Instrument	Fair Value December 31, 2006	Fair Value Change		Fair Value December 31, 2005	Fair Value Change	
		+10%	−10%		+10%	−10%
		(in millions)			(in millions)	
Cash and cash equivalents . .	£519	£39	£(32)	£296	£20	£(17)
Short term borrowings	(574)	(61)	50	(536)	(59)	49
Long term borrowings (including current portion)	(2,541)	(238)	195	(2,685)	(298)	244
Interest rate swaps (including cross currency interest rate swaps)	176	20	(16)	174	19	(16)
Forward foreign exchange contracts	34	(31)	31	5	(38)	37

A 10% change in foreign currency exchange rates would not result in a material change to the fair value of other financial instruments.

PART II

ITEM 15: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Reed Elsevier is required to comply with applicable US regulations, including the Sarbanes-Oxley Act, insofar as they apply to foreign private issuers. Accordingly, Reed Elsevier PLC and Reed Elsevier NV have established a Disclosure Committee comprising the company secretaries of Reed Elsevier PLC and Reed Elsevier NV and other senior Reed Elsevier managers appointed by the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and Reed Elsevier NV. The committee has reviewed and evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and Reed Elsevier NV have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report, timely providing them with all material information required to be disclosed in this annual report.

Management's Annual Report on Internal Control over Financial Reporting

In accordance with Section 404 of the Sarbanes-Oxley Act, management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a — 15(f) and 15d — 15(f) under the Exchange Act, as amended. Reed Elsevier's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, and the reconciliations required to US GAAP. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of Reed Elsevier's financial statements would be prevented or detected.

Reed Elsevier management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the internal controls over financial reporting of the Reed Elsevier combined businesses, Reed Elsevier PLC and Reed Elsevier NV were effective as of December 31, 2006.

Deloitte & Touche LLP and Deloitte Accountants BV, who have audited the financial statements of Reed Elsevier PLC and Reed Elsevier NV respectively for the fiscal year ended December 31, 2006, have also audited management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting; their reports in respect of the Reed Elsevier combined businesses, Reed Elsevier PLC and Reed Elsevier NV are included herein as exhibits (see "Item 19: Exhibits" on page F-92).

Certifications by the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and Reed Elsevier NV as required by the Sarbanes-Oxley Act are submitted as exhibits to this Form 20-F (see "Item 19: Exhibits" on page F-92).

Internal Controls over Financial Reporting

Management, including the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and Reed Elsevier NV, have reviewed whether or not during the period covered by the annual report, there have been any changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting. Based on that review, the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and Reed Elsevier NV have concluded that there have been no such significant changes.

An outline of the internal control structure is set out below.

Parent companies

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

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

Operating companies

The board of Reed Elsevier Group plc is responsible for the system of internal control of the Reed Elsevier publishing and information businesses, while the boards of Elsevier Reed Finance BV are responsible for the system of internal control in respect of the finance group activities. The boards of Reed Elsevier Group plc and Elsevier Reed Finance BV are also responsible for reviewing the effectiveness of their system of internal control.

The boards of Reed Elsevier Group plc and Elsevier Reed Finance BV have implemented an ongoing process for identifying, evaluating, monitoring and managing the more significant risks faced by their respective businesses. This process has been in place throughout the year ended December 31, 2006, and up to the date of the approvals of this annual report.

Reed Elsevier Group plc

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

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

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

The major strategic risks facing the Reed Elsevier Group plc businesses are considered by the board. 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 division is required, at the end of the financial year, to review the effectiveness of its internal controls and report its findings on a detailed basis to the management of Reed Elsevier Group plc. These reports are summarised and, as part of the annual review of effectiveness, submitted to the Audit Committee of Reed Elsevier Group plc. The Chairman of the Audit Committee reports to the board on any significant internal control matters arising.

Elsevier Reed Finance BV

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

Audit Committees

Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV have established Audit Committees which comprise only non-executive directors, all of whom are independent. The Audit Committees, which meet regularly, are chaired by Lord Sharman, the other members being Strauss Zelnick, David Reid and Lisa Hook (from July 24, 2006).

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

- (i) to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- (ii) to review the company's internal financial controls and the company's internal control and risk management systems;
- (iii) to monitor and review the effectiveness of the company's internal audit function;

- (iv) to make recommendations to the board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (v) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements; and
- (vi) to develop and recommend policy on the engagement of the external auditor to supply non audit services, taking into account relevant ethical guidance regarding the provision of non audit services by the external audit firm, and to monitor compliance.

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

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

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

A copy of the terms of reference of each Audit Committee is published on the Reed Elsevier website, www.reedelsevier.com. The information on our website is not incorporated by reference into this report.

Compliance with New York Stock Exchange Corporate Governance Rules

Reed Elsevier PLC and Reed Elsevier NV, as companies listed on the New York Stock Exchange (the "NYSE"), are subject to the listing requirements of the NYSE and the rules of the U.S. Securities and Exchange Commission (the "SEC"). We also continually monitor our compliance with the provisions of the Sarbanes Oxley Act of 2002 that are applicable to non-U.S. issuers.

In November 2003, the SEC approved new corporate governance standards for companies that are listed on the NYSE. Since we are a non-US issuer, we are only required to comply with certain of the NYSE corporate governance rules and we are in compliance with all applicable rules. The NYSE's rules also require us to disclose any significant ways in which our corporate governance practices differ from those required of US companies under the NYSE listing standards.

Reed Elsevier follows UK corporate governance practice, which does not differ significantly from the NYSE corporate governance standards for foreign issuers. We also follow Dutch corporate governance practice. We believe that our corporate governance practices do not differ in any significant way from those required to be followed by US companies under the NYSE corporate governance listing standards, except that the joint Nominations Committee of Reed Elsevier PLC and Reed Elsevier NV is not composed entirely of independent directors as defined by the NYSE.

The NYSE listing standards provide that US companies must have a nominating/corporate governance committee composed entirely of independent directors and with a written charter that addresses the committee's purpose and responsibilities which, at a minimum, must be to identify individuals qualified to become board members, develop and recommend to the board a set of corporate governance principles and to oversee the evaluation of the board and management.

Reed Elsevier PLC and Reed Elsevier NV have a joint Nominations Committee and a joint Corporate Governance Committee. The written terms of reference adopted by the Reed Elsevier PLC and the Reed Elsevier NV boards for these committees specify purposes and responsibilities that correspond to those of a US company's nominating/corporate governance committee under the NYSE's listing standards. The Nominations Committee is made up of four independent directors plus our Chief Executive Officer. The Corporate Governance Committee is made up of eight independent directors.

ITEM 16A: AUDIT COMMITTEE FINANCIAL EXPERT

Each of Reed Elsevier PLC and Reed Elsevier NV has an Audit Committee, the members of which are identified in “Item 15: Controls and Procedures”. The members of the Board of Directors of Reed Elsevier PLC and members of the Supervisory Board of Reed Elsevier NV, respectively, have determined that each of their respective Audit Committees contains at least one Audit Committee financial expert within the meaning of the applicable rules and regulations of the US Securities and Exchange Commission (“SEC”). The Audit Committee financial experts serving on the Reed Elsevier PLC and the Reed Elsevier NV Audit Committees are Lord Sharman and David Reid.

ITEM 16B: CODES OF ETHICS

Reed Elsevier has adopted a code of ethics (Code of Ethics and Business Conduct) that applies to all directors, officers and employees, and an additional separate code of ethics (Code for Senior Officers) that also applies to the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and Reed Elsevier NV and the Group Chief Accountant of Reed Elsevier Group plc. Both these codes of ethics are available on the Reed Elsevier website, www.reedelsevier.com. The information on our website is not incorporated by reference into this report.

ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees billed by our principal accountants, Deloitte & Touche LLP, Deloitte Accountants BV, the member firms of Deloitte Touche Tohmatsu and their respective affiliates, for the two years ended December 31, 2006 were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
	(in millions)	
Audit fees	£4.7	£3.2
Audit related fees	0.6	0.8
Tax fees	0.6	0.7
All other fees	—	0.1
Total	<u>£5.9</u>	<u>£4.8</u>

Auditors’ remuneration for non audit services includes £0.6 million (2005: £0.8 million) for audit related services, comprising £0.3 million (2005: £0.4 million) relating to due diligence and other transaction related services and £0.3 million (2005: £0.4 million) for other audit related services such as royalty audits. Tax fees of £0.6 million (2005: £0.7 million) relate to tax compliance and advisory work.

The Audit Committees of Reed Elsevier PLC and Reed Elsevier NV have adopted policies and procedures for the pre-approval of audit and non audit services provided by the auditors. These policies and procedures are summarised below.

The terms of engagement and scope of the annual audit of the financial statements are agreed by the respective Audit Committees in advance of the engagement of the auditors in respect of the annual audit. The audit fees are approved by the Audit Committee.

The auditors are not permitted to provide non audit services that would compromise their independence or violate any laws or regulations that would affect their appointment as auditors. They are eligible for selection to provide non audit services only to the extent that their skills and experience make them a logical supplier of the services. The respective Audit Committees must pre-approve the provision of all non audit services by the auditors and will consider SEC rules and other guidelines in determining the scope of permitted services. The respective Audit Committees have pre-approved non audit services in respect of individual assignments for permitted services that meet certain criteria. Assignments outside these parameters must be specifically pre-approved by the Audit Committee in advance of commissioning the work. Aggregate non audit fees must not exceed the annual audit fee in any given year, unless approved in advance by the Audit Committee.

All of the audit and non audit services carried out in the year ended December 31, 2006 were pre-approved under the policies and procedures summarised above.

ITEM 16D: EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E: PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The Reed Elsevier Group plc Employee Benefit Trust (“EBT”) has made the following share purchases to satisfy obligations under the Reed Elsevier share option schemes. All purchases were made in open market transactions. None of the share purchases was made pursuant to a publicly announced plan or program.

Period	Reed Elsevier PLC ordinary shares		Reed Elsevier NV ordinary shares	
	Total number of shares purchased	Average price paid per share £	Total number of shares purchased	Average price paid per share €
March 1, 2006 to March 31, 2006	1,200,000	£5.37	800,000	€11.58
April 1, 2006 to April 30, 2006 . . .	2,310,937	5.50	1,415,161	12.02
May 1, 2006 to May 31, 2006	1,160,798	5.23	777,809	11.32
June 1, 2006 to June 30, 2006	1,906,402	5.28	1,024,439	11.49
Total	6,578,137	£5.36	4,017,409	€11.65

In February 2006 Reed Elsevier announced an annual share repurchase programme. It is expected, subject to prevailing market and business conditions, to spend approximately \$1 billion over three years. The repurchase of shares in Reed Elsevier PLC and Reed Elsevier NV will reflect the equalization ratio and the parent companies therefore expect to spend approximately £300 million and €435 million respectively. The repurchases made by the respective parent companies as part of the annual share repurchase programme in the year ended December 31, 2006 are set out below. All purchases were made in open market transactions.

Period	Reed Elsevier PLC ordinary shares			Reed Elsevier NV ordinary shares		
	Total number of shares purchased	Average price paid per share £	Value of shares that may yet be repurchased £m	Total number of shares purchased	Average price paid per share €	Value of shares that may yet be repurchased €m
February 1, 2006 to February 28, 2006	2,200,000	£5.19	289	1,380,000	€11.31	419
March 1, 2006 to March 31, 2006	7,271,500	5.44	249	4,791,500	11.75	363
April 1, 2006 to April 30, 2006 . . .	2,828,000	5.50	234	2,010,000	11.83	339
May 1, 2006 to May 31, 2006	6,204,000	5.31	201	4,020,000	11.53	293
June 1, 2006 to June 30, 2006	2,090,000	5.20	190	1,180,000	11.36	280
Total	20,593,500	£5.36		13,381,500	€11.62	

PART III

ITEM 17: FINANCIAL STATEMENTS

The Registrants have responded to Item 18 in lieu of responding to this Item.

ITEM 18: FINANCIAL STATEMENTS

Financial Statements filed as part of this annual report

The following financial statements and related schedules, together with reports of independent registered public accounting firms thereon, are filed as part of this annual report:

	<u>Page</u>
Index to Financial Statements	F-1
Reed Elsevier Combined Financial Statements	F-3
Report of Independent Registered Public Accounting Firm	F-5
Combined Income Statement for the year ended December 31, 2006.....	F-6
Combined Cash Flow Statement for the year ended December 31, 2006	F-7
Combined Balance Sheet as at December 31, 2006.....	F-8
Combined Statement of Recognised Income and Expense for the year ended December 31, 2006.....	F-9
Combined Shareholders' Equity Reconciliation for the year ended December 31, 2006	F-9
Notes to the Combined Financial Statements	F-10
Schedule II	F-61
Reed Elsevier PLC Consolidated Financial Statements	F-63
Report of Independent Registered Public Accounting Firm	F-64
Consolidated Income Statement for the year ended December 31, 2006	F-65
Consolidated Cash Flow Statement for the year ended December 31, 2006.....	F-66
Consolidated Balance Sheet as at December 31, 2006	F-67
Consolidated Statement of Recognised Income and Expense for the year ended December 31, 2006	F-68
Consolidated Reconciliation of Shareholders' Equity for the year ended December 31, 2006	F-68
Notes to the Consolidated Financial Statements	F-69
Reed Elsevier NV Consolidated Financial Statements	F-77
Report of Independent Registered Public Accounting Firm	F-78
Consolidated Income Statement for the year ended December 31, 2006	F-79
Consolidated Cash Flow Statement for the year ended December 31, 2006.....	F-80
Consolidated Balance Sheet as at December 31, 2006	F-81
Consolidated Statement of Recognised Income and Expense for the year ended December 31, 2006	F-82
Consolidated Reconciliation of Shareholders' Equity for the year ended December 31, 2006	F-82
Notes to the Consolidated Financial Statements	F-83
Glossary of Terms	F-91

THIS PAGE INTENTIONALLY BLANK

**REED ELSEVIER
COMBINED FINANCIAL STATEMENTS**

THIS PAGE INTENTIONALLY BLANK

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and members of Reed Elsevier PLC and to the Supervisory and Executive Boards of Directors and shareholders of Reed Elsevier NV:

We have audited the accompanying combined balance sheets of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures (together "the combined businesses") as of December 31, 2006 and 2005, and the related combined statements of income, cash flow, recognised income and expense and shareholders' equity reconciliation for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index. These combined financial statements and financial statement schedule are the responsibility of the management of Reed Elsevier PLC and Reed Elsevier NV. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the combined businesses as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Also, in our opinion, such financial statement schedule, when considered in relation to the combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

IFRS as adopted for use in the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 34 to the combined financial statements.

As discussed in Note 34 to the financial statements, in 2006, the combined businesses changed their method of accounting for Defined Benefit Pension and Other Postretirement Plans to conform to Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — An Amendment of FASB Statements No. 87, 88, 106 and 132R*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the combined businesses' internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2007 (see Item 19 — Exhibit 15.4) expressed an unqualified opinion on management's assessment of the effectiveness of the combined businesses' internal control over financial reporting and an unqualified opinion on the effectiveness of the combined businesses' internal control over financial reporting.

DELOITTE & TOUCHE LLP
London, England
February 14, 2007

DELOITTE ACCOUNTANTS B.V.
Amsterdam, The Netherlands
February 14, 2007

REED ELSEVIER
COMBINED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 £m	2005 £m	2004 £m
Revenue	3	5,398	5,166	4,812
Cost of sales		(1,983)	(1,890)	(1,733)
Gross profit		3,415	3,276	3,079
Selling and distribution costs		(1,148)	(1,120)	(1,065)
Administration and other expenses		(1,405)	(1,333)	(1,265)
Operating profit before joint ventures		862	823	749
Share of results of joint ventures		18	16	17
Operating profit	4	880	839	766
Finance income	8	21	36	16
Finance costs	8	(179)	(176)	(148)
Net finance costs		(158)	(140)	(132)
Disposals and other non operating items	9	(1)	2	(3)
Profit before tax		721	701	631
Taxation	10	(96)	(237)	(170)
Net profit for the year		<u>625</u>	<u>464</u>	<u>461</u>
Attributable to:				
Parent companies' shareholders		623	462	459
Minority interests		<u>2</u>	<u>2</u>	<u>2</u>
Net profit for the year		<u>625</u>	<u>464</u>	<u>461</u>

The accompanying notes on pages F-10 to F-60 are an integral part of these combined financial statements

REED ELSEVIER
COMBINED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 £m	2005 £m	2004 £m
<i>Cash flow from operating activities</i>				
Cash generated from operations	11	1,304	1,223	1,154
Interest paid		(172)	(153)	(146)
Interest received		12	11	16
Tax paid		(170)	(171)	(209)
Net cash from operating activities		<u>974</u>	<u>910</u>	<u>815</u>
<i>Cash flows from investing activities</i>				
Acquisitions	11	(163)	(317)	(647)
Purchases of property, plant and equipment		(88)	(93)	(82)
Expenditure on internally developed intangible assets		(108)	(102)	(110)
Purchases of investments		(9)	(3)	(13)
Proceeds on disposals of property, plant and equipment		2	8	4
Proceeds from other disposals		48	36	12
Dividends received from joint ventures		16	16	17
Net cash used in investing activities		<u>(302)</u>	<u>(455)</u>	<u>(819)</u>
<i>Cash flows from financing activities</i>				
Dividends paid to shareholders of the parent companies		(371)	(336)	(309)
Increase/(decrease) in bank loans, overdrafts and commercial paper		72	(492)	(162)
Issuance of other loans		407	544	102
Repayment of other loans		(337)	(90)	(3)
Repayment of finance leases		(12)	(13)	(19)
Proceeds on issue of ordinary shares		93	25	21
Purchase of treasury shares		(285)	(27)	(29)
Net cash used in financing activities		<u>(433)</u>	<u>(389)</u>	<u>(399)</u>
Increase/(decrease) in cash and cash equivalents		<u>239</u>	<u>66</u>	<u>(403)</u>
<i>Movement in cash and cash equivalents</i>				
At January 1		296	225	638
Increase/(decrease) in cash and cash equivalents		239	66	(403)
Exchange translation differences		(16)	5	(10)
At December 31		<u>519</u>	<u>296</u>	<u>225</u>

The accompanying notes on pages F-10 to F-60 are an integral part of these combined financial statements

REED ELSEVIER
COMBINED BALANCE SHEET
AS AT DECEMBER 31, 2006

	Note	2006 £m	2005 £m
<i>Non-current assets</i>			
Goodwill	14	2,802	3,030
Intangible assets	15	2,524	2,979
Investments in joint ventures	16	73	71
Other investments	16	50	44
Property, plant and equipment	17	298	314
Net pension assets	6	20	—
Deferred tax assets	19	170	266
		<u>5,937</u>	<u>6,704</u>
<i>Current assets</i>			
Inventories and pre-publication costs	20	633	630
Trade and other receivables	21	1,443	1,437
Cash and cash equivalents		519	296
		<u>2,595</u>	<u>2,363</u>
Assets held for sale		—	60
Total assets		<u>8,532</u>	<u>9,127</u>
<i>Current liabilities</i>			
Trade and other payables	22	1,934	1,982
Borrowings	23	921	900
Taxation		479	556
		<u>3,334</u>	<u>3,438</u>
<i>Non-current liabilities</i>			
Borrowings	23	2,085	2,264
Deferred tax liabilities	19	850	980
Net pension obligations	6	256	405
Provisions	25	28	44
		<u>3,219</u>	<u>3,693</u>
Liabilities associated with assets held for sale		—	11
Total liabilities		<u>6,553</u>	<u>7,142</u>
Net assets		<u>1,979</u>	<u>1,985</u>
<i>Capital and reserves</i>			
Combined share capitals	27	191	190
Combined share premiums	28	1,879	1,805
Combined shares held in treasury	29	(377)	(93)
Translation reserve	30	(136)	89
Other combined reserves	31	409	(21)
Combined shareholders' equity		1,966	1,970
Minority interests		13	15
Total equity		<u>1,979</u>	<u>1,985</u>

The accompanying notes on pages F-10 to F-60 are an integral part of these combined financial statements

REED ELSEVIER
COMBINED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 £m	2005 £m	2004 £m
Net profit for the year		625	464	461
Exchange differences on translation of foreign operations		(244)	180	(121)
Actuarial gains/(losses) on defined benefit pension schemes ..	6	139	(37)	(74)
Fair value movements on available for sale investments		3	3	—
Fair value movements on cash flow hedges		54	(10)	—
Tax recognised directly in equity	10	(60)	(3)	12
Net (expense)/income recognised directly in equity		(108)	133	(183)
Transfer to net profit from hedge reserve (net of tax)		(5)	(19)	—
Total recognised income and expense for the year		<u>512</u>	<u>578</u>	<u>278</u>
Attributable to:				
Parent companies' shareholders		510	576	276
Minority interests		<u>2</u>	<u>2</u>	<u>2</u>
Total recognised income and expense for the year		<u>512</u>	<u>578</u>	<u>278</u>

COMBINED SHAREHOLDERS' EQUITY RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 £m	2005 £m	2004 £m
Total recognised net income attributable to the parent companies' shareholders		510	576	276
Dividends declared	13	(371)	(336)	(309)
Issue of ordinary shares, net of expenses		93	25	21
Increase in shares held in treasury	29	(285)	(27)	(29)
Increase in share based remuneration reserve		<u>49</u>	<u>57</u>	<u>59</u>
Net (decrease)/increase in combined shareholders' equity		(4)	295	18
Combined shareholders' equity at January 1		1,970	1,664	1,646
Transition adjustment on adoption of IAS39		<u>—</u>	<u>11</u>	<u>—</u>
Combined shareholders' equity at December 31		<u>1,966</u>	<u>1,970</u>	<u>1,664</u>

The accompanying notes on pages F-10 to F-60 are an integral part of these combined financial statements

REED ELSEVIER
NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. Basis of preparation

The Reed Elsevier combined financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. None of the differences between IFRS as published by the International Accounting Standards Board (“IASB”) and that adopted by the European Union have an impact on the combined financial statements of Reed Elsevier. Consequently there is no difference between the combined financial statements reported under IFRS as adopted by the European Union and those that would be reported under IFRS as published by the IASB. These principles differ in certain significant respects from US GAAP as set out in note 34 to the combined financial statements.

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

2. Accounting policies

The Reed Elsevier accounting policies under IFRS are set out below:

Foreign exchange translation

The combined financial statements are presented in pounds sterling.

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date. Exchange differences arising are recorded in the income statement other than where hedge accounting applies (see Financial Instruments).

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

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

Revenue

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

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

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

Employee benefits

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

Net pension obligations in respect of defined benefit schemes are included in the balance sheet at the present value of scheme liabilities, less the fair value of scheme assets. Where schemes are in surplus, i.e. assets exceed liabilities, the

2. Accounting policies – (continued)

net pension assets are separately included in the balance sheet. Any net pension asset is limited to the extent that the asset is recoverable through reductions in future contributions.

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

Share based remuneration

The fair value of share based remuneration is determined at the date of grant and recognised as an expense in the income statement on a straight line basis over the vesting period, taking account of the estimated number of shares that are expected to vest. Market based performance criteria are taken into account when determining the fair value at the date of grant. Non-market based performance criteria are taken into account when estimating the number of shares expected to vest. The fair value of share based remuneration is determined by use of a binomial or Monte Carlo simulation model as appropriate. All of Reed Elsevier's share based remuneration is equity settled.

Borrowing costs

All borrowing costs are expensed as incurred unless hedge accounting applies (see Financial Instruments).

Taxation

The tax expense represents the sum of the tax payable on the current year taxable profits, adjustments in respect of prior years taxable profits, and the movements on deferred tax that are recognised in the income statement.

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

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

Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is expected to be settled or the asset realised. Full provision is made for deferred tax which would become payable on the distribution of retained profits from foreign subsidiaries, associates or joint ventures.

Movements in deferred tax are charged or credited in the income statement, except when they relate to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity. Deferred tax credits in respect of share based remuneration are recognised in equity to the extent that expected tax deductions exceed the related expense.

Goodwill

On the acquisition of a subsidiary or business, the purchase consideration is allocated between the net tangible and intangible assets on a fair value basis, with any excess purchase consideration representing goodwill. Goodwill arising on acquisitions also includes amounts corresponding to deferred tax liabilities recognised in respect of acquired intangible assets.

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

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

Intangible assets

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

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trade marks, imprints, brands); customer related assets (e.g. subscription bases, customer lists, customer relationships); editorial content; software and systems (e.g. application infrastructure, product delivery platforms, in-process research and development); contract based assets (e.g. publishing rights, exhibition rights, supply contracts); and other intangible

2. Accounting policies – (continued)

assets. Internally generated intangible assets typically comprise software and systems development where an identifiable asset is created that is probable to generate future economic benefits.

Intangible assets, other than brands and imprints determined to have indefinite lives, are amortised systematically over their estimated useful lives. The estimated useful lives of intangible assets with finite lives are as follows: market and customer related assets — 3 to 40 years; content, software and other acquired intangible assets — 3 to 20 years; and internally developed intangible assets — 3 to 10 years. Brands and imprints determined to have indefinite lives are not amortised and are subject to an impairment review at least annually.

Property, plant and equipment

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

Investments

Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value. Investments held as part of the venture capital portfolio are classified as held for trading, with changes in fair value reported through the income statement. All other investments are classified as available for sale with changes in fair value recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is brought into the net profit or loss for the period. All items recognised in the income statement relating to investments, other than investments in joint ventures and associates, are reported as non operating items.

Available for sale investments and venture capital investments held for trading represent investments in listed and unlisted securities. The fair value of listed securities is determined based on quoted market prices, and of unlisted securities on management's estimate of fair value based on standard valuation techniques.

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

Impairment

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

If the recoverable amount of an asset or cash generating unit is estimated to be less than its net carrying amount, the net carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Inventories and pre-publication costs

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

Leases

Assets held under leases which confer rights and obligations similar to those attaching to owned assets are classified as assets held under finance leases and capitalised within property, plant and equipment and the corresponding liability to pay rentals is shown net of interest in the balance sheet as obligations under finance leases. The capitalised value of the assets is depreciated on a straight line basis over the shorter of the periods of the leases or the useful lives of the assets concerned. The interest element of the lease payments is allocated so as to produce a constant periodic rate of charge.

Operating lease rentals are charged to the income statement on a straight line basis over the period of the leases. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2. Accounting policies – (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short term highly liquid investments with an original maturity of less than 90 days, and are held in the balance sheet at fair value.

Assets held for sale

Assets of businesses that are held for sale, rather than for continuing use by Reed Elsevier, are classified as assets held for sale. Such assets are carried at the lower of amortised cost and fair value less costs to sell. Similarly, liabilities of businesses held for sale are also separately classified on the balance sheet.

Financial instruments

Financial instruments comprise investments (other than investments in joint ventures or associates), trade receivables, cash and cash equivalents, payables and accruals, provisions, borrowings and derivative financial instruments.

Investments (other than investments in joint ventures and associates) are classified as either held for trading or available for sale, as described above.

Trade receivables are carried in the balance sheet at invoiced value less allowance for estimated irrecoverable amounts. Irrecoverable amounts are estimated based on the ageing of trade receivables, experience and circumstance.

Borrowings (other than fixed rate borrowings in designated hedging relationships and for which the carrying value is adjusted to reflect changes in the fair value of the hedged risk), payables, accruals and provisions are recorded at nominal value.

Derivative financial instruments are used to hedge interest rate and foreign exchange risks. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised (net of tax) directly in equity in the hedge reserve. If a hedged firm commitment or forecasted transaction results in the recognition of a non financial asset or liability, then, at the time that the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss. Any ineffective portion of hedges is recognised immediately in the income statement.

Derivative financial instruments that are not designated as hedging instruments are classified as held for trading and recorded in the balance sheet at fair value, with changes in fair value recognised in the income statement.

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

The fair values of interest rate swaps, interest rate options, forward rate agreements and forward foreign exchange contracts represent the replacement costs calculated using market rates of interest and exchange. The fair value of long term borrowings is calculated by discounting expected future cash flows at market rates.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is either retained in equity until the firm commitment or forecasted transaction occurs, or, where a hedged transaction is no longer expected to occur, is immediately credited or expensed in the income statement.

On adoption of IAS39 — Financial Instruments, adjustments were made either to the carrying value of hedged items or to equity, as appropriate, to reflect the differences between the previous UK GAAP carrying values of financial instruments and their carrying values required to be reported under IAS39. Any transition gains or losses on financial instruments that qualified for hedge accounting were reflected in equity will remain in equity until either the forecasted transaction occurs or is no longer expected to occur.

Shares held in treasury

Shares of Reed Elsevier PLC and Reed Elsevier NV that are repurchased by the respective parent companies and not cancelled are classified as shares held in treasury. The consideration paid, including directly attributable costs, is recognised as a deduction from equity. Shares of the parent companies that are purchased by the Reed Elsevier Group plc Employee Benefit Trust are also classified as shares held in treasury, with the cost recognised as a deduction from equity.

2. Accounting policies – (continued)

Critical judgements and key sources of estimation uncertainty

The most significant accounting policies in determining the financial condition and results of the Reed Elsevier combined businesses, and those requiring the most subjective or complex judgment, relate to the valuation of goodwill and intangible assets, share based remuneration, pensions and taxation. The carrying amounts of goodwill and intangible assets are reviewed at least twice a year, the key areas of judgment being in relation to the forecast long term growth rates and the appropriate discount rates to be applied to forecast cash flows. The charge for share based remuneration is determined based on the fair value of awards at the date of grant by use of binomial or Monte Carlo simulation models as appropriate, which require judgments to be made regarding share price volatility, dividend yield, risk free rates of return and expected option lives. Key estimates in accounting for defined benefit pension schemes are determined in conjunction with independent actuaries and include the life expectancy of members, expected salary and pension increases, inflation, the return on scheme assets and the rate at which future pension payments are discounted. Reed Elsevier's policy is to make provision for tax uncertainties where it is considered probable that tax payments may arise.

Standards, amendments and interpretations not yet effective

New accounting standards and amendments and their expected impact on the future accounting policies and reporting of Reed Elsevier are set out below.

IFRS7 — Financial Instruments: Disclosures (effective for financial years beginning on or after January 1, 2007). IFRS7 requires discussion of the significance of financial instruments for an entity's financial position and performance and introduces new qualitative and quantitative disclosures about exposure to risks arising from their use. Adoption of this standard is not expected to change significantly the disclosures related to financial instruments.

Amendment to IAS1 — Presentation of Financial Statements — Capital Disclosures (effective for financial years beginning on or after January 1, 2007). The amendment introduces disclosures about an entity's capital and how it manages capital. Adoption of this amendment is not expected to change significantly the presentation of the combined financial statements.

IFRS8 — Operating Segments (effective for financial years beginning on or after January 1, 2009). IFRS8 sets out requirements for disclosure of information about an entity's operating segments, its products and services, the geographical areas in which it operates, and its major customers. IFRS8 replaces IAS14 — Segment Reporting. Adoption of this standard is not expected to change significantly the disclosure of information in respect of Reed Elsevier's operating segments.

Additionally, a number of interpretations have been issued which are not expected to have any significant impact on Reed Elsevier's accounting policies and reporting.

3. Segment analysis

Reed Elsevier is a publisher and information provider organised as four business segments: Elsevier, comprising scientific, technical and medical publishing businesses; LexisNexis, providing legal, tax, regulatory, risk management, information analytics and business information solutions to professional, business and government customers; Harcourt Education, publishing school textbooks and related instructional and assessment materials; and Reed Business, providing information and marketing solutions to business professionals. Internal reporting is consistent with this organisational structure.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131 — Disclosures about Segments of an Enterprise and Related Information, the segmental information includes adjusted operating profit, a key financial measure used by management to evaluate performance and allocate resource. Adjusted operating profit represents operating profit before amortisation of acquired intangible assets, acquisition integration costs and the equity share of taxes in joint ventures. A reconciliation of adjusted operating profit to operating profit is included in the information below.

3. Segment analysis – (continued)

Analysis by business segment

	2006 £m	2005 £m	2004 £m
<i>Revenue</i>			
Elsevier	1,521	1,436	1,363
LexisNexis	1,570	1,466	1,292
Harcourt Education	889	901	868
Reed Business	1,418	1,363	1,289
Total	5,398	5,166	4,812
<i>Operating profit</i>			
Elsevier	395	396	402
LexisNexis	264	218	188
Harcourt Education	43	87	67
Reed Business	183	158	126
Subtotal	885	859	783
Corporate costs	(39)	(32)	(29)
Unallocated net pension credit	34	12	12
Total	880	839	766
<i>Adjusted operating profit</i>			
Elsevier	465	449	445
LexisNexis	380	338	287
Harcourt Education	129	161	157
Reed Business	241	214	194
Subtotal	1,215	1,162	1,083
Corporate costs	(39)	(32)	(29)
Unallocated net pension credit	34	12	12
Total	1,210	1,142	1,066

Revenue is analysed before the £108 million (2005: £91 million; 2004: £94 million) share of joint ventures' revenue, of which £21 million (2005: £20 million; 2004: £19 million) relates to LexisNexis, principally to Giuffrè, and £87 million (2005: £71 million; 2004: £75 million) relates to Reed Business, principally to exhibition joint ventures.

Share of post-tax results of joint ventures of £18 million (2005: £16 million; 2004: £17 million) included in operating profit comprises £3 million (2005: £3 million; 2004: £3 million) relating to LexisNexis and £15 million (2005: £13 million; 2004: £14 million) relating to Reed Business. The unallocated net pension credit of £34 million (2005: £12 million; 2004: £12 million) comprises the expected return on pension scheme assets of £178 million (2005: £149 million; 2004: £139 million) less interest on pension scheme liabilities of £144 million (2005: £137 million; 2004: £127 million).

	2006 £m	2005 £m	2004 £m
<i>Expenditure on acquired goodwill and intangible assets</i>			
Elsevier	53	220	3
LexisNexis	79	58	517
Harcourt Education	6	7	113
Reed Business	51	46	22
Total	189	331	655

3. Segment analysis – (continued)

	2006 £m	2005 £m	2004 £m
<i>Capital expenditure in year</i>			
Elsevier	51	60	65
LexisNexis	95	95	93
Harcourt Education	29	22	27
Reed Business	30	27	27
Subtotal	205	204	212
Corporate	2	3	4
Total	207	207	216
<i>Amortisation of acquired intangible assets</i>			
Elsevier	57	49	39
LexisNexis	104	102	82
Harcourt Education	86	73	74
Reed Business	50	52	60
Total	297	276	255
<i>Depreciation and other amortisation</i>			
Elsevier	47	38	28
LexisNexis	70	65	57
Harcourt Education	15	14	12
Reed Business	27	25	25
Subtotal	159	142	122
Corporate	3	2	4
Total	162	144	126

Capital expenditure comprises additions to property, plant and equipment and internally developed intangible assets. Other than the depreciation and amortisation above, non cash items of £49 million (2005: £57 million; 2004: £59 million) relate to the recognition of share based remuneration and comprise £10 million (2005: £11 million; 2004: £9 million) in Elsevier; £12 million (2005: £16 million; 2004: £15 million) in LexisNexis; £5 million (2005: £9 million; 2004: £9 million) in Harcourt Education; £14 million (2005: £14 million; 2004: £17 million) in Reed Business; and £8 million (2005: £7 million; 2004: £9 million) in Corporate.

	2006 £m	2005 £m	2004 £m
<i>Total assets</i>			
Elsevier	2,352	2,545	2,099
LexisNexis	2,593	2,881	2,616
Harcourt Education	1,482	1,667	1,542
Reed Business	1,146	1,225	1,194
Subtotal	7,573	8,318	7,451
Taxation	170	266	235
Cash	519	296	225
Net pension assets	20	—	—
Other assets	250	247	41
Total	8,532	9,127	7,952

3. Segment analysis – (continued)

	2006 £m	2005 £m	2004 £m
<i>Total liabilities</i>			
Elsevier	726	759	704
LexisNexis	383	386	329
Harcourt Education	172	181	177
Reed Business	533	544	515
Subtotal	1,814	1,870	1,725
Taxation	1,329	1,536	1,354
Borrowings	3,006	3,164	2,757
Net pension obligations	256	405	321
Other liabilities	148	167	118
Total	6,553	7,142	6,275
<i>Net assets/(liabilities)</i>			
Elsevier	1,626	1,786	1,395
LexisNexis	2,210	2,495	2,287
Harcourt Education	1,310	1,486	1,365
Reed Business	613	681	679
Subtotal	5,759	6,448	5,726
Taxation	(1,159)	(1,270)	(1,119)
Cash	519	296	225
Borrowings	(3,006)	(3,164)	(2,757)
Net pension obligations	(236)	(405)	(321)
Other assets and liabilities	102	80	(77)
Total	1,979	1,985	1,677

Investments in joint ventures of £73 million (2005: £71 million; 2004: £60 million) included in segment assets above comprise £27 million (2005: £28 million; 2004: £26 million) relating to LexisNexis and £46 million (2005: £43 million; 2004: £34 million) relating to Reed Business.

Adjusted operating profit is derived from operating profit as follows:

	2006 £m	2005 £m	2004 £m
Operating profit	880	839	766
Adjustments:			
Amortisation of acquired intangible assets	297	276	255
Acquisition integration costs	23	21	38
Reclassification of tax in joint ventures	10	6	7
Adjusted operating profit	1,210	1,142	1,066

3. Segment analysis – (continued)

Analysis by geographical origin

	2006 £m	2005 £m	2004 £m
<i>Revenue</i>			
North America	2,979	2,888	2,656
United Kingdom	898	870	846
The Netherlands	503	500	503
Rest of Europe	685	601	545
Rest of world	333	307	262
Total	<u>5,398</u>	<u>5,166</u>	<u>4,812</u>
<i>Operating profit</i>			
North America	364	364	315
United Kingdom	166	158	129
The Netherlands	173	161	182
Rest of Europe	120	106	102
Rest of world	57	50	38
Total	<u>880</u>	<u>839</u>	<u>766</u>
<i>Adjusted operating profit</i>			
North America	602	595	539
United Kingdom	199	186	159
The Netherlands	176	166	189
Rest of Europe	172	141	138
Rest of world	61	54	41
Total	<u>1,210</u>	<u>1,142</u>	<u>1,066</u>
<i>Total assets</i>			
North America	5,606	6,433	5,622
United Kingdom	1,034	899	927
The Netherlands	573	513	417
Rest of Europe	1,097	1,089	841
Rest of world	222	193	145
Total	<u>8,532</u>	<u>9,127</u>	<u>7,952</u>
<i>Long-lived assets</i>			
North America	4,254	4,950	4,538
United Kingdom	529	495	492
The Netherlands	142	153	150
Rest of Europe	651	686	536
Rest of world	48	39	22
Total	<u>5,624</u>	<u>6,323</u>	<u>5,738</u>

3. Segment analysis – (continued)

	2006 £m	2005 £m	2004 £m
<i>Total liabilities</i>			
North America	3,313	4,075	3,403
United Kingdom	1,123	611	581
The Netherlands	463	651	623
Rest of Europe	1,511	1,647	1,531
Rest of world	143	158	137
Total	<u>6,553</u>	<u>7,142</u>	<u>6,275</u>
<i>Net assets/(liabilities)</i>			
North America	2,293	2,358	2,219
United Kingdom	(89)	288	346
The Netherlands	110	(138)	(206)
Rest of Europe	(414)	(558)	(690)
Rest of world	79	35	8
Total	<u>1,979</u>	<u>1,985</u>	<u>1,677</u>
<i>Expenditure on acquired goodwill and intangible assets</i>			
North America	104	96	630
United Kingdom	54	16	13
The Netherlands	—	9	5
Rest of Europe	16	200	6
Rest of world	15	10	1
Total	<u>189</u>	<u>331</u>	<u>655</u>
<i>Capital expenditure in year</i>			
North America	135	131	132
United Kingdom	36	35	35
The Netherlands	18	18	35
Rest of Europe	10	13	9
Rest of world	8	10	5
Total	<u>207</u>	<u>207</u>	<u>216</u>

Long-lived assets comprise goodwill, intangible assets and property, plant and equipment.

Analysis by geographical market

	2006 £m	2005 £m	2004 £m
<i>Revenue</i>			
North America	3,082	2,974	2,779
United Kingdom	592	568	545
The Netherlands	202	202	202
Rest of Europe	880	804	725
Rest of world	642	618	561
Total	<u>5,398</u>	<u>5,166</u>	<u>4,812</u>

4. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Note	2006 £m	2005 £m	2004 £m
<i>Staff costs</i>				
Wages and salaries		1,383	1,318	1,216
Social security costs		146	136	125
Pensions	6	80	100	89
Share based remuneration	7	49	57	59
Total staff costs		<u>1,658</u>	<u>1,611</u>	<u>1,489</u>
<i>Depreciation and amortisation</i>				
Amortisation of acquired intangible assets	15	297	276	255
Amortisation of internally developed intangible assets	15	71	57	55
Depreciation of property, plant and equipment	17	91	87	71
Total depreciation and amortisation		<u>459</u>	<u>420</u>	<u>381</u>
<i>Auditors' remuneration</i>				
For audit services		4.7	3.2	3.0
For non audit services		1.2	1.6	1.2
Total auditors' remuneration		<u>5.9</u>	<u>4.8</u>	<u>4.2</u>
<i>Other expenses and income</i>				
Pre-publication costs, inventory expenses and other cost of sales		1,983	1,890	1,733
Operating lease rentals expense		120	115	105
Operating lease rentals income		(17)	(14)	(12)

Depreciation and amortisation charges are included within administration and other expenses.

Auditors remuneration for audit services comprises £0.4 million (2005: £0.4 million; 2004: £0.4 million) payable to the auditors of the parent companies and £4.3 million (2005: £2.8 million; 2004: £2.6 million) payable to the auditors of the parent companies and their associates for the audit of the financial statements of the operating and financing businesses, including for 2006 the review and testing of internal controls over financial reporting in accordance with the US Sarbanes-Oxley Act. Auditors' remuneration for non audit services comprises: £0.6 million (2005: £0.7 million; 2004: £0.6 million) for taxation services, £0.3 million (2005: £0.4 million; 2004: £0.2 million) for due diligence and other transaction related services, nil (2005: £0.1 million; 2004: nil) for the audit of associated pension schemes and £0.3 million (2005: £0.4 million; 2004: £0.4 million) for other non audit services.

5. Personnel

Number of people employed

	At December 31,		Average during the year		
	2006	2005	2006	2005	2004
<i>Business segment</i>					
Elsevier	7,200	7,300	7,300	7,100	6,700
LexisNexis	13,800	13,400	13,700	13,200	12,800
Harcourt Education	5,300	5,400	5,300	5,400	5,300
Reed Business	10,300	10,200	10,300	10,200	10,100
Subtotal	36,600	36,300	36,600	35,900	34,900
Corporate/shared functions	200	200	200	200	200
Total	36,800	36,500	36,800	36,100	35,100
<i>Geographical location</i>					
North America	19,800	20,200	20,000	20,100	19,800
United Kingdom	6,000	5,800	5,900	5,800	5,700
The Netherlands	2,500	2,500	2,500	2,500	2,600
Rest of Europe	4,700	4,600	4,600	4,300	4,000
Rest of world	3,800	3,400	3,800	3,400	3,000
Total	36,800	36,500	36,800	36,100	35,100

6. 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 largest schemes, which cover the majority of employees, are in the UK, the US and the Netherlands. Under these plans, employees are entitled to retirement benefits dependent on the number of years service provided.

The principal assumptions used for the purpose of valuation under IAS19 — Employee Benefits, are determined for each scheme in conjunction with the respective schemes' independent actuaries and are presented below as the weighted average of the various defined benefit pension schemes:

	2006	2005	2004
Discount rate	5.3%	4.9%	5.4%
Expected rate of return on scheme assets	7.0%	7.0%	6.8%
Expected rate of salary increases	4.2%	4.0%	4.4%
Inflation	2.9%	2.7%	2.8%
Future pension increases	2.9%	2.8%	2.8%

The expected rates of return on individual categories of scheme assets are determined by reference to relevant market indices. The overall expected rate of return on scheme assets is based on the weighted average of each asset category.

Mortality assumptions used in assessing defined benefit obligations, make allowance for future improvements in longevity and have been determined by reference to applicable mortality statistics and the actuaries' expectations for each scheme. The average life expectancies assumed in the valuation of the defined benefit obligations are set out below.

Average life expectancy (at December 31,)	2006		2005		2004	
	Male (years)	Female (years)	Male (years)	Female (years)	Male (years)	Female (years)
Member currently aged 60	86	87	83	86	83	86
Member currently aged 45	86	87	83	86	83	86

The increase in average life expectancies since 2005 follows the triennial actuarial valuation of the UK pension scheme.

6. Pension schemes – (continued)

The defined benefit pension expense, recognised within operating expenses in the income statement comprises:

	2006 £m	2005 £m	2004 £m
Service cost (including curtailment credits of £11 million (2005: nil; 2004: nil))	94	91	83
Interest on pension scheme liabilities	144	137	127
Expected return on scheme assets	(178)	(149)	(139)
Net defined benefit pension expense	60	79	71

A total of £20 million (2005: £21 million; 2004: £18 million) was recognised as an expense in relation to defined contribution pension schemes.

The amount recognised in the balance sheet in respect of defined benefit pension schemes at the start and end of the year and the movements during the year were as follows:

	2006			2005			2004		
	Defined benefit obligations £m	Fair value of scheme assets £m	Net pension obligations £m	Defined benefit obligations £m	Fair value of scheme assets £m	Net pension obligations £m	Defined benefit obligations £m	Fair value of scheme assets £m	Net pension obligations £m
At January 1	(2,980)	2,575	(405)	(2,525)	2,204	(321)	(2,281)	2,030	(251)
Service cost	(94)	—	(94)	(91)	—	(91)	(83)	—	(83)
Interest on pension scheme liabilities	(144)	—	(144)	(137)	—	(137)	(127)	—	(127)
Expected return on scheme assets	—	178	178	—	149	149	—	139	139
Actuarial gain/(loss)	40	99	139	(267)	230	(37)	(140)	66	(74)
Contributions by employer	—	61	61	—	47	47	—	68	68
Contributions by employees	(13)	13	—	(13)	13	—	(10)	10	—
Benefits paid	106	(102)	4	94	(94)	—	89	(89)	—
Exchange translation differences	77	(52)	25	(41)	26	(15)	27	(20)	7
At December 31	(3,008)	2,772	(236)	(2,980)	2,575	(405)	(2,525)	2,204	(321)

The net pension obligations of £236 million at December 31, 2006 comprise schemes in surplus with net pension assets of £20 million (2005: nil; 2004: nil) and schemes in deficit with net pension obligations of £256 million (2005: £405 million; 2004: £321 million).

As at December 31, 2006 the defined benefit obligations comprise £2,921 million (2005: £2,890 million; 2004: £2,458 million) in relation to funded schemes and £87 million (2005: £90 million; 2004: £67 million) in relation to unfunded schemes. The weighted average duration of defined benefit scheme liabilities is 19 years (2005: 19 years; 2004: 19 years). Deferred tax assets of £92 million (2005: £133 million; 2004: £109 million) and deferred tax liabilities of £6 million (2005: nil; 2004: nil) are recognised in respect of the net pension obligations.

6. Pension schemes – (continued)

The fair value of scheme assets held as equities, bonds and other assets, and their expected rates of return, is shown below:

	2006			2005			2004		
	Expected rate of return on scheme assets %	Fair value of scheme assets £m	Proportion of total scheme assets %	Expected rate of return on scheme assets %	Fair value of scheme assets £m	Proportion of total scheme assets %	Expected rate of return on scheme assets %	Fair value of scheme assets £m	Proportion of total scheme assets %
Equities	8.0	1,857	67%	8.1	1,708	66%	7.9	1,404	64%
Bonds	4.4	777	28%	4.3	757	30%	4.7	713	32%
Other	5.0	138	5%	5.7	110	4%	4.4	87	4%
Total	7.0	2,772	100%	7.0	2,575	100%	6.8	2,204	100%

The actual return on scheme assets for the year ended December 31, 2006 was £277 million (2005: £379 million; 2004: £205 million).

A summary of pension balances for the three years ended December 31, 2006 is set out below.

	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	2,772	2,575	2,204
Defined benefit obligations	(3,008)	(2,980)	(2,525)
Net pension obligations	(236)	(405)	(321)

Gains and losses arising on the revaluation of pension scheme assets and liabilities that have been recognised in the statement of recognised income and expense are set out below:

	2006 £m	2005 £m	2004 £m
Gains and losses arising during the year:			
Experience losses on scheme liabilities	(30)	(25)	(18)
Experience gains on scheme assets	99	230	66
Actuarial gains/(losses) arising on the present value of scheme liabilities due to changes in:			
— discount rates	198	(217)	(113)
— inflation	(77)	—	—
— life expectancy and other actuarial assumptions	(51)	(25)	(9)
	139	(37)	(74)
Net cumulative losses at start of year	(111)	(74)	—
Net cumulative gains/(losses) at end of year	28	(111)	(74)

The combined businesses expect to contribute approximately £66 million to their defined benefit pension schemes in 2007.

Sensitivity analysis

Valuation of Reed Elsevier's pension scheme liabilities involves judgement about uncertain events, including the life expectancy of the members, salary and pension increases, inflation and the rate at which the future pension payments are discounted. Estimates are used for each of these factors, determined in conjunction with independent actuaries. Differences arising from actual experience or future changes in assumptions may materially affect future pension charges.

6. Pension schemes – (continued)

In particular, changes in assumptions for discount rates, inflation and life expectancies would have the following approximate effects on the annual net pension expense and the defined benefit pension obligations:

	<u>£m</u>
Increase/decrease of 0.25% in discount rate:	
Decrease/increase in annual net pension expense	7
Decrease/increase in defined benefit pension obligations	<u>140</u>
Increase/decrease of one year in assumed life expectancy:	
Increase/decrease in annual net pension expense	7
Increase/decrease in defined benefit pension obligations	<u>90</u>
Increase/decrease of 0.25% in the expected inflation rate:	
Increase/decrease in annual net pension expense	4
Increase/decrease in defined benefit pension obligations	<u>100</u>

Additionally, the annual net pension expense includes an expected return on scheme assets. A 5% increase/decrease in the market value of equity investments held by the defined benefit pension schemes would, absent any change in their expected long term rate of return, increase/decrease the amount of the expected return on scheme assets by £7 million and would decrease/increase the amount of the net pension deficit by £90 million.

7. Share based remuneration

Reed Elsevier provides a number of share based remuneration schemes to directors and employees. The principal share based remuneration schemes are the Executive Share Option Schemes (ESOS), the Long Term Incentive Scheme (LTIS), the Retention Share Plan (RSP) and the Bonus Investment Plan (BIP). Share options granted under ESOS and LTIS are exercisable after three years and up to ten years from the date of grant at a price equivalent to the market value of the respective shares at the date of grant. Conditional shares granted under ESOS, LTIS, RSP and BIP are exercisable after three years for nil consideration if conditions are met. Other awards principally relate to all-employee share based saving schemes in the UK and the Netherlands.

Share based remuneration awards are, other than in exceptional circumstances, subject to the condition that the employee remains in employment at the time of exercise. Share options and conditional shares granted under LTIS, RSP and BIP are subject to the achievement of growth targets of Reed Elsevier PLC and Reed Elsevier NV adjusted earnings per share measured at constant exchange rates. LTIS grants made in 2006 are variable subject to the achievement of an additional total shareholder return performance target. The numbers of share options and conditional shares included in the tables below are calculated on the basis that 100% of the awards will vest.

The estimated fair value of grants made in the three years ended December 31, 2006 are set out below. The fair values of grants are recognised in the income statement over the vesting period, typically three years.

7. Share based remuneration – (continued)

2006 grants

	In respect of Reed Elsevier PLC ordinary shares			In respect of Reed Elsevier NV ordinary shares			Total fair value
	Number of shares '000	Weighted average fair value per award £	Fair value £m	Number of shares '000	Weighted average fair value per award £	Fair value £m	£m
Share options							
ESOS	4,731	1.00	4	3,169	1.27	4	8
LTIS	3	1.00	—	2	1.30	—	—
Other	1,168	1.48	2	243	1.48	—	2
Total share options	5,902	1.09	6	3,414	1.29	4	10
Conditional shares							
ESOS	1,202	4.92	6	806	7.15	6	12
LTIS	2,003	5.43	11	1,318	8.14	11	22
BIP	683	5.07	4	280	7.29	2	6
Total conditional shares	3,888	5.21	21	2,404	7.71	19	40
Total			27			23	50

2005 grants

	In respect of Reed Elsevier PLC ordinary shares			In respect of Reed Elsevier NV ordinary shares			Total fair value
	Number of shares '000	Weighted average fair value per award £	Fair value £m	Number of shares '000	Weighted average fair value per award £	Fair value £m	£m
Share options							
ESOS	10,346	1.03	11	7,049	1.30	9	20
LTIS	234	0.99	—	159	1.28	—	—
Other	940	1.54	1	263	1.38	1	2
Total share options	11,520	1.05	12	7,471	1.31	10	22
Conditional shares							
LTIS	107	4.63	—	74	6.68	—	—
RSP	152	4.69	1	103	6.97	1	2
BIP	692	4.95	4	229	7.18	2	6
Total conditional shares	951	4.87	5	406	7.04	3	8
Total			17			13	30

7. Share based remuneration – (continued)

2004 grants

	In respect of Reed Elsevier PLC ordinary shares			In respect of Reed Elsevier NV ordinary shares			Total fair value
	Number of shares '000	Weighted average fair value per award £	Fair value £m	Number of shares '000	Weighted average fair value per award £	Fair value £m	£m
Share options							
ESOS	16,274	1.33	21	11,402	1.80	21	42
LTIS	5,138	1.33	7	3,529	1.80	6	13
Other	1,120	1.94	2	304	1.34	—	2
Total share options	22,532	1.35	30	15,235	1.79	27	57
Conditional shares							
LTIS	2,346	4.59	11	1,611	6.78	11	22
RSP	2,309	4.59	11	1,584	6.78	11	22
BIP	486	4.59	2	196	6.78	1	3
Total conditional shares	5,141	4.59	24	3,391	6.78	23	47
Total			54			50	104

The main assumptions used to determine the fair values, which have been established with advice from and data provided by independent actuaries, are set out below.

Assumptions for grants made during the year

	In respect of Reed Elsevier PLC ordinary shares			In respect of Reed Elsevier NV ordinary shares		
	2006	2005	2004	2006	2005	2004
Weighted average share price at date of grant						
ESOS	£5.32	£5.33	£4.87	€11.51	€11.31	€10.57
LTIS	£5.36	£5.12	£4.87	€11.81	€11.01	€10.56
RSP	—	£4.94	£4.87	—	€10.71	€10.57
BIP	£5.48	£5.37	£4.87	€11.74	€11.35	€10.57
Other	£5.30	£5.30	£5.30	€12.05	€11.19	€10.92
Expected share price volatility	22%	22%	32%	22%	22%	32%
Expected option life	4 years	4 years	4 years	4 years	4 years	4 years
Expected dividend yield	2.6%	2.6%	2.0%	3.1%	2.6%	2.0%
Risk free interest rate	4.6%	5.1%	5.1%	3.5%	3.4%	3.4%
Expected lapse rate	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%

Expected share price volatility has been estimated based on relevant historic data in respect of the Reed Elsevier PLC and Reed Elsevier NV ordinary share prices. Expected share option life has been estimated based on historical exercise patterns in respect of Reed Elsevier PLC and Reed Elsevier NV share options.

The share based remuneration awards outstanding, including unvested share options, as at December 31, 2006, in respect of both Reed Elsevier PLC and Reed Elsevier NV ordinary shares, are set out below.

7. Share based remuneration – (continued)

	In respect of Reed Elsevier PLC ordinary shares							
	ESOS		LTIS		Other		Total	
	Number of shares '000	Weighted average exercise price (pence)	Number of shares '000	Weighted average exercise price (pence)	Number of shares '000	Weighted average exercise price (pence)	Number of shares '000	Weighted average exercise price (pence)
<i>Share options</i>								
Outstanding at January 1, 2004	47,719	513	12,385	479	3,676	422	63,780	501
Granted	16,274	487	5,138	487	1,120	378	22,532	482
Exercised	(2,574)	431	—	—	(339)	409	(2,913)	428
Forfeited	(6,523)	529	(12,385)	479	(538)	435	(19,446)	494
Expired	(255)	500	—	—	(43)	460	(298)	494
Outstanding at January 1, 2005	54,641	508	5,138	487	3,876	408	63,655	500
Granted	10,346	533	234	516	940	424	11,520	524
Exercised	(3,027)	441	—	—	(602)	348	(3,629)	426
Forfeited	(4,146)	532	(91)	487	(678)	442	(4,915)	519
Expired	(74)	443	—	—	(18)	423	(92)	439
Outstanding at January 1, 2006	57,740	514	5,281	488	3,518	416	66,539	507
Granted	4,731	532	3	535	1,168	424	5,902	510
Exercised	(9,691)	461	—	—	(792)	411	(10,483)	457
Forfeited	(4,088)	543	(267)	487	(299)	413	(4,654)	532
Expired	(500)	584	—	—	(222)	507	(722)	561
Outstanding at December 31, 2006	48,192	523	5,017	488	3,373	414	56,582	513
Exercisable at December 31, 2004	19,572	526	—	—	88	368	19,660	525
Exercisable at December 31, 2005	22,471	552	65	487	211	506	22,747	552
Exercisable at December 31, 2006	22,121	537	105	487	91	425	22,317	537

	In respect of Reed Elsevier NV ordinary shares							
	ESOS		LTIS		Other		Total	
	Number of shares '000	Weighted average exercise price (€)	Number of shares '000	Weighted average exercise price (€)	Number of shares '000	Weighted average exercise price (€)	Number of shares '000	Weighted average exercise price (€)
<i>Share options</i>								
Outstanding at January 1, 2004	31,639	11.66	8,671	11.61	1,656	12.31	41,966	11.67
Granted	11,402	10.57	3,529	10.55	304	10.92	15,235	10.57
Exercised	(1,330)	10.19	—	—	(47)	10.00	(1,377)	10.19
Forfeited	(4,777)	11.68	(8,671)	11.61	—	—	(13,448)	11.65
Expired	(164)	17.07	—	—	(109)	13.39	(273)	17.07
Outstanding at January 1, 2005	36,770	11.33	3,529	10.55	1,804	12.07	42,103	11.30
Granted	7,049	11.31	159	11.21	263	11.19	7,471	11.30
Exercised	(1,817)	10.29	—	—	(75)	12.26	(1,892)	10.37
Forfeited	(2,750)	11.88	(62)	10.57	—	—	(2,812)	11.85
Expired	—	—	—	—	(111)	10.16	(111)	10.16
Outstanding at January 1, 2006	39,252	11.33	3,626	10.58	1,881	12.05	44,759	11.30
Granted	3,169	11.51	2	11.76	243	12.05	3,414	11.55
Exercised	(6,666)	9.98	—	—	(243)	10.76	(6,909)	10.01
Forfeited	(2,799)	12.13	(183)	10.57	(35)	12.83	(3,017)	12.04
Outstanding at December 31, 2006	32,956	11.55	3,445	10.58	1,846	12.21	38,247	11.50
Exercisable at December 31, 2004	12,069	12.41	—	—	1,804	12.07	13,873	12.37
Exercisable at December 31, 2005	14,631	12.91	45	10.57	1,881	12.05	16,557	12.81
Exercisable at December 31, 2006	15,055	12.24	72	10.57	1,846	12.21	16,973	12.23

7. Share based remuneration – (continued)

	In respect of Reed Elsevier PLC ordinary shares							
	ESOS		LTIS		Other		Total	
	Number of shares '000	Weighted average grant date fair value (£)	Number of shares '000	Weighted average grant date fair value (£)	Number of shares '000	Weighted average grant date fair value (£)	Number of shares '000	Weighted average grant date fair value (£)
<i>Unvested share options</i>								
Unvested at January 1, 2004	31,203	1.60	12,385	2.01	3,472	2.00	47,060	1.74
Granted	16,274	1.33	5,138	1.33	1,120	1.94	22,532	1.35
Vested	(9,176)	1.91	—	—	(293)	2.40	(9,469)	1.93
Forfeited	(3,231)	1.46	(12,385)	2.01	(512)	1.91	(16,128)	1.89
Unvested at January 1, 2005	35,070	1.41	5,138	1.33	3,787	1.96	43,995	1.44
Granted	10,346	1.03	234	0.99	940	1.54	11,520	1.05
Vested	(8,314)	1.58	(66)	1.33	(998)	1.69	(9,378)	1.59
Forfeited	(1,832)	1.30	(90)	1.33	(423)	1.45	(2,345)	1.32
Unvested at January 1, 2005	35,270	1.25	5,216	1.31	3,306	1.49	43,792	1.27
Granted	4,731	1.00	3	1.00	1,168	1.48	5,902	1.09
Vested	(12,296)	1.32	(40)	1.33	(893)	1.41	(13,229)	1.33
Forfeited	(1,634)	1.21	(267)	1.33	(299)	1.41	(2,200)	1.25
Unvested at December 31, 2006	26,071	1.18	4,912	1.31	3,282	1.41	34,265	1.22

	In respect of Reed Elsevier NV ordinary shares							
	ESOS		LTIS		Other		Total	
	Number of shares '000	Weighted average grant date fair value (€)	Number of shares '000	Weighted average grant date fair value (€)	Number of shares '000	Weighted average grant date fair value (€)	Number of shares '000	Weighted average grant date fair value (€)
<i>Unvested share options</i>								
Unvested at January 1, 2004	21,945	3.15	8,671	3.99	—	—	30,616	3.39
Granted	11,402	2.64	3,529	2.64	304	1.97	15,235	2.63
Vested	(6,340)	3.50	—	0.00	(304)	1.97	(6,644)	3.43
Forfeited	(2,306)	2.92	(8,671)	3.99	—	—	(10,977)	3.76
Unvested at January 1, 2005	24,701	2.84	3,529	2.64	—	—	28,230	2.82
Granted	7,049	1.90	159	1.87	263	2.01	7,471	1.91
Vested	(5,847)	2.89	(45)	2.64	(263)	2.01	(6,155)	2.85
Forfeited	(1,282)	2.58	(62)	2.64	—	—	(1,344)	2.58
Unvested at January 1, 2006	24,621	2.46	3,581	2.61	—	—	28,202	2.48
Granted	3,169	1.87	2	1.91	243	2.17	3,414	1.89
Vested	(8,799)	2.65	(27)	2.64	(243)	2.17	(9,069)	2.64
Forfeited	(1,090)	2.35	(183)	2.64	—	—	(1,273)	2.39
Unvested at December 31, 2006	17,901	2.27	3,373	2.60	—	—	21,274	2.33

7. Share based remuneration – (continued)

In respect of Reed Elsevier PLC ordinary shares										
ESOS		LTIS		RSP		BIP		Total		
Number of shares '000	Weighted average grant date fair value (£)	Number of shares '000	Weighted average grant date fair value (£)	Number of shares '000	Weighted average grant date fair value (£)	Number of shares '000	Weighted average grant date fair value (£)	Number of shares '000	Weighted average grant date fair value (£)	
<i>Conditional shares</i>										
Outstanding at January 1, 2004	—	—	—	—	—	232	4.59	232	4.59	
Granted	—	—	2,346	4.59	2,309	4.59	486	4.59	5,141	4.59
Exercised	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	(24)	4.59	(8)	4.59	(32)	4.59
Outstanding at January 1, 2005	—	—	2,346	4.59	2,285	4.59	710	4.59	5,341	4.59
Granted	—	—	107	4.63	152	4.69	692	4.95	951	4.87
Exercised	—	—	—	—	(46)	4.59	(5)	4.59	(51)	4.59
Forfeited	—	—	(40)	4.59	(259)	4.59	(18)	4.62	(317)	4.59
Outstanding at January 1, 2006	—	—	2,413	4.59	2,132	4.60	1,379	4.77	5,924	4.63
Granted	1,202	4.92	2,003	5.43	—	—	683	5.07	3,888	5.21
Exercised	(4)	4.91	—	—	(54)	4.57	(221)	4.59	(279)	4.60
Forfeited	(49)	4.91	(172)	4.83	(246)	4.57	(108)	4.78	(575)	4.72
Outstanding at December 31, 2006	1,149	4.92	4,244	4.93	1,832	4.60	1,733	4.91	8,958	4.86
In respect of Reed Elsevier NV ordinary shares										
ESOS		LTIS		RSP		BIP		Total		
Number of shares '000	Weighted average grant date fair value (€)	Number of shares '000	Weighted average grant date fair value (€)	Number of shares '000	Weighted average grant date fair value (€)	Number of shares '000	Weighted average grant date fair value (€)	Number of shares '000	Weighted average grant date fair value (€)	
<i>Conditional shares</i>										
Outstanding at January 1, 2004	—	—	—	—	—	109	10.04	109	10.04	
Granted	—	—	1,611	9.96	1,584	9.96	196	9.96	3,391	9.96
Exercised	—	—	—	—	—	9.96	—	—	—	—
Forfeited	—	—	—	—	(16)	9.96	(1)	9.96	(17)	9.96
Outstanding at January 1, 2005	—	—	1,611	9.96	1,568	9.96	304	9.99	3,483	9.96
Granted	—	—	74	9.76	103	10.18	229	10.48	406	10.27
Exercised	—	—	—	—	(32)	9.96	—	—	(32)	9.96
Forfeited	—	—	(28)	9.96	(176)	9.96	(18)	10.03	(222)	9.97
Outstanding at January 1, 2006	—	—	1,657	9.95	1,463	9.98	515	10.21	3,635	10.00
Granted	806	10.51	1,318	11.96	—	—	280	10.71	2,404	11.33
Exercised	(3)	10.47	—	—	(36)	9.90	(101)	10.04	(140)	10.02
Forfeited	(33)	10.47	(117)	10.51	(149)	9.89	(45)	10.24	(344)	10.20
Outstanding at December 31, 2006	770	10.51	2,858	10.87	1,278	9.97	649	10.45	5,555	10.57

The aggregate intrinsic value of awards exercised in the year was £22 million (2005: £5 million; 2004: £4 million) for share options and £3 million (2005: £1 million; 2004: £nil) for conditional shares. The weighted average share price at the date of exercise of share options during 2006 was 564p (2005: 533.0; 2004: 513.0p) for Reed Elsevier PLC ordinary shares and €12.34 (2005: €11.31; 2004: €11.31) for Reed Elsevier NV ordinary shares. The aggregate intrinsic value of awards outstanding at December 31, 2006 was £78 million (2005: £67 million; 2004: £15 million) for share options and £99 million (2005: £62 million; 2004: £50 million) for conditional shares. The aggregate intrinsic value of share options exercisable at December 31, 2006 was £27 million (2005: £13 million; 2004: £5 million). The middle market share price at December 31, 2006 was 560.5p (2005: 546.0p; 2004: 480.5p) for Reed Elsevier PLC ordinary shares and €12.92 (2005: €11.80; 2004: €10.03) for Reed Elsevier NV ordinary shares.

7. Share based remuneration – (continued)

The weighted average remaining contractual term of awards outstanding at December 31, 2006 was 5.7 years (2005: 6.2 years; 2004: 6.6 years) for share options and 1.2 years (2005: 1.4 years; 2004: 2.3 years) for conditional shares. The weighted average remaining contractual term of share options exercisable at December 31, 2006 was 4.6 years (2005: 4.6 years; 2004: 4.9 years).

At December 31, 2006 the unrecognised compensation cost of unvested awards was £17 million for share options and £34 million for conditional shares. This cost is expected to be recognised over a weighted average period of 0.8 years for share options and 1.2 years for conditional shares.

The total fair value of awards vested during the year ended December 31, 2006 was £34 million (2005: £27 million; 2004: £34 million) for share options and £2 million (2005: £1 million; 2004: £nil) for conditional shares.

Cash received from share option exercises for the year ended December 31, 2006 was £95 million (2005: £29 million; 2004: £22 million). The actual tax benefit realised by Reed Elsevier for the tax deductions from share option exercises totalled £7 million for the year ended December 31, 2006 (2005: £2 million; 2004: £1 million).

Range of exercise prices for outstanding share options

	2006		2005		2004	
	Number of share options outstanding '000	Weighted average remaining contractual period till expiry (years)	Number of share options outstanding '000	Weighted average remaining contractual period till expiry (years)	Number of share options outstanding '000	Weighted average remaining contractual period till expiry (years)
<i>Reed Elsevier PLC ordinary shares (pence)</i>						
301-350	—	—	38	0.1	578	1.1
351-400	1,345	1.4	2,161	2.3	2,516	3.3
401-450	4,733	3.0	6,110	4.0	7,357	4.7
451-500	23,953	5.5	31,858	6.6	34,920	7.6
501-550	15,462	7.8	12,981	8.1	3,147	5.0
551-600	6,639	4.7	8,283	5.2	9,518	6.2
601-650	852	2.8	1,019	3.6	1,133	4.6
651-700	3,598	4.1	4,089	5.1	4,486	6.1
Total	56,582	5.6	66,539	6.2	63,655	6.5
<i>Reed Elsevier NV ordinary shares (euro)</i>						
8.01-9.00	—	—	9	7.2	9	8.2
9.01-10.00	4,146	6.2	8,034	7.0	9,084	7.9
10.01-11.00	14,595	5.1	17,919	5.9	19,917	6.8
11.01-12.00	10,589	8.0	8,774	8.0	1,845	5.0
12.01-13.00	307	5.6	356	3.3	407	4.0
13.01-14.00	5,163	4.8	5,808	5.4	6,619	6.4
14.01-15.00	2,896	4.2	3,223	4.7	3,530	5.7
15.01-16.00	551	2.7	636	2.6	692	3.4
Total	38,247	5.9	44,759	6.3	42,103	6.7

Share options are expected, upon exercise, to be met principally by the issue of new ordinary shares but may also be met from shares held by the Reed Elsevier Group plc Employee Benefit Trust (EBT) (see note 29). Conditional shares will be met from shares held by the EBT.

8. Net finance costs

	2006 £m	2005 £m	2004 £m
Interest on bank loans, overdrafts and commercial paper	(44)	(44)	(41)
Interest on other loans	(128)	(105)	(106)
Interest on obligations under finance leases	(1)	(1)	(1)
Total borrowing costs	(173)	(150)	(148)
Losses on derivatives not designated as hedges	(3)	(20)	—
Fair value losses on interest rate derivatives formerly designated as cash flow hedges transferred from equity	(3)	(6)	—
Finance costs	(179)	(176)	(148)
Interest on bank deposits	14	10	16
Gains on loans and derivatives not designated as hedges	7	26	—
Finance income	21	36	16
Net finance costs	(158)	(140)	(132)

Finance costs include £6 million (2005: £11 million; 2004: nil) transferred from the hedge reserve. A net gain of £1 million (2005: £11 million; 2004: nil) on interest rate derivatives designated as cash flow hedges was recognised directly in equity in the hedge reserve.

9. Disposals and other non operating items

	2006 £m	2005 £m	2004 £m
Revaluation of held for trading investments	1	3	—
Loss on disposal of businesses and other assets	(2)	(1)	(3)
Net (loss)/gain on disposals and other non operating items	(1)	2	(3)

10. Taxation

	2006 £m	2005 £m	2004 £m
<i>Current tax</i>			
United Kingdom	59	85	73
The Netherlands	50	48	52
Rest of world	4	83	60
Total current tax	113	216	185
<i>Deferred tax</i>			
Origination and reversal of timing differences	(17)	21	(15)
Total	96	237	170

The current tax charge includes credits of £65 million (2005: nil; 2004: nil) in respect of prior year disposals.

10. Taxation – (continued)

A reconciliation of the notional tax charge based on average applicable rates of tax (weighted in proportion to accounting profits) to the actual total tax expense is set out below.

	2006 £m	2005 £m	2004 £m
Profit before tax	721	701	631
Tax at average applicable rates	171	154	142
Tax on share of results of joint ventures	(6)	(6)	(7)
Deferred tax on unrealised exchange differences on long term inter-affiliate lending	(22)	44	(31)
Adjustments relating to prior year disposals	(65)	—	—
Non deductible amounts and other items	18	45	66
Tax expense	96	237	170
Tax expense as a percentage of profit before tax	13%	34%	27%

The following tax has been recognised directly in equity during the year.

	2006 £m	2005 £m	2004 £m
Tax on actuarial movements on defined benefit pension schemes	(45)	10	12
Tax on fair value movements on cash flow hedges	(18)	(13)	—
Deferred tax credits on share based remuneration	3	—	—
Net tax charge recognised directly in equity	(60)	(3)	12

During 2006, a tax charge of £3 million was transferred to net profit from the hedge reserve (2005: nil; 2004: nil). Current taxation liabilities as at December 31, 2005 include £287 million previously reported within non-current liabilities.

11. Cash flow statement

Reconciliation of operating profit before joint ventures to cash generated from operations

	2006 £m	2005 £m	2004 £m
Profit before tax	721	701	631
Disposals and other non operating items	1	(2)	3
Net finance costs	158	140	132
Share of results of joint ventures	(18)	(16)	(17)
Operating profit before joint ventures	862	823	749
Amortisation of acquired intangible assets	297	276	255
Amortisation of internally developed intangible assets	71	57	55
Depreciation of property, plant and equipment	91	87	71
Share based remuneration	49	57	59
Total non cash items	508	477	440
Increase in inventories and pre-publication costs	(51)	(56)	(39)
Increase in receivables	(65)	(92)	(69)
Increase in payables	50	71	73
Increase in working capital	(66)	(77)	(35)
Cash generated from operations	1,304	1,223	1,154

11. Cash flow statement – (continued)

Cash flow on acquisitions

	Note	2006 £m	2005 £m	2004 £m
Purchase of businesses	12	(149)	(293)	(640)
Investments in joint ventures		(1)	(15)	—
Deferred payments relating to prior year acquisitions		(13)	(9)	(7)
Total		<u>(163)</u>	<u>(317)</u>	<u>(647)</u>

12. Acquisitions

Acquisitions in 2006

During the year a number of acquisitions were made for a total consideration amounting to £171 million, after taking account of net cash acquired of £7 million.

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

	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Goodwill	—	102	102
Intangible assets	1	86	87
Property, plant and equipment	1	—	1
Current assets	9	—	9
Current liabilities	(17)	—	(17)
Deferred tax	—	(11)	(11)
Net assets acquired	<u>(6)</u>	<u>177</u>	<u>171</u>
Consideration (after taking account of £7 million net cash acquired) ...			171
Less: consideration deferred to future years			<u>(22)</u>
Net cash flow			<u>149</u>

The fair value adjustments in relation to the acquisitions made in 2006 relate principally to the valuation of intangible assets. Goodwill, being the excess of the consideration over the net tangible and intangible assets acquired, represents benefits which do not qualify for recognition as intangible assets, including skilled workforces and acquisition synergies that are specific to Reed Elsevier. In addition, goodwill arises on the recognition of deferred tax liabilities in respect of intangible assets for which amortisation does not qualify for tax deductions.

The businesses acquired in 2006 contributed £32 million to revenue, reduced net profit by £9 million and contributed £7 million to net cash inflow from operating activities for the part year under Reed Elsevier ownership. Had the businesses been acquired at the beginning of the year, on a proforma basis, the Reed Elsevier revenues and net profit for the year would have been £5,423 million and £624 million respectively.

Acquisitions in 2005

During the year a number of acquisitions were made for a total consideration amounting to £307 million after taking account of net cash acquired of £8 million.

12. Acquisitions – (continued)

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

	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Goodwill	—	182	182
Intangible assets	12	137	149
Property, plant and equipment	3	(1)	2
Current assets	36	(4)	32
Current liabilities	(46)	(1)	(47)
Deferred tax	—	(11)	(11)
Net assets acquired	5	302	307
Consideration (after taking account of £8 million net cash acquired) ...			307
Less: consideration deferred to future years			(14)
Net cash flow			293

The fair value adjustments in relation to the acquisitions made in 2005 relate principally to the valuation of intangible assets and inventories. Goodwill represents the excess of the consideration over the net tangible and intangible assets acquired.

The most significant acquisition was MediMedia MAP, a medical books and journals publishing business, for £188 million in August, 2005.

13. Equity dividends

Dividends declared in the year

	2006 £m	2005 £m	2004 £m
Reed Elsevier PLC	186	168	153
Reed Elsevier NV	185	168	156
Total	371	336	309

Dividends declared in the year, in amounts per ordinary share, comprise: a 2005 final dividend of 10.7p and 2006 interim dividend of 4.1p giving a total of 14.8p (2005: 13.3p; 2004: 12.1p) for Reed Elsevier PLC; and a 2005 final dividend of €0.267 and 2006 interim dividend of €0.102 giving a total of €0.369 (2005: €0.332; 2004: €0.310) for Reed Elsevier NV.

The directors of Reed Elsevier PLC have proposed a final dividend of 11.8p (2005: 10.7p; 2004: 9.6p) and the directors of Reed Elsevier NV have proposed a final dividend of €0.304 (2005: €0.267; 2004: €0.240). The total cost of funding the proposed final dividends is expected to be £298 million, for which no liability has been recognised at the date of the balance sheet.

Dividends paid and proposed relating to the financial year

	2006 £m	2005 £m	2004 £m
Reed Elsevier PLC	199	183	163
Reed Elsevier NV	203	182	167
Total	402	365	330

13. Equity dividends – (continued)

Dividends paid to Reed Elsevier PLC and Reed Elsevier NV shareholders are, other than in special circumstances, equalised at the gross level inclusive of the UK tax credit of 10% received by certain Reed Elsevier PLC shareholders. The cost of funding the Reed Elsevier PLC dividends is therefore similar to that of Reed Elsevier NV.

14. Goodwill

	2006 £m	2005 £m	2004 £m
At January 1	3,030	2,611	2,437
Acquisitions	102	182	345
Disposals	(20)	(14)	—
Exchange translation differences	(310)	251	(171)
At December 31	<u>2,802</u>	<u>3,030</u>	<u>2,611</u>

The carrying amount of goodwill includes cumulative amortisation of £1,644 million (2005: £1,847 million), which was charged prior to the adoption of IFRS.

For the purposes of impairment testing, goodwill is recorded in the cash generating units that are expected to benefit from each acquisition. The carrying value of goodwill recorded in the major groups of cash generating units is set out below.

	2006 £m	2005 £m	2004 £m
<i>Goodwill</i>			
Elsevier	744	821	629
LexisNexis US	1,077	1,201	1,047
LexisNexis International	120	103	100
Harcourt Schools US	302	345	306
Reed Exhibitions	264	267	248
Other	<u>295</u>	<u>293</u>	<u>281</u>
Total	<u>2,802</u>	<u>3,030</u>	<u>2,611</u>

The carrying value of each cash generating unit is compared with its estimated value in use, which is determined to be its recoverable amount. Value in use is calculated based on estimated future cash flows, discounted to their present value. The pre-tax discount rates used are between 10-12%, including a risk premium appropriate to the unit being reviewed. Estimated future cash flows are determined by reference to latest budgets and forecasts for the next five years, with a 3% long term nominal growth rate assumed thereafter.

15. Intangible assets

	Market and customer related £m	Content, software and other £m	Total acquired intangible assets £m	Internally developed intangible assets £m	Total £m
<i>Cost</i>					
At January 1, 2005.....	1,252	2,864	4,116	512	4,628
Acquisitions.....	88	61	149	—	149
Additions.....	—	—	—	102	102
Disposals.....	—	(29)	(29)	—	(29)
Exchange translation differences.....	149	187	336	33	369
At January 1, 2006.....	1,489	3,083	4,572	647	5,219
Acquisitions.....	43	44	87	—	87
Additions.....	—	—	—	108	108
Disposals.....	(2)	(16)	(18)	(73)	(91)
Exchange translation differences.....	(175)	(240)	(415)	(49)	(464)
At December 31, 2006.....	<u>1,355</u>	<u>2,871</u>	<u>4,226</u>	<u>633</u>	<u>4,859</u>
<i>Amortisation</i>					
At January 1, 2005.....	100	1,408	1,508	285	1,793
Change for the year.....	85	191	276	57	333
Disposals.....	—	(9)	(9)	—	(9)
Exchange translation differences.....	16	92	108	15	123
At January 1, 2006.....	201	1,682	1,883	357	2,240
Change for the year.....	106	191	297	71	368
Disposals.....	(1)	(16)	(17)	(65)	(82)
Exchange translation differences.....	(30)	(137)	(167)	(24)	(191)
At December 31, 2006.....	<u>276</u>	<u>1,720</u>	<u>1,996</u>	<u>339</u>	<u>2,335</u>
<i>Net book amount</i>					
At December 31, 2005.....	1,288	1,401	2,689	290	2,979
At December 31, 2006.....	<u>1,079</u>	<u>1,151</u>	<u>2,230</u>	<u>294</u>	<u>2,524</u>

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trade marks, imprints, brands); customer related assets (e.g. subscription bases, customer lists, customer relationships); and content, software and other intangible assets (e.g. editorial content, software and product delivery systems, other publishing rights, exhibition rights and supply contracts). Included in content, software and other acquired intangible assets are assets with a net book value of £935 million (2005: £1,154 million) that arose on acquisitions completed prior to the adoption of IFRS that have not been allocated to specific categories of intangible assets. Internally developed intangible assets typically comprise software and systems development where an identifiable asset is created that is probable to generate future economic benefits.

Included in market and customer related intangible assets are £293 million (2005: £333 million) of brands and imprints relating to Elsevier determined to have indefinite lives based on an assessment of their historical longevity and stable market positions.

16. Investments

	2006 £m	2005 £m
Investments in joint ventures	73	71
Available for sale investments	25	22
Venture capital investments held for trading	25	22
Total	123	115

An analysis of changes in the carrying value of investments in joint ventures is set out below.

	2006 £m	2005 £m
At January 1	71	60
Share of results of joint ventures	18	16
Dividends received from joint ventures	(16)	(16)
Additions	1	15
Transfers	—	(3)
Exchange translation differences	(1)	(1)
At December 31	73	71

The principal joint ventures at December 31, 2006 are exhibition joint ventures within Reed Business and Giuffrè (an Italian legal publisher in which Reed Elsevier has a 40% shareholding).

Summarised aggregate information in respect of joint ventures and Reed Elsevier's share is set out below:

	Total joint ventures		Reed Elsevier share	
	2006 £m	2005 £m	2006 £m	2005 £m
Revenue	222	194	108	91
Net profit for the year	36	33	18	16
Total assets	215	220	99	103
Total liabilities	(121)	(137)	(55)	(63)
Net assets	94	83	44	40
Goodwill			29	31
Total			73	71

17. Property, plant and equipment

	2006			2005		
	Land and buildings £m	Fixtures and equipment £m	Total £m	Land and buildings £m	Fixtures and equipment £m	Total £m
<i>Cost</i>						
At January 1	192	695	887	182	627	809
Acquisitions	—	2	2	—	6	6
Capital expenditure	9	89	98	5	98	103
Disposals	(3)	(55)	(58)	(10)	(86)	(96)
Exchange translation differences	(19)	(64)	(83)	15	50	65
At December 31	<u>179</u>	<u>667</u>	<u>846</u>	<u>192</u>	<u>695</u>	<u>887</u>
<i>Accumulated depreciation</i>						
At January 1	84	489	573	72	445	517
Acquisitions	—	1	1	—	4	4
Disposals	(3)	(55)	(58)	(3)	(76)	(79)
Charge for the year	8	83	91	8	79	87
Exchange translation differences	(6)	(53)	(59)	7	37	44
At December 31	<u>83</u>	<u>465</u>	<u>548</u>	<u>84</u>	<u>489</u>	<u>573</u>
Net book amount	<u>96</u>	<u>202</u>	<u>298</u>	<u>108</u>	<u>206</u>	<u>314</u>

No depreciation is provided on freehold land. The net book amount of property, plant and equipment at December 31, 2006 includes £16 million (2005: £20 million) in respect of assets held under finance leases relating to fixtures and equipment.

18. Financial instruments

The main financial risks faced by Reed Elsevier are liquidity risk, market risk — comprising interest rate risk and foreign exchange risk — and credit risk. Financial instruments are used to finance the Reed Elsevier businesses and to hedge interest rate and foreign exchange risks. Reed Elsevier's businesses do not enter into speculative derivative transactions. Details of financial instruments subject to liquidity, market and credit risks are described below.

Liquidity risk

Reed Elsevier maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. The remaining contractual maturities for borrowings and derivative financial instruments are shown in the table below. The table shows undiscounted principal and interest cash flows and includes contractual gross cash flows to be exchanged as part of cross currency interest rate swaps and forward foreign exchange contracts where there is a legal right of set off.

18. Financial instruments – (continued)

At December 31, 2006	Carrying amount £m	Contractual cash flow						Total £m
		Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	
Borrowings								
Fixed rate borrowings	(2,089)	(406)	(445)	(89)	(89)	(369)	(1,781)	(3,179)
Floating rate borrowings	(917)	(659)	(13)	(13)	(281)	—	(2)	(968)
Derivative financial liabilities								
Interest rate derivatives	(6)	(6)	(4)	(1)	(1)	(1)	(8)	(21)
Cross currency interest rate swaps	—	(172)	(238)	—	—	—	—	(410)
Forward foreign exchange contracts	(3)	(506)	(212)	(96)	—	—	—	(814)
Derivative financial assets								
Interest rate derivatives	8	9	4	1	1	1	3	19
Cross currency interest rate swaps	174	237	355	—	—	—	—	592
Forward foreign exchange contracts	37	528	228	100	—	—	—	856
Total	<u>(2,796)</u>	<u>(975)</u>	<u>(325)</u>	<u>(98)</u>	<u>(370)</u>	<u>(369)</u>	<u>(1,788)</u>	<u>(3,925)</u>

At December 31, 2005	Carrying amount £m	Contractual cash flow						Total £m
		Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	
Borrowings								
Fixed rate borrowings	(2,223)	(458)	(413)	(435)	(73)	(76)	(1,836)	(3,291)
Floating rate borrowings	(941)	(583)	(84)	(13)	(14)	(311)	(2)	(1,007)
Derivative financial liabilities								
Interest rate derivatives	(12)	(9)	(6)	(4)	(1)	(1)	(3)	(24)
Cross currency interest rate swaps	—	(23)	(193)	(270)	—	—	—	(486)
Forward foreign exchange contracts	(9)	(514)	(237)	(108)	—	—	—	(859)
Derivative financial assets								
Interest rate derivatives	27	13	8	4	1	1	15	42
Cross currency interest rate swaps	159	29	250	363	—	—	—	642
Forward foreign exchange contracts	14	521	238	107	—	—	—	866
Total	<u>(2,985)</u>	<u>(1,024)</u>	<u>(437)</u>	<u>(356)</u>	<u>(87)</u>	<u>(387)</u>	<u>(1,826)</u>	<u>(4,117)</u>

The carrying amount of derivative financial liabilities comprises £3 million (2005: nil) in relation to fair value hedges, £4 million (2005: £16 million) in relation to cash flow hedges and £2 million (2005: £5 million) held for trading. The carrying amount of derivative financial assets comprises £176 million (2005: £174 million) in relation to fair value hedges, £42 million (2005: £21 million) in relation to cash flow hedges, and £1 million (2005: £5 million) held for trading. Derivative financial assets and liabilities held for trading comprise interest rate derivatives that were not designated as hedging instruments on adoption of IAS39 — Financial Instruments.

At December 31, 2006, Reed Elsevier had access to £1,529 million (2005: £1,739 million) of committed bank facilities that expire in two to three years, of which £39 million (2005: £67 million) was drawn. These facilities principally provide back up for short term borrowings.

After taking account of the maturity of committed bank facilities that back short term borrowings at December 31, 2006, and after utilising available cash resources, no borrowings mature in the next two years (2005: nil); 25% of borrowings mature in the third year (2005: 46%); 24% in the fourth and fifth years (2005: 11%); 37% in the sixth to tenth years (2005: 29%); and 14% beyond the tenth year (2005: 14%).

18. Financial instruments – (continued)

Market Risk

Reed Elsevier's primary market risks are to interest rate fluctuations and exchange rate movements. Derivatives are used to hedge or reduce the risks of interest rate and exchange rate movements and are not entered into unless such risks exist. Derivatives used by Reed Elsevier for hedging a particular risk are not specialised and are generally available from numerous sources.

Interest rate risk

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

At December 31, 2006, 88% of net borrowings are either fixed rate or have been fixed through the use of interest rate swaps, forward rate agreements and options. A 100 basis point reduction in interest rates would result in an estimated decrease in net finance costs of £3 million (2005: £5 million), based on the composition of financial instruments including cash, cash equivalents, bank loans and commercial paper borrowings at December 31, 2006. A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £3 million (2005: £5 million). The range of changes represents Reed Elsevier's view of the changes that are reasonably possible over a one year period.

The impact on net equity of a theoretical change in interest rates as at December 31, 2006 is restricted to the change in carrying value of floating rate to fixed rate interest rate derivatives in a designated cash flow hedge relationship and undesignated interest rate derivatives. A 100 basis point reduction in interest rates would result in an estimated reduction in net equity of £9 million (2005: £16 million) and a 100 basis point increase in interest rates would increase net equity by an estimated £8 million (2005: £16 million). The impact of a change in interest rates on the carrying value of fixed rate borrowings in a designated fair value hedge relationship would be offset by the change in carrying value of the related interest rate derivative. Fixed rate borrowings not in a designated hedging relationship are carried at amortised cost.

Foreign exchange rate risk

Translation exposures arise on the earnings and net assets of business operations in countries with currencies other than sterling, most particularly in respect of the US businesses. 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 (see note 23).

A theoretical weakening of all currencies by 10% against sterling at December 31, 2006 would decrease the carrying value of net assets, excluding net borrowings, by £341 million (2005: £373 million). This would be offset to a large degree by a decrease in net borrowings of £197 million (2005: £260 million). A strengthening of all currencies by 10% against sterling at December 31, 2006 would increase the carrying value of net assets, excluding borrowings, by £423 million (2005: £463 million) and increase net borrowings by £241 million (2005: £318 million).

A retranslation of the combined businesses' net profit for the year assuming a 10% weakening of all foreign currencies against sterling but excluding transactional exposures, would reduce net profit by £40 million (2005: £29 million). A 10% strengthening of all foreign currencies against sterling on this basis would increase net profit for the year by £49 million (2005: £35 million).

Credit risk

Reed Elsevier seeks to limit interest rate and foreign exchange risks described above by the use of financial instruments and as a result has a credit risk from the potential non performance by the counterparties to these financial instruments, which are unsecured. The amount of this credit risk is normally restricted to the amounts of any hedge gain and not the principal amount being hedged. Reed Elsevier also has a credit exposure to counterparties for the full principal amount of cash and cash equivalents. Credit risks are controlled by monitoring the credit quality of these counterparties, principally licensed commercial banks and investment banks with strong long term credit ratings, and the amounts outstanding with each of them.

Reed Elsevier has treasury policies in place which do not allow concentrations of risk with individual counterparties and do not allow significant treasury exposures with counterparties which are rated lower than A by Standard and Poor's, Moody's or Fitch.

Reed Elsevier also has credit risk with respect to trade receivables due from its customers that include national and state governments, academic institutions, schools, and large and small enterprises, including law firms, book stores and wholesalers. The concentration of credit risk from trade receivables is limited due to the large and broad customer base. Trade receivable exposures are managed locally in the business units where they arise. Where appropriate, business units seek to minimise this exposure by taking payment in advance and through management of credit terms. Allowance is

18. Financial instruments – (continued)

made for bad and doubtful debts based on management's assessment of the risk taking into account the ageing profile, experience and circumstance.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, recorded in the balance sheet.

Hedge accounting

The hedging relationships that are designated under IAS39 — Financial Instruments are described below:

Fair value hedges

Reed Elsevier has entered into interest rate swaps and cross currency interest rate swaps to hedge the exposure to changes in the fair value of fixed rate borrowings due to interest rate and foreign currency movements which could affect the income statement.

Interest rate derivatives (including cross currency interest rate swaps) with a principal amount of £839 million were in place at December 31, 2006 (2005: £954 million) swapping fixed rate term debt issues denominated in US dollars (USD), euros and Swiss francs (CHF) to floating rate USD debt for the whole or part of their term.

The gains and losses on the borrowings and related derivatives designated as fair value hedges, which are included in the income statement, for the two years ended December 31, 2006 were as follows:

Gains/(losses) on borrowings and related derivatives

	January 1, 2005 £m	Fair value movement gain/(loss) £m	Exchange gain/(loss) £m	January 1, 2006 £m	Fair value movement gain/(loss) £m	Exchange gain/(loss) £m	December 31, 2006 £m
USD debt	(5)	(9)	(1)	(15)	15	1	1
Related interest rate swaps ..	5	9	1	15	(15)	(1)	(1)
	—	—	—	—	—	—	—
Euro debt	(151)	62	(15)	(104)	(26)	14	(116)
Related Euro to USD cross currency interest rate swaps	152	(62)	15	105	26	(14)	117
	1	—	—	1	—	—	1
CHF debt	(86)	41	(8)	(53)	(10)	7	(56)
Related CHF to USD cross currency interest rate swaps	87	(41)	8	54	10	(7)	57
	1	—	—	1	—	—	1
Total USD, Euro and CHF debt	(242)	94	(24)	(172)	(21)	22	(171)
Total related interest rate derivatives	244	(94)	24	174	21	(22)	173
Net gain	2	—	—	2	—	—	2

All fair value hedges were highly effective throughout the two years ended December 31, 2006.

At December 31, 2006 there were fair value losses of nil (2005: £3 million) included within borrowings which relate to debt dedesignated from a fair value hedge relationship. During 2006, £3 million (2005: £5 million) of fair value losses recognised on adoption of IAS39 — Financial Instruments were included in finance income.

Cash flow hedges

Reed Elsevier enters into two types of cash flow hedge:

- (1) Interest rate derivatives which fix the interest expense on a portion of forecast floating rate denominated debt (including commercial paper, short term bank loans and floating rate term debt).

18. Financial instruments – (continued)

- (2) Foreign exchange derivatives which fix the exchange rate on a portion of future foreign currency subscription revenues forecast by the Elsevier science and medical businesses for up to 50 months.

Movements in the hedge reserve (pre-tax) in 2006 and 2005, including gains and losses on cash flow hedging instruments, were as follows:

	Transition loss £m	Interest rate hedges £m	Foreign exchange hedges £m	Total hedge reserve pre-tax £m
Hedge reserve at January 1, 2005: gains/ (losses)				
deferred	(10)	(15)	65	40
Gains/ (losses) arising in 2005	—	11	(21)	(10)
Amounts recognised in income statement	6	5	(30)	(19)
Exchange translation differences	(1)	(1)	(2)	(4)
Hedge reserve at January 1, 2006: gains/ (losses)				
deferred	(5)	—	12	7
Gains/ (losses) arising in 2006	—	1	53	54
Amounts recognised in income statement	3	3	(14)	(8)
Exchange translation differences	—	—	(1)	(1)
Hedge reserve at December 31, 2006: gains/ (losses)				
deferred	(2)	4	50	52

All cash flow hedges were highly effective throughout the two years ended December 31, 2006.

A deferred tax charge of £15 million (2005: nil; 2004: nil) in respect of the above gains and losses deferred in the hedge reserve at December 31, 2006 was also deferred in the hedge reserve.

Of the amounts recognised in the income statement in the year, gains of £14 million (2005: £30 million; 2004: nil) were recognised in revenue, and losses of £6 million (2005: £11 million; 2004: nil) were recognised in finance costs. A deferred tax charge of £3 million (2005: nil; 2004: nil) was recognised in relation to these items.

The transition loss relates to interest rate derivatives which were not designated as hedging instruments on adoption of IAS39 — Financial Instruments.

The deferred gains and losses on cash flow hedges at December 31, 2006 are currently expected to be recognised in the income statement in future years as follows:

	Transition loss £m	Interest rate hedges £m	Foreign exchange hedges £m	Total hedge reserve pre-tax £m
2007	(2)	3	27	28
2008	—	1	15	16
2009	—	—	7	7
2010	—	—	1	1
Gains/ (losses) deferred in hedge reserve at end of year	(2)	4	50	52

The cash flows for these hedges are expected to occur in line with the recognition of the gains and losses in the income statement, other than in respect of certain forward foreign exchange hedges on subscriptions, where cash flows may be expected to occur in advance of the subscription year.

19. Deferred tax

	2006 £m	2005 £m
Deferred tax assets	170	266
Deferred tax liabilities	(850)	(980)
Total	<u>(680)</u>	<u>(714)</u>

Movements in deferred tax liabilities and assets are summarised as follows:

	Deferred tax liabilities				Deferred tax assets			
	Excess of tax allowances over amortisation £m	Acquired intangible assets £m	Pensions assets £m	Other temporary differences - liabilities £m	Tax losses carried forward £m	Pensions liabilities £m	Other temporary differences - assets £m	Total £m
Deferred tax asset/ (liability) at January 1, 2005	(71)	(785)	—	(1)	59	109	73	(616)
(Charge)/credit to profit	(34)	65	—	(52)	(6)	8	(2)	(21)
(Charge)/credit to equity	—	—	—	—	—	10	(13)	(3)
Transfers	—	—	—	(5)	—	—	13	8
Acquisitions	—	(11)	—	(3)	—	—	3	(11)
Exchange translation differences	(10)	(68)	—	(5)	1	6	5	(71)
Deferred tax asset/ (liability) at January 1, 2006	(115)	(799)	—	(66)	54	133	79	(714)
(Charge)/credit to profit	(27)	87	(4)	7	(47)	5	(4)	17
(Charge)/credit to equity	—	—	(6)	(18)	—	(39)	3	(60)
Transfers	(4)	5	4	(1)	3	2	(4)	5
Acquisitions	—	(11)	—	—	—	—	—	(11)
Exchange translation differences	13	76	—	9	(3)	(9)	(3)	83
Deferred tax asset/ (liability) at December 31, 2006...	<u>(133)</u>	<u>(642)</u>	<u>(6)</u>	<u>(69)</u>	<u>7</u>	<u>92</u>	<u>71</u>	<u>(680)</u>

At December 31, 2006, potential deferred tax assets not recognised due to uncertainties over availability and timing of relevant taxable income amounted to £193 million (2005: £211 million) in relation to tax deductions carried forward of £483 million (2005: £528 million). No time limitation currently applies on utilisation of the tax deductions.

20. Inventories and pre-publication costs

	2006 £m	2005 £m
Raw materials	16	12
Pre-publication costs	403	394
Finished goods	214	224
Total	<u>633</u>	<u>630</u>

21. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	1,055	1,086
Prepayments and accrued income	169	151
Derivative financial instruments	219	200
Total	<u>1,443</u>	<u>1,437</u>

Trade receivables are predominantly non-interest bearing and their carrying amounts approximate to their fair value.

22. Trade and other payables

	2006 £m	2005 £m
Payables and accruals	956	982
Deferred income	969	979
Derivative financial instruments	9	21
Total	<u>1,934</u>	<u>1,982</u>

23. Borrowings

	2006			2005		
	Falling due within 1 year £m	Falling due in more than 1 year £m	Total £m	Falling due within 1 year £m	Falling due in more than 1 year £m	Total £m
Financial liabilities measured at amortised cost:						
Bank loans, overdrafts and commercial paper	574	—	574	536	—	536
Finance leases	6	6	12	11	4	15
Other loans	131	1,279	1,410	353	1,134	1,487
Other loans in fair value hedging relationships	<u>210</u>	<u>800</u>	<u>1,010</u>	<u>—</u>	<u>1,126</u>	<u>1,126</u>
Total	<u>921</u>	<u>2,085</u>	<u>3,006</u>	<u>900</u>	<u>2,264</u>	<u>3,164</u>

The total fair value of financial liabilities measured at amortised cost is £2,042 million (2005: £2,095 million). The total fair value of other loans in fair value hedging relationships is £1,073 million (2005: £1,025 million).

23. Borrowings – (continued)

Analysis by year of repayment

	2006				2005			
	Bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m	Bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m
Within 1 year	574	341	6	921	536	353	11	900
Within 1 to 2 years	—	340	3	343	—	369	3	372
Within 2 to 3 years	—	—	2	2	—	359	—	359
Within 3 to 4 years	—	275	1	276	—	—	—	—
Within 4 to 5 years	—	282	—	282	—	304	1	305
After 5 years	—	1,182	—	1,182	—	1,228	—	1,228
	—	2,079	6	2,085	—	2,260	4	2,264
Total	574	2,420	12	3,006	536	2,613	15	3,164

Analysis by currency

	2006				2005			
	Bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m	Bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m
US Dollars	327	1,877	12	2,216	149	2,436	15	2,600
£ Sterling	20	400	—	420	—	—	—	—
Euro	180	143	—	323	312	177	—	489
Other currencies	47	—	—	47	75	—	—	75
Total	574	2,420	12	3,006	536	2,613	15	3,164

Included in the US dollar amounts for other loans above is £550 million (2005: £586 million) of debt denominated in euros (€500 million) and Swiss francs (CHF500 million) that was swapped into US dollars on issuance and against which there are related derivative financial instruments included within trade and other receivables, which, as at December 31, 2006, had a fair value of £174 million (2005: £159 million).

24. Lease arrangements

Finance leases

At December 31, 2006 future finance lease obligations fall due as follows:

	2006 £m	2005 £m
Within one year	6	11
In the second to fifth years inclusive	7	5
	13	16
Less future finance charges	(1)	(1)
Total	12	15
Present value of future finance lease obligations payable:		
Within one year	6	11
In the second to fifth years inclusive	6	4
Total	12	15

Operating leases

Reed Elsevier leases various properties, principally offices and warehouses, which have varying terms and renewal rights that are typical to the territory in which they are located.

At December 31, 2006 outstanding commitments under non-cancellable operating leases fall due as follows:

	2006 £m	2005 £m
Within one year	115	113
In the second to fifth years inclusive	354	335
After five years	358	352
Total	827	800

Of the above outstanding commitments, £803 million (2005: £783 million) relate to land and buildings.

Reed Elsevier has a number of properties that are sub-leased. The future lease receivables contracted with sub-tenants fall as follows:

	2006 £m	2005 £m
Within one year	15	12
In the second to fifth years inclusive	47	39
After five years	21	21
Total	83	72

25. Provisions

	2006 £m	2005 £m
At January 1	44	52
Utilised	(11)	(13)
Exchange translation differences	(5)	5
At December 31	28	44

The provisions are for property lease obligations which relate to estimated sub-lease shortfalls and guarantees given in respect of certain property leases for various periods up to 2016.

26. Contingent liabilities and capital commitments

There are contingent liabilities amounting to £36 million (2005: £46 million) in respect of property lease guarantees.

At December 31, 2006, there were capital commitments of £174 million in relation to acquisitions conditional on regulatory and other approvals.

27. Combined share capitals

	2006 £m	2005 £m
At January 1	190	191
Issue of ordinary shares	2	1
Exchange translation differences	(1)	(2)
At December 31	<u>191</u>	<u>190</u>

Combined share capitals exclude the shares of Reed Elsevier NV held by a subsidiary of Reed Elsevier PLC.

28. Combined share premiums

	2006 £m	2005 £m
At January 1	1,805	1,805
Issue of ordinary shares, net of expenses	91	24
Exchange translation differences	(17)	(24)
At December 31	<u>1,879</u>	<u>1,805</u>

Combined share premiums exclude the share premium in respect of shares of Reed Elsevier NV held by a subsidiary of Reed Elsevier PLC.

29. Combined shares held in treasury

	Shares held by EBT £m	Shares held by parent companies £m	Total £m
At January 1, 2005	66	—	66
Purchase of shares	27	—	27
Exchange translation differences	—	—	—
At January 1, 2006	93	—	93
Purchase of shares	68	217	285
Exchange translation differences	—	(1)	(1)
At December 31, 2006	<u>161</u>	<u>216</u>	<u>377</u>

At December 31, 2006, shares held in treasury related to 17,167,145 (2005: 10,780,776) Reed Elsevier PLC ordinary shares and 9,242,214 (2005: 5,539,922) Reed Elsevier NV ordinary shares held by the Reed Elsevier Group plc Employee Benefit Trust ('EBT'); and 20,593,500 (2005: nil) Reed Elsevier PLC ordinary shares and 13,381,500 (2005: nil) Reed Elsevier NV ordinary shares held by the respective parent companies.

The EBT purchases Reed Elsevier PLC and Reed Elsevier NV shares which, at the trustees' discretion, can be used in respect of the exercise of share options and to meet commitments under conditional share awards.

30. Translation reserve

	2006 £m	2005 £m	2004 £m
At January 1	89	(122)	—
Exchange differences on translation of foreign operations	(244)	180	(121)
Other exchange translation differences	19	31	(1)
At December 31	<u>(136)</u>	<u>89</u>	<u>(122)</u>

31. Other combined reserves

	2006			2005	2004
	Hedge reserve £m	Other reserves £m	Total £m	Total £m	Total £m
At January 1	7	(28)	(21)	(144)	(291)
Transition adjustment on adoption of IAS39	—	—	—	11	—
At January 1, as restated	7	(28)	(21)	(133)	(291)
Profit attributable to parent companies' shareholders	—	623	623	462	459
Dividends declared	—	(371)	(371)	(336)	(309)
Actuarial gains/ (losses) on defined benefit pension schemes	—	139	139	(37)	(74)
Fair value movements on available for sale investments	—	3	3	3	—
Fair value movements on cash flow hedges	54	—	54	(10)	—
Tax recognised directly in equity	(18)	(42)	(60)	(3)	12
Increase in share based remuneration reserve	—	49	49	57	59
Transfers from hedge reserve to net profit (net of tax)	(5)	—	(5)	(19)	—
Exchange translation differences	(1)	(1)	(2)	(5)	—
At December 31	<u>37</u>	<u>372</u>	<u>409</u>	<u>(21)</u>	<u>(144)</u>

32. Related party transactions

Transactions between the Reed Elsevier combined businesses have been eliminated within the combined financial statements. Transactions with joint ventures were made on normal market terms of trading and comprise sales of goods and services of £6 million (2005: £6 million; 2004: £6 million). As at December 31, 2006, amounts owed by joint ventures were £3 million (2005: £3 million; 2004: £2 million). Key management personnel are also related parties and comprise the executive directors of Reed Elsevier PLC and Reed Elsevier NV. Transactions with key management personnel are set out below.

	2006 £m	2005 £m	2004 £m
Salaries and other short term employee benefits	7	7	7
Post employment benefits	1	1	1
Share based remuneration	7	10	9
Total	<u>15</u>	<u>18</u>	<u>17</u>

Post employment benefits represent the service cost under IAS19 — Employee Benefits in relation to defined benefit schemes, together with any contributions made to defined contribution schemes. Share based remuneration is the amount charged in respect of executive directors under IFRS2 — Share Based Payment.

33. Post balance sheet event

On February 14, 2007, Reed Elsevier approved a plan to sell the Harcourt Education division and to return the net proceeds to shareholders by way of a special distribution in the equalisation ratio. It is expected that the sale will be completed during 2007.

34. US accounting information

Summary of the principal differences between IFRS and US GAAP

The combined financial statements are prepared in accordance with IFRS as adopted by the EU, which differs in certain significant respects from US GAAP. The principal differences that affect net income and combined shareholders' equity are shown and explained below.

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

	Note	2006 £m	2005 £m	2004 £m
Net income as reported under IFRS.....		625	464	461
Net income attributable to minority interests under IFRS.....		(2)	(2)	(2)
Net income attributable to parent companies' shareholders as reported under IFRS.....		623	462	459
US GAAP adjustments:				
Intangible assets.....	(i)	1	5	3
Disposals.....	(ii)	(41)	—	—
Pensions.....	(iii)	(156)	(78)	6
Derivative financial instruments.....	(iv)	3	(5)	32
Current taxation.....	(v)	(54)	—	—
Deferred taxation.....	(vi)	20	3	(75)
Other items.....		3	(13)	(7)
Net income under US GAAP.....		399	374	418

Effects on combined shareholders' equity of material differences between IFRS and US GAAP

	Note	2006 £m	2005 £m
Total equity as reported under IFRS.....		1,979	1,985
Minority interests as reported under IFRS.....		(13)	(15)
Combined shareholders' equity as reported under IFRS.....		1,966	1,970
US GAAP adjustments:			
Goodwill and intangible assets.....	(i)	1,256	1,491
Pensions.....	(ii)	—	409
Derivative financial instruments.....	(iii)	—	5
Deferred taxation.....	(iv)	(9)	(119)
Other items.....		7	7
Combined shareholders' equity under US GAAP.....		3,220	3,763

(i) Goodwill and intangible assets

Under IFRS, acquired goodwill and intangible assets with indefinite lives are not amortised and are subject to at least annual impairment review. Other intangible assets with definite lives are amortised over their estimated useful economic lives up to 40 years. Under prior UK GAAP, acquired goodwill and intangible assets had been amortised systematically over their estimated useful lives up to a maximum of 40 years, subject to impairment review. As permitted under the transitional arrangements on adoption of IFRS there was no retrospective restatement of the acquired goodwill and intangible asset values.

Under US GAAP, acquired goodwill and intangible assets are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") 141: Business Combinations and SFAS 142: Goodwill and Other Intangible Assets. In accordance with these SFASs, goodwill and intangible assets with indefinite lives are not amortised and are subject to at least annual impairment review. Other intangible assets with definite lives are amortised over their estimated

34. US accounting information – (continued)

useful economic lives, subject to annual impairment review under SFAS 144: Accounting for the Impairment or Disposal of Long-Lived Assets.

Differences in relation to the amortisation of intangible assets and the balance sheet carrying values of goodwill and intangible assets under IFRS and US GAAP principally arise due to the timing and method of adoption of new accounting standards. The difference in the balance sheet carrying values of goodwill and intangible assets under IFRS and US GAAP at December 31, 2006 comprises:

	2006 £m	2005 £m
Gross up to goodwill under US GAAP for deferred tax on acquisitions prior to January 1, 2004, recognised in equity on transition to IFRS	737	822
Accumulated amortisation of goodwill charged under prior UK GAAP since adoption under US GAAP of SFAS 142	521	618
Accumulated amortisation of acquired intangible assets charged under prior UK GAAP and IFRS in excess of accumulated amortisation under US GAAP due to the retrospective adoption in 1998 of FRS10 — Goodwill and Intangible Assets under prior UK GAAP	52	51
Reduction to goodwill under US GAAP due to adjustment to tax liabilities recognised in prior year business combinations	(54)	—
Total US GAAP adjustments	1,256	1,491

Under US GAAP, as at December 31, 2006, the carrying value of goodwill is £4,006 million (2005: £4,470 million), the gross cost of acquired intangible assets is £4,262 million (2005: £4,613 million) and the accumulated amortisation of acquired intangible assets is £1,980 million (2005: £1,873 million).

(ii) Disposals

As explained above, the carrying value of goodwill and intangible assets under US GAAP in relation to certain business combinations is higher than the equivalent figure under IFRS. On disposal of a business, to the extent the carrying value of goodwill and intangible assets related to the disposal is higher under US GAAP, a lower gain/higher loss will be reported under US GAAP.

(iii) Pensions

Under IFRS, the expense of defined benefit pension schemes and other post-retirement benefit schemes is charged to the income statement as an operating expense over the periods benefiting from the employees' services. The charge is based on actuarial assumptions reflecting market conditions at the beginning of the financial year. Variations from this expected cost are recognised in full in the statement of recognised income and expense in the period in which they occur. Net pension obligations in respect of defined benefit schemes are included in the balance sheet at the present value of scheme liabilities, less the fair value of scheme assets. Where assets exceed liabilities, any net pension asset is limited to the extent that the asset is not recoverable through reductions in future contributions.

Under US GAAP, pension costs and liabilities are accounted for in accordance with SFAS 87: Employers' Accounting for Pensions as amended by SFAS 158: Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans. The determination of the net pension cost is similar to IFRS, however variations from expected cost, which are determined by reference to market related values of plan assets, are amortised over the expected remaining service lives of plan members whereas under IFRS such variations are recognised in full in the statement of recognised income and expense. In 2006, the amortisation of such variations under US GAAP was £127 million (2005: £78 million, 2004: £17 million). In 2005, prior to amendment by SFAS 158, SFAS 87 required a minimum pension liability to be recognised that was at least equal to the unfunded benefit obligation (ignoring projected future salary increases). Changes in the additional minimum pension liability were recognised within other comprehensive income, a component of shareholders' equity. From the 2006 financial year, SFAS 87, as amended by SFAS 158, requires that the full funded status of defined benefit pension schemes is recognised as an asset or liability in the balance sheet, with changes in that funded status recognised in other comprehensive income in the year in which they occur. As at December 31, 2006, prior to the adoption of SFAS 158, the additional minimum liability required to be recognised under SFAS 87 of £84 million was recognised as a component of other comprehensive income. On adoption of SFAS 158 as at December 31, 2006 an additional liability of £223 million was recognised as a direct adjustment to the ending balance of accumulated other comprehensive income. A net deferred tax liability of £70 million in respect of these amounts was also recognised as an adjustment to the ending balance of accumulated other comprehensive income.

34. US accounting information – (continued)

(iv) Derivative financial instruments

Under both IFRS (IAS39 — Financial Instruments) and US GAAP (SFAS 133: Accounting for Derivative Instruments and Hedging Activities) all derivative financial instruments are required to be carried at fair value on the balance sheet. Changes in fair value are accounted for through the income statement or equity, depending on the derivative's designation and effectiveness as a hedging instrument.

Derivative instruments used by Reed Elsevier as fair value hedges are designated as qualifying hedge instruments under IAS39 and SFAS 133. The fixed rate loans which are swapped to floating rate and subject to this hedging treatment are set out on page F-58. Under both IFRS and US GAAP, net income is impacted to the extent that the instruments are not fully effective hedges.

In addition, certain forward exchange rate contracts and interest rate swaps have been designated as qualifying cash flow hedge instruments under IAS39 and SFAS 133. Accordingly, to the extent that the hedges are effective, mark-to-market movements are recorded in either equity (IFRS) or other comprehensive income (US GAAP). Other derivative instruments, which act as cashflow hedges, have not been designated as qualifying hedge instruments under either IAS39 or SFAS 133 and, accordingly, changes in the fair value of those derivative instruments are recorded in net income under both IFRS and US GAAP.

IAS39 was effective from January 1, 2005 resulting in a cumulative transition adjustment of £29 million loss to other combined reserves and a £40 million gain recognised in the hedging reserve, which included a £10 million loss relating to instruments that were treated as hedges under previously applied UK GAAP, but which were not designated as hedges under IAS39. Under US GAAP, these instruments were not designated as hedges and mark to market movements were recognised in the income statement in the period in which they arose. Under the transition rules of IAS39, these losses are unwound over the period to which they relate and consequently give rise to a short term difference between net income reported under IFRS and US GAAP.

(v) Current taxation

Under IFRS, changes in estimates and final settlements of income tax uncertainties that result from a business combination are recognised in net income. These changes under US GAAP are recognised as an adjustment to goodwill. In 2006 a £54 million adjustment was made to goodwill under US GAAP relating to the favourable settlement of pre-acquisition tax liabilities that, under IFRS, were recognised in net income.

(vi) Deferred taxation

Under IFRS, deferred taxation is provided for nearly all differences between the balance sheet amounts of assets and liabilities and their tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that they are considered recoverable based on forecasts of available taxable profits in jurisdictions where such assets have arisen, against which deductible temporary differences can be utilised.

Under US GAAP, deferred taxation is provided on all temporary differences under the liability method subject to a valuation allowance on deferred tax assets where applicable, in accordance with SFAS 109: Accounting for Income Taxes.

The most significant deferred tax differences between IFRS and US GAAP arise from the different carrying values in respect of pensions, goodwill and acquired intangible assets as described above. The tax effect of these and other GAAP differences in carrying values is that net income under US GAAP in 2006 is £23 million higher (2005: £27 million higher; 2004: £81 million lower) and combined shareholders' equity as at December 31, 2006 is £28 million lower than reported under IFRS (2005: £144 million lower).

A further difference arises on the recognition of deferred tax assets on share based remuneration which, under IFRS, is calculated based on the intrinsic value of outstanding awards and which, under US GAAP, is determined based on the cumulative charge to net income. As a result of this difference net income under US GAAP is £3 million lower than reported under IFRS (2005: £24 million lower; 2004: £6 million higher), and combined shareholders' equity is £19 million higher than reported under IFRS (2005: £25 million higher; 2004: £50 million higher).

Presentation and classification differences

In addition to the recognition and measurement differences between IFRS and US GAAP there are a number of differences in the manner in which amounts are presented and classified in the accounts. The principal presentation and classification differences are summarised below.

34. US accounting information – (continued)

Debt issuance costs

Under IFRS, debt issuance costs are offset against the proceeds received. Under US GAAP debt issuance costs are recorded as a separate deferred cost.

Short term obligations expected to be refinanced

Under US GAAP, where it is expected to refinance short term obligations on a long term basis and this is supported by an ability to consummate the refinancing, such short term obligations should be excluded from current liabilities and shown as long term obligations. Short term obligations at December 31, 2006 of £915 million (2005: £889 million) would be excluded from current liabilities under US GAAP and shown as long term obligations.

Recently issued accounting pronouncements

In February 2006, the FASB issued Statement No. 155, “Accounting for Certain Hybrid Instruments — an amendment of FASB Statements No. 133 and 140” (“SFAS 155”). This statement resolves issues addressed in FASB Statement No. 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets”. The standard permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of a fiscal year that begins after September 15, 2006. SFAS 155 would not have had a material effect on the financial position, results of operations or cash flows of the combined businesses under US GAAP as at December 31, 2006.

In March 2006, the FASB issued Statement No. 156, “Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140” (“SFAS 156”). This statement permits an entity to choose either the amortisation method or the fair value method for each class of separately recognised servicing assets and servicing liabilities. SFAS 156 is effective for fiscal years that begin after September 15, 2006. SFAS 156 would not have had a material effect on the financial position, results of operations or cash flows of the combined businesses under US GAAP as at December 31, 2006.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). The interpretation clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognised in the financial statements and provides guidance on the measurement of any recognised tax benefits. The interpretation also introduces requirements for disclosure of unrecognized tax benefits. FIN 48 is effective for fiscal years beginning after December 15, 2006. The evaluation of the impact of adoption on the combined businesses’ financial position and results has not yet been completed.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, the statement does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 would not have had a material effect on the financial position, results of operations or cash flows of the combined businesses under US GAAP as at December 31, 2006.

Cash flow information

As a foreign private issuer, Reed Elsevier is eligible to the accommodation under Item 17 to present its cash flow information in accordance with IAS 7 — Cash Flow Statements, and accordingly US GAAP cash flow information is not presented.

Comprehensive income information

SFAS 130: Reporting Comprehensive Income, requires that all items that are required to be recognised as components of comprehensive income under US accounting standards are reported in a separate financial statement. Comprehensive income under US GAAP comprises net income for the financial year, adjustments to the fair value of available for sale investments, pensions and derivative financial instruments as described above, related deferred taxation and exchange translation differences. Comprehensive income under US GAAP reflects the restated net income under US GAAP described on F-49 and consequential adjustments to exchange translation differences.

34. US accounting information – (continued)

Under US GAAP, the following amounts would be reported:

	2006 £m	2005 £m	2004 £m
Net income under US GAAP	399	374	418
Other comprehensive income:			
Available for sale investments	—	3	(3)
Additional minimum pension liability	130	(43)	(81)
Derivative financial instruments	41	(20)	49
Deferred taxation	(60)	(1)	23
Exchange translation differences	(389)	300	(177)
Comprehensive income under US GAAP	121	613	229

Goodwill and intangible assets

As described in note 12, during 2006 a number of acquisitions were made for total consideration amounting to £171 million, after taking account of cash acquired of £7 million. Under US GAAP the goodwill arising on the acquisitions was £102 million and the intangible assets acquired were attributed a fair value of £87 million. These acquired intangible assets comprise market and customer related assets of £43 million with weighted average useful lives of 7 years; and content, software and other assets of £44 million with weighted average useful lives of 5 years. No significant residual value has been assumed for any of these intangible assets.

The movements on the carrying value of goodwill under US GAAP can be analysed as follows:

	Elsevier £m	LexisNexis £m	Harcourt Education £m	Reed Business £m	Total £m
<i>Carrying value</i>					
At December 31, 2004	987	1,547	718	686	3,938
Acquisitions	124	31	4	23	182
Disposals/transfers	(2)	—	—	(16)	(18)
Exchange translation differences	111	162	78	17	368
At December 31, 2005	1,220	1,740	800	710	4,470
Acquisitions	27	49	3	23	102
Disposals/transfers	(55)	—	—	(2)	(57)
Release of tax provision recognised in prior period business combination ..	(29)	—	(25)	—	(54)
Exchange translation differences	(130)	(192)	(91)	(42)	(455)
At December 31, 2006	1,033	1,597	687	689	4,006

Of the total goodwill acquired in the year, £28 million is expected to be deductible for tax purposes.

At December 31, 2006, the carrying value of indefinite lived intangible assets other than goodwill not subject to amortisation under US GAAP, principally trade names, trade marks, imprints and titles, was £312 million (2005: £354 million).

34. US accounting information – (continued)

Intangible assets subject to amortisation under US GAAP, principally publishing rights, journal subscriber bases, databases and other publishing content, can be analysed as follows:

	2006 £m	2005 £m
Cost	3,950	4,259
Accumulated amortisation	(1,980)	(1,873)
Net book amount	<u>1,970</u>	<u>2,386</u>

The amortisation charge for intangible assets under US GAAP for the year ended December 31, 2006 was £296 million (2005: £271 million; 2004: £251 million). The future annual amortisation charge under US GAAP in respect of the intangible assets reflected in the balance sheet as at December 31, 2006 is estimated to be £288 million in 2007, £254 million in 2008, £214 million in 2009, £177 million in 2010 and £163 million in 2011 based on exchange rates at December 31, 2006.

Pensions — Aggregate of Schemes

Reed Elsevier operates a number of pension schemes around the world. The major schemes are of a defined benefit type with assets held in separate trustee administered funds. The largest schemes, which cover the majority of employees, are in the United Kingdom, the United States and the Netherlands. Under these plans, employees are entitled to retirement benefits dependent on the number of years service.

The funding objective of the funded schemes is to cover future pension liabilities, including expected future earnings and pension increases, in respect of service up to the balance sheet date.

The following disclosures cover the significant defined benefit schemes in aggregate, including the schemes in the United Kingdom, United States and the Netherlands.

Individual scheme investment policies include guidelines on target asset allocations. The weighted average target allocation of scheme assets to be held as equities, bonds and other assets is set out below. Where the scheme allows for a range of target asset allocations the mid point has been used to determine the weighted averages disclosed below.

	Target allocation
Equities	63%
Bonds	34%
Other	3%

The net pension costs for the significant defined benefit schemes, calculated in accordance with SFAS 87, were as follows:

	2006 £m	2005 £m	2004 £m
Service costs — benefits earned during the year	105	92	83
Plan amendments	(11)	—	—
Interest cost on projected benefit obligations	144	136	127
Expected return on plan assets	(149)	(149)	(162)
Amortisation of unrecognised amounts	<u>127</u>	<u>78</u>	<u>17</u>
Net periodic pension cost	<u>216</u>	<u>157</u>	<u>65</u>

As at December 31, 2006 a total net actuarial loss of £320 million and an unrecognised net prior service credit of £13 million have been recognised as a component of other comprehensive income and have not yet been recognised as a component of net periodic pension cost. Of these amounts, £114 million and nil are expected to be recognised in net periodic pension costs in 2007 respectively.

34. US accounting information – (continued)

The following table sets forth the funded status under SFAS 87 of the significant defined benefit schemes:

	2006		2005		2004	
	%	£m	%	£m	%	£m
Equities	67%	1,857	66%	1,711	64%	1,404
Bonds	28%	777	30%	756	32%	713
Other	5%	138	4%	111	4%	87
Plan assets at fair value	100%	2,772	100%	2,578	100%	2,204
Projected benefit obligation		(3,008)		(2,980)		(2,525)
Deficit of plan assets		(236)		(402)		(321)
Unrecognised net actuarial loss		—		635		668
Unrecognised prior service credit		—		(15)		(12)
Unrecognised net transitional asset		—		—		(2)
Prepaid pension cost/ (accrued pension liability)		(236)		218		333
Adjustments to recognise additional minimum liability:						
Intangible assets		—		(2)		(3)
Accumulated other comprehensive income		—		(212)		(169)
Net pension (liability)/asset		(236)		4		161

Plan assets at fair value and projected benefit obligations are in respect of schemes in which the projected benefit obligation exceeds the fair value of plan assets.

	2006 £m	2005 £m	2004 £m
<i>Projected benefit obligation</i>			
Balance at January 1,	2,980	2,525	2,281
Service cost	105	92	83
Interest cost	144	136	127
Plan amendments	(11)	—	—
Actuarial (gain)/loss	(40)	268	141
Participants' contributions	13	13	10
Disbursements	(106)	(94)	(89)
Exchange translation adjustments	(77)	40	(28)
Balance at December 31,	3,008	2,980	2,525
Accumulated benefit obligation	2,860	2,779	2,347

34. US accounting information – (continued)

	2006 £m	2005 £m	2004 £m
<i>Fair value of assets</i>			
Balance at January 1,	2,578	2,204	2,030
Expected return on plan assets	149	149	162
Actuarial gains	124	233	43
Contributions (employer and employees)	74	60	78
Disbursements	(102)	(94)	(89)
Exchange translation adjustments	(51)	26	(20)
Balance at December 31,	<u>2,772</u>	<u>2,578</u>	<u>2,204</u>
	2006 £m	2005 £m	2004 £m
<i>Prepaid pension cost/(accrued pension liability)</i>			
Balance at January 1,	218	333	327
Net periodic pension cost	(216)	(157)	(65)
Contributions (employer)	61	47	68
Disbursements	4	—	—
Exchange translation differences	4	(5)	3
Net actuarial losses recognised on adoption of SFAS 158	(320)	—	—
Net prior service credit recognised on adoption of SFAS 158	13	—	—
Balance at December 31,	<u>(236)</u>	<u>218</u>	<u>333</u>

The weighted average principal assumptions for US GAAP purposes were:

	At December 31,		
	2006	2005	2004
Discount rate	5.3%	4.9%	5.4%
Salary increases	4.2%	4.0%	4.4%
Investment return	7.0%	7.0%	6.8%
Inflation	2.9%	2.7%	2.7%
Future pension increases	2.9%	2.8%	2.8%

The overall investment return assumption is derived, with advice from independent actuaries, as the weighted average based on the actual allocation, at December 31, of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations.

Reed Elsevier expects to contribute £66 million to the significant defined benefit schemes in 2007. Over the next ten years, the benefit payments expected to be paid out of these schemes are as follows:

	£m
<i>Expected future benefit payments</i>	
Financial year ending December 31, 2007	96
Financial year ending December 31, 2008	100
Financial year ending December 31, 2009	105
Financial year ending December 31, 2010	109
Financial year ending December 31, 2011	114
Financial years ending December 31, 2012 to December 31, 2016 in aggregate	679

34. US accounting information – (continued)

Borrowings

Analysis of bank loans, overdrafts and commercial paper

	2006 £m	2005 £m
Overdrafts	9	10
Bank loans (drawn under facilities expiring in the year ending December 31, 2009) ...	39	67
Commercial paper	526	459
Total	574	536

Analysis of bank facilities at December 31, 2006

	Expiring within 1 year £m	Expiring after 1 year £m	Total £m
Overdrafts	42	—	42
Uncommitted lines of credit	417	—	417
Committed facilities	—	1,529	1,529

Of the £1,529 million committed facilities expiring after one year, £39 million was utilised by way of letters of credit which support short term borrowings.

The committed facilities are subject to covenants which restrict net interest payable by reference to Reed Elsevier's combined earnings before interest, tax, depreciation and amortisation, and excluding exceptional items, eg disposal gains and losses, restructuring and acquisition integration costs. Secured borrowings above a fixed amount are also restricted. There is also a covenant restricting the ability to dispose of all or any part of Reed Elsevier's assets (except in the ordinary course of trading or for fair market value).

	2006	2005
<i>Short term loans, overdrafts and commercial paper</i>		
Weighted average interest rate during year	3.8%	3.0%
Year end weighted average interest rate	4.8%	3.2%

The weighted average interest rate for the year was computed by dividing actual interest expense for the year by the average month-end amounts outstanding for short term bank loans and commercial paper.

34. US accounting information – (continued)

Analysis of other loans and finance leases

	Currency	2006 ⁽²⁾		2005 ⁽²⁾	
		Interest rate before swaps %	Year end interest rates %	£m	£m
6.125% Public Notes 2006	US dollar	n/a	n/a	—	322
Floating rate Private Placement 2006	Euro	n/a	n/a	—	31
Floating rate Term Loan 2007	Euro	<i>floating</i>	3.93	67	69
4.375% Swiss Domestic Bond 2007 ⁽¹⁾	US dollar	4.38	6.06	153	174
6.7% Public Notes 2007	US dollar	6.70	6.70	64	73
Euro 5.75% Public Notes 2008 ⁽¹⁾	US dollar	5.75	6.42	224	255
Floating rate Public Notes 2010	US dollar	<i>floating</i>	5.69	127	145
Floating rate Term Loan 2010	Euro	<i>floating</i>	3.65	40	41
Floating rate Private Placement 2010	Euro	<i>floating</i>	3.82	30	31
Floating rate Private Placement 2010	US dollar	<i>floating</i>	5.75	51	58
Floating rate Term Loan 2010	US dollar	<i>floating</i>	5.77	25	29
6.75% Public Notes 2011	US dollar	6.75	6.75	280	319
4.75% Term Loan 2012	US dollar	4.75	4.75	35	40
4.635% Public Notes 2012	US dollar	4.64	4.64	229	261
5.05% Private Placement 2014 ⁽¹⁾	US dollar	5.05	5.86	94	107
5.19% Term Loan 2015 ⁽¹⁾	US dollar	5.19	6.13	95	108
5.625% Public Notes 2016	Sterling	5.63	5.63	400	—
5.29% Term Loan 2017 ⁽¹⁾	US dollar	5.29	6.07	18	20
8.875% Public Notes 2022	US dollar	8.88	8.88	31	36
6.625% Private Placement 2023 ⁽¹⁾	US dollar	6.63	6.07	77	87
7.5% Public Debentures 2025 ⁽¹⁾	US dollar	7.50	5.30	77	87
7.2% Public Notes 2027 ⁽¹⁾	US dollar	7.20	5.65	99	112
7.3% Public Notes 2097	US dollar	7.30	7.30	26	29
Finance Leases	Various	Various	Various	12	15
Miscellaneous	Euro	Various	Various	5	5
Total				2,259	2,454

(1) Loans where there are related swap instruments that have been designated as fair value hedges in accordance with SFAS 133.

(2) Amounts are shown after taking account of interest rate and currency derivatives in designated hedging relationships.

In the table above, the interest rate before swaps is given for borrowings issued at a fixed rate only. In the case of borrowings which have related swap agreements designated as fair value hedges in accordance with SFAS 133, the year end interest rate is that on the underlying borrowings after taking account of interest rate and currency swaps. For all other loans and finance leases the year end interest rate is that applicable to the underlying borrowing at December 31, 2006.

Finance leases

At December 31, 2006, property, plant and equipment included gross costs of £43 million (2005: £47 million) and accumulated depreciation of £27 million (2005: £27 million) in respect of computer systems, plant and equipment held under finance leases.

Operating leases

Leasing arrangements cover property, computer systems, plant and equipment. Certain lease arrangements contain escalation clauses covering increased costs for various defined real estate taxes and operating services.

34. US accounting information – (continued)

At December 31, 2006, future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year were as follows:

	£m
Within 1 year	115
Within 1 to 2 years	105
Within 2 to 3 years	93
Within 3 to 4 years	83
Within 4 to 5 years	73
Thereafter	358
Total	827

Derivative instruments

All fair value hedges were highly effective throughout the year ended December 31, 2006. Consequently changes in the fair value of fair value hedges had no net impact on earnings during the year (2005: £nil). Cashflow hedges that were designated as hedges under SFAS 133 were tested for effectiveness and found to be fully effective. Consequently there was no net impact on earnings during the year.

Reed Elsevier documents the relationship between a hedged item and hedging instrument at inception, including an assessment that the hedging relationship is expected to be highly effective in future. Effectiveness of fair value hedging relationships are tested thereafter at each quarter end by validating that critical terms are still matching. The effectiveness of cash flow hedges are tested at each quarter end by comparing the change in fair value of the hedged item to the change in fair value of the hedging instrument and by ensuring that the cash flows being hedged remain highly probable.

Deferred taxation under US GAAP

Deferred taxation under US GAAP comprises:

	2006 £m	2005 £m
<i>Deferred taxation liabilities</i>		
Acquired intangible assets	585	733
Excess of tax allowances over amortisation	218	207
Pensions	6	83
Other temporary differences	69	67
	<u>878</u>	<u>1,090</u>
<i>Deferred taxation assets</i>		
Pensions	(92)	(96)
Tax losses carried forward	(12)	(58)
Other tax deductions carried forward	(193)	(211)
Other temporary differences	(90)	(107)
	<u>(387)</u>	<u>(472)</u>
Valuation allowances	198	215
	<u>(189)</u>	<u>(257)</u>
Net deferred tax liabilities	<u>689</u>	<u>833</u>

Net deferred tax liabilities at December 31, 2006 comprise current net deferred tax liabilities of £30 million (2005: £20 million current net deferred tax assets) and non current net deferred tax liabilities of £659 million (2005: £853 million). Current net deferred tax liabilities at December 31, 2006 comprise a £4 million net asset arising in the United Kingdom (2005: £12 million), £2 million net liability in the Netherlands (2005: £4 million), £36 million net liability in the United States (2005: £10 million net asset) and £4 million net asset in other jurisdictions (2005: £2 million). Non current net deferred tax liabilities at December 31, 2006 comprise a £1 million net liability arising in the

34. US accounting information – (continued)

United Kingdom (2005: £81 million), £600 million net liability in the United States (2005: £687 million), £16 million net asset arising in the Netherlands (2005: £30 million) and £74 million net liability in other jurisdictions (2005: £115 million).

A deferred tax asset of £193 million relating to other tax deductions carried forward of £483 million is offset by a full valuation allowance, due to uncertainties over the availability and timing of relevant taxable income. No time limitation currently applies on utilisation of these other tax deductions.

Combined shareholders' funds under US GAAP

	Combined share capitals £m	Combined share premium accounts £m	Combined shares held in treasury £m	Combined reserves £m	Total £m
At January 1, 2005.....	191	1,805	(66)	1,501	3,431
Net income	—	—	—	374	374
Dividends declared in period.....	—	—	—	(336)	(336)
Issue of ordinary shares, net of expenses.....	1	24	—	—	25
Increase in shares held in treasury....	—	—	(27)	—	(27)
Increase in stock based compensation reserve	—	—	—	57	57
Other comprehensive income (see F-53)	(2)	(24)	—	265	239
At January 1, 2006.....	190	1,805	(93)	1,861	3,763
Net income	—	—	—	399	399
Dividends declared in period.....	—	—	—	(371)	(371)
Issue of ordinary shares, net of expenses.....	2	91	—	—	93
Increase in shares held in treasury....	—	—	(285)	—	(285)
Increase in stock based compensation reserve	—	—	—	52	52
Other comprehensive income (see F-53)	(1)	(17)	1	(261)	(278)
Adjustment to initially apply SFAS 158 (net of taxes)	—	—	—	(153)	(153)
At December 31, 2006	191	1,879	377	1,527	3,220

**REED ELSEVIER
SCHEDULE II**

VALUATION AND QUALIFYING ACCOUNTS

	Balance at beginning of year £m	Cost and expenses £m	Exchange translation differences £m	Deductions £m	Balance at end of year £m
Year ended December 31, 2004					
Allowance for doubtful receivables	88	19	10	(44)	73
Year ended December 31, 2005					
Allowance for doubtful receivables	73	5	1	(13)	66
Year ended December 31, 2006					
Allowance for doubtful receivables	66	10	(6)	(20)	50

THIS PAGE INTENTIONALLY BLANK

REED ELSEVIER PLC
CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and members of Reed Elsevier PLC:

We have audited the accompanying consolidated balance sheets of Reed Elsevier PLC and its subsidiaries ("the Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, cash flow, recognised income and expense and shareholders' equity reconciliation for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2006, in conformity with International Financial Reporting Standards as adopted by the European Union.

International Financial Reporting Standards as adopted for use in the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 21 to the consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2007 (see Item 19 — Exhibit 15.5) expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP
London, England
February 14, 2007

REED ELSEVIER PLC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 £m	2005 £m	2004 £m
Administrative expenses	3	(2)	(2)	(2)
Effect of tax credit equalisation on distributed earnings	4	(10)	(9)	(8)
Share of results of joint ventures	12	343	252	247
Operating profit		331	241	237
Finance (charges)/income	7	(3)	1	3
Profit before tax		328	242	240
Taxation	8	(8)	(7)	(5)
Profit attributable to ordinary shareholders		320	235	235
	Note	2006 pence	2005 pence	2004 pence
<i>Earnings per ordinary share (EPS)</i>				
Basic EPS	10	25.6p	18.6	18.6
Diluted EPS	10	25.3p	18.4	18.5

The accompanying notes on pages F-69 to F-76 are an integral part of these consolidated financial statements

REED ELSEVIER PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 £m	2005 £m	2004 £m
<i>Cash flow from operating activities</i>				
Cash used by operations	11	(2)	(2)	(2)
Interest (paid)/received		(3)	1	3
Tax paid		(6)	(8)	(1)
Net cash flow from operating activities		(11)	(9)	—
Dividends received from joint ventures		596	168	153
<i>Cash flow from financing activities</i>				
Equity dividends paid	9	(186)	(168)	(153)
Proceeds on issue of ordinary shares		47	14	11
Purchase of treasury shares		(112)	—	—
Increase in net funding balances due from joint ventures.....	11	(334)	(5)	(11)
Net cash flow from financing activities		(585)	(159)	(153)
Movement in cash and cash equivalents		—	—	—

The accompanying notes on pages F-69 to F-76 are an integral part of these consolidated financial statements

REED ELSEVIER PLC
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2006

	Note	2006 £m	2005 £m
<i>Non-current assets</i>			
Investments in joint ventures	12	156	490
<i>Current assets</i>			
Amounts due from joint ventures		934	600
Total assets		<u>1,090</u>	<u>1,090</u>
<i>Current liabilities</i>			
Amounts owed to joint ventures		36	—
Payables		1	1
Taxation		13	11
		<u>50</u>	<u>12</u>
<i>Non-current liabilities</i>			
Amounts owed to joint ventures		—	36
Total liabilities		<u>50</u>	<u>48</u>
Net assets		<u>1,040</u>	<u>1,042</u>
<i>Capital and reserves</i>			
Called up share capital	13	161	160
Share premium account	14	1,033	987
Shares held in treasury (including in joint ventures)	15	(200)	(49)
Capital redemption reserve	16	4	4
Translation reserve	17	(98)	31
Other reserves	18	140	(91)
Total equity		<u>1,040</u>	<u>1,042</u>

The accompanying notes on pages F-69 to F-76 are an integral part of these consolidated financial statements

REED ELSEVIER PLC
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006 £m	2005 £m	2004 £m
Profit attributable to ordinary shareholders	320	235	235
Share of joint ventures' net (expense)/income recognised directly in equity	(57)	71	(97)
Share of joint ventures' transfer to net profit from hedge reserve	(3)	(10)	—
Total recognised income and expense for the year	<u>260</u>	<u>296</u>	<u>138</u>
Share of joint ventures' transition adjustment on adoption of IAS39 ...	<u>—</u>	<u>6</u>	<u>—</u>

CONSOLIDATED RECONCILIATION OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 £m	2005 £m	2004 £m
Total recognised net income		260	296	138
Equity dividends declared	9	(186)	(168)	(153)
Issue of ordinary shares, net of expenses		47	14	11
Increase in shares held in treasury (including in joint ventures)	15	(151)	(14)	(15)
Increase in share based remuneration reserve		26	30	31
Equalisation adjustments		<u>2</u>	<u>(2)</u>	<u>(3)</u>
Net (decrease)/increase in shareholders' equity		(2)	156	9
Shareholders' equity at January 1		1,042	880	871
Share of joint ventures' transition adjustment on adoption of IAS39		<u>—</u>	<u>6</u>	<u>—</u>
Shareholders' equity at December 31		<u><u>1,040</u></u>	<u><u>1,042</u></u>	<u><u>880</u></u>

The accompanying notes on pages F-69 to F-76 are an integral part of these consolidated financial statements

REED ELSEVIER PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of financial statements

On January 1, 1993, Reed Elsevier PLC and Reed Elsevier NV contributed their businesses to two companies, Reed Elsevier Group plc and Elsevier Reed Finance BV. Reed Elsevier Group plc, which owns all the publishing and information businesses, is incorporated in England and Elsevier Reed Finance BV, which owns the financing and treasury companies, is incorporated in the Netherlands. Reed Elsevier PLC and Reed Elsevier NV each hold a 50% interest in Reed Elsevier Group plc. Reed Elsevier PLC holds a 39% interest in Elsevier Reed Finance BV with Reed Elsevier NV holding a 61% interest. Reed Elsevier PLC additionally holds an indirect equity interest in Reed Elsevier NV, reflecting the arrangements entered into between Reed Elsevier PLC and Reed Elsevier NV at the time of the merger, which determined the equalisation ratio whereby one Reed Elsevier NV ordinary share is, in broad terms, intended to confer equivalent economic interests to 1.538 Reed Elsevier PLC ordinary shares.

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

2. Accounting policies

Basis of preparation

These consolidated financial statements report the consolidated income statement, cash flow and financial position of Reed Elsevier PLC, and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These principles differ in certain significant respects from US GAAP, see note 21.

Unless otherwise indicated, all amounts shown in the financial statements are in pounds sterling ("£").

The basis of the merger of the businesses of Reed Elsevier PLC and Reed Elsevier NV is set out on page 11.

Determination of profit

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

The accounting policies adopted in the preparation of the combined financial statements are set out on pages F-10 to F-14.

Investments

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

Foreign exchange translation

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date. Exchange differences arising are recorded in the income statement. The exchange gains or losses relating to the retranslation of Reed Elsevier PLC's 52.9% economic interest in the net assets of the combined businesses are classified as equity and transferred to the translation reserve.

When foreign operations are disposed of, the related cumulative translation differences are recognised within the income statement in the period.

Taxation

The tax expense represents the sum of the tax payable on the current year taxable profits, adjustments in respect of prior year taxable profits and the movements on deferred tax that are recognised in the income statement. Tax arising in joint ventures is included in the share of results of joint ventures.

2. Accounting policies – (continued)

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

Deferred tax is the tax arising on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that, based on current forecasts, it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Full provision is made for deferred tax which would become payable on the distribution of retained profits from foreign subsidiaries, associates or joint ventures.

Movements in deferred tax are charged or credited in the income statement, except when they relate to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Standards, amendments and interpretations not yet effective

Recently issued standards, amendments and interpretations are not expected to have any significant impact when adopted.

3. Administrative expenses

Administrative expenses include £486,000 (2005: £495,000; 2004: £386,000) paid in the year to Reed Elsevier Group plc under a contract for the services of directors and administrative support. Reed Elsevier PLC has no employees (2005: nil; 2004: nil).

4. Effect of tax credit equalisation on distributed earnings

The tax credit equalisation adjustment arises on dividends paid by Reed Elsevier PLC to its shareholders and reduces the consolidated profit attributable to ordinary shareholders by 47.1% of the total amount of the tax credit, as set out in the accounting policies in note 2.

5. Auditors' remuneration

Audit fees payable by Reed Elsevier PLC were £24,000 (2005: £24,000; 2004: £24,000). Further information on the audit and non audit fees paid by the Reed Elsevier combined businesses to Deloitte & Touche LLP and its associates is set out in note 4 to the combined financial statements.

6. Related party transactions

All transactions with joint ventures, which are related parties of Reed Elsevier PLC, are reflected in these financial statements. Key management personnel are also related parties and comprise the executive directors of Reed Elsevier PLC. The remuneration of executive directors of Reed Elsevier PLC is disclosed in note 32 to the combined financial statements.

7. Finance (charges)/income

	2006 £m	2005 £m	2004 £m
Finance (charges)/income from joint ventures	(3)	1	3

8. Taxation

	2006 £m	2005 £m	2004 £m
UK corporation tax	8	7	5

8. Taxation – (continued)

A reconciliation of the notional tax charge based on the applicable rate of tax to the actual total tax expense is set out below.

	2006 £m	2005 £m	2004 £m
Profit before tax	328	242	240
Tax at applicable rate (30%)	98	73	72
Tax on share of results of joint ventures	(103)	(73)	(72)
Other	13	7	5
Tax expense	<u>8</u>	<u>7</u>	<u>5</u>

9. Equity dividends

	2006 pence	2005 pence	2004 pence	2006 £m	2005 £m	2004 £m
<i>Dividends declared in the year</i>						
Ordinary shares of 12.5 pence each						
Final for prior financial year	10.7p	9.6p	8.7p	135	120	110
Interim for financial year	<u>4.1p</u>	<u>3.7p</u>	<u>3.4p</u>	<u>51</u>	<u>48</u>	<u>43</u>
Total	<u>14.8p</u>	<u>13.3p</u>	<u>12.1p</u>	<u>186</u>	<u>168</u>	<u>153</u>

The directors of Reed Elsevier PLC have proposed a final dividend of 11.8p (2005: 10.7p; 2004: 9.6p). The total cost of funding the proposed final dividends is expected to be £148 million. No liability has been recognised at the date of the balance sheet.

	2006 pence	2005 pence	2004 pence
<i>Dividends paid and proposed relating to the financial year</i>			
Ordinary shares of 12.5 pence each			
Interim (paid)	4.1p	3.7p	3.4p
Final (proposed)	<u>11.8p</u>	<u>10.7p</u>	<u>9.6p</u>
Total	<u>15.9p</u>	<u>14.4p</u>	<u>13.0p</u>

10. Earnings per ordinary share (“EPS”)

	2006			2005			2004		
	Weighted average number of shares (millions)	Earnings £m	EPS pence	Weighted average number of shares (millions)	Earnings £m	EPS pence	Weighted average number of shares (millions)	Earnings £m	EPS pence
Basic EPS	1,251.9	320	25.6p	1,266.2	235	18.6p	1,264.6	235	18.6p
Diluted EPS	1,266.4	320	25.3p	1,277.2	235	18.4p	1,273.1	235	18.5p

The diluted EPS figures are calculated after taking account of the effect of potential additional ordinary shares arising from the exercise of share options and conditional shares.

10. Earnings per ordinary share (“EPS”) – (continued)

The weighted average number of shares is after deducting shares held in treasury. Movements in the number of shares in issue net of treasury shares for the year ended December 31, 2006 are shown below.

	Year ended December 31,				
	Shares in issue (millions)	Treasury shares (millions)	2006 Shares in issue net of treasury shares (millions)	2005 Shares in issue net of treasury shares (millions)	2004 Shares in issue net of treasury shares (millions)
<i>Number of ordinary shares</i>					
At January 1	1,277.0	(10.8)	1,266.2	1,265.4	1,264.7
Issue of ordinary shares	10.4	—	10.4	3.6	2.6
Share repurchases	—	(20.6)	(20.6)	—	—
Purchase of shares by employee benefit trust (net)	—	(6.4)	(6.4)	(2.8)	(1.9)
At December 31	1,287.4	(37.8)	1,249.6	1,266.2	1,265.4
Weighted average number of equivalent ordinary shares during the year			1,251.9	1,266.2	1,264.6

The weighted average number of shares used in the diluted EPS calculations above is after deducting shares held in treasury and is derived as follows:

	2006 (millions)	2005 (millions)	2004 (millions)
Weighted average number of shares — Basic	1,251.9	1,266.2	1,264.6
Weighted average number of dilutive shares under option	14.5	11.0	8.5
Weighted average number of shares — Diluted	1,266.4	1,277.2	1,273.1

11. Cash flow statement

Reconciliation of administrative expenses to cash used by operations

	2006 £m	2005 £m	2004 £m
Administrative expenses	(2)	(2)	(2)
Net movement in payables	—	—	—
Cash used by operations	(2)	(2)	(2)

Reconciliation of net funding balances due from joint ventures

	2006 £m	2005 £m	2004 £m
At January 1	564	559	548
Cash flow	334	5	11
At December 31	898	564	559

12. Investments in joint ventures

	2006 £m	2005 £m
Share of results of joint ventures	343	252
Share of joint ventures':		
Net (expense)/income recognised directly in equity	(57)	71
Transfer to net profit from cash flow hedge reserve	(3)	(10)
Transition adjustment on adoption of IAS39	—	6
Purchases of treasury shares by employee benefit trust	(39)	(14)
Increase in share based remuneration reserve	26	30
Equalisation adjustments	(8)	(11)
Dividends received from joint ventures	(596)	(168)
(Decrease)/increase in the year	(334)	156
At January 1	490	334
At December 31	156	490

Summarised information showing total amounts in respect of joint ventures and Reed Elsevier PLC shareholders' 52.9% share is set out below.

	Total joint ventures			Reed Elsevier PLC shareholders' share		
	2006 £m	2005 £m	2004 £m	2006 £m	2005 £m	2004 £m
Revenue	5,398	5,166	4,812	2,856	2,733	2,546
Net profit for the year	625	464	461	343	252	247

	Total joint ventures		Reed Elsevier PLC shareholders' share	
	2006 £m	2005 £m	2006 £m	2005 £m
Total assets	8,532	9,127	4,549	4,864
Total liabilities	(6,553)	(7,142)	(4,393)	(4,374)
Net assets	1,979	1,985	156	490
Attributable to:				
Joint ventures	1,966	1,970	156	490
Minority interests	13	15	—	—
Total	1,979	1,985	156	490

The above amounts exclude assets and liabilities held directly by Reed Elsevier PLC and include the counterparty balances of amounts owed to and by other Reed Elsevier businesses. Included within Reed Elsevier PLC's share of assets and liabilities are cash and cash equivalents of £275 million (2005: £157 million) and borrowings of £1,590 million (2005: £1,674 million) respectively.

13. Share capital

	No. of shares	£m
<i>Authorised</i>		
Ordinary shares of 12.5p each	1,287,364,048	161
Unclassified shares of 12.5p each	184,089,128	23
Total		184

13. Share capital – (continued)

	2006		2005	
	No. of shares	£m	No. of shares	£m
<i>Called up share capital — issued and fully paid</i>				
At January 1	1,277,013,440	160	1,273,674,009	159
Issue of ordinary shares	10,350,608	1	3,339,431	1
At December 31	<u>1,287,364,048</u>	<u>161</u>	<u>1,277,013,440</u>	<u>160</u>

The issue of ordinary shares relates to the exercise of share options. Details of share option and conditional share schemes are set out in note 7 to the Reed Elsevier combined financial statements.

14. Share premium

	2006 £m	2005 £m
At January 1	987	974
Issue of ordinary shares	46	13
At December 31	<u>1,033</u>	<u>987</u>

15. Shares held in treasury

	2006 £m	2005 £m
At January 1	49	35
Share repurchases	112	—
Share of joint ventures' Employee Benefit Trust purchases	39	14
At December 31	<u>200</u>	<u>49</u>

Details of shares held in treasury are provided in note 29 to the Reed Elsevier combined financial statements.

16. Capital redemption reserve

	2006 £m	2005 £m
At January 1 and December 31	<u>4</u>	<u>4</u>

17. Translation reserve

	2006 £m	2005 £m
At January 1	31	(64)
Share of joint ventures' exchange differences on translation of foreign operations	(129)	95
At December 31	<u>(98)</u>	<u>31</u>

18. Other reserves

	2006 £m	2005 £m	2004 £m
At January 1	(91)	(158)	(235)
Share of joint ventures' transition adjustment on adoption of IAS39 ...	—	6	—
At January 1 restated	(91)	(152)	(235)
Profit attributable to ordinary shareholders	320	235	235
Share of joint ventures':			
Actuarial gains/(losses) on defined benefit pension schemes	73	(19)	(39)
Fair value movements on available for sale investments	2	2	—
Fair value movements on cash flow hedges	29	(5)	—
Tax recognised directly in equity	(32)	(2)	6
Transfer to net profit from hedge reserve	(3)	(10)	—
Increase in share based remuneration reserve	26	30	31
Equalisation adjustments	2	(2)	(3)
Equity dividends declared	(186)	(168)	(153)
At December 31	<u>140</u>	<u>(91)</u>	<u>(158)</u>

19. Contingent liabilities

There are contingent liabilities in respect of borrowings of 100% owned finance subsidiaries in the Reed Elsevier Group plc group and Elsevier Reed Finance BV group guaranteed by Reed Elsevier PLC as follows:

	2006 £m	2005 £m
Fully and unconditionally guaranteed jointly and severally with Reed Elsevier NV	<u>2,589</u>	<u>2,705</u>

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 18 to the Reed Elsevier combined financial statements.

20. Post balance sheet event

On February 14, 2007, the company received a dividend of £400 million from Reed Elsevier Group plc.

On February 14, 2007, Reed Elsevier approved a plan to sell Harcourt Education, a division of Reed Elsevier Group plc, and to return the net proceeds to shareholders by way of a special distribution in the equalisation ratio. It is expected that the sale will be completed during 2007.

21. US accounting information

Summary of the principal differences between IFRS and US GAAP

The consolidated financial statements are prepared in accordance with IFRS, which differs in certain significant respects from US GAAP. The effect of material differences on net income and shareholders' equity is shown in the following tables and explained below.

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

	Note	2006 £m	2005 £m	2004 £m
Net income as reported under IFRS		320	235	235
Impact of US GAAP adjustments to combined financial statements	(i)	(118)	(47)	(22)
Net income under US GAAP		<u>202</u>	<u>188</u>	<u>213</u>
Basic earnings per ordinary share under US GAAP (pence) ..		<u>16.1p</u>	<u>14.8p</u>	<u>16.8p</u>
Diluted earnings per ordinary share under US GAAP (pence) ..		<u>16.0p</u>	<u>14.7p</u>	<u>16.7p</u>

Effects on shareholders' equity of material differences between IFRS and US GAAP

	Note	2006 £m	2005 £m
Shareholders' equity as reported under IFRS		1,040	1,042
Impact of US GAAP adjustments to combined financial statements	(i)	663	948
Shareholders' equity under US GAAP		<u>1,703</u>	<u>1,990</u>

(i) Impact of US GAAP adjustments to combined financial statements

Reed Elsevier PLC accounts for its shareholders' 52.9% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, by the equity method in conformity with IFRS which is similar to the equity method in US GAAP. Using the equity method to present its net income and shareholders' equity under US GAAP, Reed Elsevier PLC reflects its shareholders' 52.9% share of the effects of differences between IFRS and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the carrying values of goodwill and intangibles, pensions, derivative financial instruments and deferred taxes. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between IFRS and US GAAP is given in note 34 to the Reed Elsevier combined financial statements.

Presentation and classification differences

Comprehensive Income information

SFAS 130: Reporting Comprehensive Income requires that all items that are required to be recognised as components of comprehensive income under US GAAP are reported in a separate financial statement. Under US GAAP, comprehensive income for 2006 would be £56 million (2005: £313 million; 2004: £111 million). Under US GAAP, comprehensive income per share for 2006 would be 4.5p (2005: 24.7p; 2004: 8.8p). Comprehensive income under US GAAP comprises net income for the financial year, share of the other comprehensive income items arising in the combined businesses, equalisation and exchange translation differences.

REED ELSEVIER NV
CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Supervisory and Executive Boards of Directors and shareholders of Reed Elsevier NV:

We have audited the accompanying consolidated balance sheets of Reed Elsevier NV ("the Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, cash flow, recognised income and expense and shareholders' equity reconciliation for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2006, in conformity with International Financial Reporting Standards as adopted by the European Union.

International Financial Reporting Standards as adopted for use in the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 20 to the consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2007 (see Item 19 — Exhibit 15.6) expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE ACCOUNTANTS B.V.
Amsterdam, The Netherlands
February 14, 2007

REED ELSEVIER NV
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 €m	2005 €m	2004 €m
Administrative expenses	3	(3)	(3)	(3)
Share of results of joint ventures	11	455	339	339
Operating profit		452	336	336
Finance income	6	7	2	2
Profit before tax		459	338	338
Taxation	7	(1)	—	—
Profit attributable to ordinary shareholders		<u>458</u>	<u>338</u>	<u>338</u>
	Note	2006	2005	2004
<i>Earnings per ordinary share (EPS)</i>				
Basic EPS	9	€0.59	€0.43	€0.43
Diluted EPS	9	<u>€0.59</u>	<u>€0.43</u>	<u>€0.43</u>

The accompanying notes on pages F-83 to F-90 are an integral part of these group financial statements

REED ELSEVIER NV
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 €m	2005 €m	2004 €m
<i>Cash flows from operating activities</i>				
Cash used by operations	10	(3)	(5)	(3)
Interest received		12	1	1
Tax (paid)/received		(1)	2	(5)
Net cash flow from/(used in) operating activities		<u>8</u>	<u>(2)</u>	<u>(7)</u>
Dividends received from joint ventures		1,111	189	220
<i>Cash flows from financing activities</i>				
Equity dividends paid	8	(272)	(245)	(229)
Proceeds on issue of ordinary shares		68	18	14
Purchase of treasury shares		(156)	—	—
(Increase)/decrease in net funding balances due from joint ventures	10	<u>(612)</u>	<u>16</u>	<u>20</u>
Net cash flow used in financing activities		<u>(972)</u>	<u>(211)</u>	<u>(195)</u>
Increase/(decrease) in cash and cash equivalents		<u>147</u>	<u>(24)</u>	<u>18</u>

The accompanying notes on pages F-83 to F-90 are an integral part of these group financial statements

REED ELSEVIER NV
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2006

	Note	<u>2006 €m</u>	<u>2005 €m</u>
<i>Non-current assets</i>			
Investments in joint ventures	11	760	1,487
<i>Current assets</i>			
Amounts due from joint ventures — funding		626	14
Amounts due from joint ventures — other		3	8
Cash and cash equivalents		<u>148</u>	<u>1</u>
		<u>777</u>	<u>23</u>
Total assets		<u>1,537</u>	<u>1,510</u>
<i>Current liabilities</i>			
Payables	12	8	8
Taxation		<u>64</u>	<u>64</u>
Total liabilities		<u>72</u>	<u>72</u>
Net assets		<u>1,465</u>	<u>1,438</u>
<i>Capital and reserves</i>			
Share capital issued	13	48	47
Paid-in surplus	14	1,562	1,495
Shares held in treasury (including in joint ventures)	15	(282)	(68)
Translation reserve	16	(70)	76
Other reserves	17	<u>207</u>	<u>(112)</u>
Total equity		<u>1,465</u>	<u>1,438</u>

The accompanying notes on pages F-83 to F-90 are an integral part of these consolidated financial statements

REED ELSEVIER NV
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006 €m	2005 €m	2004 €m
Profit attributable to ordinary shareholders	458	338	338
Share of joint ventures' net (expense)/income recognised directly in equity	(50)	138	(144)
Share of joint ventures' transfer to net profit from hedge reserve	(4)	(14)	—
Total recognised income and expense for the year	<u>404</u>	<u>462</u>	<u>194</u>
Share of joint ventures' transition adjustment on adoption of IAS 39	<u>—</u>	<u>8</u>	<u>—</u>

REED ELSEVIER NV
CONSOLIDATED RECONCILIATION OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 €m	2005 €m	2004 €m
Total recognised net income		404	462	194
Equity dividends declared	8	(272)	(245)	(229)
Issue of ordinary shares, net of expenses		68	18	14
Increase in shares held in treasury (including in joint ventures)	15	(210)	(20)	(22)
Increase in share based remuneration reserve		36	42	44
Equalisation adjustments		<u>1</u>	<u>—</u>	<u>3</u>
Net increase in shareholders' equity		27	257	4
Shareholders' equity at January 1		1,438	1,173	1,169
Share of joint ventures' transition adjustment on adoption of IAS39		<u>—</u>	<u>8</u>	<u>—</u>
Shareholders' equity at December 31		<u>1,465</u>	<u>1,438</u>	<u>1,173</u>

The accompanying notes on pages F-83 to F-90 are an integral part of these consolidated financial statements

REED ELSEVIER NV
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of financial statements

These consolidated financial statements report the consolidated income statement, cash flow and financial position of Reed Elsevier NV and are presented using the equity method. The consolidated financial statements have been prepared under the historical cost convention. These principles differ in certain significant respects from US GAAP; see note 20.

Unless otherwise indicated, all amounts shown in the consolidated financial statements are stated in euros (“€”). Certain disclosures required to comply with Dutch statutory reporting requirements have been omitted.

The Reed Elsevier combined financial statements on pages F-3 to F-60 form an integral part of the notes to Reed Elsevier NV’s consolidated financial statements.

As a consequence of the merger of the company’s businesses with those of Reed Elsevier PLC, the shareholders of Reed Elsevier NV and Reed Elsevier PLC can be regarded as having the interests of a single economic group, enjoying substantially equivalent ordinary dividend and capital rights in the earnings and net assets of the Reed Elsevier combined businesses.

2. Accounting policies

Basis of Preparation

These consolidated financial statements, which have been prepared under the historic cost convention, report the statements of income, cash flow and financial position of Reed Elsevier NV, and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Unless otherwise indicated, all amounts shown in the financial statements are in euros (“€”).

The basis of the merger of the businesses of Reed Elsevier PLC and Reed Elsevier NV is set out on page 11.

Reed Elsevier NV’s consolidated financial statements are presented incorporating Reed Elsevier NV’s investments in the Reed Elsevier combined businesses accounted for using the equity method, as adjusted for the effects of the equalisation arrangement between Reed Elsevier NV and Reed Elsevier PLC. The arrangement lays down the distribution of dividends and net assets in such a way that Reed Elsevier NV’s share in the profit and net assets of the Reed Elsevier combined businesses equals 50%, with all settlements accruing to shareholders from the equalisation arrangements taken directly to reserves.

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

Combined financial statements

The accounting policies adopted in the preparation of the combined financial statements are set out on pages F-10 to F-14.

Basis of valuation of assets and liabilities

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

Cash and cash equivalents are stated at fair value. Other assets and liabilities are stated at historical cost, less provision, if appropriate, for any impairment in value.

Foreign exchange translation

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date. Exchange differences arising are recorded in the income statement. The gains or

2. Accounting policies – (continued)

losses relating to the retranslation of Reed Elsevier NV's 50% interest in the net assets of the combined businesses are classified as equity and transferred to the translation reserve.

When foreign operations are disposed of the related cumulative translation differences are recognised within the income statement in the period.

Taxation

The tax expense represents the sum of the tax payable on the current year taxable profits, adjustments in respect of prior year taxable profits and the movements on deferred tax that are recognised in the income statement. Tax arising in joint ventures is included in the share of results of joint ventures.

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

Deferred tax is the tax arising on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that, based on current forecasts, is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Full provision is made for deferred tax which would become payable on the distribution of retained profits from foreign subsidiaries, associates or joint ventures.

Movements in deferred tax are charged or credited in the income statement, except when they relate to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Standards, amendments and interpretations not yet effective

Recently issued standards, amendments and interpretations are not expected to have any significant impact when adopted.

3. Administrative expenses

Administrative expenses are stated after the gross remuneration for present and former directors of Reed Elsevier NV in respect of services rendered to Reed Elsevier NV and the combined businesses. Fees for members of the Supervisory Board of Reed Elsevier NV of €0.2 million (2005: €0.2 million; 2004: €0.2 million) are included in gross remuneration. In so far as gross remuneration is related to services rendered to Reed Elsevier Group plc group and Elsevier Reed Finance BV group, it is borne by these groups. Reed Elsevier NV has no employees (2005: nil; 2004: nil).

4. Auditors' remuneration

Audit fees payable by Reed Elsevier NV were €46,000 (2005: €46,000; 2004: €46,000). Further information on the audit and non audit fees paid by the Reed Elsevier combined businesses to Deloitte Accountants, B.V. and its associates is set out in note 4 to the combined financial statements.

5. Related party transactions

All transactions with joint ventures, which are related parties of Reed Elsevier NV, have been reflected in these financial statements. Key management personnel are also related parties and comprise the executive directors of Reed Elsevier NV. The remuneration of executive directors of Reed Elsevier NV is disclosed in note 32 to the combined financial statements.

6. Finance income

	2006 €m	2005 €m	2004 €m
Finance income from joint ventures	7	2	2

7. Taxation

A reconciliation of the notional tax charge based on the applicable rate of tax to the actual total tax expense is set out below.

	2006 €m	2005 €m	2004 €m
Profit before tax	459	338	338
Tax at applicable rate 29.6% (2005: 31.5%; 2004: 34.5%)	136	106	117
Tax on share of results of joint ventures	(135)	(106)	(117)
Tax expense	1	—	—

8. Equity dividends

	2006 €	2005 €	2004 €	2006 €m	2005 €m	2004 €m
<i>Dividends declared in the year</i>						
Ordinary shares of €0.06 each						
Final for prior financial year	€0.267	€0.240	€0.220	197	177	162
Interim for financial year	€0.102	€0.092	€0.090	75	68	67
R-shares of €0.60 each	—	—	—	—	—	—
Total	<u>€0.369</u>	<u>€0.332</u>	<u>€0.310</u>	<u>272</u>	<u>245</u>	<u>229</u>

The directors of Reed Elsevier NV have proposed a final dividend of €0.304 (2005: €0.267; 2004: €0.240). The total cost of funding the proposed final dividends is expected to be €223 million. No liability has been recognised at the date of the balance sheet.

	2006 €	2005 €	2004 €
<i>Dividends paid and proposed relating to the financial year</i>			
Ordinary shares of €0.06 each			
Interim (paid)	€0.102	€0.092	€0.090
Final (proposed)	€0.304	€0.267	€0.240
R-Shares of €0.60 each	—	—	—
Total	<u>€0.406</u>	<u>€0.359</u>	<u>€0.330</u>

9. Earnings per ordinary share (“EPS”)

	2006			2005			2004		
	Weighted average number of shares (millions)	Earnings €m	EPS €	Weighted average number of shares (millions)	Earnings €m	EPS €	Weighted average number of shares (millions)	Earnings €m	EPS €
Basic EPS	772.1	458	€0.59	783.1	338	€0.43	783.3	338	€0.43
Diluted EPS	781.7	458	€0.59	789.9	338	€0.43	787.9	338	€0.43

The diluted EPS figures are calculated after taking account of the effect of potential ordinary shares arising from share options and conditional shares.

The weighted average number of shares used is after deducting shares held in treasury. Movements in the number of shares in issue net of treasury shares for the year ended December 31, 2006 are shown below.

9. Earnings per ordinary share (“EPS”) – (continued)

	Year ended December 31,				
	Shares in issue (millions)	Treasury shares (millions)	2006 Shares in issue net of treasury shares (millions)	2005 Shares in issue net of treasury shares (millions)	2004 Shares in issue net of treasury shares (millions)
<i>Number of ordinary shares</i>					
At January 1	741.8	(5.5)	736.3	736.4	737.5
Issue of ordinary shares	6.8	—	6.8	1.9	1.3
Share repurchases	—	(13.4)	(13.4)	—	—
Purchase of shares by employee benefit trust (net)	—	(3.7)	(3.7)	(2.0)	(2.4)
At December 31	748.6	(22.6)	726.0	736.3	736.4
Weighted average number of equivalent ordinary shares during the year			772.1	783.1	783.3

The average number of equivalent ordinary shares takes into account the “R” shares in the company held by a subsidiary of Reed Elsevier PLC, which represents a 5.8% interest in the company’s share capital.

The weighted average number of shares used in the calculation of diluted EPS is after deducting shares held in treasury and is derived as follows:

	2006 (millions)	2005 (millions)	2004 (millions)
Weighted average number of shares — Basic	772.1	783.1	783.3
Weighted average number of dilutive shares under options	9.6	6.8	4.6
Weighted average number of shares — Diluted	781.7	789.9	787.9

10. Cash flow statement

Reconciliation of administrative expenses to cash used by operations

	2006 €m	2005 €m	2004 €m
Administrative expenses	(3)	(3)	(3)
Decrease in payables	—	(2)	—
Cash used by operations	(3)	(5)	(3)

Reconciliation of net funding balances due from joint ventures

	2006 €m	2005 €m	2004 €m
At January 1	14	30	50
Cash flow	612	(16)	(20)
At December 31	626	14	30

11. Investments in joint ventures

	2006 €m	2005 €m
Share of results of joint ventures	455	339
Share of joint ventures':		
Net (expense)/income recognised directly in equity	(50)	138
Transfer to net profit from cash flow hedge reserve	(4)	(14)
Purchases of treasury shares by employee benefit trust	(54)	(20)
Increase in share based remuneration reserve	36	42
Equalisation adjustments	1	—
Dividends received from joint ventures	(1,111)	(189)
(Decrease)/increase in the year	(727)	296
At January 1	1,487	1,191
At December 31	<u>760</u>	<u>1,487</u>

Summarised information showing total amounts in respect of joint ventures and Reed Elsevier NV's 50% share is set out below:

	Total joint ventures			Reed Elsevier NV share		
	2006 €m	2005 €m	2004 €m	2006 €m	2005 €m	2004 €m
Revenue	7,935	7,542	7,074	3,968	3,771	3,537
Net profit for the year	<u>919</u>	<u>677</u>	<u>678</u>	<u>455</u>	<u>339</u>	<u>339</u>

	Total joint ventures		Reed Elsevier NV share	
	2006 €m	2005 €m	2006 €m	2005 €m
Total assets	12,713	13,325	6,209	6,662
Total liabilities	(9,764)	(10,427)	(5,449)	(5,175)
Net assets	<u>2,949</u>	<u>2,898</u>	<u>760</u>	<u>1,487</u>
Attributable to:				
Joint ventures	2,929	2,876	760	1,487
Minority interests	20	22	—	—
Total	<u>2,949</u>	<u>2,898</u>	<u>760</u>	<u>1,487</u>

The above amounts exclude assets and liabilities held directly by Reed Elsevier NV and include the counterparty balances owed to and by other Reed Elsevier businesses. Included within Reed Elsevier NV's share of assets and liabilities are cash and cash equivalents of €239 million (2005: €215 million) and borrowings of €2,232 million (2005: €2,303 million).

12. Payables

Included within payables are employee convertible debenture loans of €8 million (2005: €7 million) with a weighted average interest rate of 4.68% (2005: 4.74%). Depending on the conversion terms, the surrender of €227 or €200 par value debenture loans qualifies for the acquisition of 50 Reed Elsevier NV ordinary shares.

13. Share capital

Authorised

	<u>No. of shares</u>	<u>€m</u>
Ordinary shares of €0.06 each	2,100,000,000	126
Unclassified shares of €0.60 each	30,000,000	18
Total		<u>144</u>

Issued and fully paid

	<u>R-shares Number</u>	<u>Ordinary shares Number</u>	<u>R-shares €m</u>	<u>Ordinary shares €m</u>	<u>Total €m</u>
At January 1, 2005	4,679,249	740,090,600	3	44	47
Issue of ordinary shares	—	1,714,630	—	—	—
At January 1, 2006	4,679,249	741,805,230	3	44	47
Issue of ordinary shares	—	6,791,894	—	1	1
At December 31, 2006	<u>4,679,249</u>	<u>748,597,124</u>	<u>3</u>	<u>45</u>	<u>48</u>

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

14. Paid-in surplus

	<u>2006 €m</u>	<u>2005 €m</u>
At January 1	1,495	1,477
Issue of ordinary shares	67	18
At December 31	<u>1,562</u>	<u>1,495</u>

Within paid-in surplus, an amount of €1,385 million (2005: €1,318 million) is free of tax.

The issue of ordinary shares relates to the exercise of share options. Details of share option and conditional share schemes are set out in note 7 to the Reed Elsevier combined financial statements.

15. Shares held in treasury

	<u>2006 €m</u>	<u>2005 €m</u>
At January 1	68	47
Share repurchases	156	—
Share of joint ventures' employee benefit trust purchases	54	20
Exchange translation differences	4	1
At December 31	<u>282</u>	<u>68</u>

Details of shares held in treasury are provided in note 29 to the Reed Elsevier combined financial statements.

16. Translation reserve

	<u>2006 €m</u>	<u>2005 €m</u>
At January 1	76	(98)
Share of joint ventures' exchange differences on translation of foreign operations	(146)	174
At December 31	<u>(70)</u>	<u>76</u>

17. Other reserves

	2006 €m	2005 €m	2004 €m
At January 1	(112)	(206)	(316)
Share of joint ventures' transition adjustment on adoption of IAS39...	—	8	—
At January 1 as restated	(112)	(198)	(316)
Profit attributable to ordinary shareholders	458	338	338
Share of joint ventures':			
Actuarial gains/(losses) on defined benefit pension schemes	102	(27)	(55)
Fair value movements on available for sale investments	2	2	—
Fair value movements on cash flow hedges	40	(8)	—
Tax recognised directly in equity	(44)	(2)	9
Transfer to net profit from hedge reserve	(4)	(14)	—
Increase in share based remuneration	36	42	44
Equalisation adjustments	1	—	3
Equity dividends declared	(272)	(245)	(229)
At December 31	<u>207</u>	<u>(112)</u>	<u>(206)</u>

18. Contingent liabilities

There are contingent liabilities in respect of borrowings of 100% owned finance subsidiaries in the Reed Elsevier Group plc group and Elsevier Reed Finance BV group guaranteed by Reed Elsevier NV as follows:

	2006 €m	2005 €m
Fully and unconditionally guaranteed jointly and severally with Reed Elsevier PLC ...	<u>3,858</u>	<u>3,949</u>

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 18 to the Reed Elsevier combined financial statements.

19. Post balance sheet event

On February 14, 2007, the company received a dividend of €750 million from Reed Elsevier Overseas BV.

On February 14, 2007, Reed Elsevier approved a plan to sell Harcourt Education, a division of Reed Elsevier Group plc, and to return the net proceeds to shareholders by way of a special distribution in the equalisation ratio. It is expected that the sale will be completed during 2007.

20. US accounting information

Summary of the principal differences between IFRS and US GAAP

The consolidated financial statements are prepared in accordance with IFRS, which differs in certain significant respects from US GAAP. The effect of material differences on net income and shareholders' equity is shown in the following tables and explained below.

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

	Note	2006 €m	2005 €m	2004 €m
Net income as reported under IFRS		458	338	338
Impact of US GAAP adjustments to combined financial statements	(i)	(150)	(51)	(18)
Net income under US GAAP		308	287	320
Basic earnings per share under US GAAP		€0.40	€0.37	€0.41
Diluted earnings per share under US GAAP		€0.39	€0.36	€0.41

Effects on shareholders' equity of material differences between IFRS and US GAAP

	Note	2006 €m	2005 €m
Shareholders' equity as reported under IFRS		1,465	1,438
Impact of US GAAP adjustments to combined financial statements	(i)	934	1,309
Shareholders' equity under US GAAP		2,399	2,747

(i) Impact of US GAAP adjustments to combined financial statements

Reed Elsevier NV accounts for its 50% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, by the equity method in conformity with IFRS which is similar to the equity method in US GAAP. Using the equity method to present its net income and shareholders' equity under US GAAP, Reed Elsevier NV reflects its 50% share of the effects of differences between IFRS and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the carrying values of goodwill and intangibles, pensions, derivative financial instruments and deferred taxes. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between IFRS and US GAAP is given in note 34 to the Reed Elsevier combined financial statements.

Presentation and classification differences

Comprehensive Income information

SFAS130: Reporting Comprehensive Income requires that all items that are required to be recognised as components of comprehensive income under US GAAP are reported in a separate financial statement. Under US GAAP, comprehensive income for 2006 would be €140 million (2005: €533 million; 2004: €156 million). Under US GAAP, comprehensive income per share for 2006 would be €0.18 (2005: €0.68; 2004: €0.20). Comprehensive income under US GAAP comprises net income for the financial year, share of the other comprehensive income items arising in the combined businesses, equalisation and exchange translation differences.

GLOSSARY OF TERMS

Terms used in Annual Report on Form 20-F	US equivalent or brief description
Accruals	Accrued expenses
Adjusted operating profit	Operating profit before amortisation of acquired intangible assets and acquisition integration costs and grossed up to exclude the equity share of taxes in joint ventures. This is a key financial measure used by management to evaluate performance and is presented in accordance with SFAS131: Disclosures about Segments of an Enterprise and Related Information
Allotted	Issued
Associate	An entity in which Reed Elsevier has a participating interest and, in the opinion of the directors, can exercise significant influence on its management
Bank borrowings	Payable to banks
Called up share capital	Issued share capital
Capital allowances	Tax term equivalent to US tax depreciation allowances
Capital and reserves	Shareholders' equity
Combined businesses	Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures
Current instalments of loans	Long term debt due within one year
EPS	Earnings per ordinary share
Finance lease	Capital lease
Investments	Non-current investments
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Interest payable	Interest expense
Net cash acquired	Cash less debt acquired with a business
Prepayments	Prepaid expenses
Profit	Income
Profit attributable	Net income
Reed Elsevier	Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures
Shareholders' equity	Shareholders' funds
Share premium account	Premiums paid in excess of par value of ordinary shares
Revenue	Sales
Underlying growth	The year on year growth calculated excluding the effects of acquisitions, disposals and the impact of currency translation

ITEM 19: EXHIBITS

Exhibits filed as part of this annual report

- 1.1 Memorandum and Articles of Association of Reed Elsevier PLC (incorporated by reference from Exhibit 1.1 to the 2002 Annual Report on Form 20-F filed with the SEC on March 10, 2003)
- 1.2 Articles of Association of Reed Elsevier NV (incorporated by reference from Exhibit 1.2 to the 2005 Annual Report on Form 20-F filed with the SEC on March 16, 2006)
- 1.3 Governing Agreement, dated April 15, 1999 between Reed International P.L.C. and Elsevier NV (incorporated by reference from Exhibit 3.3 to the 2000 Annual Report on Form 20-F filed with the SEC on March 13, 2001)
- 1.4 RHBV Agreement, dated December 23, 1992 among Elsevier NV and Reed Holding B.V. (incorporated by reference from Exhibit 1.4 to the 2002 Annual Report on Form 20-F filed with the SEC on March 10, 2003)
- 2.1 Deposit Agreement, dated as of October 27, 2003, among Reed Elsevier PLC, The Bank of New York and all holders from time to time of American Depositary Receipts (incorporated by reference from Exhibit (a)(1) to Amendment No. 1 to the Registration Statement on Form F-6 filed by Reed Elsevier PLC with the SEC on October 17, 2003)
- 2.2 Deposit Agreement, dated as of October 27, 2003, among Reed Elsevier NV, The Bank of New York and all holders from time to time of American Depositary Receipts (incorporated by reference from Exhibit (a)(1) to Amendment No. 1 to the Registration Statement on Form F-6 filed by Reed Elsevier NV with the SEC on October 17, 2003)
- 4.1 Agreement and Plan of Merger, dated October 27, 2000, among Reed Elsevier Inc., REH Mergersub Inc. and Harcourt General, Inc. (incorporated by reference from Exhibit 10.11 to the Registration Statement on Form F-3 filed with the SEC on November 29, 2000 (the “2000 Form F-3 Registration Statement”))
- 4.2 Sale and Purchase Agreement, dated October 27, 2000, between Reed Elsevier Inc. and The Thomson Corporation (incorporated by reference from Exhibit 10.13 to the 2000 Form F-3 Registration Statement)
- 4.3 Reed Elsevier Group plc Share Option Scheme (incorporated by reference from Exhibit 4.3 to the 2003 Annual Report on Form 20-F filed with the SEC on March 15, 2004)
- 4.4 Reed Elsevier Group plc Long Term Incentive Share Option Scheme (incorporated by reference from Exhibit 4.3 to the 2003 Annual Report on Form 20-F filed with the SEC on March 15, 2004)
- 4.5 Reed Elsevier Group plc Bonus Investment Plan (incorporated by reference from Exhibit 4.3 to the 2003 Annual Report on Form 20-F filed with the SEC on March 15, 2004)
- 4.6 Reed Elsevier Group plc Bonus Investment Plan (2002) (incorporated by reference from Exhibit 4.3 to the 2003 Annual Report on Form 20-F filed with the SEC on March 15, 2004)
- 4.7 Reed Elsevier Group plc Executive Share Option Schemes (No. 2) (incorporated by reference from Exhibit 4.3 to the 2003 Annual Report on Form 20-F filed with the SEC on March 15, 2004)
- 4.8 Reed Elsevier Group plc Executive UK and Overseas Share Option Schemes (incorporated by reference from Exhibit 10.6 to the 2000 Form F-3 Registration Statement)
- 4.9 Reed Elsevier Group plc Retention Share Plan (as amended on March 13, 2006)
- 4.10 Reed Elsevier US Salary Investment Plan (incorporated by reference from Exhibit 4.10 to the Registration Statement on Form S-8 filed with the SEC on October 2, 2000)
- 4.11 Reed Elsevier Group plc Long Term Incentive Share Option Scheme (as restated for awards granted on or after April 19, 2006)
- 8 List of significant subsidiaries, associates, joint ventures and business units
- 12.1 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002, by the Chief Executive Officer of Reed Elsevier PLC
- 12.2 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002, by the Chief Financial Officer of Reed Elsevier PLC
- 12.3 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002, by the Chief Executive Officer of Reed Elsevier NV
- 12.4 Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002, by the Chief Financial Officer of Reed Elsevier NV
- 13.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Executive Officer of Reed Elsevier PLC

- 13.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Financial Officer of Reed Elsevier PLC
- 13.3 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Executive Officer of Reed Elsevier NV
- 13.4 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Financial Officer of Reed Elsevier NV
- 15.1 Independent Registered Public Accounting Firm's Consent — Reed Elsevier Combined Financial Statements
- 15.2 Independent Registered Public Accounting Firm's Consent — Reed Elsevier PLC Consolidated Financial Statements
- 15.3 Independent Registered Public Accounting Firm's Consent — Reed Elsevier NV Consolidated Financial Statements
- 15.4 Report of Independent Registered Public Accounting Firm on internal control over financial reporting — Reed Elsevier combined businesses
- 15.5 Report of Independent Registered Public Accounting Firm on internal control over financial reporting — Reed Elsevier PLC
- 15.6 Report of Independent Registered Public Accounting Firm on internal control over financial reporting — Reed Elsevier NV

The total amount of long term debt securities of Reed Elsevier authorised under any single instrument other than the indentures listed above does not exceed 10% of the combined total assets of Reed Elsevier. The Registrants hereby agree to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of long term debt of Reed Elsevier or any of the combined businesses for which consolidated or unconsolidated financial statements are required to be filed.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, each of the Registrants certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorised, on March 22, 2007.

REED ELSEVIER PLC
Registrant

By: /s/ SIR CRISPIN DAVIS

Sir Crispin Davis
Chief Executive Officer

By: /s/ M H ARMOUR

M H Armour
Chief Financial Officer

Dated: March 22, 2007

REED ELSEVIER NV
Registrant

By: /s/ SIR CRISPIN DAVIS

Sir Crispin Davis
Member, Executive Board &
Chief Executive Officer

By: /s/ M H ARMOUR

M H Armour
Member, Executive Board &
Chief Financial Officer

Dated: March 22, 2007

