



## 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, 2009

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)

Stephen Cowden

Company Secretary

Reed Elsevier PLC

1-3 Strand, London, WC2N 5JR, England

011 44 20 7930 7077

steve.cowden@reedelsevier.com

(Name, telephone, e-mail and/or facsimile number and address of  
Company Contact Person)

## 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)

Jans van der Woude

Company Secretary

Reed Elsevier NV

Radarweg 29, 1043 NX, Amsterdam, The Netherlands

011 31 20 485 2222

j.vanderwoude@reedelsevier.com

(Name, telephone, e-mail and/or facsimile number and address of  
Company Contact Person)

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 14 51/116p 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 €0.07 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, 2009:

## Reed Elsevier PLC:

Number of outstanding shares

Ordinary shares of 14 51/116p each . . . . . 1,247,275,833

## Reed Elsevier NV:

Ordinary shares of €0.07 each. . . . . 723,692,901

R shares of €0.70 each (held by a subsidiary of Reed Elsevier PLC). . . . . 4,303,179

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 registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 basis of accounting the registrants have used to prepare the financial statements included in this filing.

☐ US GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other

If "Other" has been checked in response to the previous question 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 ☒

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

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## **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:

- current and future economic and business conditions;
- competitive factors in the industries in which we operate;
- demand for our products and services;
- exchange rate fluctuations;
- legislative, fiscal and regulatory developments and political risks;
- changes in law and legal interpretation affecting our intellectual property rights, internet communications and provision of third party information;
- requirements or actions of anti-trust authorities;
- breaches of our data security systems or other unauthorised access to our databases;
- our ability to maintain high quality management;
- the impact of technological change, including the impact of electronic or other distribution formats, on our businesses;
- uncertainties as to whether our strategies, business plans and acquisitions will produce the expected returns;
- significant failures or interruptions of our electronic delivery platforms;
- failure of third parties to whom we have outsourced business activities;
- changes in the seasonal and cyclical nature of the markets for our products and services;
- changes in the market values of defined benefit pension scheme assets and in the market related assumptions used to value scheme liabilities;
- downgrades to the credit ratings of our long term debt;
- 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 S-1 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 interests 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 LLP, London and Deloitte Accountants BV, Amsterdam.

**Combined Income Statement Data<sup>(1)</sup>**

	For the year ended December 31,					
	2009 <sup>(2)</sup>	2009	2008	2007	2006	2005
	(in millions)					
<i>Amounts in accordance with IFRS:</i>						
Revenue from continuing operations . . . . .	\$9,835	£6,071	£5,334	£4,584	£4,509	£4,265
Operating profit from continuing operations <sup>(3)</sup> . . . . .	1,275	787	901	888	837	752
Net finance costs . . . . .	(471)	(291)	(192)	(139)	(158)	(140)
Disposals and other non operating items <sup>(4)</sup> . . . . .	(99)	(61)	(92)	63	(1)	2
Profit before tax from continuing operations . . . . .	705	435	617	812	678	614
Taxation in continuing operations <sup>(5)</sup> . . . . .	(65)	(40)	(155)	82	(86)	(219)
Net profit from continuing operations . . . . .	640	395	462	894	592	395
Net profit from discontinued operations <sup>(6)</sup> . . . . .	—	—	18	309	33	69
Non-controlling interests . . . . .	(6)	(4)	(4)	(3)	(2)	(2)
Profit attributable to parent companies' shareholders . .	634	391	476	1,200	623	462

**Combined Statement of Financial Position Data<sup>(1)</sup>**

	As at December 31,					
	2009 <sup>(2)</sup>	2009	2008	2007	2006	2005
	(in millions)					
<i>Amounts in accordance with IFRS:</i>						
Total assets . . . . .	\$18,361	£11,334	£12,866	£9,778	£8,532	£9,127
Long term obligations less current portion . . . . .	(6,525)	(4,028)	(5,694)	(2,002)	(2,085)	(2,264)
Net assets . . . . .	2,850	1,759	981	2,976	1,979	1,985
Non-controlling interests . . . . .	(45)	(28)	(28)	(11)	(13)	(15)
Combined shareholders' equity . . . . .	2,806	1,732	953	2,965	1,966	1,970

(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 as adopted by the European Union ("EU"). The figures for 2006 and 2005 have been extracted or derived from the combined financial statements for the years ended December 31, 2006 and 2005, not included herein.

(2) Noon buying rates as at December 31, 2009 have been used to provide a convenience translation into US dollars, see "— Exchange Rates" on page 6. At December 31, 2009 the noon buying rate was \$1.62 per £1.00. This compares to the average exchange rate for the year ended December 31, 2009 of \$1.57 to £1.00 applied in the translation of the combined income statement for the year.

(3) Operating profit from continuing operations is stated after charging £368 million in respect of amortisation of acquired intangible assets (2008: £281 million; 2007: £221 million; 2006: £211 million; 2005: £203 million); £177 million in respect of impairment of acquired intangible assets and goodwill (2008: £9 million; 2007: nil; 2006: nil; 2005: nil); £182 million in respect of exceptional restructuring costs (2008: £152 million; 2007: nil; 2006: nil; 2005: nil); £48 million in respect of acquisition related costs (2008: £27 million; 2007: £20 million; 2006: £23 million; 2005: £20 million); and £8 million in respect of taxation in joint ventures (2008: £9 million; 2007: £8 million; 2006: £10 million; 2005: £6 million). Impairment charges in 2009 relate principally to Reed Business Information's US and International businesses. Exceptional restructuring costs relate to the major restructuring programmes announced in February 2008 and 2009.

(4) Disposals and other non operating items comprise a £69 million loss on disposal and write downs of businesses and other assets (2008: £86 million loss; 2007: £65 million gain; 2006: £2 million loss; 2005: £1 million loss) and a £8 million gain relating to the revaluation of held for trading investments (2008: £6 million loss; 2007: £2 million loss; 2006: £1 million gain; 2005: £3 million gain).



- (5) Taxation in continuing operations in 2009 includes credits of £34 million in respect of prior year disposals. Taxation in continuing operations in 2007 includes credits of £223 million in respect of previously unrecognised deferred tax assets and capital losses that were realised as a result of the disposal of discontinued operations. Taxation in continuing operations in 2006 includes credits of £65 million in respect of prior period disposals.
- (6) Profit from discontinued operations in 2008 includes the gain on disposal of the educational assessment business of £67 million (2007: £611 million on disposal of the US K-12 Schools and International businesses). Taxes on the completed disposals in 2008 were £49 million (2007: £380 million).

## 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 LLP, London.

	For the year ended December 31,					
	2009 <sup>(3)</sup>	2009	2008	2007	2006	2005
	(in millions, except per share amounts)					
<i>Amounts in accordance with IFRS:<sup>(1)</sup></i>						
Profit before tax <sup>(2)</sup> . . . . .	\$326	£201	£247	£643	£328	£242
Taxation . . . . .	(10)	(6)	(6)	(19)	(8)	(7)
Profit attributable to ordinary shareholders . . . . .	316	195	241	624	320	235
Earnings per Reed Elsevier PLC ordinary share from total operations of the combined businesses . . . . .	27.9¢	17.2p	22.1p	49.7p	25.6p	18.6p
Earnings per Reed Elsevier PLC ordinary share from continuing operations of the combined businesses. . .	27.9¢	17.2p	21.2p	36.6p	24.1p	15.7p
Dividends per Reed Elsevier PLC ordinary share <sup>(4)</sup> . . .	33.0¢	20.4p	100.9p	16.3p	14.8p	13.3p
Total assets . . . . .	\$1,502	£927	£515	£1,584	£1,090	£1,090
Long term obligations. . . . .	—	—	—	—	—	(36)
Total equity/Net assets . . . . .	1,484	916	504	1,568	1,040	1,042
Weighted average number of shares <sup>(5)</sup> . . . . .	1,131.4	1,131.4	1,089.5	1,256.5	1,251.9	1,266.2

(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 as adopted by the EU. The figures for 2006 and 2005 have been extracted or derived from the consolidated financial statements for the years ended December 31, 2006 and 2005, not included herein.

(2) Profit before tax includes Reed Elsevier PLC's share of the post-tax earnings of joint ventures, being both the continuing and discontinued operations of the Reed Elsevier combined businesses. Profit before tax in 2008 includes Reed Elsevier PLC's £10 million share of joint ventures' post-tax gain on disposal of the educational assessment business (2007: £122 million post-tax net gain on disposal of the US K-12 Schools and International businesses).

(3) Noon buying rates as at December 31, 2009 have been used to provide a convenience translation into US dollars, see "— Exchange Rates" on page 6. At December 31, 2009 the noon buying rate was \$1.62 per £1.00. This compares to the average exchange rate for the year ended December 31, 2009 of \$1.57 to £1.00 applied in the translation of the combined income statement for the year.

(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 2008 final dividend of 15.0p and 2009 interim dividend of 5.4p giving a total of 20.4p. The directors of Reed Elsevier PLC have proposed a 2009 final dividend of 15.0p (2008: 15.0p; 2006: 13.6p; 2006: 11.8p; 2005: 10.7p), giving a total ordinary dividend in respect of the financial year of 20.4p (2008: 20.3p; 2007: 18.1p; 2006: 15.9p; 2005: 14.4p). Dividends in 2008 included a special distribution of 82.0p per ordinary paid from the net proceeds of the sale of the Education division.

Dividends per Reed Elsevier PLC ordinary share for the year ended December 31, 2008 translated into cents at the noon buying rate on December 31, 2008 were \$1.463, including \$1.189 in respect of the special distribution paid from the net proceeds of the sale of the Education division. See "— Exchange Rates" on page 6.

(5) Weighted average number of shares excludes shares held in treasury and shares held by the Reed Elsevier Group plc Employee Benefit Trust. On January 7, 2008 the existing ordinary shares were consolidated into new ordinary shares on the basis of 58 new ordinary shares for every 67 existing ordinary shares. For the purposes of calculating earnings per share, the effective date of the share consolidation is deemed to be January 18, 2008, being the date on which the accompanying special distribution was paid. On July 30, 2009 Reed Elsevier PLC announced a share placing for 109,198,190 new ordinary shares, representing approximately 9.9% of the company's share capital prior to the placing. The shares were fully subscribed at a price of 405p per share, raising £435 million, net of issue costs. This share placing was announced in conjunction with a similar share placing by Reed Elsevier NV.

## 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.

	For the year ended December 31,					
	2009 <sup>(3)</sup>	2009	2008	2007	2006	2005
	(in millions, except per share amounts)					
<i>Amounts in accordance with IFRS:<sup>(1)</sup></i>						
Profit before tax <sup>(2)</sup> . . . . .	\$ 312	€ 217	€ 313	€ 873	€ 459	€ 338
Taxation . . . . .	3	2	(19)	(18)	(1)	—
Profit attributable to ordinary shareholders . . . . .	315	219	294	855	458	338
Earnings per Reed Elsevier NV ordinary share from total operations of the combined businesses . . . . .	\$ 0.46	€ 0.32	€ 0.44	€ 1.10	€ 0.59	€ 0.43
Earnings per Reed Elsevier NV ordinary share from continuing operations of the combined businesses . . . . .	\$ 0.46	€ 0.32	€ 0.43	€ 0.84	€ 0.56	€ 0.37
Dividends per Reed Elsevier NV ordinary share <sup>(4)</sup> . . . . .	\$0.572	€0.397	€2.192	€0.418	€0.369	€0.332
Total assets . . . . .	\$1,492	€1,036	€ 567	€2,089	€1,537	€1,510
Total equity/Net assets . . . . .	1,397	970	491	2,016	1,465	1,438
Weighted average number of shares <sup>(5)</sup> . . . . .	693.9	693.9	669.0	774.9	772.1	783.1

(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 as adopted by the EU. The figures for 2006 and 2005 have been extracted or derived from the consolidated financial statements for the years ended December 31, 2006 and 2005, not included herein.

(2) Profit before tax includes Reed Elsevier NV's share of post-tax earnings of joint ventures, being both the continuing and discontinued operations of the Reed Elsevier combined businesses. Profit before tax in 2008 includes Reed Elsevier NV's €5 million share of joint ventures' post-tax gain on disposal of the educational assessment business (2007: €147 million post-tax gains on disposal of the US K-12 Schools and International businesses).

(3) Noon buying rates as at December 31, 2009 have been used to provide a convenience translation into US dollars, see "— Exchange Rates" on page 6. At December 31, 2009 the Noon Buying Rate was \$1.44 per €1.00. This compares to the average exchange rate for the year ended December 31, 2009 of \$1.40 to €1.00 applied in the translation of the combined income statement for the year.

(4) Dividends declared in the year, in amounts per ordinary share, comprise a 2008 final dividend of €0.290 and 2008 interim dividend of €0.107 giving a total of €0.397. The directors of Reed Elsevier NV have proposed a 2009 final dividend of €0.293 (2008: €0.290; 2007: €0.311; 2006: €0.304; 2005: €0.267), giving a total ordinary dividend in respect of the financial year of €0.400 (2008: €0.404; 2007: €0.425; 2006: €0.406; 2005: €0.359). Dividends in 2008 included a special distribution of €1.767 per ordinary share paid from the net proceeds of the sale of the Education division.

Dividends per Reed Elsevier NV ordinary share for the year ended December 31, 2008 translated into cents at the noon buying rate on December 31, 2008 were \$3.091, including \$2.491 in respect of the special distribution paid from the net proceeds of the sale of the Education division cents. See "— Exchange Rates" on page 6.

(5) Weighted average number of shares excludes shares held in treasury and shares held by the Reed Elsevier Group plc Employee Benefit Trust and takes into account the R shares in the company held by a subsidiary of Reed Elsevier PLC, which represents a 5.8% interest in Reed Elsevier NV. On January 7, 2008 the existing ordinary shares were consolidated into new ordinary shares on the basis of 58 new ordinary shares for every 67 existing ordinary shares. For the purposes of calculating earnings per share, the effective date of the share consolidation is deemed to be January 18, 2008, being the date on which the accompanying special distribution was paid. On July 30, 2009 Reed Elsevier NV announced a share placing for 63,030,989 ordinary shares, representing approximately 9.9% of the company's share capital prior to the placing. The shares were fully subscribed at a price of €7.08 per share, raising €441 million, net of issue costs. Correspondingly Reed Elsevier NV also issued 252,459 new R shares and transferred 135,179 existing R shares held in treasury to a subsidiary of Reed Elsevier PLC at a price of €73.00 per share for total proceeds of €29 million. The share placing was announced in conjunction with a similar share placing by Reed Elsevier PLC.

## 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 17, 2010 was £1.00 = \$1.57 and €1.00 = \$1.37.

### US dollars per £1.00 — Noon Buying Rates

<u>Year ended December 31,</u>	<b>Period</b>			
	<b>End</b>	<b>Average<sup>(1)</sup></b>	<b>High</b>	<b>Low</b>
2009.....	1.62	1.57	1.70	1.37
2008.....	1.45	1.85	2.03	1.44
2007.....	2.00	2.00	2.11	1.92
2006.....	1.96	1.85	1.98	1.73
2005.....	1.73	1.82	1.93	1.71

<u>Month</u>	<b>High</b>	<b>Low</b>
February 2010 (through February 17, 2010) .....	1.60	1.56
January 2010 .....	1.64	1.59
December 2009 .....	1.66	1.59
November 2009 .....	1.68	1.64
October 2009 .....	1.66	1.59
September 2009 .....	1.67	1.59
August 2009 .....	1.70	1.62

### US dollars per €1.00 — Noon Buying Rates

<u>Year ended December 31,</u>	<b>Period</b>			
	<b>End</b>	<b>Average<sup>(1)</sup></b>	<b>High</b>	<b>Low</b>
2009.....	1.44	1.40	1.51	1.25
2008.....	1.41	1.47	1.60	1.24
2007.....	1.47	1.37	1.49	1.29
2006.....	1.32	1.26	1.33	1.18
2005.....	1.18	1.24	1.37	1.17

<u>Month</u>	<b>High</b>	<b>Low</b>
February 2010 (through February 17, 2010) .....	1.40	1.36
January 2010 .....	1.45	1.39
December 2009 .....	1.51	1.42
November 2009 .....	1.51	1.47
October 2009 .....	1.50	1.45
September 2009 .....	1.48	1.42
August 2009 .....	1.44	1.41

(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 material 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.*

### ***Current and future economic, political and market forces, and dislocations beyond our control may adversely affect demand for our products and services.***

The demand for our products and services may be impacted by factors that are beyond our control, including macro-economic, political and market conditions, the availability of short-term and long-term funding and capital and the level of volatility of interest rates, currency exchange rates and inflation. The United States and other major economies are currently undergoing a period of severe economic turbulence, and the future global economic environment may be less favourable than in recent years. Any one or more of these factors may contribute to reduced activity by our customers, may result in a reduction of demand for our products and services, and may adversely affect suppliers and third parties to whom we have outsourced business activities. Further disruption to global credit markets, which has significantly contributed to the recent economic turbulence described above, may have further disruptive consequences for global economic growth and customer demand.

### ***We operate in a highly competitive environment that is subject to rapid change and we 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, regulatory changes, the entrance of competitors into certain product areas, 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, changing legislation or other factors will, in the future, make some of our products wholly or partially obsolete or less profitable.

### ***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 value placed on them. 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 and financial position 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 200 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. Relevant authorities may amend tax laws that apply to Reed Elsevier businesses (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, credit scoring 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. For example, the background screening report businesses offered by LexisNexis Risk Solutions are governed by the US Fair Credit Reporting Act and analogous state laws requiring that consumers be provided the contents of background reports and allowed to have any inaccuracies in the reports corrected. It further provides for statutory penalties and attorney fees for non-compliance. We are unable to predict in what form laws and regulations will be adopted or modified or how they will be construed by the courts, or the extent to which any such laws or interpretation changes might adversely affect our business.

***Changes in provision of third party information to us could adversely affect our businesses.***

A number of our businesses rely extensively upon content and data from external sources to maintain our databases. Data is obtained from public records, governmental authorities, customers and other information companies, including competitors. In the case of public records, including social security number data which are obtained from public authorities, our access is governed by law. We also obtain the credit header data in our databases from consumer credit reporting agencies. The disruption or loss of data sources in the future, because of changes in the law or because data suppliers decide not to supply them, could adversely affect our business if we were unable to arrange for substitute sources in a timely manner or at all.

***Our business, operations and reputation could be adversely affected by a failure to comply with FTC Settlement Orders.***

Through our LexisNexis Risk Solutions business, we are party to a settlement with the US Federal Trade Commission (“FTC”) resolving an FTC investigation into its compliance with federal laws governing consumer information security and related issues, including certain fraudulent data access incidents. In matters related to such FTC investigation, we also entered into an Assurance of Voluntary Compliance and Discontinuance (“AVC”) with the Attorneys General of 43 states and the District of Columbia. On October 14, 2009, after an investigation by the FTC into an unauthorised data access incident that occurred in August 2008, a Supplemental Order was entered into. This Supplemental Order contains certain additional administrative and reporting obligations. The FTC Settlement Orders and AVC require LexisNexis Risk Solutions to institutionalise a number of information security, verification, credentialing, audit and compliance, and reporting and record retention practices and to obtain every two years for 20 years an assessment from a qualified, independent third-party professional to ensure that these information security programmes meet the standards of the FTC Settlement Orders. A failure to comply with the FTC Settlement Orders and AVC could lead to civil penalties and adversely affect our business, operations and reputation.

***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 Solutions 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, academic institutions may adversely affect demand for the products and services of our science and medical businesses.***

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 in budgets of academic institutions or changes in the spending patterns of academic institutions could negatively impact 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 several jurisdictions, including the United States, Australia and the European Union, copyright laws are increasingly coming under legal review. 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.

***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 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 businesses may be adversely affected by the failure of third parties to whom we have outsourced business activities.***

New organisational and operational structures have been developed and new appointments made to leverage more effectively our skills, technology and resources. This includes outsourcing and offshoring activities such as IT, production and development engineering and will in the future extend into further operational and administrative activities. The failure of third parties to whom we have outsourced business functions could adversely affect our reputation and financial condition.

***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 debate in government, 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 or mandated, it could adversely affect our revenue from our 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 10% of our revenue in 2009 was derived from advertising and 10% from exhibitions. In Reed Business Information, 47% of revenue was derived from advertising in 2009. Total advertising revenues for our businesses in 2009 were £585 million compared with £737 million in the prior year.

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 turbulence, as has been the case in 2009. In addition, there has been a structural shift of advertising and lead generation to Google and other search engines.

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.

***We cannot be certain that our substantial investment in ChoicePoint, Inc. will provide satisfactory, long term returns.***

We acquired ChoicePoint, Inc. (ChoicePoint) on September 19, 2008 and expect the acquisition will deliver satisfactory strategic and financial benefits. We cannot be certain that we will realise these anticipated benefits in full or at all, and this will depend, amongst other things, on whether its markets develop as anticipated and on whether the operations and personnel of our existing operations and those of the acquired business can be integrated in an efficient and effective manner. This process may take longer than we anticipate and may cause disruption of our business. The performance of the combined businesses may not meet our expectations if integration is not successful or if the process is prolonged.

***We cannot be certain that our restructuring programmes will provide satisfactory, long term returns.***

We embarked on substantial restructuring programmes to further consolidate and streamline operational activities and back office support, and which are expected to result in significant cost savings in future years. The programmes may take



longer than planned, cost more than planned, and may cause disruption to our business. We cannot be certain that we will realise the anticipated savings in full.

***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.

***Our impairment analysis of goodwill and indefinite lived intangible assets incorporates various assumptions which are highly judgemental. If these assumptions are not realised, we may be required to recognise a charge in the future for impairment.***

As at December 31, 2009 goodwill on the combined statement of financial position amounted to £4,339 million and intangible assets with an indefinite life amounted to £356 million. We conduct an impairment test at least annually, which involves a comparison of the carrying value of goodwill and indefinite lived intangible assets by cash generating unit with estimated values in use based on latest management cash flow projections. The assumptions used in the estimation of value in use are, by their very nature, highly judgemental, and include profit growth of the business over a five year forecast period, the long term growth rate of the business thereafter, and related discount rates. There is no guarantee that our businesses will be able to achieve the forecasted results which have been included in the impairment tests and impairment charges may be required in future periods if we are unable to meet these assumptions.

***Our borrowing costs and access to capital may be adversely affected if the credit rating assigned to our long term debt is downgraded.***

As at March 18, 2010 the credit ratings assigned to our long term debt were Baa1 from Moody's Investors Service, Inc., BBB+ from Standard & Poor's Ratings Services ("S&P") and A- from Fitch Ratings Ltd. Moody's Investors Service, Inc. and Fitch Ratings Ltd had each assigned a negative outlook to its rating. Factors cited as a basis for the assignment of a negative outlook include the challenging macroeconomic environment and the level of our indebtedness as a consequence of our acquisition of ChoicePoint. If the ratings of our long term debt are downgraded in the future, our borrowing costs and access to capital may be adversely affected. A rating is based upon information furnished by us or obtained by the relevant rating agency from its own sources and is subject to revision, suspension or withdrawal by the rating agency at any time. Rating agencies may review the assigned ratings due to developments that are beyond our control.

## 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 Reed Elsevier Overseas BV, a Dutch registered subsidiary 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.

#### *Share placing*

A share placing was announced by Reed Elsevier PLC and Reed Elsevier NV on July 30, 2009 for 109,198,190 and 63,030,989 new ordinary shares respectively, representing approximately 9.9% of each company's issued share capital prior to the placing. The shares were fully subscribed at prices of 405p and €7.08 per share respectively, raising £435 million and €441 million respectively, net of issue costs. Correspondingly Reed Elsevier NV also issued 252,459 new R shares and transferred 135,179 existing R shares held in treasury to a subsidiary of Reed Elsevier PLC at a price of €73.00 per share for total proceeds of €29 million.

#### *Material acquisitions and disposals*

Total acquisition expenditure for continuing operations in the three years ended December 31, 2009 was £2,461 million, after taking into account borrowings and cash acquired. During 2009 a number of small acquisitions were made for a total consideration of £11 million. During 2008 a number of acquisitions were made for a total consideration of £2,131 million, the most significant of which was ChoicePoint, Inc. a leading provider of risk information and analytics, for £1,931 million in September. Goodwill and intangible assets acquired as part of the ChoicePoint acquisition were £1,162 million and £1,471 million respectively. During 2007 a number of acquisitions were made for a total consideration of £319 million, none of which were individually material and the most significant of which was the purchase of the Beilstein chemical compound database.

In February 2007 the sale of the Education division was announced, completing in separate transactions in May and December 2007 and January 2008 for total consideration of \$4.95 billion. The post-tax gain on disposals for 2008 was £18 million (2007: £231 million).



### *Restructuring*

In February 2008 we announced a major restructuring plan to further consolidate and streamline operational activities and back office support. In 2009, having identified further restructuring and consolidation opportunities, we announced an expansion of this programme and a major restructuring in RBI. We expect these restructuring costs to result in significant cost savings in future years. Restructuring costs incurred in 2009 were £182 million (2008: £152 million).

### *RBI US controlled circulation titles*

In RBI US, the controlled circulation magazines and certain other print titles, accounting for approximately 47% of RBI US revenues in 2009, are being sold, restructured in anticipation of sale or closed.

### *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 £242 million in 2009 (2008: £172 million; 2007: £145 million) for continuing operations of the combined businesses. Further information on capital expenditure is given in notes 17 and 19 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](http://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 providers of professional information solutions in the science, medical, legal, risk and business sectors. Our principal operations are in North America and Europe. For the year ended December 31, 2009 we had total revenue from continuing operations of approximately £6.1 billion and an average of approximately 33,300 employees. As at December 31, 2009 we had approximately 32,300 employees. In 2009, North America represented our largest single geographic market, based on revenue by destination, contributing 55% of our total revenue from continuing operations.

Our businesses provide products and services that are organised in four business divisions: Elsevier serves the science and medical sector; LexisNexis, the legal, insurance, and other professional sectors; Reed Exhibitions, the exhibitions and conferences sector; and Reed Business Information, the business information and trade magazines sector.

Revenue is derived principally from subscriptions, circulation and transactional sales, advertising sales and exhibition fees. In 2009, 45% of Reed Elsevier's revenue from continuing operations was derived from subscriptions; 28% from circulation and transactional sales; 10% from advertising sales; 10% from exhibition fees; and 7% from other sources. An increasing proportion of revenue is derived from electronic information products, principally internet based, and in 2009, 59% of our revenue was derived from such sources, including 81% of LexisNexis revenue, 58% of Elsevier revenue, 2% of Reed Exhibitions revenue and 39% of Reed Business Information 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 and transactional 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 and transactional 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 and transactional — on despatch or occurrence of the transaction; advertising — on publication or period of online display; and exhibitions — on occurrence of the exhibition. Where sales consist of two or more independent components whose value can be reliably measured, 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 medical publishing and sales arise in the second half of the year. 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 transaction, and marketing expenditures in scientific and medical, legal, risk and business sectors. The bases of competition include, for readers and users of the information, the quality and variety of the editorial content and data, 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.

Revenue from continuing operations <sup>(1)</sup>						
Year ended December 31,						
	2009		2008		2007	
	(in millions, except percentages)					
Elsevier . . . . .	£1,985	33%	£1,700	32%	£1,507	33%
LexisNexis . . . . .	2,557	42	1,940	36	1,594	35
Reed Exhibitions . . . . .	638	11	707	13	577	12
Reed Business Information . . . . .	891	14	987	19	906	20
Total . . . . .	<u>£6,071</u>	<u>100%</u>	<u>£5,334</u>	<u>100%</u>	<u>£4,584</u>	<u>100%</u>

(1) Following announcement in February 2007 of the planned sale of the Education division, the division is presented in the financial statements as a discontinued operation and is excluded from the above analysis.

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
<i>Revenue</i>			
Elsevier			
Science & Technology . . . . .	£ 985	£ 848	£ 774
Health Sciences . . . . .	1,000	852	733
	<u>£1,985</u>	<u>£1,700</u>	<u>£1,507</u>

Elsevier is a provider of scientific and medical information and serves scientists, health professionals and students worldwide. Elsevier provides information and innovative workflow tools that enable customers to make critical decisions, enhance productivity and improve outcomes.

Elsevier is a global business headquartered in Amsterdam with principal operations in Amsterdam, Beijing, Boston, Chennai, Delhi, London, Madrid, Munich, Oxford, New York, Paris, Philadelphia, Rio de Janeiro, St. Louis, San Diego, Singapore and Tokyo. Elsevier has 6,800 employees.

Elsevier has two market facing businesses: Science & Technology serving the scientific community and Health Sciences serving the health community, both of which are supported by a global shared services organisation which provides integrated editorial systems and production services, product platforms and distribution, and other back office functions.

#### *Science & Technology*

Science & Technology is a global provider of scientific information. It delivers a wide array of information and workflow tools that generate valuable insights for researchers in the advancement of scientific discovery and improve the productivity of research. Its customers are scientists and professionals, academic libraries, corporations and governments, who rely on Elsevier: to provide high quality content; to promote, review, publish, disseminate, and preserve research findings; and to create innovative workflow tools to improve the efficiency of their endeavour.

The Science & Technology division contributed 50% of the total Elsevier revenue in 2009. Of this revenue, 79% came from journals (both print and electronic), 10% from books and the rest mainly from databases and software. Approximately 33% of Science & Technology revenue in 2009 was derived from North America, 35% from Europe and the remaining 32% from the rest of the world.

Science & Technology publishes over 200,000 new research articles each year through some 1,100 journals, many of which are the foremost publications in their field and a primary point of reference for new research. The vast majority of customers receive these journals through the flagship electronic research solution *ScienceDirect*. It is the world's largest database of scientific and medical research, with 10 million scientific journal articles, accessed by over 11 million researchers each year.

Science & Technology also publishes over 900 new book titles annually, as well as secondary material in the form of supporting bibliographic data, indexes and abstracts, and tertiary information through review and reference works. 10,000 e-book titles are in *ScienceDirect*, with over 400 e-books added each year.

Science & Technology's other flagship electronic solutions include *Scopus* and the recently launched *Reaxys* and *SciVal Spotlight* services. *Scopus* is the largest abstract and citation database of research literature in the world, with the abstracts and bibliographic information of more than 40 million scientific research articles from 17,000 peer reviewed journals and over 5,000 publishers. *Scopus* also has data on more than 23 million patents. *Reaxys* is a new solution for synthetic chemists, based on Elsevier's prestigious *CrossFire Database* suite, which integrates chemical reaction and compound data searching with synthesis planning. The *SciVal* suite of research tools enables individual researchers and institutional leadership to determine and evaluate their research strategies more effectively.

#### *Health Sciences*

Health Sciences is a medical publisher, serving health professionals, including medical researchers, doctors, nurses, allied health professionals and students, as well as hospitals, research institutions, managed healthcare organisations, pharmaceutical companies and insurers. Through its medical journals, books, major reference works, databases and online information solutions, Health Sciences provides critical information and analysis on which its customers rely to base their decisions, to improve medical outcomes and enhance the efficiency of healthcare.

Health Sciences contributed approximately 50% of the total Elsevier revenue in 2009. Of this revenue, 39% came from journals and related activities, 42% from books and related activities (including databases and analytical tools), both delivered in print and electronic form, and the remainder mainly from pharmaceutical communication businesses. Approximately 53% of

Health Sciences revenue by destination in 2009 was derived from North America, 29% from Europe and the remaining 18% from the rest of the world.

Health Sciences publishes over 700 journals, including on behalf of learned societies, and, in 2009, over 1,700 new book titles and clinical reference works both in print and through *ScienceDirect* and other electronic platforms such as *MDConsult*, which is an online clinical information service with more than 2,200 institutional customers and over 12 million page views per month. Flagship titles include medical journals such as *The Lancet*, and major medical reference works such as *Gray's Anatomy*, *Nelson's Pediatrics* and *Netter's Atlas of Human Anatomy*. In addition to its local language publishing in countries across the world, Health Sciences leverages its strong brands and international content and solutions into new markets through local language versioning. The business also provides marketing services to the pharmaceutical industry through advertising and sponsored communications to the specialist communities it serves.

Health Sciences also provides medical education and training resources, particularly in the nursing and allied health professions. From core textbooks to virtual clinical patient care, Health Sciences supports students, teaching faculties and healthcare organisations in education and practice. A strong focus is on the further development of innovative electronic resources: the *Evolve* portal provides a rich resource to support faculty and students and now has 1.8 million registered users; *Health Education Systems Inc* provides online review and testing tools for nursing and allied health staff; the recently launched *Pageburst* digital content delivery platform delivers book content online with powerful search, multimedia, and collaboration functions.

A fast growing area of the business is clinical decision support, providing online information and analytics to deliver patient-specific solutions at the point of care to improve patient outcomes. *Gold Standard* provides critical information on drug interactions to assist effective treatment; *CPM Resource Center* provides a data driven framework to support nurses in undertaking procedures; *Nursing Consult* provides nursing care guidelines in trauma and disease management; *MEDai* uses patient data and analytics to help identify areas for improvement in clinical practice within hospitals and lower costs for the payers of healthcare through preventative interventions.

#### *Shared services*

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

Much of the pre-press production for journals and books is outsourced. Electronic production systems manage the journal and book production processes from submission to delivery of the content in whichever format the customer requires, via *ScienceDirect*, *MDConsult*, learned society websites, other online portals, on CD or in print.

#### *Market Opportunities*

Growth in the scientific information market is driven by increases in R&D spend reflected in the growing number of researchers worldwide and research output, and the demand for improved research efficiency.

In healthcare, market growth is supported by favourable demographic trends, with ageing populations requiring more healthcare and rising prosperity in developing economies increasing expectations of better healthcare provision. The healthcare professions are growing and information intensity is increasing as payers and providers of healthcare look to improve medical outcomes and cost efficiency.

#### *Strategic Priorities*

Elsevier's strategic goal is to make valued contributions to the communities it serves by providing actionable data through information and tools that advance scientific discovery and improve medical outcomes. To achieve this, Elsevier is focused on: building world class content; developing workflow tools that link, analyse and illuminate content and data to help customers to make and execute critical decisions and improve their productivity; enhancing customer service and engagement to better fulfil the needs of the scientific and health communities; expanding penetration of high growth markets; and improving organisational efficiency.

In Science & Technology, the priorities are to continue to enhance the quality of journal and book content and expand data sets whilst adding greater functionality and utility to *ScienceDirect* and other database services. New workflow tools are being introduced to assist researcher productivity together with new performance and planning tools to improve research efficiency and economic outcomes.

In Health Sciences, priorities are similar, particularly with regard to medical research. Additionally, Elsevier is building out clinical decision support services to meet the demand for tools to help deliver better medical outcomes and lower costs for payers, physicians and hospitals. Elsevier is also focused on increasing its penetration in emerging markets through expansion of local publishing and versioning of content and digital services.

### Major brands

Elsevier's major brands include: *ScienceDirect*, the world's largest database of scientific and medical research articles; *Scopus*, the world's largest scientific abstract and citation database; *Cell*, a premier life sciences journal in cell biology; *Reaxys*, a web-based chemical reaction workflow solution for industrial chemists; *SciVal*, a suite of funding intelligence and research performance tools for academic institutions; *The Lancet*, one of the world's leading medical journals since 1823; *MDConsult*, an online chemical information service, including reference works, journals and drug information; *Mosby's Nursing Consult*, online evidence-based content to inform nursing clinical decisions at the point of care; *Evolve*, integrated, online resources that complement Elsevier's nursing textbook content; and *MEDai*, a clinical decision support tool to identify areas for improvement in medical practice.

### Distribution Channels and Competition

Elsevier's science journals are generally sold to libraries on a paid subscription basis. Medical and healthcare journals are generally sold to libraries on a paid subscription basis or sold to individual practitioners and medical society members. Electronic products, such as *ScienceDirect*, are generally sold directly to institutional libraries, hospitals, corporations and end users through a dedicated sales force that has offices around the world. Subscription agents facilitate the administrative process for print journals. Books are sold through traditional and online book stores, wholesalers and, particularly in medical and healthcare markets, directly to end users.

Competition within the science and medical publishing fields is generally on a title by title and product by product basis. Competing journals, books and databases are typically published by learned societies and other professional publishers.

## LEXISNEXIS

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
Revenue			
LexisNexis			
US Legal . . . . .	£1,126	£1,017	£ 904
International . . . . .	566	545	481
Risk Solutions . . . . .	865	378	209
	<u>£2,557</u>	<u>£1,940</u>	<u>£1,594</u>

LexisNexis is a provider of authoritative content and information solutions for the legal and risk markets. Serving customers in more than 100 countries, LexisNexis provides resources and services that inform decisions and increase productivity of professionals in the legal, risk management, corporate, government, law enforcement, accounting and academic markets.

LexisNexis is a global business headquartered in New York with its principal operations in Georgia, Ohio, New Jersey and New York in the US, and in the UK, France, Canada, South Africa and Asia Pacific. LexisNexis has 15,200 employees worldwide.

LexisNexis has three market facing businesses: US Legal, serving the US legal, government, corporate and academic markets; LexisNexis Europe, Middle East and Africa and LexisNexis Asia (together reported as LexisNexis International), serving the legal and business communities elsewhere in the world; and Risk Solutions, serving the US risk management market, helping businesses and professionals to verify identity, assess risk and prevent fraud, and supporting law enforcement and homeland security. These are supported by shared services organisations providing platform development and distribution services and back office functions.

### LexisNexis US Legal

The US Legal business of LexisNexis is a provider of legal and business information and analysis to law firms, corporations and government throughout the US. Principally delivered through electronic services and innovative workflow tools developed through close collaboration with customers, solutions from LexisNexis help US legal and business professionals make better informed decisions in the practice of law and in managing their businesses.

In 2009, approximately 72% of US Legal's revenue came from subscription sales, including online services, 13% from transactional sales, including online services, 6% from advertising, including directory listings and the remaining 9% from other sources.

The LexisNexis flagship product for legal research is *Lexis.com*, which provides federal and state statutes and case law, together with analysis and expert commentaries from sources such as *Matthew Bender* and *Michie* and the leading citation

service *Shepard's*, which advises on the continuing relevance of case law precedents. Through its suite of litigation services, LexisNexis additionally provides lawyers with tools for electronic discovery, evidence management, case analysis, court docket tracking, e-filing, expert witness identification and legal document preparation. LexisNexis US Legal also partners with law schools to provide free services to law school students as part of their training. In the business of law, LexisNexis provides law firms with practice management solutions, including time and billing systems, case management, cost recovery and document management services. LexisNexis assists law firms in their client development through Martindale-Hubbell at *Martindale.com*, showcasing the qualifications and credentials of more than one million lawyers and law firms in the US and internationally, and the *Martindale-Hubbell Connected* professional network, the largest online community specifically for legal professionals. Additionally LexisNexis provides law firms with website development, search engine optimisation and other web marketing services, including lead generation through *Lawyers.com*, business intelligence and customer relationship management tools.

LexisNexis also provides its legal and information services to US government, corporate and academic customers, including news and business information and public records. In addition to research and litigation services, capabilities for these customers include specialist products for corporate counsel focused on regulatory compliance, intellectual property management, and management of external counsel.

*Lexis.com* provides customers with access to 20 billion searchable documents from more than 45,000 legal, news and business sources.

#### *LexisNexis International*

Outside the United States, LexisNexis International serves legal, corporate, government and academic markets in Europe, Canada, Africa and Asia Pacific with local and international legal, tax, regulatory and business information.

In 2009, approximately 70% of LexisNexis International's revenue was derived from subscriptions, 19% from circulation sales, 1% from advertising and 10% from other sources. In the same year, approximately 34% of revenue came from the UK, 34% from Continental Europe and 32% from the rest of the world. The most significant businesses are in the UK and France.

LexisNexis UK's extensive portfolio of publications includes *Halsbury's Laws of England*, *Simon's Taxes* and *Butterworths Company Law Service* delivered through *lexisnexis.co.uk* and in print. Its other flagship electronic products include *Lexis® Legal Intelligence*, an authoritative resource on legal practice for lawyers, and media monitoring and reputation management tools for the corporate market such as the *NexisDirect* research tool and *LexisNexis Bridger Insight* for effective risk monitoring and compliance. LexisNexis in France is a provider of information to lawyers, notaries and courts with *JurisClasseur* and *La Semaine Juridique* being the principal publications delivered through *lexisnexis.fr* and in print. Penetration of online information services is growing, now accounting for over 50% of LexisNexis International revenues, and workflow tools are being developed and introduced behind this.

#### *LexisNexis Risk Solutions*

LexisNexis Risk Solutions assists customers in managing risk through identity verification, risk evaluation, fraud detection and prevention, debt collection and employment-related screening.

In 2009, approximately 83% of Risk Solution's revenue came from circulation and transactional sales, including online services, 13% from subscription sales, including online services and the remaining 4% from other sources.

The Insurance Solutions group provides data, analytics, software and business information services to property and casualty (P&C) personal and commercial insurance carriers in the US to improve critical aspects of the insurance carrier's business, from customer acquisition and underwriting to policy servicing, claims handling and performance management. Information solutions, including the US's most comprehensive personal loss history database *C.L.U.E.*, help insurers assess risks in the underwriting process to ensure that their customers receive appropriate policy pricing. In October 2009, LexisNexis launched an insurance exchange directed at improving the efficiency and transparency of the independent agent-based distribution system with enhanced access to key market information and analytics.

The Screening Solutions group focuses on employment-related, resident and volunteer screening; and Receivables Management Solutions help more than 100,000 debt recovery professionals in the management and collection of consumer and business debt.

The Financial Services group helps financial institutions with risk management, identity verification, business credentialing, and regulatory compliance. LexisNexis Advanced Government Solutions (AGS) provides identity, authentication and location solutions to help solve cases and locate people, assets and businesses. In addition, AGS solutions help mitigate risks through identify fraud, waste and abuse in government programmes. *LexisNexis Accurint* is the flagship public records product, powered by the High Performance Cluster Computing (HPCC) technology.

#### *Market Opportunities*

Longer term growth in legal and regulatory markets worldwide is driven by an increasing level of legislation, regulation, regulatory complexity and litigation, and an increasing number of lawyers. Additional market opportunities are presented by the increasing demand for online information solutions and tools that improve the productivity of research and business



performance. In risk management markets, growth is driven by systemic growth in insurance transactions, healthcare and insurance fraud, regulatory compliance requirements surrounding customer enrolment, and security considerations.

### *Strategic Priorities*

LexisNexis' strategic goal is to be the leading provider of productivity enhancing information and information-based workflow solutions in its markets. To achieve this, LexisNexis is focused on: building world class content; developing next generation product platforms, tools and infrastructure to deliver best-in-class research outcomes for legal and business professionals with greater speed and efficiency; building client development and practice management tools enabling customers to be more successful in their markets; expanding the range of risk management products, leveraging the powerful HPCC technology in delivering better outcomes; international expansion of online products and solutions and increasing LexisNexis' presence in emerging markets; and improving organisational efficiency.

In US Legal focus is on the continuing development of the next generation of legal research and practice solutions and a major upgrade in back office infrastructure and customer service and support platforms to provide an integrated and superior customer experience across US legal research, litigation services, practice management and client development products. Progressive product introductions over the next few years will combine advanced technology with enriched content and sophisticated analytics and applications to enable LexisNexis' customers to make better legal decisions and drive better outcomes for their organisations and clients. A further priority is to complete the transformation of the client development business from a legal directory business into a web marketing services company.

In LexisNexis International the focus is on increasing the penetration of online services and developing further high quality actionable content and workflow tools.

In Risk Solutions the priority is the further integration of the ChoicePoint businesses acquired in September 2008, continued development of the insurance product pipeline and in technology and content, and growth in market expansion including internationally.

### *Major brands*

LexisNexis' major brands include: *lexis.com*, legal, news and public records content for legal professionals; *Matthew Bender*, critical legal analysis, checklists, forms, and practice guides authored by industry experts covering 50 major practice areas; *lawyers.com*, website for consumers seeking legal information and counsel; *Martindale-Hubbell*, resource of information about and community for the legal profession; *CaseMap*, software allowing litigators to assess and analyse case information; *Juris Classeur*, an authoritative legal resource in France; *Lexis® Legal Intelligence*, authoritative products and services enabling UK lawyers to find legal guidance, information and training; *C.L.U.E.*, a comprehensive US personal insurance claims database; and *Accurint*, suite of online tools, built on HPCC technology, accessing billions of public records to identify assets and locate individuals.

### *Distribution Channels and Competition*

LexisNexis US Legal and International products are generally sold directly to law firms and to corporate, government and academic customers on a paid subscription basis. Risk Solutions products are predominantly sold on a transactional basis directly to insurance carriers, and other corporations and to government.

Principal competitors for LexisNexis in US legal markets are West (Thomson Reuters) and Bloomberg and Factiva (News Corporation) in news and business information. Major international competitors include Thomson Reuters, Wolters Kluwer and Factiva. Risk Solutions competitors include Verisk in the insurance market and Thomson Reuters and First Data Corporation in public records.

## **REED EXHIBITIONS**

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
Revenue . . . . .	£638	£707	£577

Reed Exhibitions is the world's leading events business, with over 450 events in 36 countries in the Americas, Europe, the Middle East and Asia Pacific. The portfolio of exhibitions and conferences serves 44 industry sectors. In 2009 Reed Exhibitions brought together over six million event participants from around the world, generating billions of dollars in business for its customers.

Reed Exhibitions is a global business headquartered in London, with principal offices in London, Paris, Norwalk Connecticut, Abu Dhabi, Beijing, Tokyo, Sydney and São Paulo. Reed Exhibitions has 2,500 employees worldwide.

Over 70% of Reed Exhibitions' revenue is derived from exhibitor participation fees, with the balance primarily comprising of conference fees, advertising in exhibition guides, sponsorship fees and admission charges. In 2009, approximately 21% of Reed Exhibitions' revenue came from North America, 47% from Continental Europe, 7% from the United Kingdom and the remaining 25% from the rest of the world.

Reed Exhibitions organises market-leading events that are relevant to industry needs, where participants from around the world come together to do business, network and learn. Its exhibitions and conferences encompass a wide range of sectors, including: broadcasting, TV, music & entertainment; building & construction; electronics & electrical engineering; energy, oil & gas; engineering, manufacturing & processing; gifts; interior design; IT & telecoms; jewellery; life sciences & pharmaceuticals; marketing; property & real estate; sports & recreation; travel.

Well represented in the developed world, increasingly Reed Exhibitions is investing in the developing economies of China, Brazil, the United Arab Emirates and Russia.

#### *Market Opportunities*

Growth in the exhibitions market is correlated to business to business marketing spend, historically driven by levels of corporate profitability, which itself has followed overall growth in GDP, and business investment. Emerging markets and growth industries provide additional opportunities. As some events are held other than annually, growth in any one year is affected by the cycle of non-annual exhibitions.

#### *Strategic Priorities*

Reed Exhibitions' strategic goal is to provide market leading events in growth sectors that enable businesses to target and reach new customers quickly and cost effectively and to provide a platform for industry participants to do business, network and learn.

In the shorter term the priority is maintaining high quality events whilst aggressively managing the cost base during the economic downturn. For the longer term, Reed Exhibitions' priorities are focused on: developing the portfolio through a combination of new launches, strategic partnerships and acquisitions in emerging markets and high growth sectors; and developing websites and online tools to enhance the exhibition experience and add to customer return on investment in event participation.

#### *Major brands*

Reed Exhibitions' major brands include: *Mipcom*, a leading entertainment market; *World Travel Market*, a global event for the travel market; *Brasil Offshore*, an international offshore oil and gas trade show; *Batimat*, a leading construction exhibition; *JCK Las Vegas*, a North American jewellery industry trade event; *World Future Energy Summit*, a platform for sustainable future energy solutions; *Nepcon China*, one of the largest and longest standing SMT trade events in China; *In-cosmetics*, an international exhibition for personal care ingredients; *PSI*, an international network of the promotional product industry; and *Pollutec*, an international exhibition of environmental equipment technology and services.

#### *Distribution Channels and Competition*

The substantial majority of Reed Exhibitions revenues are from sales of exhibition space. These, together with ancillary services, sponsorship fees and paid delegate participation are sold directly or through local agents where applicable.

Reed Exhibitions is the market leader in a fragmented industry, holding less than a 10% global market share. Other international exhibition organisers include UBM, DMG World Media (DMGT), Nielsen Business Media, Informa IIR and Messe Frankfurt. Competition also comes from industry trade associations and convention centre and exhibition hall owners.

### **REED BUSINESS INFORMATION**

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
<i>Revenue</i>			
RBI UK . . . . .	£263	£306	£294
RBI US . . . . .	246	288	278
RBI NL . . . . .	198	202	181
RBI International . . . . .	184	191	153
	<u>£891</u>	<u>£987</u>	<u>£906</u>



Reed Business Information (RBI) provides data services, information and marketing solutions to business professionals in the US, the UK, Continental Europe and Australia. It produces industry critical data services and lead generation tools and over 200 online community and job sites. It publishes over 200 premier business magazines with market leading positions in many sectors.

RBI is a global business headquartered in London, with principal operations in London and Sutton in the UK, Amsterdam and Doetinchem in the Netherlands, New York, Los Angeles and Norcross, Georgia in the US as well as Paris, Milan, Bilbao and Sydney. RBI has 6,900 employees worldwide. Approximately 32% of RBI revenue in 2009 came from North America, 19%, from the United Kingdom, 40% from Continental Europe and 9% from the rest of the world.

Online, RBI's market-leading products include *ICIS*, a global information and pricing service for the petrochemicals sector; *Bankers Almanac*, a leading provider of reference data on the banking industry; *Reed Construction Data*, a provider of online construction data to the North American construction industry; *totaljobs.com*, a major UK online recruitment site; and *Hotfrog*, a global online business directory. Premier publishing brands include *Variety* in the US, *New Scientist* in the UK and *Elsevier* in the Netherlands.

Business-to-business magazines, online lead generation services and community websites provide an effective marketing channel for advertisers to reach target audiences and industry professionals to access valued information. RBI's leading online data services enable users to enhance productivity through quicker and easier access to insightful and comprehensive industry information.

#### *Market Opportunities*

Business-to-business marketing spend has historically been driven by levels of corporate profitability, which itself has followed GDP growth, and business investment. Additionally, growing need for authoritative industry data and information is driving demand for online subscription data services and providing new opportunities.

#### *Strategic Priorities*

RBI's strategic goal is to be the first choice of business professionals for information and decision support in its individual markets, and for business marketing services. Its areas of strategic focus are: developing the data services businesses; restructuring the business magazines and advertising driven portfolio, to develop online services in key markets and support print franchises through brand extensions and redesign; and to realign the cost base to reduced revenue expectations and drive further organisational effectiveness. An immediate priority is to complete the divestiture of the US controlled circulation titles.

#### *Major brands*

Reed Business Information's major brands include: *ICIS*, a global provider of news and pricing data to the chemical and oil industries; *Bankers Almanac*, a provider of reference data on the banking industry; *XpertHR*, an HR legal compliance and good practice toolkit in the UK; *Reed Construction Data*, construction data, building product information, cost data, market analysis and advertising channels to construction industry professionals; *totaljobs.com*, a commercial recruitment website in the UK; *Variety*, the premier source of entertainment business news and analysis since 1905; *Elsevier*, a news and opinion magazine in the Netherlands; *New Scientist*, a leading scientific and technical current affairs weekly; and *Hotfrog*, a leading online user generated business directory with versions in 32 countries.

#### *Distribution Channels and Competition*

In 2009, 47% of RBI's revenue came from print and online advertising and lead generation, 17% from data services and 36% from other subscription and user services. Data services are typically sold directly on a subscription or transactional basis. Business magazines are distributed on a paid or controlled circulation basis. Advertising and lead generation revenues are sold directly or through agents.

RBI's titles compete with a number of publishers on a title by title basis, including: UBM, McGraw Hill and Penton in the US; Eden and UBM in the UK; and Wolters Kluwer in the Netherlands. RBI competes for online advertising with other business-to-business websites as well as Monster, Google and other search engines.

### **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, intellectual property and reinsurance 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 Reed Elsevier combined businesses. It is responsible for all aspects of treasury advice and support for Reed Elsevier Group plc's businesses operating in Continental Europe, Latin America, the Pacific Rim, India, 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, product development and other general requirements and manages cash pools, investments and debt programmes on their behalf.

EPSA actively manages intellectual property assets including trademarks such as *The Lancet* and databases such as *Reaxys*. In 2009 it continued to acquire further assets such as the rights to *PharmaPendium* and the *Patent Chemistry* database. EPSA professionals constitute a centre of excellence in the management and development of intellectual property assets.

ERSA is responsible for reinsurance activities for Reed Elsevier.

In 2009, EFSA issued €650 million of term debt and the proceeds were used to refinance ChoicePoint acquisition facility loans. In addition, EFSA advised Reed Elsevier (Investments) plc on its £300 million Sterling bond issue and renegotiated several term financing agreements. EFSA negotiated and advised Reed Elsevier Group plc companies on a number of banking and cash management arrangements in Continental Europe and Asia and continued to advise on treasury matters, including interest and foreign currency exposures.

The average balance of cash under management by EFSA in 2009, on behalf of Reed Elsevier Group plc and its parent companies, was approximately \$0.4 billion (2008: \$0.5 billion).

At December 31, 2009, 92% (2008: 91%) of ERF's gross assets were held in US dollars and 7% (2008: 8%) in euros, including \$10.0 billion (2008: \$10.6 billion) and €0.6 billion (2008: €0.6 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 \$2.2 billion and short term debt of \$0.7 billion backed by committed bank facilities. Sources of long term debt include Swiss domestic public bonds, bilateral term loans, private placements and syndicated bank facilities. 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 S-1.

## PROPERTY, PLANTS AND EQUIPMENT

We own or lease over 300 properties around the world, the majority of leased space 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>			
Alpharetta, Georgia . . . . .	LexisNexis	Office and data centre	406,000
Miamisburg, Ohio . . . . .	LexisNexis	Office	403,638
Linn, Missouri . . . . .	Elsevier	Warehouse	236,105
Albany, New York . . . . .	LexisNexis	Office	194,780
Oak Brook, Illinois . . . . .	Reed Business Information and LexisNexis	Office	181,659
Colorado Springs, Colorado . . . . .	LexisNexis	Office	181,197
Binghamton, New York . . . . .	LexisNexis	Office and warehouse	162,000
<i>Leased properties</i>			
New York, New York . . . . .	Reed Business Information and Elsevier	Office	451,800
Amsterdam, Netherlands . . . . .	Reed Business Information and Elsevier	Office	426,036
Miamisburg, Ohio . . . . .	LexisNexis and Elsevier	Office and data centre	213,802
Sutton, England . . . . .	Reed Business Information	Office	191,960

All of the above properties are substantially occupied by Reed Elsevier businesses with the exception of the New York, New York leased facility where Reed Elsevier occupies 167,500 square feet.

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, 2009 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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 and transactional sales, advertising sales and exhibition fees.

#### Revenue by source for continuing operations<sup>(1)</sup> Year ended December 31,

	2009		2008		2007	
	(in millions, except percentages)					
Subscriptions . . . . .	£2,711	45%	£2,381	45%	£2,079	46%
Circulation/transactions . .	1,708	28	1,142	21	916	20
Advertising . . . . .	585	10	737	14	699	15
Exhibitions . . . . .	626	10	702	13	569	12
Other . . . . .	441	7	372	7	321	7
Total . . . . .	£6,071	100%	£5,334	100%	£4,584	100%

#### Revenue by geographic market for continuing operations<sup>(1)</sup> Year ended December 31,

	2009		2008		2007	
	(in millions, except percentages)					
North America . . . . .	£3,310	55%	£2,624	49%	£2,233	49%
United Kingdom . . . . .	513	8	580	11	603	13
The Netherlands . . . . .	243	4	234	4	206	4
Rest of Europe . . . . .	1,132	19	1,136	22	897	20
Rest of world . . . . .	873	14	760	14	645	14
Total . . . . .	£6,071	100%	£5,334	100%	£4,584	100%

(1) Following announcement in February 2007 of the planned sale of the Education division, the division is presented as a discontinued operation and is excluded from the above analysis.

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 2009 for continuing operations represented 39% of Reed Elsevier’s total cost of sales and operating expenses before amortisation and impairment of acquired intangible assets and goodwill (2008: 40%; 2007: 41%).

The following tables show revenue, operating profit and adjusted operating profit for each of Reed Elsevier's continuing business segments in each of the three years ended December 31, 2009 together with the percentage change in 2009 and 2008 at both actual and constant exchange rates. Adjusted operating profit is a measure 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 IFRS 8: Operating Segments in note 3 to the combined financial statements. Adjusted operating profit represents operating profit before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and is grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs principally relate to the major restructuring programmes announced in February 2008 and 2009. Exceptional restructuring costs principally comprise severance, outsourcing migration and associated property costs. A reconciliation of operating profit to adjusted operating profit is included below.

Revenue from continuing operations <sup>(5)</sup>										
Year ended December 31,										
	2009		2008		% change		2007		% change	
					actual rates	constant rates <sup>(1)</sup>			actual rates	constant rates <sup>(2)</sup>
(in millions, except percentages)										
Elsevier . . . . .	£1,985	33%	£1,700	32%	+17%	+4%	£1,507	33%	+13%	+4%
LexisNexis . . . . .	2,557	42	1,940	36	+32	+14	1,594	35	+22	+13
Reed Exhibitions . . .	638	11	707	13	-10	-21	577	12	+23	+9
Reed Business Information . . . . .	891	14	987	19	-10	-18	906	20	+9	+1
Total . . . . .	£6,071	100%	£5,334	100%	+14%	0%	£4,584	100%	+16%	+7%

Operating Profit from continuing operations <sup>(5)</sup>										
Year ended December 31,										
	2009		2008		% change		2007		% change	
					actual rates	constant rates <sup>(1)</sup>			actual rates	constant rates <sup>(2)</sup>
(in millions, except percentages)										
Elsevier . . . . .	£563	69%	£443	49%	+27%	+14%	£410	46%	+8%	+2%
LexisNexis . . . . .	337	41	291	32	+16	+2	287	32	+1	-5
Reed Exhibitions . . .	79	10	123	13	-36	-46	106	12	+16	-1
Reed Business Information . . . . .	(163)	(20)	55	6	-397	-355	91	10	-40	-45
Subtotal . . . . .	£816	100%	£912	100%			£894	100%		
Corporate costs . . . .	(35)		(50)				(45)			
Unallocated net pension credit <sup>(4)</sup> . . .	6		39				39			
Total . . . . .	£787		£901		-13%	-22%	£888		+2%	-6%

Adjusted Operating Profit from continuing operations <sup>(3)(5)</sup>										
Year ended December 31,										
	2009		2008		% change		2007		% change	
					actual rates	constant rates <sup>(1)</sup>			actual rates	constant rates <sup>(2)</sup>
(in millions, except percentages)										
Elsevier . . . . .	£693	43%	£568	41%	+22%	+9%	£477	42%	+19%	+11%
LexisNexis . . . . .	665	42	513	37	+30	+13	406	35	+26	+18
Reed Exhibitions . . .	152	10	183	13	-17	-28	139	12	+32	+14
Reed Business Information . . . . .	89	5	126	9	-29	-35	121	11	+4	-4
Subtotal . . . . .	£1,599	100%	£1,390	100%			£1,143	100%		
Corporate costs . . . .	(35)		(50)				(45)			
Unallocated net pension credit <sup>(4)</sup> . . .	6		39				39			
Total . . . . .	£1,570		£1,379		+14%	+1%	£1,137		+21%	+12%

Adjusted operating profit for Reed Elsevier is a non-GAAP measure included on the basis that it is a key financial measure used by management to evaluate performance, and is derived from operating profit as follows:

	<u>2009</u>	<u>2008</u> (in millions)	<u>2007</u>
Operating profit — continuing operations . . . . .	£787	£901	£888
Adjustments:			
Amortisation of acquired intangible assets . . . . .	368	281	221
Impairment of acquired intangible assets and goodwill . . . . .	177	9	—
Exceptional restructuring costs . . . . .	182	152	—
Acquisition related costs . . . . .	48	27	20
Reclassification of tax in joint ventures . . . . .	8	9	8
Adjusted operating profit from continuing operations . . . . .	<u>£1,570</u>	<u>£1,379</u>	<u>£1,137</u>

- (1) Represents percentage change in 2009 over 2008 at constant rates of exchange, which have been calculated using the average and hedge exchange rates for the 2008 financial year. These rates were used in the preparation of the 2008 combined financial statements.
- (2) Represents percentage change in 2008 over 2007 at constant rates of exchange, which have been calculated using the average and hedge exchange rates for the 2007 financial year. These rates were used in the preparation of the 2007 combined financial statements.
- (3) Adjusted operating profit represents operating profit before the amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related 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 £6 million (2008: £39 million; 2007: £39 million) comprises the expected return on pension scheme assets of £189 million (2008: £219 million; 2007: £196 million) less interest on pension scheme liabilities of £183 million (2008: £180 million; 2007: £157 million).
- (5) Following announcement in February 2007 of the planned sale of the Education division, the division is presented as a discontinued operation and is excluded from the above analysis.

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 23. The effect of currency movements on the 2009 results is further described separately below (see “— Effect of Currency Translation” on pages 32). 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. Adjusted operating margin and underlying growth are defined in the glossary on pages F-84 and F-85.

## Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

### General — continuing operations

Revenue increased by 14% to £6,071 million including a full year contribution from the ChoicePoint business acquired in September 2008. At constant exchange rates, revenue was flat compared with 2008, or 6% lower excluding acquisitions and disposals.

Operating profits of £787 million were down 13%, or down 22% at constant exchange rates, compared with £901 million in 2008. Operating profit is stated after amortisation of acquired intangible assets of £368 million (2008: £281 million), impairment of acquired intangible assets and goodwill of £177 million (2008: £9 million), exceptional restructuring costs in respect of a restructuring programme announced in February 2008 and 2009 of £182 million (2008: £152 million), acquisition related costs principally relating to the integration of ChoicePoint into LexisNexis of £48 million (2008: £27 million) and includes tax charges in respect of joint ventures of £8 million (2008: £9 million). Excluding these items, operating profits would have been up 14% at £1,570 million (2008: £1,379 million), or up 1% at constant exchange rates, and down 9% on an underlying basis. The decrease in operating profit principally reflects intangible asset and goodwill impairment charges relating to RBI and increased restructuring and acquisition integration spend, partly offset by currency translation effects.

Operating margin, including amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, was 13.0% (2008: 16.9%). Excluding amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and the equity share of taxes in joint ventures, the margin would have been 25.9%, the same as compared to 2008. An underlying decline in adjusted operating margin of 0.8 percentage points was largely offset by the growth in profitability and margin in ChoicePoint.

The amortisation charge for acquired intangible assets, including the share of amortisation for joint ventures, of £368 million was up £87 million on the prior year principally as a result of ChoicePoint and other 2008 acquisitions, and currency translation effects.

The impairment charge for acquired intangible assets and goodwill of £177 million (2008: £9 million) principally relate to RBI and certain minor exhibitions businesses.

Net finance costs, at £291 million, were £99 million higher than in the prior year reflecting a full year's funding of the ChoicePoint acquisition and currency translation effects, less the benefit of the July 2009 share placing and cash flow.

Profit before tax was £435 million, compared with £617 million in 2008, a decrease of 29%. The decrease in profit before tax reflects the decreased operating profits and higher net finance costs.

The tax charge of £40 million compares with £155 million in the prior year, a decrease of 74%. The decrease reflects the reduced profit before tax, geographic mix effects, tax credits on prior period disposals and the full year deferred tax credit on amortisation of the deferred tax liability established on acquisition of ChoicePoint in relation to its intangible assets.

The profit attributable to shareholders of £391 million was down 18% compared to £476 million in 2008, reflecting the lower reported profit before tax partly mitigated by lower tax costs and currency translation effects.

#### *Elsevier*

Revenue and adjusted operating profits were up 17% and up 22% respectively compared to 2008. At constant exchange rates, revenue and adjusted operating profits were up 4% and 9% respectively, and the same on an underlying basis.

The Science & Technology business saw underlying revenue growth of 5%, driven by the level of *ScienceDirect* subscription renewals entering the year. Also contributing to revenue growth was an increase in subscriptions to the *Scopus* abstract and indexing database. Growth in e-books and other online transactional sales were offset by lower print book sales reflecting tighter customer budgets and channel destocking.

The Health Sciences business saw underlying revenue growth of 3%, driven by growth in medical research, nursing and health professional education and clinical decision support which was in part tempered by continuing weakness in pharma promotion markets. Pharma promotion and other advertising revenues, which accounted for approximately 20% of Health Sciences' revenues, were down 7% reflecting fewer blockbuster drug launches and a reduction to the marketing budgets of pharmaceutical companies. Excluding pharma promotion and other advertising, revenues were 5% ahead at constant currencies. Growth in medical research revenues were a result of increasing online subscriptions to medical content. The nursing and health professionals education growth was achieved through the increasing demand for healthcare professionals, new publishing, and the further development and increasing penetration of online resources. Double-digit growth was also seen in clinical decision support with growing demand for online workflow solutions that combine content with predictive analytics. In clinical reference, growth in *MDConsult* and other online reference products was offset by lower book sales.

Significant progress was made during the year in improving cost efficiency including the streamlining of business processes in shared services; the continued ramp up of journal and book production operations in Chennai, the further outsourcing of IT development and back office activities, including application management and financial transaction processing; the consolidation of activities, including technology operation, and real estate, and leveraging of global procurement.

Operating profit of Elsevier, including amortisation of acquired intangible assets, exceptional restructuring and acquisition related costs, increased by £120 million to £563 million (a 14% increase at constant exchange rates), largely reflecting the increase in adjusted operating profit described above.

#### *LexisNexis*

Revenue and adjusted operating profits were up 32% and up 30% respectively compared to 2008, including the first full year contribution from ChoicePoint. At constant exchange rates, revenue and adjusted operating profits were up 14% and 13% respectively, or down 4% and 15% on an underlying basis, excluding ChoicePoint and minor acquisitions and disposals.

The US Legal business saw revenues decline 6%, or 4% before change in revenue allocation in Martindale-Hubbell, largely driven by weakness in corporate, government and academic markets and cutbacks by law firms on directory spend. Revenues from the core law firm business remained flat despite the impact of the economic downturn on the legal industry. In recognition of Martindale-Hubbell's transformation into a web marketing services company, all listing revenues in 2009 have been attributed to the online listings and recognised rateably over the listing period. Print directories are no longer provided except as separately ordered by customers. The change in timing of revenue recognition has a one time adverse effect in 2009.

The LexisNexis International business saw revenues decline 3% or 1% underlying before taking account of the sale in the prior year of the Latin America business. The pressures on the legal services industry internationally mirrored those seen in the US particularly in the UK with the impact mostly on print product sales as customers increasingly rely on the online service. With less penetration of online services in international markets than in the US, online revenues grew 9%, largely offset by a decline in print sales.

The Risk Solutions business saw underlying revenues, before ChoicePoint, decline 2% reflecting the slowdown in transactional activity in the US economy, largely offset by growth in government markets. Including ChoicePoint, Risk Solutions' revenues grow by 95% at constant currencies. ChoicePoint revenues were up 1% on a stand alone basis with adjusted



operating profits up 44% taking into account the cost synergies on integration of the ChoicePoint business within LexisNexis. Revenue growth was 10% on a stand alone basis in the insurance segments driven by high transactional activity in the auto and property insurance markets and by increasing sales of more powerful data and analytics products. The 1% stand alone revenue growth is after a 13% decline in the non insurance businesses, principally in pre-employment screening, reflecting the economic downturn. Cost actions in the screening business limited the profit impact of this decline.

The adjusted operating margin was down 40 basis points in 2009 compared with 2008 reflecting the underlying revenue decline and increases in spending on new product development, sales and marketing and operational support, largely mitigated by the further restructuring and cost actions and the increasing profitability of ChoicePoint.

Operating profit of LexisNexis, including amortisation of acquired intangible assets, exceptional restructuring and acquisition related costs, increased by £46 million to £337 million (a 2% increase at constant exchange rates), reflecting the increase in adjusted operating profit described above, partially offset by increased amortisation of intangible assets and acquisition integration charges following the acquisition of ChoicePoint in September 2008.

#### *Reed Exhibitions*

Revenues and adjusted operating profits were down 10% and 17% respectively compared to 2008. At constant exchange rates, revenue and adjusted operating profits were down 21% and 28% respectively, or 22% and 31% on an underlying basis. Adjusted for biennial show cycling, underlying revenues and adjusted operating profits were 13% and 18% lower respectively.

Cost savings were made through management streamlining, operational efficiencies and headcount reductions across the business.

Sales of exhibition space and ancillary services were lower across all major geographies. There was also a decline in paying delegates at the small number of shows which charge significant fees for participation. Across the regions, annual show revenues were 14% lower in the US, 13% in Japan, and 17% in Europe. Attendances at shows have however remained resilient.

Adjusted operating margin decreased by 2.1 percentage points reflecting the revenue decline mitigated in part by cost savings made through management streamlining, operational efficiencies and headcount reductions across the business.

Operating profit of Reed Exhibitions, including amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, decreased by £44 million (a decrease of 46% at constant exchange rates) reflecting the decrease in adjusted operating profit described above and impairment charges.

#### *Reed Business Information*

Revenue and adjusted operating profits were down 10% and 29% respectively compared to 2008. At constant exchange rates, revenues and adjusted operating profits were 18% and 35% lower, or 18% and 34% before acquisitions and disposals.

Overall advertising revenues (47% of RBI revenues) were down 29%, with online advertising revenues down 14% and print advertising revenues down 37%. Print subscription and other revenues declined 10%. In contrast, data services revenues (17% of RBI revenues) grew 10%.

The controlled circulation magazines and certain other print titles in the US, accounting for 47% of US revenues, are being sold, restructured in anticipation of sale or closed. *Variety* and the entertainment group, *RCD (Reed Construction Data)*, and the *BuyerZone* lead generation business are being retained. These businesses saw revenues decline 16%.

Adjusted operating margin decreased by 2.8 percentage points reflecting the revenue decline mitigated in part by cost savings.

Including amortisation and impairment of acquired intangibles and goodwill, exceptional restructuring and acquisition related costs RBI reported an operating loss of £163 million compared with operating profit of £55 million in 2008.

### **Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007**

#### *General — continuing operations*

Revenue increased by 16% to £5,334 million. At constant exchange rates, revenue was 7% higher, or 4% higher excluding acquisitions and disposals.

Operating profits of £901 million were up 1%, or down 6% at constant exchange rates, compared with £888 million in 2007. Operating profit is stated after amortisation of acquired intangible assets of £281 million (2007: £221 million), impairment of acquired intangible assets and goodwill of £9 million (2007: nil), exceptional restructuring costs in respect of a restructuring programme announced in February 2008 and expanded in February 2009 to include RBI of £152 million (2007: nil), acquisition related costs of £27 million (2007: £20 million) and includes tax charges in respect of joint ventures of £9 million (2007: £8 million). Excluding these items, operating profits would have been up 21% at £1,379 million (2007: £1,137 million), or up 12% at constant exchange rates, and up 9% on an underlying basis. The increase in operating profits at constant exchange rates principally reflects improved underlying operating performance and the part year contribution from ChoicePoint, acquired in September 2008.

Operating margin, including amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, was 16.9% (2007: 19.4%). Excluding amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and the equity share of taxes in joint ventures, the margin would have been 25.9%, up 1.1 percentage points compared to 2007, and also up 1.1 percentage points on an underlying basis.

The amortisation charge for acquired intangible assets, including the share of amortisation for joint ventures, of £281 million was up £60 million on the prior year principally as a result of ChoicePoint and other recent acquisitions, and currency translation effects. Goodwill impairment charges of £9 million relate to minor exhibition businesses.

Net finance costs, at £192 million, were £53 million higher than in 2007 due to the funding of ChoicePoint and other recent acquisitions and currency translation effects, and include £18 million of fees incurred in connection with ChoicePoint acquisition financing.

Profit before tax was £617 million, compared with £812 million in 2007, a decrease of 24%. The decrease in profit before tax principally reflects the decreased operating profits and losses on disposals and other non operating items.

The tax charge of £155 million compares with a credit of £82 million in 2007. The 2007 credit includes the benefit of £223 million in respect of previously unrecognised deferred tax assets and capital losses arising in continuing operations, which are realisable as a result of the gain on disposal of Harcourt Education. The reported tax credit also reflects movements on deferred tax balances arising on unrealised exchange differences on long term interaffiliate lending. These deferred tax movements are recognised in the income statement but are not expected to crystallise in the foreseeable future.

Net profit from discontinued operations comprises the gain on disposal of Harcourt Assessment of £67 million (2007: £611 million on disposals of the Harcourt International and US K-12 Schools businesses). Taxes on the disposals were £49 million (2007: £380 million). Net profit from discontinued operations in 2007 also included the post-tax results of Harcourt Education of £78 million.

The profit attributable to shareholders of £476 million was down 60% compared to £1,200 million in 2007, which included the tax credits, the results of Harcourt Education and gain on sale of businesses.

#### *Elsevier*

Revenue and adjusted operating profits were up 13% and up 19% respectively compared to 2007. At constant exchange rates, revenue and adjusted operating profits were up 4% and 11% respectively, or 5% and 10% on an underlying basis.

The Science & Technology business saw underlying revenue growth of 6%, reflecting volume growth and *ScienceDirect* and journal subscription renewals at 98%. *ScienceDirect* saw a continued widening of distribution in small academic and emerging markets, and usage increased by over 20% measured by article downloads. Growth in online databases, including the *Scopus* scientific abstract and indexing database, and electronic book sales also contributed to the revenue growth. Taking the disposal of the MDL software business into account, revenues were up 2% at constant currencies. Increasing pressure on academic budgets is likely to affect future discretionary purchases.

The Health Sciences business saw underlying revenue growth of 4%, held back by the continued weakness in pharma promotion markets. The growth reflects the performance of the Clinical Solutions business with new publishing and demand for online workflow solutions that combine content with predictive analytical algorithms. The Nursing and Health Professionals segment also saw growth with its publishing programme and online resources. In the pharma market, advertising and other promotional revenues declined 5% reflecting fewer drug launches and a contraction of marketing budgets in pharmaceutical companies. Excluding pharma, Health Sciences' underlying revenues were up 6%. We expect to see continued weakness in pharma promotion markets and lower growth in Asian markets, particularly in imported US medical books given the strengthening of the US dollar.

The adjusted operating margin was 1.7 percentage points higher in 2008 than in 2007, reflecting progress made during the year in improving cost efficiency through restructuring of operations and leveraging shared service functions. Journal and book production operations have increasingly been outsourced in recent years and 2008 saw a step up in production activities in Elsevier's offshore facilities in India. The year also saw outsourcing of software engineering and financial transaction processing. These ongoing programmes together with the increasing consolidation across Reed Elsevier of technology operations, procurement and real estate management are keeping costs under tight control.

Operating profit of Elsevier, including amortisation of acquired intangible assets, exceptional restructuring and acquisition related costs, increased by £33 million to £443 million (a 2% increase at constant exchange rates), reflecting the increase in adjusted operating profit described above, partially offset by exceptional restructuring costs.

#### *LexisNexis*

Revenue and adjusted operating profits were up 22% and up 26% respectively compared to 2007, including the part year contribution from ChoicePoint. At constant exchange rates, revenue and adjusted operating profits were up 13% and 18% respectively, or 5% and 10% on an underlying basis, excluding ChoicePoint and other recent acquisitions.



LexisNexis US saw underlying revenue growth of 4%. In US legal markets, growth in online information solutions in the large law firm market was tempered by slower growth in smaller law firms and marginal declines in corporate and government markets reflecting an increasingly challenging economic environment. The risk information and analytics group saw underlying growth, ie before taking into account the ChoicePoint business, driven by the collections sector, government and growing demand from the insurance, healthcare and energy sectors, whilst revenues from the financial services sector were flat. Including acquisitions and disposals, revenues were up 16% at constant currencies. Law firm activity and corporate and government budgets are increasingly under pressure and this is likely to affect future revenue growth.

ChoicePoint, acquired in September 2008, saw 2008 revenue growth on a stand alone basis of 10% in the insurance business, which contributes over 85% of ChoicePoint's adjusted operating profits. The insurance business, which helps insurance carriers evaluate underwriting risk, was driven by increased transaction activity, reflecting insurance policy churn in the auto and property insurance markets, and by the increasing adoption by carriers of more powerful analytics in the underwriting process. The remaining ChoicePoint businesses saw revenues 6% lower reflecting the effect of the weaker economic environment on demand for pre-employment screening and for identity verification products from the mortgage and financial services sector.

The LexisNexis International business saw underlying revenue growth of 5%, driven by new publishing and the growing penetration of online information services across its markets. Growth was seen in UK legal markets, France and elsewhere in Europe, and in South Africa, although the growth rate was behind the previous year's reflecting the tougher economic environment. Electronic products now account for 46% of International revenues and the business has continued to expand its workflow solutions through organic development and selective acquisition. In April, the Latin American business was sold as it did not offer sufficiently attractive strategic and financial returns. Taking acquisitions and disposals into account, revenues were up 6% at constant currencies.

The adjusted operating margin was up 95 basis points in 2008 compared with 2007, or up 130 basis points on an underlying basis, reflecting organisational consolidation and restructuring. The US Legal business and the Corporate and Public Markets business other than Risk were combined into one organisation early in the year and the US operations consolidated with streamlining of management and operational activities. Outsourcing of non-core activities has also accelerated with the outsourcing of systems engineering and maintenance, data fabrication, software development engineering and other activities. These ongoing programmes together with consolidation within Reed Elsevier of technology operations, procurement and real estate management are keeping costs under firm control.

Operating profit of LexisNexis, including amortisation of acquired intangible assets, exceptional restructuring and acquisition related costs, increased by £4 million to £291 million (a 5% decrease at constant exchange rates), reflecting the increase in adjusted operating profit described above, partially offset by exceptional restructuring costs and increased amortisation charges following the acquisition of ChoicePoint in September 2008.

#### *Reed Exhibitions*

Revenue and adjusted operating profits were up 23% and up 32% respectively compared to 2007. At constant exchange rates, revenue and adjusted operating profits were up 9% and 14% respectively, or 11% and 20% on an underlying basis. The growth was driven by the performance of annual shows and new launches together with the cycling in of non-annual shows. Excluding cycling effects, underlying revenue growth was 5%.

Growth was seen across most of the show portfolio, notably at the *ISC West* security show, and *National Hardware* in the US; the *Interclima Intercomfort* heating/cooling systems show, and the *Equip' Hotel* catering show in Paris, and the *Pollutec Lyon* environment event; the *Aluminium* show in Germany; the *Mipim* international property show and *Mipcom* in Cannes; and the *London International Book Fair* and *World Travel Market* in London. The downturn in the Spanish residential property sector did however reduce the size of the *SIMA* residential property show in Madrid. The biennial shows cycling in contributed 6% to underlying revenue growth, notably the cycling in of the *Mostra Convegno Expocomfort* show in Milan.

During 2008 Reed Exhibitions launched 24 new shows including *Photovoltaic Power Generation* event in Tokyo, and acquired nine others, expanding its footprint in the Middle East, Russia, India and China. The sale of the defence shows was completed in May 2008. This will further exaggerate the year on year impact of show cycling in 2009 and beyond with no 'odd' year *DSEi* show to balance the 'even' year benefit of *Mostra Convegno* and other biennial shows.

Reed Exhibitions' performance in 2008 is in part reflective of the more resilient and late cycle nature of the exhibitions business, in comparison to other marketing channels. Exhibitors book hall space well in advance and in a downturn demand tends to concentrate on leading events. The second half saw continued growth overall in annual shows and in cycling events, although some shows were cancelled. The budget pressures on exhibitors and visiting delegates are likely to affect future revenue growth.

The adjusted operating margin showed underlying improvement of 180 basis points reflecting the revenue growth, tight cost control and the effect of the net cycling in at the show contribution level.

Operating profit of Reed Exhibitions, including amortisation of acquired intangible assets, exceptional restructuring and acquisition related costs, increased by £17 million to £123 million (a 1% decrease at constant exchange rates), reflecting the increase in adjusted operating profit described above, partially offset by exceptional restructuring costs.

Revenue and adjusted operating profits were up 9% and up 4% respectively compared to 2007. At constant exchange rates, revenue and adjusted operating profits were up 1% and down 4% respectively, or down 1% and down 5% on an underlying basis. The performance reflects the impact on advertising markets of the downturn in global economic conditions, which was particularly felt in the last quarter of 2008.

In the UK, underlying revenues were up 1% reflecting growth in online sales, up 12%, which now represent over 50% of RBI UK revenues. For most of the year, overall revenue momentum was encouraging although weakness was seen in sectors such as property and technology. However towards the end of the year, the deteriorating economic environment took its toll most particularly on recruitment advertising across most sectors, with overall underlying revenues year-on-year down 7% in the fourth quarter, compared with 3% growth in the third quarter. Online revenues continued to grow in the fourth quarter despite the weakness in advertising markets. In addition to organic development of its online franchises, RBI UK made a number of small acquisitions to further develop its online services to the energy, aerospace and personnel verticals as well as horizontal lead generation services matching vendors and buyers.

In the US, underlying revenues were 5% lower, with online revenue growth of 9% more than offset by the 9% decline in print revenues despite market share gains. Online revenues now represent nearly 30% of RBI US revenues. The economic slowdown has affected most sectors, including electronics, manufacturing, residential construction, furniture and home furnishings, jewellery and entertainment with *Variety* also impacted by the film and TV screenwriters' strike earlier in the year. Year-on-year revenues were down 11% in the fourth quarter, compared to 3% decline in the third quarter. Reed Construction Data saw growth in data services to the commercial construction industry following investment in online product development, research and sales. Online services were further expanded with the acquisition in February 2008 of Tectonic, a provider of building information modeling for the architectural, engineering and construction industries.

In the Netherlands, underlying revenues were 1% lower, with online revenues up 11% against only a 3% decline in the print business which benefits from a higher proportion of subscription and circulation revenues than in other RBI geographies. Growth was seen in the agriculture, construction and healthcare sectors and in tuition although most other sectors saw revenue declines from weaker advertising markets particularly in the construction and automotive sectors respectively. Asia Pacific saw 9% underlying revenue growth, reflecting growth in *Hotfrog* sales and in healthcare and construction in Australia. Fourth quarter revenues were flat against the prior year. Online revenues now represent 25% of RBI International revenues.

The International business (Europe, excluding UK and Netherlands, and Asia Pacific) saw underlying revenue growth of 2% with online revenues up 26%, including strong growth from the *Hotfrog* online directory search business, more than offsetting a 4% decline in print. In Europe, France saw growth from a recovery in training sales, whilst Spain and Italy saw revenues decline with weaker advertising markets particularly in the construction and automotive sectors respectively. Asia Pacific saw 9% underlying revenue growth, reflecting growth in *Hotfrog* sales and in healthcare and construction in Australia. Fourth quarter revenues were flat against the prior year. Online revenues now represent 25% of RBI International revenues.

Adjusted operating margin was 60 basis points lower than in 2007, reflecting the underlying revenue decline, partially mitigated by tight cost management.

The advertising markets served by RBI are significantly impacted by the global economic downturn, with slowing online revenue growth and accelerating print decline. Adjusted operating margins are likely to be affected by the impact on revenue growth.

Operating profit of RBI, including amortisation of acquired intangible assets, exceptional restructuring and acquisition related costs, decreased by £36 million to £55 million (a 45% decrease at constant exchange rates), reflecting the increase in adjusted operating profit described above offset by exceptional restructuring costs.

## 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. 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 at least 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 £2.5 billion on acquisitions in the last three years, including the £1.9 billion acquisition in 2008 of ChoicePoint, Inc., a leading provider of risk information and analytics.

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, 2009 was £5.9 billion, on which accumulated amortisation of £2.7 billion had been charged. The total carrying value of acquired goodwill, which is not amortised, as at December 31, 2009 was £4.3 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. Acquired intangible assets with indefinite lives are not amortised, while those with definite lives are amortised systematically over their estimated useful lives, subject to impairment review. Capitalised goodwill is not amortised and is subject to at least annual impairment review. Appropriate amortisation periods are selected based on assessments of the longevity of the brands and imprints, the strength and stability of customer relationships, 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 statement of financial position 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. Value in use is calculated based on estimated future cash flows, discounted to their present value. Estimated future cash flows are determined by reference to latest budgets and forecasts for the next five years approved by management, after which a long-term perpetuity growth rate is applied. The estimates of future cash flows are consistent with past experience adjusted for management's best estimates of future performance. The key assumptions used in determining the value in use of a business are the pre-tax discount rate, which is based on the Reed Elsevier weighted average cost of capital, adjusted to reflect a risk premium specific to the business, and the perpetuity growth rate which is based on the long-term historic growth rates of the territory where the business operates and the growth prospects for the business sector. Pre-tax discount rates used are 9.5-16% and nominal perpetuity growth rates used do not exceed 3%.

The impairment reviews performed are sensitive to changes in key assumptions, particularly discount rates and profit growth. A sensitivity analysis is performed on the base assumptions to determine whether an impairment charge would result from any possible changes in key assumptions.

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. Further detail on impairment testing is provided in note 16 to the combined financial statements.

### *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. Net pension obligations in respect of defined benefit schemes are included in the statement of financial position 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 comprehensive income in the period in which they occur. For defined contribution schemes, the charge to income represents contributions payable.

Accounting for these pension schemes involves judgement 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. 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. The market value of investments held by our defined benefit pension schemes as of December 31, 2009 was £3,067 million compared with £2,682 million as of December 31, 2008, reflecting the recovery in global equity markets during 2009. These estimates and the sensitivity to them of pension costs and obligations are described in further detail in note 8 to the combined financial statements.

### *Share based remuneration*

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.

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 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 34 to 36, include the use of interest rate swaps, forward interest rate agreements, interest rate options and foreign exchange forward contracts. All such derivative financial instruments are required to be carried at fair value on the statement of financial position. 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. 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. Accordingly the fair value of these instruments is recorded in the statement of financial position 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 for changes in the fair value of those instruments. The fair values of the instruments used are determined by reference to observable market rates.

### *Taxation and deferred tax*

Reed Elsevier operates in over 200 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.

Deferred taxation is provided for nearly all differences between the statement of financial position 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 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 United States and the Euro Zone, its most important markets outside the United Kingdom.

The currency profile of Reed Elsevier's revenue, operating profit and adjusted operating profit from continuing operations for 2009 is set forth below.

*Revenue, operating profit and adjusted operating profit in each currency as a percentage of total revenue, operating profit and adjusted operating profit respectively*

	<u>US Dollars</u>	<u>Sterling</u>	<u>Euro</u>	<u>Other</u>	<u>Total</u>
Revenue . . . . .	52%	14%	25%	9%	100%
Operating profit . . . . .	30%	23%	40%	7%	100%
Adjusted operating profit . . . . .	48%	16%	29%	7%	100%

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 required 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 20 to the combined financial statements.

Currency differences increased Reed Elsevier's revenue from continuing operations by £720 million in 2009 compared to 2008. Excluding amortisation and impairment of acquired intangible assets and goodwill, currency differences increased operating profits from continuing operations by £158 million in 2009 compared to 2008. Acquired intangible assets and goodwill are predominantly denominated in US dollars and, after charging amortisation and impairment, currency differences increased operating profits from continuing operations by £85 million in 2009 compared to 2008. Borrowings are predominantly denominated in US dollars and, after charging net finance costs, currency differences increased profit before tax from continuing operations by £38 million in 2009 compared to 2008.

To help protect Reed Elsevier PLC's and Reed Elsevier NV's shareholders' equity from the effect of currency movements, Reed Elsevier will, as deemed appropriate, hedge foreign exchange translation exposures by borrowing in those currencies where significant translation exposure exists or sell forward surplus cash flow in anticipation of dividend or capital repatriation. 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.

### Recently Issued Accounting Pronouncements

Amendments to IFRS3 — Business Combinations (effective for the 2010 financial year). The amendments introduce changes that will require future transaction related costs (including professional fees) to be expensed and adjustments to contingent consideration to be recognised in income and will allow non-controlling interests to be measured at either fair value or the proportionate share of net identifiable assets.

Amendments to IAS27 — Consolidated and Separate Financial Statements (effective for the 2010 financial year). The amendments introduce changes to the accounting for partial disposals of subsidiaries, associates and joint ventures. Adoption of these amendments is not expected to significantly impact the measurement, presentation or disclosure of future disposals.

Amendment to IAS39 — Financial Instruments: Recognition and Measurement (effective for the 2010 financial year). The amendment clarifies the eligibility of hedge accounting for inflation and hedging with options. Adoption of this amendment is not expected to have a significant impact on the measurement, presentation or disclosure of financial instruments in the combined financial statements.

Amendments to IAS32 — Financial Instruments: Presentation (effective for the 2010 financial year). The amendment provides relief to companies making rights issues in a currency other than their functional currency. This amendment does not affect Reed Elsevier as shares are not issued in currencies other than its functional currencies.



IFRS9 — Financial Instruments (effective for the 2013 financial year, with earlier adoption permitted). The standard replaces the existing classification and measurement requirements in IAS39 for financial assets by requiring entities to classify them as being measured either at amortised cost or fair value depending on the business model and contractual cash flow characteristics of the asset. Adoption of this standard is not expected to have a significant impact on the measurement, presentation or disclosure of financial assets in the combined financial statements.

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.

## **LIQUIDITY AND CAPITAL RESOURCES — REED ELSEVIER**

### **Cash Flow**

Reed Elsevier's net cash generated from continuing operations in 2009 amounted to £1,604 million (2008: £1,452 million; 2007: £1,218 million). Included in these net cash inflows are cash outflows relating to exceptional restructuring and acquisition related costs charged to operating profit of £169 million (2008: £99 million; 2007: £19 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, 2009 subscriptions and other revenues in advance totalled £1,220 million (2008: £1,375 million; 2007: £966 million).

Reed Elsevier's cash outflow on the purchase of property, plant and equipment in 2009 was £78 million (2008: £57 million; 2007: £65 million), while proceeds from the sale of property, plant and equipment amounted to £4 million (2008: £5 million; 2007: £4 million). The cash outflow on internally developed intangible assets in 2009 was £164 million (2008: £115 million; 2007: £80 million), principally relating to investment in software and systems development.

During 2009, Reed Elsevier paid a total of £11 million (2008: £2,131 million; 2007: £319 million) for acquisitions, including in 2008 £1,931 million to acquire ChoicePoint, after taking account of net cash acquired of £3 million (2008: £51 million; 2007: £11 million) and of which £2 million (2008: £19 million; 2007: £26 million) is deferred to future years. In addition, £56 million (2008: £19 million; 2007: nil) of payments were made in respect of ChoicePoint change of control and other non operating liabilities assumed on acquisition and £29 million (2008: £30 million; 2007: £10 million) of deferred payments were made in respect of acquisitions made in prior years. Net costs from sale of equity investments and businesses were £2 million (2008: £8 million proceeds; 2007: £82 million proceeds).

During 2009, Reed Elsevier paid ordinary dividends totalling £457 million to the shareholders of the parent companies (2008: £418 million; 2007: £416 million). In 2008, the special distribution paid to shareholders in January 2008 from the net proceeds of the Education Division disposal amounted to £2,013 million (including £27 million paid to the employee benefit trust). No share repurchases were made by Reed Elsevier PLC and Reed Elsevier NV in 2009 (2008: £40 million; 2007: £199 million) and no payments (2008: £54 million; 2007: £74 million) were made 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. Dividend payments and share repurchases are funded by the operating cash flow of the business after capital spend. Proceeds, net of expenses, from share placings by the parent companies in July 2009 were £829 million.

Net borrowings, a key indebtedness measure used in assessing Reed Elsevier's financial position, at December 31, 2009 were £3,931 million (2008: £5,726 million; 2007: £492 million), comprising gross borrowings of £4,706 million, less £41 million of related derivative financial instrument assets and cash and cash equivalents of £734 million. The decrease of £1,795 million from the prior year end principally reflects the July 2009 share placings, which raised £829 million net of expenses, currency translation effects and operating cash flow from continuing operations. Currency translation effects decreased net borrowings by £559 million, reflecting the impact of the weakening of the US dollar against sterling on largely US dollar denominated net borrowings.

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 and operating leases at December 31, 2009 analysed by when payments are due, are summarised below.

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>After 5 years</b>
			<b>(in millions)</b>		
Short term debt <sup>(1)(2)</sup> . . . . .	£ 515	£ 515	£ —	£ —	£ —
Long term debt (including finance leases) <sup>(2)</sup> . . .	5,833	410	1,253	1,756	2,414
Operating leases . . . . .	723	140	220	134	229
<b>Total . . . . .</b>	<b>£7,071</b>	<b>£1,065</b>	<b>£1,473</b>	<b>£1,890</b>	<b>£2,643</b>

- (1) Short term debt is supported by committed facilities and by centrally managed cash and cash equivalents, and primarily comprises commercial paper. In January 2010 the \$2,500 million committed bank facility maturing in May 2010 was cancelled and the start date of the \$2,000 million committed bank facility brought forward to start immediately. This facility provides security of funding for \$2,000 million of short term debt to May 2012.
- (2) Short and long term debt obligations comprise undiscounted principal and interest cash flows. Interest cash flows are calculated by reference to the contractual payment dates and the fixed interest rates (for fixed rate debt) or the relevant forecast interest rates (for floating rate debt).

Information on retirement benefit obligations is set out in note 8 to the combined financial statements.

## Off-Balance Sheet Arrangements

At December 31, 2009 Reed Elsevier had outstanding guarantees in respect of property leases. The maximum amount guaranteed as at December 31, 2009 is £23 million for certain property leases up to 2024, of which an amount of £1 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, foreign currency risk and credit 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 from a variety of sources 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. A mixture of short term and long term debt is utilised and Reed Elsevier maintains a maturity profile to facilitate refinancing. Policy requires that no more than \$1.5 billion of term debt issues should mature in any 12 month period. In addition, minimum levels of borrowings with maturities over three and five years are specified, depending on the level of net debt.

Fixed rate term debt of \$1,500 million, €600 million and £300 million and floating rate term debt of €50 million, totalling £1,836 million, were issued in the year in maturities ranging from 4 to 10 years, with a weighted average coupon of 7.5% (before taking into account fixed to floating interest rate swaps), and the proceeds used to repay the majority of the ChoicePoint acquisition facility, being bank loans maturing in 2010 and 2011. Net proceeds of the July 2009 equity placings were used to repay the outstanding ChoicePoint acquisition facility and reduce short term commercial paper borrowings.

From time to time, Reed Elsevier may repurchase outstanding debt in the open market depending on market conditions and, during 2009, \$44 million of US term debt maturing in 2007 was bought back opportunistically following reverse enquiry by investors.

At December 31, 2009 Reed Elsevier had in place a \$2.5 billion committed bank facility maturing in May 2010, providing back up for commercial paper borrowings and other short term debt, none of which was drawn, and a \$2.0 billion committed bank facility, forward starting in May 2010 and maturing in May 2012. In January 2010 the \$2.5 billion committed facility

maturing in May 2010 was cancelled and the start date of the \$2.0 billion committed facility brought forward to start immediately. This back up facility provides security of funding for \$2.0 billion of short term debt to May 2012.

After taking account of these committed bank facilities and available cash resources at December 31, 2009, no borrowings mature in 2010 and 2011, £730 million of borrowings mature in 2012 and £3,201 million mature in 2013 and beyond. The operating cash flow of the business, the available resources and back up facilities, and Reed Elsevier's ability to access capital markets are expected to provide sufficient liquidity to repay or refinance borrowings as they mature.

### **Interest rate exposure management**

Reed Elsevier's interest rate exposure management policy is aimed at reducing the exposure of the combined businesses to changes in interest rates. The proportion of interest expense that is fixed on net debt is determined by reference to the level of net interest cover. Reed Elsevier uses fixed rate term debt, interest rate swaps, forward rate agreements and 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.

After taking into account interest rate and currency derivatives, at December 31, 2009 interest expense was fixed on an average of £3.4 billion of forecast debt for the next 12 months. This fixed rate debt reduces to £2.2 billion by the end of 2012 and reduces further thereafter with all but £0.4 billion of fixed rate term debt (not swapped to floating rate) having matured by the end of 2019.

At December 31, 2009, fixed rate term debt (not swapped to floating rate) amounted to £2.7 billion (2008: £1.9 billion) and had a weighted average life remaining of 6.9 years (2008: 9.1 years) and a weighted average interest rate of 6.4% (2008: 5.4%). Interest rate derivatives in place at December 31, 2009, which fix the interest cost on an additional £0.8 billion (2008: £1.1 billion) of variable rate debt, have a weighted average maturity of 1.7 years (2008: 1.8 years) and a weighted average interest rate of 4.2% (2008: 4.6%).

### **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 in advance of becoming contractual. The precise policy differs according to the specific circumstances of the individual businesses. Highly predictable future cash flows may be covered for transactions expected to occur during the next 12 months (50 months for Elsevier science and medical subscription businesses) within limits defined according to the period before the transaction is expected to become contractual. Cover takes the form of foreign exchange forward contracts.

As at December 31, 2009, the amount of outstanding foreign exchange cover against future transactions was £1.0 billion (2008: £1.2 billion).

### **Credit risk**

Reed Elsevier has a credit exposure for the full principal amount of cash and cash equivalents held with individual counterparties. In addition, it has a credit risk from the potential non performance by counterparties to financial instruments; this credit risk normally being restricted to the amounts of any hedge gain and not the full principal amount being hedged. Credit risks are controlled by monitoring the credit quality of 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 single A. At December 31, 2009, cash and cash equivalents totalled £734 million, of which 96% was held with banks rated A+ or better by Standard and Poor's, Moody's or Fitch.

### **Capital management**

The capital structure is managed to support Reed Elsevier's objective of maximising long-term shareholder value through ready access to debt and capital markets, cost effective borrowing and flexibility to fund business and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

Over the long term Reed Elsevier targets cash flow conversion (the proportion of adjusted operating profits converted into cash) and credit metrics to reflect this aim and that are consistent with a solid investment grade credit rating. Levels of net debt should not exceed those consistent with such a rating other than for relatively short periods of time, for instance following an acquisition. The principal metrics utilised are free cash flow (after interest, tax and dividends) to net debt, net debt to ebitda (earnings before interest, taxation, depreciation and amortisation) and ebitda to net interest. Cash flow conversion of 90% or higher and a net debt to ebitda target, over the long term, in the range of 2x to 3x are consistent with the rating target.



Reed Elsevier's use of cash over the longer term reflects these objectives through a progressive dividend policy, selective acquisitions and, from time to time when conditions suggest, share repurchases whilst retaining the balance sheet strength to maintain access to the most cost effective sources of borrowing and to support Reed Elsevier's strategic ambition in evolving publishing and information markets. Reed Elsevier's balance sheet was strengthened by the equity placings in July 2009 and over the next 12 months the focus will continue to be on the repayment of debt out of cash flow to bring Reed Elsevier's credit metrics further within the target range.

The balance of long term debt, short term debt and committed bank facilities is managed to provide security of funding, taking into account the cash generation of the business and the uncertain size and timing of acquisition spend.

There were no changes to Reed Elsevier's long term approach to capital management during the year.

## **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, 2009. 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.

### **Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008**

The earnings per share of Reed Elsevier PLC and Reed Elsevier NV were 17.2p and €0.32 respectively in 2009, compared to 22.1p and €0.44 in 2008. The decline principally reflects the intangible asset and goodwill impairment changes in RBI, higher exceptional restructuring and acquisition integration costs, and the dilutive effect of the equity placing. The earnings per share reflect the interests of the respective shareholders of Reed Elsevier PLC and Reed Elsevier NV in the results of the continuing and discontinued operations 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.

Ordinary dividends declared in the year, in amounts per ordinary share, comprise: a 2008 final dividend of 15.0p and 2009 interim dividend of 5.4p giving a total of 20.4p (2008: 18.9p) for Reed Elsevier PLC; and a 2008 final dividend of €0.290 and 2009 interim dividend of €0.107 giving a total of €0.397 (2008: €0.425) for Reed Elsevier NV.

The board of Reed Elsevier PLC has proposed a 2009 final dividend of 15.0p, giving a total dividend of 20.4p in respect of the financial year, up 0.5% on 2008. The boards of Reed Elsevier NV, in accordance with the dividend equalisation arrangements, have proposed a 2009 final dividend of €0.293, which results in a total dividend of €0.400 in respect of the financial year, down 1% on 2008. The difference in growth rates in the equalised dividends reflects changes in the euro:sterling exchange rate since prior year between dividend announcement dates.

In July 2009, Reed Elsevier PLC placed 109.2 million ordinary shares at 405p per share for proceeds, net of issue costs, of £435 million and Reed Elsevier NV Placed 63.0 million ordinary shares at €7.08 per share for net proceeds of €441 million. The number of ordinary shares issued represented 9.9% of the issued share capital of the respective parent companies prior to the placing.

No shares were repurchased in the year by either Reed Elsevier PLC or Reed Elsevier NV.

### **Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007**

The earnings per share of Reed Elsevier PLC and Reed Elsevier NV were 22.1p and €0.44 respectively in 2008, compared to 49.7p and €1.10 in 2007. The decline principally reflects that 2007 included the gain on disposal of Harcourt Education businesses and prior year tax credits. The earnings per share reflect the interests of the respective shareholders of Reed Elsevier PLC and Reed Elsevier NV in the results of the continuing and discontinued operations 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.

Ordinary dividends declared in the year, in amounts per ordinary share, comprise: a 2007 final dividend of 13.6p and 2008 interim dividend of 5.3p giving a total of 18.9p (2007: 16.3p) for Reed Elsevier PLC; and a 2007 final dividend of €0.311 and 2008 interim dividend of €0.114 giving a total of €0.425 (2007: €0.418) for Reed Elsevier NV.

The board of Reed Elsevier PLC has proposed a 2008 final dividend of 15.0p, giving a total dividend of 20.3p in respect of the financial year, up 12% on 2007. The boards of Reed Elsevier NV, in accordance with the dividend equalisation arrangements, have proposed a 2008 final dividend of €0.290, which results in a total dividend of €0.404 in respect of the financial year, down 5% on 2007. The difference in growth rates in the equalised dividends reflects the significant strengthening of the euro against sterling between dividend announcement dates.

On January 18, 2008 a special distribution was paid to shareholders in the equalisation ration from the estimated net proceeds of the sale of the Harcourt Education division. The distribution was 82.0p per share for Reed Elsevier PLC and €1.767 per share for Reed Elsevier NV and amounted to £2,013 million in aggregate.

The special distribution was accompanied by a consolidation of the ordinary share capital of Reed Elsevier PLC and Reed Elsevier NV on the basis of 58 new ordinary shares for every 67 existing ordinary shares. This represented a 13.4% consolidation of ordinary share capital, being the aggregate special distribution expressed as a percentage of the combined market capitalisation of Reed Elsevier PLC and Reed Elsevier NV (excluding the 5.8% indirect equity interest in Reed Elsevier NV held by Reed Elsevier PLC) as at the date of the announcement of the special distribution.

For the purposes of calculating earnings per share, the effective date of the share consolidation is deemed to be January 18, 2008, being the date on which the special distribution was paid.

Shares repurchased in the year totalled 3.2 million ordinary shares of Reed Elsevier PLC and 2.1 million ordinary shares of Reed Elsevier NV.

## **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 and the prices that customers pay us, 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, the impact of economic conditions on corporate budgets and the level of advertising demand, the actions of competitors and regulatory and legislative developments.

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 17, 2010 were:

<b>Name (Age)</b>	<b>Reed Elsevier PLC</b>	<b>Reed Elsevier NV</b>	<b>Reed Elsevier Group plc</b>	<b>Elsevier Reed Finance BV</b>
Mark Armour (55) . . . . .	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 (39) . . . . .	—	—	—	Member of the Management Board
Dien de Boer-Kruyt (65) . . . . .	—	Member of the Supervisory Board <sup>(4)</sup>	—	Member of the Supervisory Board
Rudolf van den Brink (62) . . . . .	—	—	—	Chairman of the Supervisory Board
Mark Elliott (60) . . . . .	Non-executive Director <sup>(3)(4)</sup>	Member of the Supervisory Board <sup>(3)(4)</sup>	Non-executive Director <sup>(2)</sup>	—
Erik Engstrom (46) . . . . .	Executive Director and Chief Executive Officer	Chairman of the Executive Board and Chief Executive Officer	Executive Director and Chief Executive Officer	—
Anthony Habgood (63) . . . . .	Non-executive Chairman <sup>(3)(4)</sup>	Chairman of the Supervisory Board <sup>(3)(4)</sup>	Non-executive Chairman <sup>(2)</sup>	—
Lisa Hook (51) . . . . .	Non-executive Director <sup>(1)(4)</sup>	Member of the Supervisory Board <sup>(1)(4)</sup>	Non-executive Director <sup>(1)</sup>	—
Gerben de Jong (65) . . . . .	—	—	—	Member of the Management Board
Marika van Lier Lels (50) . . . . .	—	Member of the Supervisory Board <sup>(4)</sup>	—	—
Robert Polet (54) . . . . .	Non-executive Director <sup>(4)</sup>	Member of the Supervisory Board <sup>(4)</sup>	Non-executive Director <sup>(2)</sup>	—
Andrew Prozes (64) . . . . .	Executive Director	Member of the Executive Board	Executive Director	—
David Reid (63) . . . . .	Non-executive Director <sup>(1)(3)(4)(5)</sup>	Member of the Supervisory Board <sup>(1)(3)(4)(5)</sup>	Non-executive Director <sup>(1)(2)(5)</sup>	—
Lord Sharman (66) . . . . .	Non-executive Director <sup>(1)(3)(4)</sup>	Member of the Supervisory Board <sup>(1)(3)(4)</sup>	Non-executive Director <sup>(1)</sup>	—
Ben van der Veer (58) . . . . .	Non-executive Director <sup>(1)(4)</sup>	Member of the Supervisory Board <sup>(1)(4)</sup>	Non-executive Director <sup>(1)</sup>	—
Jans van der Woude (46) . . . . .	—	—	—	Member of the Management Board

(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.

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.

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 Koninklijke Douwe Egberts (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 personal leadership advisor to business, government and educational bodies.

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 board of Akzo Nobel NV.

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. Non-executive director of QinetiQ Group plc (and chairman from 1 March 2010) and G4S plc. Until his retirement in April 2008, was General Manager IBM Global Solutions, having 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.

Erik Engstrom was appointed Chief Executive Officer of Reed Elsevier in November 2009. He joined Reed Elsevier in August 2004 as Chief Executive Officer of Elsevier, 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 Inc, and, before its merger with Random House, president and chief executive officer of Bantam Doubleday Dell, North America. Began his career as a consultant with McKinsey. Served as a non-executive director of Eniro AB and Svenska Cellulosa Aktiebolaget SCA.

Anthony Habgood 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 June 2009. Chairman of Whitbread plc. Previous directorships include: Chairman of Bunzl plc and of Mölnlycke Healthcare Limited; a director of SVG Capital plc; Marks and Spencer plc; Powergen plc, National Westminster Bank plc; and Geest plc. Served as chief executive of Bunzl plc, chief executive of Tootal Group plc and a director of The Boston Consulting Group Inc.

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 and Chief Operating Officer of NeuStar Inc. A director of The Ocean Foundation. Was President and Chief Executive Officer of Sun Rocket, Inc. Before that was President of AOL Broadband, Premium and Developer Services. Prior to joining AOL, was a founding partner at Brera Capital Partners LLC. Previously was Chief Operating Officer of Time Warner Telecommunications. Has served as Senior Advisor to the Federal Communications Commission Chairman and as Senior Counsel to Viacom Cable.

Gerben de Jong was appointed a member of the Management Board of Elsevier Reed Finance BV in December 2007. Previously held senior finance positions in Royal Philips Electronics NV Group.

Marika van Lier Lels was appointed a member of the Supervisory Board of Reed Elsevier NV in January 2010. Member of the supervisory boards of KPN NV, USG People NV, TKH Group NV and Maersk BV. A member of the audit committee of the Algemene Rekenkamer and of various Dutch governmental advisory boards. Previously executive vice president and chief operating officer of the Schiphol Group, a member of the executive board of Deutsche Post Euro Express, and held various senior positions with Nedlloyd.

Robert Polet 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 2007. President and Chief Executive Officer of Gucci Group. Before that spent 26 years at Unilever working in a variety of marketing and senior executive positions throughout the world including President of Unilever's Worldwide Ice Cream and Frozen Foods division.

Andrew Prozes is Chief Executive Officer of LexisNexis. 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 Thomson Reuters, 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 a non-executive director of BG Group plc. 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.

Ben van der Veer 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 September 2009. Member of the Supervisory Boards of AEGON NV, TomTom NV, Siemens Nederland NV and Koninklijke FrieslandCampina NV. Was chairman of the executive board of KPMG in the Netherlands and a member of the management committee of the KPMG International board until his retirement in 2008.

Jans van der Woude was appointed a member of the Management Board of Elsevier Reed Finance BV in February 2009. Is Company Secretary and Legal Counsel of Reed Elsevier NV. Prior to joining Reed Elsevier in January 2009 was Legal Advisor to Corporate Express NV. Before that was Corporate Legal Director of TNT NV, having previously been General Counsel at Getronics NV.

## SENIOR MANAGEMENT

The executive officers of Reed Elsevier Group plc, other than directors, at February 17, 2010 were:

*Julian Ashworth:* Chief Strategy Officer. A member of the Reed Elsevier Management Committee. Joined Reed Elsevier in 2006.

*Youngsuk Chi:* Vice Chairman of Elsevier and head of Global Academic and Customer Relations at Elsevier since 2005. Joined the Reed Elsevier Management Committee in May 2009 and in December 2009 appointed CEO of Elsevier's Science & Technology business. Also director of Global Government Affairs for Reed Elsevier. Prior to joining Elsevier was COO and eventually President at Random House and was later appointed as the founding Chairman of Random House Asia. Before that held several president and CEO positions at Ingram Book Group.

*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.

*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.

*Keith Jones:* CEO of Reed Business Information. He was appointed a member of the Reed Elsevier Management Committee in April 2009. He joined Reed Elsevier in 1977, later becoming CEO of Reed Business Information UK and in 2009 was appointed CEO of Reed Business Information.

*Mike Rusbridge:* Chairman and CEO of Reed Exhibitions. He was appointed a member of the Reed Elsevier Management Committee in April 2009. He joined Reed Elsevier in 1982 and was appointed Chairman and CEO of Reed Exhibitions in 1996.

*Jans van der Woude:* Company Secretary and Legal Counsel of Reed Elsevier NV. A Dutch lawyer.

## COMPENSATION

### REMUNERATION COMMITTEE

#### *Remuneration Committee Terms of Reference and Constitution*

The Remuneration Committee ("the Committee") is responsible for:

- setting the remuneration in all its forms, and the terms of the service contracts and all other terms and conditions of employment of directors of Reed Elsevier Group plc appointed to any executive office of employment;
- advising the Chief Executive Officer on the remuneration of members of the Management Committee (other than executive directors) of Reed Elsevier Group plc and of the Company Secretary;
- providing advice to the Chief Executive Officer, as required, on major policy issues affecting the remuneration of executives at a senior level below the board; and
- establishing and amending the rules of all share-based incentive plans for approval by shareholders.

A copy of the terms of reference of the Committee can be found on the Reed Elsevier website [www.reedelsevier.com](http://www.reedelsevier.com). The information on our website is not incorporated by reference into this report.

Throughout 2009, the Committee consisted of independent non-executive directors as defined by the Combined Code of the FSA Listing Rules and the Dutch Code. Jan Hommen was also a member of the Committee until April 21, 2009 when he stepped down from the Reed Elsevier boards. Although not a formal member of the Committee, Anthony Habgood attended meetings of the Committee since his appointment as Chairman of Reed Elsevier Group plc in June 2009. He was appointed a member of the Committee with effect from January 1, 2010. The Company Secretary of Reed Elsevier Group plc, Stephen Cowden, also attends the meetings in his capacity as secretary to the Committee. At the invitation of the Committee Chairman, the CEO of Reed Elsevier attends appropriate parts of the meetings.

Ian Fraser (Group HR director) and Philip Wills (Director, Compensation and Benefits) provided material advice to the Committee during the year.

Towers Perrin acted as external advisors to the Committee throughout 2009 and also provided market data and data analysis. Towers Perrin also provided actuarial and other human resources consultancy services directly to some Reed Elsevier companies.

The individual consultants involved in advising the Committee do not provide advice to the executive directors or act on their behalf.



## EXECUTIVE DIRECTORS

### *Remuneration philosophy and policy*

The context for Reed Elsevier's remuneration policy and practices is set by the needs of a group of global businesses, each of which operates internationally by line of business. Furthermore, Reed Elsevier PLC and Reed Elsevier NV's respective stock market listings in London and Amsterdam combined with the majority of its employees being based in the US provides a particular set of challenges in the design and operation of remuneration policy.

### *Our remuneration philosophy*

Reed Elsevier's guiding remuneration philosophy for senior executives is based on the following precepts:

- Performance-related compensation with demanding performance standards.
- Creation of shareholder value.
- Competitive remuneration opportunity to attract and retain the best executive talent from anywhere in the world.
- A balanced mix of remuneration between fixed and variable elements, and annual and long-term performance.
- Aligning the interests of executive directors with shareholders and other stakeholders.

### *Our remuneration policy*

In line with this guiding philosophy our remuneration policy is described below.

- Reed Elsevier aims to provide a total remuneration package that is able to attract and retain the best executive talent from anywhere in the world, at an appropriate level of cost.
- In reaching decisions on executive remuneration, the Committee takes into account the remuneration arrangements and levels of increase applicable to senior management and Reed Elsevier employees generally.
- The Committee considers the social, governance, and environmental implications of its decisions, particularly when setting and assessing performance objectives and targets, and seeks to ensure that incentives are consistent with the appropriate management of risk.
- Total targeted remuneration of senior executives will be competitive with that of executives in similar positions in comparable companies, which includes global sector peers and companies of similar scale and international complexity.
- Competitiveness is assessed in terms of total remuneration (i.e. salary, annual and long-term incentives and benefits).
- The intention is to provide total remuneration that reflects sustained individual and business performance; i.e. median performance will be rewarded by total remuneration that is positioned around the median of relevant market data and upper quartile performance by upper quartile total remuneration.
- The Committee will consider all available discretion to claw back any payouts made on the basis of materially misstated data. With effect from 2009, the rules of all incentive plans were amended to provide for specific provisions in this regard.
- The Committee considers it important to encourage personal investment and ongoing holding of Reed Elsevier PLC and Reed Elsevier NV securities amongst the senior executive population. Executive directors and other senior executives are subject to minimum shareholding requirements.

### *How the performance measures in the incentives link to our business strategy*

Our annual incentive plan is focused on operational excellence as measured by the financial measures of revenue, profit and cash generation. In addition, a significant portion of the annual bonus is dependent upon the achievement of annual key performance objectives (KPOs) that create a platform for sustainable future performance. These KPOs align with Reed Elsevier's strategic imperatives described elsewhere in this report and range from the delivery of specific projects and the achievement of efficiency targets to corporate and social responsibility objectives.

The Committee believes that one of the main drivers of long-term shareholder value is sustained growth in profitability, underpinned by appropriate capital discipline. The new LTI arrangements and bonus investment plan proposed for 2010 are aimed at driving sustainable performance in the longer term by focusing on earnings and returns over three and five year periods. The metrics are cascaded down to the businesses and adjusted to reflect expectations for each business. As the Committee assesses performance against these metrics, it will ensure that the scores fairly represent the underlying business performance.

### *The balance between fixed and performance related pay*

The majority of each executive director's total remuneration package is linked to performance. We aim to provide each executive director with an annual total remuneration package comprising fixed and variable pay. On an ongoing basis, the annual total remuneration package includes an incentive opportunity of around 70% for target performance (as a percentage of the total package comprising both annual and long-term incentives). The core components of the total remuneration package are described below. The annual incentive makes up around 20% and the long-term 50% of the total package. The fixed pay element is around 30% (salary 20%; pension and other benefits 10%).

### *Our approach to market positioning and benchmarking*

The market competitiveness of total remuneration (i.e. salary, annual and long-term incentives and benefits) is assessed against a range of relevant comparator groups as follows:

- Global peers operating in businesses similar to those of Reed Elsevier (including Thomson Reuters, WPP, Pearson, John Wiley, Wolters Kluwer, Dun & Bradstreet, Experian, McGraw-Hill, UBM, DMGT, Informa, Lagardère and FICO).
- Companies listed on the London Stock Exchange (cross-industry but excluding those in the financial services sector) of a similar size (measured by aggregate market capitalisation) and international scope.
- Companies listed on the New York Stock Exchange (cross-industry but excluding those in the financial services sector) of a similar size (measured by aggregate market capitalisation) and international scope.
- Companies listed on the Amsterdam Stock Exchange, cross industry and of a similar size (measured by aggregate market capitalisation) and international scope.

The composition of the respective comparator groups is subject to minor changes year on year reflecting changes in the size, international scope and listing status of specific companies during the year.

The competitiveness of our remuneration packages is assessed by the Committee as part of the annual review cycle for pay and performance, in line with the process set out below.

- First, the overall competitiveness of the total remuneration packages is assessed. The appropriate positioning of an individual's total remuneration against the market is determined based on the Committee's judgement of individual performance and potential.
- The Committee then considers market data and benchmarks for the different elements of the package including salary, total annual cash and total remuneration.
- If it is determined that a total remuneration competitive gap exists, the Committee believes that this should be addressed via a review of performance-linked compensation elements in the first instance.
- Benefits, including medical and retirement benefits, are positioned to reflect local country practice.

### *The total remuneration package*

Each element of the remuneration package for executive directors is designed to achieve specific objectives, as described in the table below. In aggregate, they create a unified and balanced reward mix and competitive employment proposition. The value of the reward package is only maximised through the integrated delivery of annual and longer term performance. Reward for the delivery of business results is connected with reward for value flowing to shareholders. The incentive arrangements are structured in such a way that reward cannot be maximised through inappropriate short term risk-taking.

The table below provides an overview of the component parts of the total remuneration package for executive directors.

<b>Element</b>	<b>Purpose</b>	<b>Performance period</b>	<b>Performance measure</b>
Salary	Positions the role and individual appropriately within the relevant market for executive talent	Not applicable	Reflects the sustained value of an executive's skills, experience and contribution compared with the relevant talent market

Element	Purpose	Performance period	Performance measure
Annual Incentive	Provides focus on the delivery of stretching annual financial targets and the achievement of annual objectives and milestones that create a platform for sustainable future performance	One year	Annual targets for: revenue, profit, cash flow conversion rate and key performance objectives
Long Term Incentive	<ul style="list-style-type: none"> <li>Provides focus on the delivery of the medium to longer term strategy and holds the executive directors accountable for the delivery of that strategy</li> <li>Drives value creation via the delivery of sustained financial performance and returns for shareholders</li> </ul>		
Bonus Investment	<ul style="list-style-type: none"> <li>Encourages personal investment in, and ongoing holding of, Reed Elsevier shares promoting greater alignment with shareholders</li> <li>Supports the retention of key talent</li> </ul>	<i>Proposed LTI arrangements and bonus investment plan applicable to 2010 to be submitted to shareholders for approval at the 2010 Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV</i>	
Retirement benefits	Positioned to ensure broad competitiveness with local country practice	Not applicable	Terms and vesting are specific to the individual with reference to the relevant country practice

Each of these remuneration elements is described in greater detail in the remainder of this section.

### Salary

Salary reflects the role and the sustained value of the executive in terms of skills, experience and contribution in the context of the relevant market.

Salaries for executive directors are reviewed annually in the context of the competitiveness of total remuneration. Any increases typically take effect on January 1. Base salaries have been frozen for executive directors since January 1, 2008, including with effect from January 1, 2010. Erik Engstrom's base salary was increased to £1,000,000 per annum from November 11, 2009 following his appointment as CEO of Reed Elsevier Group plc.

Reed Elsevier uses the same factors to determine the levels of increase across all employee populations globally: i.e. relevant pay market, skills, experience and contribution. Reed Elsevier operates across many diverse countries in terms of their remuneration structures and practices. Any increases awarded to different employee groups in different geographies reflect this diversity and range of practices. An increase of approximately 2% on average will be awarded across the senior management population globally for 2010. No increases were provided to senior management in 2009, except for promotions or where significant market adjustments were required. This level of increase is in line with increases provided to the wider employee population.

### Annual Incentive Plan (AIP)

The AIP provides focus on the delivery of stretching annual financial targets. It further motivates the achievement of annual objectives and milestones that create a platform for sustainable future performance.

## *The AIP for 2010*

For 2010, executive directors have a target bonus opportunity of 100% of salary (unchanged from 2009) that is weighted as follows across four elements:

<u>Measure</u>	<u>Weighting</u>
— Revenue	30%
— Profit*	30%
— Cash Flow Conversion Rate	10%
— Key Performance Objectives (KPOs)	30%

\* The Profit measure for the CEO and CFO of Reed Elsevier is Adjusted Profit After Tax for the Reed Elsevier combined businesses. The profit measure for the CEO of LexisNexis is Adjusted Operating Profit of LexisNexis.

The target bonus opportunity for the financial measures is payable for the achievement of highly stretching financial targets. The four elements are measured separately, such that there could be a payout on one element and not on others.

The continuing volatile economic environment has made the setting of targets and management of performance within a narrow range significantly more difficult. In view of this, the Committee has decided to widen the payout range under the AIP for 2010 and to make the incentive slope flatter. This means that a smaller bonus would start to accrue for achieving 94% of target (versus the 97.5% entry point for 2009) against each individual financial performance measure. However, the level of out-performance required to achieve the maximum bonus (150% of target and unchanged from 2009) has been substantially increased for 2010. In addition, the Committee has determined that for 2010, executive directors will only be able to earn a bonus of 100% of salary if 2010 profit performance exceeds 2009.

The KPOs are individual to each executive director. Each executive director is set up to six KPOs to reflect critical business priorities for which they are accountable. Against each objective, measurable milestone targets are set for the year. All financial targets and KPOs are approved by the Committee and are subject to formal assessment at the end of each year. The Chairman of Reed Elsevier presents his assessment of performance against KPOs for the CEO of Reed Elsevier Group plc to the Committee whilst the CEO of Reed Elsevier Group plc presents his assessment of KPO performance for the other executive directors. The Committee then discusses and agrees the final KPO score for each executive director.

## *AIP payout history*

Since 2003, only 41% of the bonuses paid to executive directors have been equal to or greater than the target bonus. The highest bonus paid to any director since 2003 was 112.9% of salary, falling short of the maximum bonus opportunity.

## *AIP Payments for 2009*

In assessing the level of bonus payments for 2009, the Committee noted the following performances.

	<u>% change over 2008 at constant exchange rates</u>	
	<u>Revenue</u>	<u>Adjusted operating profit</u>
Reed Elsevier	0%	+1%
Elsevier	+4%	+9%
LexisNexis	+14%	+13%

At constant exchange rates, revenue growth was flat (or 6% lower underlying, ie before acquisitions and disposals); costs were reduced, limiting the decline in underlying margins to 80 basis points; and adjusted operating profits were up 1% (or 9% lower underlying).

Elsevier saw continued growth in a challenging market environment. LexisNexis delivered an excellent first year contribution from the ChoicePoint acquisition, with a 44% increase in ChoicePoint's stand alone adjusted operating profits, and otherwise saw a modest underlying revenue decline against the backdrop of a significant downturn in the legal industry. Reed Exhibitions and Reed Business Information, accounting for 15% of adjusted operating profits, were particularly hard hit by the downturn in advertising and promotion markets. The impact of underlying revenue declines was mitigated by significant restructuring and cost actions across the business.

Post-tax return on capital employed was 10.4%. The reduction from 12.1% reported in 2008 reflects the initially dilutive effect on returns of the ChoicePoint acquisition and the lower adjusted operating profits in the underlying business. Acquisitions typically dilute the overall return initially, but build to deliver longer term returns over Reed Elsevier's average for the business.

Conversion of 99% of adjusted operating profit into cash confirmed the quality of the earnings reported.

Individual directors achieved solid performance against their key performance objectives. In the context of the highly challenging financial targets set for 2009 however, annual bonuses for directors were below the target level.

### ***Long Term Incentive (LTI)***

Provides focus on the delivery of the medium to longer term strategy and holds the executive directors accountable for the delivery of that strategy. Drives value creation via the delivery of sustained financial performance and returns to shareholders.

#### ***Long Term Incentive arrangements for 2010***

Currently, LTI awards are provided through a mix of performance shares (via the Long Term Incentive Plan) and share options (via the Executive Share Option Scheme). Having reviewed the LTI arrangements over the last few months within the context of the challenging business environment, the changes in senior management during 2009 and Reed Elsevier's strategy, the Committee has concluded that the current LTIs are no longer best positioned to meet shareholder interests. Therefore, no grants will be made to executive directors under the Executive Share Option Scheme and the Long Term Incentive Plan in 2010.

Instead, the Committee has developed new LTI proposals for 2010 on which it has been consulting with certain of Reed Elsevier's largest shareholders and key shareholder representative bodies in the UK, the Netherlands and the United States. The Committee believes that the proposed LTI arrangements provides a more appropriate basis for supporting the strategy of Reed Elsevier over the medium to longer term by focusing on a balanced set of performance metrics.

Extensive modelling and scenario analysis was undertaken in order to assess the impact of the proposals using different assumptions. We specifically tested whether the proposed structure encouraged any inappropriate behaviours and excessive risk taking and whether the level of reward that could be earned at different levels of performance was fair and appropriate in the context of value delivered at a given level of performance to shareholders. The Committee concluded from this review that the structure of the proposals combined with the Reed Elsevier governance and risk management processes and clawback provisions provide the necessary checks and balances to prevent excessive risk taking. In addition, a cap will apply to payouts under the new LTI arrangements to ensure that payout levels under the proposals remain within existing parameters.

It is the Committee's intent to submit a proposal for the 2010 LTI framework for shareholder approval at the 2010 AGMs.

### ***Terms applicable to outstanding awards granted under the prior LTI plans***

#### ***Executive Share Option Scheme (ESOS)***

ESOS awards to executive directors were subject to an annual individual maximum (in terms of the market value of the shares under option) of three times salary. The grants of options were over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price on the date of grant.

A pre-grant performance condition of compound annual growth in adjusted earnings per share at constant currencies (Adjusted EPS) over the three years prior to grant determined the size of the total grant pool available for all participants. The ESOS awards to executive directors are then subject to a further performance test on vesting measured over a three-year period starting on January 1, of the year of grant. The awards granted in 2007 were subject to a performance hurdle of Adjusted EPS of 6%. For awards granted in 2008 and 2009, the Committee increased the hurdle to 8% Adjusted EPS.

Options are exercisable between three and ten years from the date of grant (except for defined categories of approved leavers). In the event of a change of control, the Committee would make an assessment of progress against targets at the time the change of control occurs.

The ESOS awards that vested on March 13, 2009 (i.e. the 2006 ESOS grant) following an Adjusted EPS performance of 12.5% p.a. and the ESOS awards granted in 2009 to the executive directors are disclosed in the share tables on pages 57 to 60.

In respect of ESOS awards granted in 2007, the options awarded to executive directors and former directors lapsed as the performance test was not met.

#### ***Long Term Incentive Plan (LTIP)***

Since 2003, the LTIP has vested only twice.

Under the LTIP, executive directors were eligible to receive an annual award of performance shares with a target value of up to 135% of salary. The awards were over shares in Reed Elsevier PLC and Reed Elsevier NV. The vesting of the award is subject to performance against two measures: Adjusted EPS and relative TSR performance over the same three-year performance period.

In addition, the vesting of awards is subject to meeting shareholding requirements and, once met, maintaining an ongoing holding at the required level. Participation in the LTIP is subject to the executive agreeing to be bound by strict non-compete provisions. Both of these features will be retained in the proposed new LTI arrangements.

No payout is made under the LTIP unless Reed Elsevier achieves a minimum threshold of Adjusted EPS over a three-year performance period. This is irrespective of the associated TSR performance. The award earned under the EPS condition may be

increased or decreased by TSR performance measured against a group of industry peers over three years. The combined effect of the two performance measures is shown in the table below, which sets out the potential vesting as a percentage of the initial target award. There is no retesting of the performance condition.

LTIP potential vesting schedule

<u>Adjusted EPS</u>  <u>2008 &amp; 2009 awards</u>	<u>TSR ranking</u>				
	<u>2007 awards</u>	<u>Below Median</u>	<u>Median</u>	<u>62.5<sup>th</sup> percentile</u>	<u>Upper quartile and above</u>
Below 10% . . . . .	Below 8%	0%	0%	0%	0%
10% . . . . .	8%	28%	35%	42%	49%
12% . . . . .	10%	80%	100%	120%	140%
14% and above . . . . .	12% and above	108%	135%	162%	189%

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

To the extent that the underlying shares vest, notional dividends (i.e. dividend equivalents) are paid on the vested shares in cash at the end of the three-year performance period.

The TSR comparator group for awards made from 2007 to 2009 is made up of global industry peers. The comparators applicable to the outstanding LTIP awards are set out below.

<u>TSR comparators*</u>	<u>2009 Award</u>	<u>2008 Award</u>	<u>2007 Award</u>
ChoicePoint . . . . .		✓	✓
DMGT . . . . .	✓	✓	✓
Dow Jones . . . . .			✓
Dun & Bradstreet . . . . .	✓	✓	✓
Emap . . . . .		✓	✓
Experian . . . . .	✓		
FICO . . . . .	✓	✓	✓
Informa . . . . .	✓	✓	✓
John Wiley . . . . .	✓	✓	✓
Lagardère Groupe . . . . .	✓	✓	✓
McGraw-Hill . . . . .	✓	✓	✓
Pearson . . . . .	✓	✓	✓
Reuters Group . . . . .			✓
Taylor Nelson Sofres . . . . .		✓	✓
The Thomson Corp . . . . .			✓
Thomson Reuters . . . . .	✓	✓	
UBM . . . . .	✓	✓	✓
Wolters Kluwer . . . . .	✓	✓	✓
WPP Group . . . . .	✓	✓	✓

\* Reflects the composition of the comparator group as at the date of grant.

Numerous mergers and acquisitions have impacted the comparator group companies during the performance cycle. The Committee applies a fair and consistent basis to determine the relative TSR performance of each company for these purposes. Companies which are taken over within six months after the start of a performance period are excluded from the comparator group. For those that are subject to a transaction more than six months into a performance period, any transaction-related share price premium is eliminated and the TSR prior to the transaction is indexed forward using the daily average share price movement for the remaining companies in the peer group.

The averaging period applied for TSR measurement purposes is six months prior to the start of the financial year in which the award is made and the final six months of the third financial year of the performance period. Reed Elsevier's TSR is taken as a simple average of the TSR of Reed Elsevier PLC and Reed Elsevier NV.

The TSR of each comparator company is calculated in the currency of its primary listing.



In the event of a change of control, the performance test applied under the LTIP would be based on an assessment by the Committee of progress against the Adjusted EPS and TSR targets at the time the change of control occurs (subject to any rollover that may apply).

The 2006 LTIP award vested at maximum (at 189% of target) on February 27, 2009. This level of vesting was based on Adjusted EPS performance of 12.5% p.a. and Reed Elsevier's TSR ranking at the 76.4th percentile against the peer group of global competitors over the three year performance period ended December 31, 2008. In addition, participants received notional dividends on their vested shares. The aggregate notional dividends per vested Reed Elsevier PLC and Reed Elsevier NV ordinary share were £0.500 and €1.212 respectively. These reflect the dividends paid in 2006, 2007 and 2008 and exclude the special distribution made in January 2008 following the sale of the Education division.

The vested awards are disclosed in the share tables on pages 57 to 60 and the notional dividends paid are disclosed in the table showing the individual emoluments of executive directors on page 53.

In respect of the LTIP awards granted in 2007 to executive directors and former directors, Adjusted EPS performance over the three years ended December 31, 2009 did not reach the minimum level required for vesting. As a result, the 2007-09 LTIP cycle did not vest for these executives.

### ***Bonus Investment***

Encourages personal investment in, and ongoing holding of, Reed Elsevier shares to promote greater alignment with shareholders.

#### ***Bonus Investment for 2010***

The Committee considers it important to encourage personal investment and ongoing shareholding in Reed Elsevier PLC and Reed Elsevier NV securities amongst the senior executive population to develop greater alignment with shareholders. Reed Elsevier operates a Bonus Investment Plan (BIP) which is open to approximately 150 senior executives worldwide. As part of the LTI review, the Committee also reviewed the BIP and is proposing to amend the plan for 2010 and going forward. Therefore no grants will be made in 2010 to executive directors under the prior BIP.

#### ***Terms applicable to outstanding awards granted under the prior Bonus Investment Plan***

Since the implementation of the BIP in 2003, four of the completed three-year performance cycles have vested.

The vesting of the matching shares is subject to the achievement of an Adjusted EPS hurdle over the three-year performance period. A hurdle rate of 6% per annum applied to the 2007 matching awards which was increased to 8% per annum Adjusted EPS for the 2008 and 2009 matching awards. Awards of matching shares made under the 2009-11 BIP cycle to executive directors during the year and matching awards vested under the 2006-08 BIP cycle are disclosed in the share tables on pages 57 to 60. Adjusted EPS performance over the three years ended December 31, 2008 was 12.5% p.a. and exceeded the performance condition to vest the 2006-08 matching awards.

The Committee determined that the performance condition in respect of the 2007-09 BIP cycle for executive directors and former directors was not met. Consequently, no matching shares vested in respect of this cycle for these executives.

In the event of a change of control, the vesting of the matching shares is subject to the discretion of the Committee.

#### ***Shareholding requirement***

The shareholding requirement for the CEO of Reed Elsevier Group plc is three times salary and for other executive directors two times salary. Executive directors have five years to build up their shareholding to the required level. Shareholding requirements are also in place for a selected group of senior executives below the board. Meeting the shareholding requirement is a condition of vesting the designated LTIP awards and once met, is a condition of ongoing participation in the LTIP. Those directors who were granted an LTIP award in 2006, and who are subject to ongoing shareholding requirements, well exceeded their requirement in order to vest this award in February 2009.

Details of directors' shareholdings, as at December 31, 2009, are set out on page 66. As at December 31, 2009, Erik Engstrom already exceeded his new shareholding requirement of three times salary (increased from previously two times following his appointment as CEO of Reed Elsevier Group plc in November 2009) based on his new annual salary.

#### ***Other employee share plans***

UK-based executive directors are eligible to participate in the HMRC approved all-employee UK Savings-Related Share Option Scheme (SAYE). US-based directors are eligible to participate in the all-employee US-based Employee Stock Investment Plan (EMSIP). Under the EMSIP, employees are able to purchase Reed Elsevier PLC and Reed Elsevier NV securities at the prevailing market price, with commissions and charges being met by Reed Elsevier.



## Dilution

The estimated dilution over a ten-year period from outstanding awards if vested over Reed Elsevier PLC shares under all share-based plans was 5.7% of the Reed Elsevier PLC share capital at December 31, 2009. The estimated dilution over the same period in respect of outstanding awards if vested over Reed Elsevier NV shares was 6.2% of the Reed Elsevier NV share capital at December 31, 2009.

## Retirement benefits

Retirement benefit provisions are set in the context of the total remuneration for each executive director, taking account of age and service and against the background of evolving legislation and practice in Reed Elsevier's major countries of operation. Base salary is the only pensionable element of remuneration.

Erik Engstrom and Mark Armour are provided with UK defined benefit pension arrangements under which they accrue a pension of 1/30th of salary for every year of service (up to a maximum of two thirds of salary). The 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.

Prior to November 1, 2007, Erik Engstrom was not a member of any company pension scheme and Reed Elsevier made annual contributions of 19.5% of his salary to his personal pension plan. From November 1, 2007 contributions to his designated retirement account ceased and he became a member of the UK defined benefit pension arrangement.

Andrew Prozes, a US-based director, is provided with a mixed arrangement of defined benefit and defined contribution. In accordance with US legislation, he has no defined retirement age. On July 17, 2007 he became vested in an annual pension of US\$300,000. His basic pension continues to accrue at a rate of \$42,857 per annum for each completed year of service between July 17, 2007 and February 1, 2011. In addition, Andrew Prozes will be entitled to receive an enhancement to his annual pension unless he resigns or if his employment is terminated by Reed Elsevier for cause prior to February 1, 2011. Any such enhancement will be equal to \$3,721 times the number of completed calendar months between July 1, 2007 and the date of termination or, if earlier, February 1, 2011. For these purposes, his termination date shall be deemed to be 12 months after he ceases employment.

Sir Crispin Davis ceased to be a director on March 19, 2009 and retired on March 31, 2009 at which point he became entitled to a pension of £533,319 p.a. Ian Smith received a monthly cash allowance in lieu of pension equal to 30% of his monthly gross salary until his resignation by mutual agreement on November 10, 2009.

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

The increase in the transfer value of the directors' pensions, after deduction of contributions, is shown in the table below. Transfer values for the UK directors have been calculated in accordance with the guidance note GN11 published by the UK Institute of Actuaries and Faculty of Actuaries. The transfer values at December 31, 2009 have been calculated using the transfer value basis adopted by the trustees of the pension scheme from October 1, 2008.

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.

## Transfer values of accrued pension benefits

	Age December 31, 2009	Director's contributions	Transfer value of accrued pension December 31, 2008	Transfer value of accrued pension December 31, 2009	Increase in transfer value during the year (net of director's contributions)	Accrued annual pension December 31, 2009	Increase in accrued annual pension during the year	Increase in accrued annual pension during the year (net of inflation)	Transfer value at December 31, 2009 of increase in accrued pension during the year (net of inflation and director's contributions)
Mark Armour . .	55	£6,105	£4,358,939	£5,170,768	£805,724	£304,976	£20,441	£17,884	£297,109
Erik Engstrom . . .	46	£6,105	£271,227	£624,769	£347,437	£49,127	£24,712	£24,492	£305,371
Andrew Prozes . . . . .	63	—	\$5,659,371	\$6,719,734	\$1,060,363	\$515,199	\$87,508	\$87,508	\$1,141,369
Sir Crispin Davis* . . . . .	60	£1,470	£9,609,144	£10,165,955	£555,341	£533,319	£13,718	£13,718	£260,010

\* Became entitled to a total annual pension of £533,319 upon retirement on March 31, 2009.

### *Service contracts*

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

The Committee believes that as a general rule, notice periods should be 12 months and that the directors should, subject to any legal constraints 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.

The service contracts for executive directors (and for approximately 100 other senior executives) contain the following three provisions:

- non-compete provisions which prevent them from working with specified competitors, from recruiting Reed Elsevier employees and from 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 LTIP, ESOS and BIP granted from 2004 onwards including any vested but unexercised options; and
- in the event that they were to join a specified competitor within 12 months of leaving employment, any gains made in the six months prior to leaving employment on the vesting or exercise of an LTIP, ESOS and BIP award made from 2004 onwards shall be repayable.

Each of the executive directors has/had 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>
M H Armour <sup>(i)</sup> . . . . .	October 7, 1996	July 29, 2014	12 months	English law
E Engstrom <sup>(i)</sup> . . . . .	June 25, 2004	June 14, 2025	12 months	English law
A Prozes <sup>(ii)</sup> . . . . .	July 5, 2000	Indefinite	12 months' salary payable for termination without cause	New York law
Sir Crispin Davis <sup>(i)</sup> . . . . .	July 19, 1999	Ceased to be a director on March 19, 2009 and retired March 31, 2009	—	English law
I Smith <sup>(i)</sup> . . . . .	November 3, 2008	Resigned November 10, 2009	12 months	English law

(i) Employed by Reed Elsevier Group plc

(ii) Employed by Reed Elsevier Inc.

### *Sir Crispin Davis' retirement arrangements*

Sir Crispin Davis' retirement in March 2009 was subject to the following terms:

- he would continue to be eligible for a pro rata 2009 annual bonus under the AIP. Any bonus due will be paid in the first quarter of 2010 and will be subject to performance against KPOs in the period up to his retirement and Reed Elsevier financial performance for 2009 in the same way as the bonuses payable to the other executive directors;
- as is standard practice for retirements early in the year, he did not receive 2009 grants under ESOS and LTIP and did not participate in the 2009 BIP;
- no termination payments were due since he retired;
- all unvested share-based awards were treated in accordance with the rules of the plans, and outstanding options remain exercisable for three-and-a-half years from retirement; and
- his LTIP shareholding requirement ceased on retirement.

### *Ian Smith's termination arrangements*

Ian Smith's service contract terminated on November 10, 2009 following his resignation by mutual agreement. The following terms applied in respect of his loss of office:

- payment of a cash sum on termination, equivalent to an unmitigated payment of seven months' base salary and benefits. In addition, up to a further five monthly instalments equivalent to 1/12th of his annual salary and benefits will be payable commencing on June 10, 2010, with each instalment reduced by the gross amount of any alternative employment, consulting or advisory income received;
- payment of fees for legal and other advice;
- he would continue to be eligible for a 2009 annual bonus under the AIP. The bonus was determined in accordance with the terms of the AIP based on performance against KPOs and Reed Elsevier financial performance for 2009 and the bonus due will be paid in March 2010; and
- all unvested awards granted under the LTI plans, comprising options granted under ESOS and performance shares granted under the 2008-10 and 2009-11 LTIP cycles lapsed in full on termination.

### ***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 £26,250 up to the date of his retirement on March 31, 2009 (£86,250 during 2008 which related to the full calendar year).
- Andrew Prozes is a non-executive director of the Cott Corporation and received a fee of \$127,285 (£81,073) during 2009 (\$153,790 (£83,130) during 2008).
- Ian Smith is a non-executive director of Galiform plc and received a fee of £25,961 up to the date of his resignation on November 10, 2009.

## **NON-EXECUTIVE DIRECTORS**

### *Policy on non-executive directors' fees*

Reed Elsevier seeks to recruit non-executive directors with the experience to contribute to the boards of a dual-listed global business and with a balance of personal skills that will make a major contribution to the boards and their committee structures. With the exception of Dien de Boer-Kruyt and Marike van Lier Lels since her appointment in January 2010, who serve 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' fees reflect the directors' membership of the three boards.

The primary source for comparative market data is the practice of FTSE 50 companies, although reference is also made to AEX and US listed companies.

Non-executive directors, including the Chairman, serve under letters of appointment and are not entitled to notice of, or payments following, retirement from the board.

### *Fee levels*

Non-executive directors receive an 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 Dien de Boer-Kruyt and Marike van Lier Lels, who serve only on the Supervisory Board of Reed Elsevier NV, reflects their 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 provision, share options or other forms of benefit. Fees may be reviewed annually, although in practice they have changed on a less frequent basis.

Non-executive directors' fees were last reviewed during 2007 and the annual fee rates applicable to non-executive directors have been in effect since January 1, 2008. During 2009, the Board reviewed the Chairman's fee in context of prevailing fee levels provided by UK companies of a similar size and complexity to Reed Elsevier and the increased time commitment required by the Chairman going forward. The Board approved a Chairman's fee of £500,000 per annum effective from June 1, 2009 following the appointment of Anthony Habgood as Chairman of Reed Elsevier Group plc.

The chairmanship of the Audit and Remuneration Committees attracts an additional fee of £15,000. The Chairman of Reed Elsevier chairs the Nominations Committee and does not receive a separate fee for his role as chairman of that committee.

## Directors' emoluments and fees

### (a) Aggregate emoluments

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:

	2009	2008
	(In thousands)	
Salaries and fees . . . . .	£4,016	£4,360
Benefits . . . . .	360	115
Payments for loss of office . . . . .	1,124	—
Annual performance-related bonuses . . . . .	2,294	5,547
Pension contributions . . . . .	32	51
Payments to former directors* . . . . .	284	—
Pension in respect of former directors . . . . .	1,034	429
Total . . . . .	<u>£9,144</u>	<u>£10,502</u>

\* This reflects notional dividend payments made to Patrick Tierney and Gerard van de Aast on the vesting of the 2006-08 cycle of LTIP of £123,030 and £161,253 respectively.

Ian Smith's employment ended on November 10, 2009 under the arrangements described on page 52. The payments made to him on termination are included above under '*Payments for loss of office*'. As described on page 51 of the 2008 Annual Report on Form 20-F filed with the SEC on March 13, 2009, Gerard van de Aast's employment terminated on December 31, 2008. He received a mitigated payment in lieu of notice of £391,000 equivalent to eight months' service on termination which was paid in January 2009 and which is also included above under '*Payments for loss of office*'.

The 2009 increase in '*Pension in respect of former directors*' compared to 2008 reflects pension payments made during the year by Reed Elsevier under the unfunded section of the Reed Elsevier pension scheme to Sir Crispin Davis (from April 1, 2009) and Gerard van de Aast (from January 1, 2009).

Details of long-term share-based incentives which vested and were exercised by the directors over shares in Reed Elsevier PLC and Reed Elsevier NV during the year are shown on pages 57 to 60. The aggregate notional pre-tax gain (excluding notional dividends) made by the directors from such incentives during the year was £8,303,637 (2008: £1,857,517). The year on year change reflects in most part the vesting of the 2006-08 LTIP cycle during the year following no LTIP vesting in 2008.

### (b) Individual emoluments of executive directors

	Salary £	Benefits £	Bonus £	Notional dividends on vested 2006-08 LTIP cycle £	Payment for loss of office £	Total 2009 £	Total 2008 £
M H Armour . . . . .	613,440	21,855	420,206	172,049	—	1,227,550	1,193,051
E Engstrom . . . . .	793,131*	25,970	844,143****	188,130	—	1,851,374	1,319,618
A Prozes . . . . .	774,000	16,583	470,399	191,716	—	1,452,698	1,189,120
Sir Crispin Davis (until March 31, 2009) . . . . .	295,275	7,301	131,397#	331,268	—	765,241	2,285,147
I Smith (January 1 until November 10, 2009) . . . . .	<u>775,000</u>	<u>288,261**</u>	<u>427,500</u>	<u>—</u>	<u>733,250***</u>	<u>2,224,011</u>	<u>—</u>
Total . . . . .	<u>3,250,846</u>	<u>359,970</u>	<u>2,293,645</u>	<u>883,163</u>	<u>733,250</u>	<u>7,520,874</u>	<u>5,986,936</u>

\* This reflects the pro-rating of his US dollar salary of \$1,192,464 p.a. until November 10, 2009 and his new sterling denominated salary of £1,000,000 p.a. for the remainder of 2009.

\*\* Includes a cash allowance of £232,500 paid in lieu of pension (equivalent to 30% of salary earned) and a payment of £41,538 in respect of accrued but untaken holiday at the date of termination.

\*\*\* As disclosed on page 52, up to a further five instalments equivalent to 1/12th of his annual salary and benefits may be payable. This is, however, subject to mitigation. As termination of the service contract occurred during the first term of office, the terms agreed for the loss of office are in accordance with best practice provision 11.2.8 of the Dutch Code.

\*\*\*\* Erik Engstrom's 2009 bonus was determined on the basis of Elsevier financials and his original KPOs set at the beginning of 2009.

- # In accordance with standard practice for retirement, Sir Crispin Davis was eligible for a pro rata bonus for 2009 subject to performance against KPOs in the period up to retirement and Reed Elsevier financial performance for 2009. Ian Smith was also eligible for a bonus in accordance with the terms agreed in respect of his loss of office during 2009 subject to Reed Elsevier financial performance determined in the same way as bonuses payable to other executive directors and performance against KPOs.

Benefits principally comprise the provision of a company car or car allowance, health and disability insurance. The IFRS2 fair value of grants made under ESOS, BIP and LTIP during 2009, based on the number of awards as disclosed in the tables on pages 57 to 59, to executive directors in office on December 31, 2009 is £5,320,633. The number of awards that ultimately vest will depend upon performance against the conditions described on pages 47 to 49.

Andrew Prozes, together with certain other senior US-based executives and managers, is eligible to 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.

With the inclusion of the payment for loss of office, Ian Smith was the highest paid director in 2009. All of the share-based awards granted to him during 2009 lapsed in full on termination and he made no notional pre-tax gains on the vesting of any share-based incentives.

*(c) Individual fees of non-executive directors*

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
G J de Boer-Kruyt . . . . .	42,857	38,095
M W Elliott . . . . .	70,000	70,000
A Habgood (from June 1, 2009) . . . . .	291,667	—
L Hook . . . . .	55,000	55,000
R Polet . . . . .	55,000	55,000
D E Reid . . . . .	55,000	55,000
Lord Sharman . . . . .	70,000	70,000
B van der Veer (from September 3, 2009) . . . . .	22,321	—
J Hommen (until April 21, 2009) . . . . .	104,167	277,778
R W H Stomberg (until April 23, 2008) . . . . .	—	19,841
Total . . . . .	<u>766,012</u>	<u>640,714</u>

*Compensation of executive officers*

The aggregate compensation paid during 2009 (and relating to 2009) to those who were executive officers (other than directors) of Reed Elsevier Group plc as a group, for services in such capacities for the year ended December 31, 2009 was £3,810,542 which included contributions made to the pension plans in respect of such officers of £41,900.

## 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 2010, 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” and “Senior Management” on pages 40 and 42. 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 “— Remuneration Committee” on page 42.

### REED ELSEVIER GROUP PLC

The Reed Elsevier Group plc board currently consists of three executive directors and seven 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 three independent non-executive directors and the Chairman of Reed Elsevier Group plc

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 takeover 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 Takeovers 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 three executive directors and seven 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](http://www.reedelsevier.com). The information on our website is not incorporated by reference into this report. The joint Nominations Committee currently comprises four non-executive directors, all of whom are independent.

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.

Reed Elsevier Group plc has established a Remuneration Committee, which is responsible for recommending to the boards the remuneration for the executive directors of Reed Elsevier PLC, Reed Elsevier Group plc and Reed Elsevier NV.

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 three executive directors (the “Executive Board”) and nine independent non-executive directors (the “Supervisory Board” and, together with the Executive Board, the “Combined Board”, all together referred to as the “Boards”). Members of the Boards shall be appointed by the General Shareholders’ Meeting upon a proposal of the Combined Board based on a nomination for appointment by the joint Nominations Committee of Reed Elsevier NV and Reed Elsevier PLC. The Articles of Association of Reed Elsevier NV provide that a resolution of the General Shareholders’ Meeting to appoint a member of the Boards other than in accordance with a proposal of the Combined Board can only be taken by a majority of at least two-thirds of the votes cast if less than one-half of Reed Elsevier NV’s issued capital is represented at the meeting. The joint Nominations Committee comprises four members of the Supervisory Board, all of whom are independent.

The General Shareholders’ Meeting of Reed Elsevier NV shareholders may also, by ordinary resolution, resolve to suspend or dismiss each member from the Boards 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 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.

Reed Elsevier Group plc has established a Remuneration Committee, which is responsible for recommending to the boards the remuneration for the executive directors of Reed Elsevier NV, Reed Elsevier Group plc and Reed Elsevier PLC.

Each member of the Reed Elsevier NV Boards is required to retire by rotation no later than three years after appointment in accordance with a rotation plan drawn up by the Combined Board, and is able then to make themselves available for re-appointment by shareholders at the Annual General Shareholders’ Meeting. The rotation plan is published on the Reed Elsevier website, [www.reedelsevier.com](http://www.reedelsevier.com). As a general rule, members of the Supervisory Board serve for two three-year terms. The Nominations Committee may recommend that individual members of the Supervisory Board serve up to one additional three-year term.

## ELSEVIER REED FINANCE BV

Elsevier Reed Finance BV has a two-tier board structure comprising a Management Board, consisting of three members, and a Supervisory Board, consisting of three members. 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 members of the Supervisory Board 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

The average number of employees in continuing operations in the year ended December 31, 2009, was 33,300 (2008: 32,800; 2007: 31,600). Approximately 5,000 were located in the UK (2008: 5,400; 2007: 5,400); 18,000 in North America (2008: 16,600; 2007: 15,600); 2,100 in the Netherlands (2008: 2,400; 2007: 2,400); 4,500 in the rest of Europe (2008: 4,700; 2007: 4,600); and 3,700 in the rest of the world (2008: 3,700; 2007: 3,600). The average number of employees in the business segments in the year ended December 31, 2009 was 6,900 in Elsevier (2008: 7,200; 2007: 7,200); 15,400 in LexisNexis (2008: 13,800; 2007: 13,400); 2,600 in Reed Exhibitions (2008: 2,700; 2007: 2,600); 7,500 in Reed Business Information (2008: 8,300; 2007: 8,100); and 900 in corporate/shared functions (2008: 800; 2007: 300). At December 31, 2009 the number of employees was approximately 32,300, which comprised 6,800 in Elsevier; 15,200 in LexisNexis; 2,500 in Reed Exhibitions; 6,900 in Reed Business Information; and 900 in corporate/shared functions.

The average number of employees employed by discontinued operations in the year ended December 31, 2009 was nil (2008: 100; 2007: 4,300).

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

### Share-based awards in Reed Elsevier PLC and Reed Elsevier NV

Details of vested (*in italics*) and unvested options and unvested restricted shares and restricted shares vested during the year (*in italics*) held by directors in Reed Elsevier PLC (“PLC”) and Reed Elsevier NV (“NV”) as at December 31, 2009 are shown in the tables in this section. The vesting of outstanding unvested awards is subject to performance conditions in accordance with the provisions of the respective plan rules. For disclosure purposes, any PLC and NV ADRs awarded to directors under the BIP have been converted into ordinary share equivalents. The market price on award for BIP and LTIP, gains on the exercise of options and any notional gains on vesting are based on the middle market price of the respective security.

#### Mark Armour

Options	Year of grant	Option over:	No. of options held on Jan 1, 2009	No. of options granted during 2009	Option price	No. of options exercised during 2009	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on Dec 31, 2009	Unvested options vesting on:	Options exercisable until:
ESOS	1999	PLC ord	*33,600		£5.375				—		—
		NV ord	*20,244		€13.55				—		—
	2001	PLC ord	62,974		£6.590				62,974		Feb 23, 2011
		NV ord	44,882		€14.75				44,882		Feb 23, 2011
	2002	PLC ord	74,000		£6.000				74,000		Feb 22, 2012
		NV ord	51,926		€13.94				51,926		Feb 22, 2012
	2005	PLC ord	150,422		£5.335				150,422		Feb 17, 2015
		NV ord	102,618		€11.31				102,618		Feb 17, 2015
	2006	PLC ord	158,836		£5.305				158,836		Mar 13, 2016
		NV ord	106,720		€11.47				106,720		Mar 13, 2016
	2007	PLC ord	130,740		£6.445				130,740	Feb 17, 2010	Feb 17, 2017
		NV ord	86,347		€14.51				86,347	Feb 17, 2010	Feb 17, 2017
	2008	PLC ord	144,000		£6.275				144,000	Feb 21, 2011	Feb 21, 2018
		NV ord	94,000		€12.21				94,000	Feb 21, 2011	Feb 21, 2018
LTIP	2009	PLC ord		147,692	£5.420				147,692	Feb 19, 2012	Feb 19, 2019
		NV ord		95,899	€9.415				95,899	Feb 19, 2012	Feb 19, 2019
	2004	PLC ord	290,481		£4.872				290,481		Feb 19, 2014
		NV ord	199,467		€10.57				199,467		Feb 19, 2014
	2004	PLC ord	4,329		£3.776	4,329	£4.75	£4,216	—		—
	Total PLC ords		1,049,382	147,692		4,329		£4,216	1,159,145		
	Total NV ords		706,204	95,899					781,859		

\* Options lapsed unexercised during the year

			No. of unvested shares held on	No. of shares awarded	Market price per share at award	No. of shares vested during	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on	
Shares	Year of grant	Type of security	Jan 1, 2009	during 2009		2009			Dec 31, 2009	Date of vesting
BIP	2006	PLC ord	21,653		£5.470	21,653	£4.940	£106,966	—	Apr 3, 2009
		NV ord	14,306		€11.74	14,306	€8.140	€116,451	—	Apr 3, 2009
	2007	PLC ord	19,859		£6.155				19,859	Apr 4, 2010
		NV ord	13,371		€13.49				13,371	Apr 4, 2010
	2008	PLC ord	25,291		£6.600				25,291	Apr 8, 2011
		NV ord	16,993		€12.44				16,993	Apr 8, 2011
	2009	PLC ord		27,886	£4.985				27,886	Apr 8, 2012
		NV ord		18,568	€8.201				18,568	Apr 8, 2012
LTIP	2006	PLC ord	75,075		£5.350	141,891	£5.245	£744,218	—	Feb 27, 2009
		NV ord	49,434		€11.76	93,430	€8.864	€828,163	—	Feb 27, 2009
	2007	PLC ord	61,775		£6.445				61,775	Feb 17, 2010
		NV ord	40,799		€14.51				40,799	Feb 17, 2010
	2008	PLC ord	67,000		£6.275				67,000	Feb 21, 2011
		NV ord	44,000		€12.21				44,000	Feb 21, 2011
	2009	PLC ord		76,397	£5.420				76,397	Feb 19, 2012
		NV ord		49,605	€9.415				49,605	Feb 19, 2012
Total PLC ords			270,653	104,283		163,544		£851,184	278,208	
Total NV ords			178,903	68,173		107,736		€944,614	183,336	

## Erik Engstrom

Options	Year of grant	Option over:	No. of options held on Jan 1, 2009	No. of options granted during 2009	Option price	No. of options exercised during 2009	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on Dec 31, 2009	Unvested options vesting on:	Options exercisable until:
ESOS	2004	PLC ord	63,460		£4.780				63,460		Aug 23, 2014
		NV ord	43,866		€10.30				43,866		Aug 23, 2014
	2005	PLC ord	154,517		£5.335				154,517		Feb 17, 2015
		NV ord	105,412		€11.31				105,412		Feb 17, 2015
	2006	PLC ord	178,895		£5.305				178,895		Mar 13, 2016
		NV ord	120,198		€11.47				120,198		Mar 13, 2016
	2007	PLC ord	130,060		£6.445				130,060	Feb 17, 2010	Feb 17, 2017
		NV ord	85,897		€14.51				85,897	Feb 17, 2010	Feb 17, 2017
	2008	PLC ord	143,000		£6.275				143,000	Feb 21, 2011	Feb 21, 2018
		NV ord	94,000		€12.21				94,000	Feb 21, 2011	Feb 21, 2018
	2009	PLC ord		146,923	£5.420				146,923	Feb 19, 2012	Feb 19, 2019
		NV ord		95,399	€9.415				95,399	Feb 19, 2012	Feb 19, 2019
LTIP	2004	PLC ord	325,163		£ 4.78				325,163		Aug 23, 2014
		NV ord	224,766		€10.30				224,766		Aug 23, 2014
Total PLC ords			995,095	146,923					1,142,018		
Total NV ords			674,139	95,399					769,538		

Shares	Year of grant	Type of security	No. of unvested shares held on Jan 1, 2009	No. of shares awarded during 2009	Market price per share at award	No. of shares vested during 2009	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on Dec 31, 2009	Date of vesting
BIP	2006	NV ord	29,442		€11.74	29,442	€ 8.14	€ 239,658	—	Apr 3, 2009
	2007	NV ord	27,572		€13.49				27,572	Apr 4, 2010
	2008	NV ord	30,318		€12.44				30,318	Apr 8, 2011
	2009	NV ord		57,216	€8.201				57,216	Apr 8, 2012
LTIP	2006	PLC ord	82,092		£5.350	155,153	£5.245	£ 813,777	—	Feb 27, 2009
		NV ord	54,055		€11.76	102,163	€8.864	€ 905,573	—	Feb 27, 2009
	2007	PLC ord	61,453		£6.445				61,453	Feb 17, 2010
		NV ord	40,586		€14.51				40,586	Feb 17, 2010
	2008	PLC ord	68,500		£6.275				68,500	Feb 21, 2011
		NV ord	45,000		€12.21				45,000	Feb 21, 2011
	2009	PLC ord		103,902	£5.420				103,902	Feb 19, 2012
		NV ord		67,465	€9.415				67,465	Feb 19, 2012
Total PLC ords			212,045	103,902		155,153		£ 813,777	233,855	
Total NV ords			226,973	124,681		131,605		€1,145,231	268,157	

## Andrew Prozes

Options	Year of grant	Option over:	No. of options held on Jan 1, 2009	No. of options granted during 2009	Option price	No. of options exercised during 2009	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on Dec 31, 2009	Unvested options vesting on:	Options exercisable until
ESOS	2000	PLC ord	188,281		£5.660				188,281		Aug 9, 2010
		NV ord	131,062		€13.60				131,062		Aug 9, 2010
	2001	PLC ord	83,785		£6.590				83,785		Feb 23, 2011
		NV ord	59,714		€14.75				59,714		Feb 23, 2011
	2002	PLC ord	103,722		£6.000				103,722		Feb 22, 2012
		NV ord	72,783		€13.94				72,783		Feb 22, 2012
	2003	PLC ord	132,142		£4.515				132,142		Feb 21, 2013
		NV ord	94,086		€ 9.34				94,086		Feb 21, 2013
	2004	PLC ord	162,666		£4.872				162,666		Feb 19, 2014
		NV ord	111,699		€10.57				111,699		Feb 19, 2014
	2005	PLC ord	154,517		£5.335				154,517		Feb 17, 2015
		NV ord	105,412		€11.31				105,412		Feb 17, 2015
	2006	PLC ord	182,303		£5.305				182,303		Mar 13, 2016
		NV ord	122,487		€11.47				122,487		Mar 13, 2016
	2007	PLC ord	132,537		£6.445				132,537	Feb 17, 2010	Feb 17, 2017
		NV ord	87,533		€14.51				87,533	Feb 17, 2010	Feb 17, 2017
	2008	PLC ord	145,000		£6.275				145,000	Feb 21, 2011	Feb 21, 2018
		NV ord	96,000		€12.21				96,000	Feb 21, 2011	Feb 21, 2018
	2009	PLC ord		149,722	£5.420				149,722	Feb 19, 2012	Feb 19, 2019
		NV ord		97,216	€9.415				97,216	Feb 19, 2012	Feb 19, 2019
LTIP	2004	PLC ord	304,558		£4.872				304,558		Feb 19, 2014
		NV ord	209,133		€10.57				209,133		Feb 19, 2014
Total PLC ords			1,589,511	149,722					1,739,233		
Total NV ords			1,089,909	97,216					1,187,125		

Shares	Year of grant	Type of security	No. of unvested shares held on Jan 1, 2009	No. of shares awarded during 2009	Market price per share at award	No. of shares vested during 2009	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on Dec 31, 2009	Date of vesting
BIP	2006	PLC ord	26,400		£5.470	26,400	£ 4.94	£ 130,416	—	Apr 3, 2009
		NV ord	17,636		€11.74	17,636	€ 8.14	€ 143,557	—	Apr 3, 2009
	2007	PLC ord	21,548		£6.155				21,548	Apr 4, 2010
		NV ord	14,574		€13.49				14,574	Apr 4, 2010
	2008	PLC ord	20,030		£6.600				20,030	Apr 8, 2011
		NV ord	13,505		€12.44				13,505	Apr 8, 2011
	2009	PLC ord		32,335	£4.985				32,335	Apr 8, 2012
		NV ord		21,626	€8.201				21,626	Apr 8, 2012
LTIP	2006	PLC ord	83,656		£5.350	158,109	£5.245	£ 829,282	—	Feb 27, 2009
		NV ord	55,085		€11.76	104,110	€8.864	€ 922,831	—	Feb 27, 2009
	2007	PLC ord	62,623		£6.445				62,623	Feb 17, 2010
		NV ord	41,359		€14.51				41,359	Feb 17, 2010
	2008	PLC ord	68,000		£6.275				68,000	Feb 21, 2011
		NV ord	44,500		€12.21				44,500	Feb 21, 2011
	2009	PLC ord		105,881	£5.420				105,881	Feb 19, 2012
		NV ord		68,750	€9.415				68,750	Feb 19, 2012
Total PLC ords			282,257	138,216		184,509		£ 959,698	310,417	
Total NV ords			186,659	90,376		121,746		€1,066,388	204,314	

## Sir Crispin Davis

Sir Crispin Davis ceased to be a director on March 19, 2009 and formally retired on March 31, 2009. The tables below reflect the position as at March 31, 2009.

Options	Year of grant	Option over:	No. of options held on Jan 1, 2009	No. of options granted during 2009	Option price	No. of options exercised during 2009	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on Mar 31, 2009	Unvested options vesting on:	Options exercisable until:
ESOS	1999	PLC ord	321,199		£ 4.67	150	£5.01	£51	321,049*		Sep 1, 2009
		NV ord	191,550		€12.00				191,550*		Sep 1, 2009
	2000	PLC ord	171,821		£4.365				171,821		May 2, 2010
		NV ord	120,245		€10.73				120,245		May 2, 2010
	2001	PLC ord	122,914		£6.590				122,914		Feb 23, 2011
		NV ord	87,601		€14.75				87,601		Feb 23, 2011
	2002	PLC ord	148,500		£6.000				148,500		Feb 22, 2012
		NV ord	104,204		€13.94				104,204		Feb 22, 2012
	2003	PLC ord	209,192		£4.515				209,192		Sep 30, 2012
		NV ord	148,946		€ 9.34				148,946		Sep 30, 2012
	2004	PLC ord	305,303		£4.872				305,303		Sep 30, 2012
		NV ord	209,645		€10.57				209,645		Sep 30, 2012
	2005	PLC ord	292,409		£5.335				292,409		Sep 30, 2012
		NV ord	199,481		€11.31				199,481		Sep 30, 2012
	2006	PLC ord	305,824		£5.305				305,824		Sep 30, 2012
		NV ord	205,480		€11.47				205,480		Sep 30, 2012
	2007	**PLC ord	251,730		£6.445				188,797		Sep 30, 2012
		**NV ord	166,254		€14.51				124,690		Sep 30, 2012
	2008	**PLC ord	276,000		£6.275				115,000		Sep 30, 2012
		**NV ord	182,000		€12.21				75,833		Sep 30, 2012
LTIP	2004	PLC ord	571,616		£4.872				571,616		Sep 30, 2012
		NV ord	392,516		€10.57				392,516		Sep 30, 2012
SAYE	2006	PLC ord	3,793		£4.244				3,793		Sep 30, 2009
Total PLC ords			2,980,301	—		150		£51	2,756,218		
Total NV ords			2,007,922	—					1,860,191		

\* The options lapsed unexercised on September 1, 2009

Shares	Year of grant	Type of security	No. of unvested shares held on Jan 1, 2009	No. of shares awarded during 2009	Market price per share at award	No. of shares vested during 2009	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on Mar 31, 2009	Date of vesting
BIP	2006	PLC ord	42,092		£5.470				42,092	Apr 4, 2009
		NV ord	27,810		€11.74				27,810	Apr 4, 2009
	2007	PLC ord	74,708		£6.155				74,708	Apr 4, 2010
		PLC ord	96,227		£6.600				96,227	Apr 8, 2011
LTIP	2006	PLC ord	144,550		£5.350	273,199	£5.245	£1,432,929	—	Feb 27, 2009
		NV ord	95,181		€11.76	179,892	€8.864	€1,594,563	—	Feb 27, 2009
	2007	**PLC ord	118,942		£6.445				89,206	Feb 17, 2010
		**NV ord	78,555		€14.51				58,916	Feb 17, 2010
	2008	**PLC ord	129,000		£6.275				53,750	Feb 21, 2011
		**NV ord	85,000		€12.21				35,416	Feb 21, 2011
Total PLC ords			605,519	—		273,199		£1,432,929	355,983	
Total NV ords			286,546	—		179,892		€1,594,563	122,142	

\*\* All awards granted in 2007 and 2008 under ESOS and LTIP have been prorated for service.

## Ian Smith

Ian Smith ceased to be a director on November 10, 2009. The tables below reflect the position as at November 10, 2009.

Options	Year of grant	Option over:	No. of options held on Jan 1, 2009	No. of options granted during 2009	Option price	No. of options exercised during 2009	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on Nov 10, 2009	Unvested options vesting on:	Options exercisable until:
ESOS	2009	PLC ord		83,025	£5.420				—	Lapsed	
		NV ord		53,910	€9.415				—	Lapsed	
SAYE	2009	PLC ord	—	3,896	£4.016				—	Lapsed	
Total PLC ords			—	86,921					—		
Total NV ords			—	53,910					—		

Shares	Year of grant	Type of security	No. of unvested shares held on Jan 1, 2009	No. of shares awarded during 2009	Market price per share at award	No. of shares vested during 2009	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on Nov 10, 2009	Date of vesting
LTIP	2009*	PLC ord		64,541	£6.275				—	Lapsed
		NV ord		43,956	€12.21				—	Lapsed
	2009	PLC ord		112,084	£5.420				—	Lapsed
		NV ord		72,778	€9.415				—	Lapsed
Total PLC ords			—	176,625					—	
Total NV ords			—	116,734					—	

\* Pro-rated target grant under the 2008-10 LTIP cycle equivalent to 90% of salary.

Options granted under ESOS vest on the third anniversary and expire on the tenth anniversary of the date of grant. The proportion of the target award that may vest in relation to the 2007, 2008 and 2009 LTIP grants is subject to growth in Adjusted EPS and relative TSR measured against a group of competitor companies during the performance period. The number of shares subject to the target award are reflected in the above tables which are determined by reference to an assumed achievement of growth in Adjusted EPS of 12% for the 2008 award (10% for the 2007 LTIP grants) 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. The maximum that can potentially vest in respect of LTIP is 189% of the number of shares comprised in the target awards shown in the tables above. In respect of ESOS and BIP, the maximum that can vest corresponds to the number of shares disclosed in the table.

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 three or five years from the date of grant. No performance targets are attached to these option grants as it is an all-employee scheme.

The middle market prices of a Reed Elsevier PLC ordinary share on the date of the 2009 award under BIP and LTIP were £4.985 and £5.42 respectively. The middle market prices of a Reed Elsevier NV ordinary share on the date of the 2009 award under BIP and LTIP were €8.201 and €9.415 respectively.

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range of £4.20 to £5.595 and at December 31, 2009 was £5.115. The middle market price of a Reed Elsevier NV ordinary share during the year was in the range of €7.19 to €9.415 and at December 31, 2009 was €8.601.

*Share-based awards made and share awards vested since December 31, 2009 in respect of the executive directors in office as at December 31, 2009*

### (i) Awards made

During 2009, the Committee reviewed the long-term incentive (LTI) arrangements in the context of the changes in the senior leadership team during the year, Reed Elsevier's strategy and the late cycle impact on our professional markets of the recent global economic recession.

The Committee concluded from this review that the existing LTI arrangements, with their primary focus on earnings growth, are no longer best positioned to meet shareholder interests and thus developed proposals for new LTI arrangements for 2010. The new arrangements consist of a one-off plan, the Reed Elsevier Group plc Growth Plan (the '*Growth Plan*'), under which awards will only be made in 2010, subject to shareholder approval and a successor plan to the current Reed Elsevier Group plc Bonus Investment Plan 2003 (the '*BIP 2003*'). The new plan is the Reed Elsevier Group plc Bonus Investment Plan 2010 (the '*BIP 2010*'), which is proposed to operate on an annual rolling basis from 2010.

Both plans will be submitted to shareholders for approval at the 2010 Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV in April 2010. The Growth Plan will operate for executive directors in 2010 instead of the Reed Elsevier Group plc Share Option Scheme (the 'ESOS') and the Reed Elsevier Group plc Long Term Incentive Share Option Scheme (the 'LTIP'). The BIP 2010 will operate instead of BIP 2003 for executive directors in 2010.

## **(ii) Awards vested**

The Committee determined that the performance condition in respect of awards granted to executive directors under the 2007-09 cycles of ESOS and BIP were not met. Therefore, these awards lapsed for executive directors. In respect of LTIP awards granted under the 2007-09 LTIP cycle to executive directors, the Committee also determined that Adjusted EPS performance over the three years ended December 31, 2009 did not reach the minimum level required for vesting. As a result, the 2007-09 LTIP cycle lapsed for executive directors.

## **REED ELSEVIER**

As of December 31, 2009 Reed Elsevier operated and had granted share options and restricted shares under a number of equity-based compensation plans as follows:

### **(i) All-Employee Share Option Plans**

Reed Elsevier's all-employee share 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 HMRC, 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 share-based compensation plans**

During 2009, the Committee reviewed the LTI arrangements in the context of the changes in the senior leadership team during the year, Reed Elsevier’s strategy and the late cycle impact on our professional markets of the recent global economic recession.

The Committee concluded from this review that the existing LTI arrangements, with their primary focus on earnings growth, are no longer best positioned to meet shareholder interests and thus developed proposals for new LTI arrangements for 2010. The new arrangements consist of a one-off plan, the Reed Elsevier Group plc Growth Plan (the ‘*Growth Plan*’), under which awards will only be made in 2010, subject to shareholder approval and a successor plan to the current Reed Elsevier Group plc Bonus Investment Plan 2003 (the ‘*BIP 2003*’). The new plan is the Reed Elsevier Group plc Bonus Investment Plan 2010 (the ‘*BIP 2010*’), which is proposed to operate on an annual rolling basis from 2010.

Both plans will be submitted to shareholders for approval at the 2010 Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV in April 2010. The Growth Plan will operate for executive directors in 2010 instead of the Reed Elsevier Group plc Share Option Scheme (the ‘*ESOS*’) and the Reed Elsevier Group plc Long Term Incentive Share Option Scheme (the ‘*LTIP*’). The BIP 2010 will operate instead of BIP 2003 for executive directors in 2010.

As at March 18, 2010 Reed Elsevier’s executive share-based compensation 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 and participating companies under its control. All directors and employees of Reed Elsevier 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 from 2008 are subject to performance criteria requiring the achievement of 8% per annum compound growth in Adjusted EPS at constant exchange rates (previously 6% per annum compound growth), 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 10% and 12% 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 HMRC, 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.

***(b) Reed Elsevier Group plc Retention Share Plan***

The Reed Elsevier Group plc Retention Share Plan is a share plan operated under the discretion of the Reed Elsevier Remuneration Committee which approves all grants. It facilitates the grant of restricted share awards over Reed Elsevier PLC and Reed Elsevier NV ordinary shares, subject to such conditions as specified from time to time by the Reed Elsevier Remuneration Committee. Participation in the plan is limited to employees of Reed Elsevier and participating companies under its control, excluding executive directors.

The plan is used to facilitate the grant of one-off awards of restricted shares, where appropriate, to senior new hires, for example, to buy out share-based awards from previous employment.

In addition, since 2006, participants, other than directors, in the Reed Elsevier Group plc executive share option schemes (see (a) above) have been able to choose to convert all or part of their option award into restricted shares based on a pre-determined conversion ratio of one share for every five options they would otherwise have been awarded, and the plan is the vehicle used to facilitate such conversions. The restricted shares vest after the expiry of three years from the date of grant, subject to the participant remaining employed by Reed Elsevier or a participating company under its control. The restricted shares awarded are satisfied by market purchase shares.

Awards made under this plan may not be transferred, assigned, charged or otherwise alienated by anyone except as permitted by law in the event of death.

On termination of employment, unvested awards made under the plan lapse other than in certain specified circumstances or as determined by the Remuneration Committee.

***(c) 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. All remaining options under this scheme expired during 2009.

***(d) Long term incentive plans***

From 2006 onwards a small number of key senior executives (approximately 120) have 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 an Adjusted EPS performance target over a three year performance period, and an additional TSR performance target over the same three year period. From 2008 the minimum level of compound Adjusted EPS growth is 10% per annum (previously 8% per annum), with maximum vesting (under the Adjusted EPS measure) being achieved for growth of 14% per annum (previously 12% per annum). Any award earned through EPS performance may then be increased or decreased in line with Reed Elsevier’s TSR performance against a selected international comparator group over the three year period. The maximum increase will be applied at upper quartile or higher levels of TSR achievement. The award will lapse if Reed Elsevier fails to achieve the minimum threshold of 10% per annum Adjusted EPS growth (previously 8% per annum), irrespective of the associated TSR performance. Any shares which vest will be treated as attracting notional dividends during the performance period.

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 Chief Executive Officer is three times salary and for other executive directors the requirement is two times salary. Executives have five years to build up their shareholding to the required level. Meeting the shareholding requirement is a condition of vesting the designated LTIS awards and once met, is a condition of ongoing participation in the LTIS.

The Committee continues to have full discretion to alter awards granted to participants based on its assessment as to whether the Adjusted 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.

**(e) 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 from 2008 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 8% per annum (previously 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 17, 2010 the total number of ordinary shares subject to outstanding options was:

	<b>Number of outstanding options</b>	<b>Options over shares</b>	<b>Option price range</b>
Reed Elsevier Group plc SAYE Share Option Schemes . . . . .	2,445,349	Reed Elsevier PLC	377.60p — 504.00p
Reed Elsevier NV Convertible Debenture Stock Scheme . . . . .	2,620,450	Reed Elsevier NV	€7.354 — €15.43
Reed Elsevier Group plc Executive Share Option Schemes . . . . .	30,025,377	Reed Elsevier PLC	420.00p — 700.00p
	21,257,662	Reed Elsevier NV	€7.301 — €16.00
Reed Elsevier Group plc Long Term Incentive Share Option Scheme . . . . .	2,313,166	Reed Elsevier PLC	478.00p — 524.50p
	1,800,840	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 17, 2010 the following nil cost conditional share awards were also outstanding:

	<b>Number of outstanding awards</b>	<b>Awards over shares in</b>
Reed Elsevier Group plc Long Term Incentive Share Option Scheme . . . . .	3,785,321	Reed Elsevier PLC
	2,461,581	Reed Elsevier NV
Reed Elsevier Group plc Retention Share Plan . . . . .	1,322,336	Reed Elsevier PLC
	853,960	Reed Elsevier NV
Reed Elsevier Group plc Bonus Investment Plan* . . . . .	1,750,901	Reed Elsevier PLC
	796,626	Reed Elsevier NV

\* For disclosure purposes, any Reed Elsevier PLC and Reed Elsevier NV ADRs awarded under this plan have been converted into ordinary share equivalents.

These awards will be met by the Reed Elsevier Group plc 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 those individuals who were directors of Reed Elsevier PLC and Reed Elsevier NV as at December 31, 2009 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, 2009*	December 31, 2009	January 1, 2009*	December 31, 2009
Mark Armour . . . . .	131,572	248,742	62,384	136,889
Dien de Boer-Kruyt . . . . .	—	—	—	—
Mark Elliott . . . . .	—	—	—	—
Erik Engstrom . . . . .	77,856	107,040	211,760	365,580
Anthony Habgood . . . . .	—	50,000	—	—
Lisa Hook . . . . .	—	—	—	—
Robert Polet . . . . .	—	—	—	—
Andrew Prozes . . . . .	231,709	148,142	168,676	112,004
David Reid . . . . .	—	—	—	—
Lord Sharman . . . . .	—	—	—	—
Ben van der Veer . . . . .	—	—	1,298	1,298

\* On date of appointment if subsequent to January 1, 2009.

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 15, 2010 were:

	Interest in Reed Elsevier PLC ordinary shares	Interest in Reed Elsevier NV ordinary shares
M H Armour . . . . .	248,742	136,889
E Engstrom . . . . .	107,040	365,581
A Prozes . . . . .	148,142	112,004

### Employee Benefit Trust

Any ordinary shares required to satisfy entitlements under nil cost restricted share awards or performance share awards are provided by the Employee Benefit Trust (EBT) from market purchases. As a potential beneficiary under the EBT in the same way as other employees of Reed Elsevier, each executive director is deemed to be interested in all the shares held by the EBT which at December 31, 2009 amounted to 15,350,605 Reed Elsevier PLC ordinary shares (1.23% of issued share capital) and 8,219,196 Reed Elsevier NV ordinary shares (1.13% of issued share capital).

### 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 (seven persons) as a group in office as of February 17, 2010:

	<u>Reed Elsevier PLC ordinary shares</u>	<u>Reed Elsevier PLC ordinary shares subject to options</u>	<u>Reed Elsevier PLC conditional share awards</u>	<u>Reed Elsevier NV ordinary shares* subject to options</u>	<u>Reed Elsevier NV ordinary shares subject to options</u>	<u>Reed Elsevier NV conditional share awards</u>
Executive officers (other than directors) as a group . . . . .	503,835	1,116,513	842,336	142,069	797,976	372,430

\* The Reed Elsevier NV ordinary shares are in registered form, although most ordinary shares are traded in the Dutch Security giro system administered by Euroclear Netherlands.

The options over Reed Elsevier PLC ordinary shares included in the above table are exercisable at prices ranging from 424.0p to 700p per share and between the date hereof and 2019. 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 2019. The Reed Elsevier PLC and Reed Elsevier NV conditional share awards included in the above table will vest between 2010 and 2012.

## ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### MAJOR SHAREHOLDERS

#### REED ELSEVIER PLC

As of March 15, 2010 Reed Elsevier PLC had received notification of disclosable interests, in accordance with the UK Disclosure and Transparency Rules<sup>(1)</sup>, of 3% or more in the issued Reed Elsevier PLC ordinary shares:

<u>Identity of Person or Group</u>	<u>% of Class</u>
Lloyds Banking Group plc . . . . .	4.95
Legal & General Group plc . . . . .	3.95
Silchester International Investors Limited . . . . .	3.03

- (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, 2009 there were 20,467 ordinary shareholders, including the depository for Reed Elsevier PLC's ADR programme, with a registered address in the United Kingdom, representing 99.41% 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 March 15, 2010 Reed Elsevier NV is aware of the following disclosable interests of 5% or more in the issued Reed Elsevier NV ordinary shares based on the public database of and on notification received from the Netherlands Authority for the Financial Markets<sup>(1)</sup> or provided as a Schedule 13G filing<sup>(2)</sup>:

<u>Identity of Person or Group</u>	<u>% of Class</u>
Reed Elsevier PLC <sup>(3)</sup> . . . . .	5.8
ING Group N.V. . . . .	5.3
Morgan Stanley . . . . .	5.2
Mondrian Investment Partners Limited . . . . .	5.0

- (1) Under Article 5:38 of the Netherlands Financial Markets Supervision Act, any person acquiring or disposing of shares or voting rights in public companies established under the laws of the Netherlands listed on a stock exchange in the European Union, is required to notify the Netherlands Authority for the Financial Markets (AFM) without delay if such person knows, or should know, that such interest therein reaches, exceeds or drops below a 5% or 10% threshold. No interest in the shares or voting rights of Reed Elsevier NV of 10% or more has been disclosed in the AFM's registers.
- (2) The Securities Exchange Act of 1934 requires any person who has, as at the end of the calendar year, a direct or indirect beneficial interest in 5% or more of the issued share capital of a company, to file a statement on Schedule 13G with the Securities and Exchange Commission reporting such interest within 45 days following the end of the calendar year.
- (3) Reed Elsevier PLC's interest comprises a holding of R shares of €0.70 nominal value each 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.

As far as Reed Elsevier NV is aware, except as disclosed herein, it is neither directly nor indirectly owned or controlled by any single corporation or corporations acting jointly, nor 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 35 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 boards of Reed Elsevier PLC and Reed Elsevier NV have adopted progressive dividend policies in recent years in respect of their equalised dividends that, subject to currency considerations, more closely align dividend growth with growth in adjusted earnings, consistent with the dividend normally being covered over the longer term at least two times by adjusted earnings (i.e. before the amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related 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**

Beginning in 2005, various of Reed Elsevier's subsidiaries in the United States became the subject of legal proceedings and federal and state regulatory actions relating to data security breaches, pursuant to which unauthorised persons obtained personal identifying information from Reed Elsevier data bases, or alleged breaches of federal privacy laws in connection with the obtaining and disclosure by such subsidiaries of information without the consent of the individuals involved. The principal actions and investigations have been settled, with the substantial portion of cash payments agreed to be paid by these subsidiaries being reimbursed by insurance and third-party indemnities. The settlements generally require strict data security programs, submissions of regulatory reports and on-going monitoring by independent third parties to ensure Reed Elsevier's compliance with the terms of those settlements. While the costs of such on-going monitoring will be borne by Reed Elsevier, neither the costs of compliance nor the costs of such on-going monitoring are expected to have a material adverse effect on our financial position or the results of our operations.

The background screening report businesses offered by LexisNexis and ChoicePoint are governed by the US Fair Credit Reporting Act ("FCRA") and analogous state laws requiring that consumers be provided the contents of background reports and allowed to have any inaccuracies in the reports corrected. Certain of these laws further provide for statutory penalties and attorneys fees for non-compliance. In the normal course of its business, LexisNexis and ChoicePoint deal with individual background screening lawsuits, most involving claims that inaccurate information in a background report led to job loss or other economic harm. In addition, effective December 17, 2009, ChoicePoint entered into an Assurance of Discontinuance ("AOD") with the Office of Attorney General of the State of New York to resolve an investigation of alleged violations of the FCRA (and the state and local law equivalents as well as state employment discrimination laws). These proceedings have not had, and are not expected to have, a material adverse effect on our financial position or the results of our operations.

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

## 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 Thomson Reuters Datastream:

Calendar Periods	Pence per ordinary share		US dollars per ADS	
	High	Low	High	Low
<b>2009</b> .....	560	420	33.56	26.20
<b>2008</b> .....	690	451	54.60	27.06
<b>2007</b> .....	690	558	54.85	44.02
<b>2006</b> .....	608	504	46.17	35.90
<b>2005</b> .....	554	475	42.67	35.26
<b>2009</b>				
Fourth Quarter .....	516	455	32.93	29.38
Third Quarter .....	492	420	32.48	27.67
Second Quarter .....	543	452	33.56	27.55
First Quarter .....	560	477	32.36	26.20
<b>2008</b>				
Fourth Quarter .....	586	451	40.82	27.06
Third Quarter .....	636	528	47.25	37.25
Second Quarter .....	670	567	53.49	44.83
First Quarter .....	690	582	54.60	45.47
<b>Month</b>				
February 2010 (through February 17, 2010) .....	504	483	32.40	30.24
January 2010 .....	521	494	33.71	31.85
December 2009 .....	516	464	32.93	30.48
November 2009 .....	485	455	32.43	30.18
October 2009 .....	474	458	31.09	29.38
September 2009 .....	490	436	32.11	28.56
August 2009 .....	450	424	30.57	27.89

#### 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 Thomson Reuters Datastream:

Calendar Periods	€ per ordinary share		US dollars per ADS	
	High	Low	High	Low
<b>2009</b> .....	9.42	7.19	25.05	19.85
<b>2008</b> .....	13.69	7.72	39.61	20.73
<b>2007</b> .....	14.89	11.49	40.49	33.20
<b>2006</b> .....	13.72	11.08	35.25	26.72
<b>2005</b> .....	11.91	10.03	31.06	26.25
<b>2009</b>				
Fourth Quarter .....	8.60	7.58	24.67	22.11
Third Quarter .....	8.42	7.19	23.94	20.23
Second Quarter .....	9.00	7.61	24.72	20.06
First Quarter .....	9.42	7.92	25.05	19.85
<b>2008</b>				
Fourth Quarter .....	10.97	7.72	30.00	20.73
Third Quarter .....	11.63	9.66	34.22	28.20
Second Quarter .....	12.71	10.54	39.54	32.95
First Quarter .....	13.69	11.45	39.61	33.81
<b>Month</b>				
February 2010 (through February 17, 2010) .....	8.85	8.38	24.65	22.95
January 2010 .....	8.87	8.29	24.83	23.83
December 2009 .....	8.60	7.86	24.66	23.11
November 2009 .....	8.26	7.75	24.67	23.37
October 2009 .....	8.09	7.58	24.06	22.11
September 2009 .....	8.08	7.42	23.78	21.24
August 2009 .....	7.76	7.19	22.31	20.23

**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. Summaries of these changes are incorporated by reference from the 2002 Annual Report on Form 20-F filed with the SEC on March 10, 2003 and the 2008 Annual Report on Form 20-F filed with the SEC on March 13, 2009. 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 UK law 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 2008 Annual Report on Form 20-F filed with the SEC on March 13, 2009 — see "Item 19: Exhibits" on page S-1.

**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, 2005 and 2007 Annual General Meetings of Shareholders a number of amendments were approved to the Articles of Association. Summaries of these amendments are incorporated by reference from the 2002 Annual Report on Form 20-F filed with the SEC on March 10, 2003, the 2005 Annual Report on Form 20-F filed with the SEC on March 16, 2006 and the 2007 Annual Report on Form 20-F filed with the SEC on March 20, 2008. 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.

At an Extraordinary General Meeting of Shareholders held on September 3, 2009 a number of amendments of a technical nature were approved to the Articles of Association to reflect recent changes of Dutch law and related rules applicable to Dutch public companies, and at an Extraordinary General Meeting of Shareholders held on January 13, 2010 an amendment to the Articles of Association was approved to permit General Meetings of Shareholders to be held in Amsterdam, Rotterdam or Haarlemmermeer.

A copy of Reed Elsevier NV's Articles of Association is included as an exhibit to this Form 20-F — see "Item 19: Exhibits" on page S-1.

## MATERIAL CONTRACTS

On May 4, 2007 Reed Elsevier Group plc entered into a sale and purchase agreement with Pearson plc for the sale of its Harcourt Assessment and Harcourt Education International businesses. The sale completed in stages as regulatory approvals were received in each jurisdiction, with the final completion on January 30, 2008.

On July 16, 2007 Reed Elsevier Group plc entered into a sale and purchase agreement with Houghton Mifflin Riverdeep Group for the sale of its Harcourt US Schools Education business. Following receipt of regulatory approvals, the transaction closed on December 12, 2007.

On September 19, 2008 Reed Elsevier Group plc completed the acquisition by merger of ChoicePoint, Inc. (“ChoicePoint”), a Georgia corporation that provides data, analytics, software and other business information services to insurance companies and other background screening and authentication services, pursuant to an Agreement and Plan of Merger dated February 20, 2008.

Copies of the respective sales and purchase agreements and merger agreement are incorporated by reference from the 2007 Annual Report on Form 20-F filed with the SEC on March 20, 2008 — see “Item 19: Exhibits” on page S-1.

## 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*

Under current UK law (subject to the European Court of Justice (*ECJ*) case mentioned below), 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. However, a recent decision of the ECJ in the case of *HSBC Holdings plc v HMRC* held that that the 1.5% charge on issuing UK shares into clearance services within the European Union is unlawful. It is not clear to what extent this decision impacts on the lawfulness of the 1.5% charge on issuing or transferring shares into a depositary receipt service and, if so, whether this charge would be unlawful where the depositary receipt service is outside the European Union. In light of this, it is possible that the rules regarding the 1.5% charge may be contrary to European Union law or may change in the future. Accordingly specific professional advice should be sought before paying the 1.5 per cent charge.

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. Under current law, 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 be exempt from UK stamp duty.

Purchases of Reed Elsevier PLC ordinary shares, as opposed to ADSs, will generally 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 are normally subject to a withholding tax imposed by the Netherlands at a rate of 15%, which rate equals the rate of tax that the Netherlands is generally allowed to levy under the US-Netherlands income tax treaty. 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 by Reed Elsevier NV. Dividends include, among other things, stock dividends unless the dividend is distributed out of recognised paid-in share premium for Dutch tax purposes.

### *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. Benefits from miscellaneous activities in the Netherlands include income and gains derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (together, a "lucrative interest") that the holder thereof has acquired under such circumstances that such income and gains are intended to be remuneration for work or services performed by such holder (or a related person) in the Netherlands, whether within or outside an employment relation, where such lucrative interest provides the holder thereof, economically speaking, with certain benefits that have a relation to the relevant work or services.

## ***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.

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.

Subject to certain conditions and limitations, foreign withholding taxes on dividends withheld at the appropriate rate may be treated as foreign taxes eligible for credit against your US federal income tax liability. 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 category 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. Individuals that elect to treat the dividend income as ‘investment income’ pursuant to section 163(d)(4) of the Internal Revenue Code may take into account for foreign tax credit limitation purposes only the portion of the dividend effectively taxed at the highest applicable marginal rate.

#### *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 generally 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. Any gain or loss you recognise generally will be treated as income from US sources for foreign tax credit limitation purposes.

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.

Proposed legislation recently introduced in the US Congress, if enacted in its current form, would require certain individual US holders (or certain entities formed by or for US holders) to report information with respect to their investment in the ordinary shares or ADSs to the IRS effective for taxable years beginning after the year of enactment. Investors who fail to report required information could become subject to substantial penalties. Investors are encouraged to consult with their own tax advisors regarding the possible implications of this proposed legislation on their investment in the ordinary shares or ADSs.

### **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

### *Market Risk*

Reed Elsevier's primary market risks are to changes in interest rates and exchange rates as well as liquidity and credit risk.

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. Reed Elsevier companies engage in foreign currency denominated transactions and are therefore subject to exchange rate risk on such transactions. Net finance costs are also exposed to changes in the fair value of derivatives (as a result of interest and exchange rate fluctuations) 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's management of this interest rate risk and foreign exchange rate risk is described below.

Reed Elsevier manages a portfolio of long term debt, short term debt and committed bank facilities to support its capital structure and is exposed to the risk that relevant markets are closed and debt cannot be refinanced on a timely basis. In addition, the credit spread at which Reed Elsevier borrows is exposed to changes in market liquidity and investor demand. Reed Elsevier manages this risk by maintaining a range of borrowing facilities and debt programmes with a maturity profile to facilitate refinancing.

Reed Elsevier has a credit exposure for the full principal amount of cash and cash equivalents held with individual counterparties. In addition, it has a credit risk from the potential non performance by counterparties to financial instruments; this credit risk normally being restricted to the amounts of any hedge gain and not the full principal amount being hedged. Credit risks are managed by monitoring the credit quality of counterparties and restricting the amounts outstanding with each of them.

Reed Elsevier's management of the above market risks is described in further detail on pages 34 to 36 of Item 5: Operating and Financial Review and Prospects: Liquidity and Capital Resources — Reed Elsevier.

### *Management of Interest Rate Risk and Foreign Exchange Rate Risk*

Reed Elsevier seeks to limit its risk to interest and exchange rates 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 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 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 hedging effect 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.

Where net finance costs are exposed to changes in the fair value of derivatives (as a result of interest and exchange rate fluctuations), Reed Elsevier manages this risk 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.

#### *Sensitivity Analysis*

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, 2009. 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 20 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, 2009 with all other variables held constant.

Financial Instrument	Fair Value December 31, 2009 (In millions)	Fair Value Change		Fair Value December 31, 2008 (In millions)	Fair Value Change	
		+100 basis points	-100 basis points		+100 basis points	-100 basis points
Short term borrowings . . . . .	£ (515)	£ —	£ —	£ (446)	£ —	£ —
Long term borrowings (including current portion) . .	(4,650)	209	(226)	(5,853)	167	(197)
Interest rate swaps (swapping fixed rate debt to floating) . .	41	(44)	48	41	(15)	16
Interest rate swaps (swapping floating rate debt to fixed) . . . . .	(36)	15	(14)	(88)	38	(39)

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, 2009, 75% of gross borrowings (equivalent to 90% 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 £4 million (2008: £25 million), based on the composition of financial instruments including cash, cash equivalents, bank loans and commercial paper borrowings at December 31, 2009. A 100 basis points rise in interest rates would result in an estimated increase in net finance costs of £4 million (2008: £25 million).

#### *(b) Foreign Exchange Rate Risk*

The following sensitivity analysis assumes an immediate 10% change in all foreign currency exchange rates against sterling from their levels at December 31, 2009 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, 2009 (In millions)	Fair Value Change		Fair Value December 31, 2008 (In millions)	Fair Value Change	
		+10%	-10%		+10%	-10%
Cash and cash equivalents . . .	£ 734	£ 51	£ (43)	£375	£39	£ (32)
Short term borrowings . . . . .	(515)	(57)	47	(446)	(49)	41
Long term borrowings (including current portion) . .	(4,650)	(431)	353	(5,853)	(606)	496
Interest rate swaps (including cross currency interest rate swaps) . . . . .	12	2	(2)	(37)	(4)	3
Forward foreign exchange contracts . . . . .	(43)	(47)	47	(145)	(61)	61

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

## ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### Fees and charges for American Depositary Receipt (ADR) holders

The Bank of New York Mellon, as depositary for the Reed Elsevier PLC and Reed Elsevier NV American Depositary Receipt programs, collects its fees for delivery and surrender of American Depositary Shares (ADSs) directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

#### Persons depositing or withdrawing shares must pay

#### For

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property (in certain circumstances volume discounts may be available)
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$0.02 (or less) per ADS	Any cash distribution to ADS registered holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
\$0.02 (or less) per ADS per calendar year	Depositary services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
	Converting foreign currency to US dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

### Fees and other payments made by the depositary to Reed Elsevier

In consideration of acting as depositary, Bank of New York Mellon has agreed to make certain reimbursements and payments to Reed Elsevier on an annual basis for expenses related to the administration and maintenance of the ADR programs including, but not limited to, New York Stock Exchange listing fees, investor relations expenses, or any other program related expenses. The depositary has also agreed to pay the standard out-of-pocket administrative, maintenance and shareholder services expenses for providing services to the registered DR holders. It has also agreed with Reed Elsevier to waive certain standard fees associated with promotional services, program visibility campaigns and program analytic reporting. In certain instances, the depositary has agreed to provide additional annual reimbursements and payments to Reed Elsevier based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse Reed Elsevier, but the amount of reimbursement available to Reed Elsevier is not necessarily tied to the amount of fees the depositary collects from investors.

From January 1, 2009 to February 17, 2010, Reed Elsevier received a reimbursement of \$225,000, net of withheld taxes, from the depositary for New York Stock Exchange listing fees, investor relations expenses and other program related expenses, in connection with the ADR facility.

## 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, 2009. 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.

#### **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. 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 control over financial reporting of the Reed Elsevier combined businesses, Reed Elsevier PLC and Reed Elsevier NV were effective as of December 31, 2009.

Deloitte 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, 2009 have audited 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 S-1).

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 S-1).

#### **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 control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control 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 material 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, 2009 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. Further detail on the principal risks facing Reed Elsevier is set out on pages 7 to 10.

The major strategic risks facing the Reed Elsevier Group plc businesses are considered by the board. Reed Elsevier's Chief Risk Officer has the responsibility to provide regular reports to the Board and Audit Committee. Working closely with divisional and business management and with the central functions, the role of the Chief Risk Officer is to ensure that Reed Elsevier is managing its business risks effectively and in a coordinated manner across the business with clarity on the respective responsibilities and interdependencies. 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 and risk management matters. In addition, each division is required, at the end of the financial year, to review the effectiveness of internal controls and risk management 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 the 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 David Reid, Lisa Hook and Ben van der Veer.

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](http://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. As a non-US issuer, Reed Elsevier is only required to comply with certain of the NYSE corporate governance rules and is in compliance with all applicable rules. The NYSE's rules also require disclosure of 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.

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. The Corporate Governance Committee is made up of nine 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, David Reid and Ben van der Veer.

## 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 Financial Controller of Reed Elsevier Group plc. Both these codes of ethics are available on the Reed Elsevier website, [www.reedelsevier.com](http://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 LLP, Deloitte Accountants BV, the member firms of Deloitte Touche Tohmatsu and their respective affiliates, for the two years ended December 31, 2009 were as follows:

	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions)</b>	
Audit fees . . . . .	£4.5	£4.8
Audit related fees . . . . .	0.4	0.2
Tax fees . . . . .	0.7	0.6
All other fees . . . . .	0.1	1.3
Total . . . . .	<u>£5.7</u>	<u>£6.9</u>

Auditors’ remuneration includes £0.4 million (2008: £0.2 million) for audit related services such as royalty audits. Tax fees of £0.7 million (2008: £0.6 million) relate to tax compliance and advisory work. Other fees relate to due diligence and other transaction related services.

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 Committees.

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 Committees in advance of commissioning the work. Aggregate non audit fees must not exceed the annual audit fees in any given year, unless approved in advance by the Audit Committees.

All of the audit and non audit services carried out in the year ended December 31, 2009 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**

Reed Elsevier PLC, Reed Elsevier NV and the Reed Elsevier Group plc Employee Benefit Trust (“EBT”) have not made any share purchases during the year.

**ITEM 16F: CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G: CORPORATE GOVERNANCE**

Details of Reed Elsevier’s corporate governance practices are set out on page 81 of Item 15: Controls and Procedures.

### **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:

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Report of Independent Registered Public Accounting Firm . . . . .	F-5
Combined Income Statement for the year ended December 31, 2009 . . . . .	F-6
Combined Statement of Comprehensive Income for the year ended December 31, 2009 . . . . .	F-6
Combined Statement of Cash Flows for the year ended December 31, 2009 . . . . .	F-7
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Combined Statement of Changes in Equity for the year ended December 31, 2009 . . . . .	F-9
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**REED ELSEVIER  
COMBINED FINANCIAL STATEMENTS**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying statements of financial position 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, 2009, 2008 and 2007, and the related combined statements of income, cash flows, comprehensive income and changes in equity for each of the years then ended. These combined financial statements 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 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, 2009, 2008 and 2007, and the results of their operations and their cash flows for each of the years then ended, in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the combined businesses internal control over financial reporting as of December 31, 2009, 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 17, 2010 (see Item 19 — Exhibit 15.4) expressed an unqualified opinion on the combined businesses internal control over financial reporting.

/s/ DELOITTE LLP  
London, England  
February 17, 2010

/s/ DELOITTE ACCOUNTANTS B.V.  
Amsterdam, The Netherlands  
February 17, 2010

**REED ELSEVIER**  
**COMBINED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	2009 £m	2008 £m	2007 £m
Revenue — continuing operations . . . . .	3	6,071	5,334	4,584
Cost of sales . . . . .		(2,252)	(1,916)	(1,624)
Gross profit . . . . .		3,819	3,418	2,960
Selling and distribution costs . . . . .		(1,112)	(1,053)	(938)
Administration and other expenses . . . . .		(1,935)	(1,482)	(1,150)
Share of results of joint ventures . . . . .		15	18	16
Operating profit — continuing operations . . . . .	5	787	901	888
Finance income . . . . .	10	7	33	43
Finance costs . . . . .	10	(298)	(225)	(182)
Net finance costs . . . . .		(291)	(192)	(139)
Disposals and other non operating items . . . . .	11	(61)	(92)	63
Profit before tax — continuing operations . . . . .		435	617	812
Taxation . . . . .	12	(40)	(155)	82
Net profit from continuing operations . . . . .		395	462	894
Net profit from discontinued operations . . . . .	4	—	18	309
Net profit for the year . . . . .		395	480	1,203
Attributable to:				
Parent companies' shareholders . . . . .		391	476	1,200
Non-controlling interests . . . . .		4	4	3
Net profit for the year . . . . .		395	480	1,203

**REED ELSEVIER**  
**COMBINED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	2009 £m	2008 £m	2007 £m
Net profit for the year . . . . .		395	480	1,203
Exchange differences on translation of foreign operations . . . . .		(122)	340	(33)
Cumulative exchange differences on disposal of foreign operations . . . . .		—	27	148
Actuarial gains/(losses) on defined benefit pension schemes . . . . .	8	6	(347)	224
Fair value movements on available for sale investments . . . . .		—	(9)	—
Cumulative fair value movements on disposal of available for sale investments . . . . .		1	—	(7)
Fair value movements on cash flow hedges . . . . .		53	(243)	3
Transfer to net profit from hedge reserve (net of tax) . . . . .	20	84	(14)	(20)
Tax recognised directly in equity . . . . .	12	(25)	156	(50)
Other comprehensive (expense)/income for the year . . . . .		(3)	(90)	144
Total comprehensive income for the year . . . . .		392	390	1,468
Attributable to:				
Parent companies' shareholders . . . . .		388	386	1,465
Non-controlling interests . . . . .		4	4	3
Total comprehensive income for the year . . . . .		392	390	1,468

*The accompanying notes on pages F-10 to F-53 are an integral part of these combined financial statements*

**REED ELSEVIER**  
**COMBINED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	2009 £m	2008 £m	2007 £m
<i>Cash flows from operating activities — continuing operations</i>				
Cash generated from operations . . . . .	13	1,604	1,452	1,218
Interest paid . . . . .		(302)	(222)	(174)
Interest received . . . . .		9	43	26
Tax paid . . . . .		(120)	(215)	(239)
Net cash from operating activities . . . . .		<u>1,191</u>	<u>1,058</u>	<u>831</u>
<i>Cash flows from investing activities — continuing operations</i>				
Acquisitions . . . . .	13	(94)	(2,161)	(327)
Purchases of property, plant and equipment . . . . .		(78)	(57)	(65)
Expenditure on internally developed intangible assets . . . . .		(164)	(115)	(80)
Purchase of investments . . . . .		(3)	(4)	(4)
Proceeds from disposals of property, plant and equipment . . . . .		4	5	4
(Net costs)/proceeds from other disposals . . . . .		(2)	8	82
Dividends received from joint ventures . . . . .		23	23	12
Net cash used in investing activities . . . . .		<u>(314)</u>	<u>(2,301)</u>	<u>(378)</u>
<i>Cash flows from financing activities — continuing operations</i>				
Dividends paid to shareholders of the parent companies . . . . .		(457)	(2,404)	(416)
Distributions to non-controlling interests . . . . .		(3)	—	—
Increase/(decrease) in short term bank loans, overdrafts and commercial paper . . . . .		107	(407)	111
Issuance of other loans . . . . .		1,807	2,373	276
Repayment of other loans . . . . .		(2,862)	(411)	(311)
Repayment of finance leases . . . . .		(2)	(56)	(12)
Redemption of debt related derivative financial instrument . . . . .		—	62	—
Proceeds on issue of ordinary shares . . . . .		834	54	177
Purchase of treasury shares . . . . .		—	(94)	(273)
Net cash used in financing activities . . . . .		<u>(576)</u>	<u>(883)</u>	<u>(448)</u>
Net cash (used in)/from discontinued operations . . . . .	4	<u>—</u>	<u>(48)</u>	<u>1,912</u>
Increase/(decrease) in cash and cash equivalents . . . . .		<u>301</u>	<u>(2,174)</u>	<u>1,917</u>
<i>Movement in cash and cash equivalents</i>				
At start of year . . . . .		375	2,467	519
Increase/(decrease) in cash and cash equivalents . . . . .		301	(2,174)	1,917
Exchange translation differences . . . . .		58	82	31
At end of year . . . . .		<u>734</u>	<u>375</u>	<u>2,467</u>

*The accompanying notes on pages F-10 to F-53 are an integral part of these combined financial statements*

**REED ELSEVIER**  
**COMBINED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2009**

	Note	2009 £m	2008 £m	2007 £m
<i>Non-current assets</i>				
Goodwill . . . . .	16	4,339	4,901	2,462
Intangible assets . . . . .	17	3,632	4,404	2,089
Investments in joint ventures . . . . .	18	135	145	116
Other investments . . . . .	18	41	49	111
Property, plant and equipment . . . . .	19	292	329	239
Net pension assets . . . . .	8	110	152	183
Deferred tax assets . . . . .	21	208	353	141
		<u>8,757</u>	<u>10,333</u>	<u>5,341</u>
<i>Current assets</i>				
Inventories and pre-publication costs . . . . .	22	275	348	271
Trade and other receivables . . . . .	23	1,492	1,685	1,148
Derivative financial instruments . . . . .	20	71	76	210
Cash and cash equivalents . . . . .	13	734	375	2,467
		<u>2,572</u>	<u>2,484</u>	<u>4,096</u>
Assets held for sale . . . . .	24	5	49	341
Total assets . . . . .		<u>11,334</u>	<u>12,866</u>	<u>9,778</u>
<i>Current liabilities</i>				
Trade and other payables . . . . .	25	2,471	2,769	1,966
Derivative financial instruments . . . . .	20	102	258	22
Borrowings . . . . .	26	678	448	1,127
Taxation . . . . .		479	554	752
Provisions . . . . .	28	134	79	—
		<u>3,864</u>	<u>4,108</u>	<u>3,867</u>
<i>Non-current liabilities</i>				
Borrowings . . . . .	26	4,028	5,694	2,002
Deferred tax liabilities . . . . .	21	1,272	1,525	695
Net pension obligations . . . . .	8	345	521	133
Provisions . . . . .	28	61	35	21
		<u>5,706</u>	<u>7,775</u>	<u>2,851</u>
Liabilities associated with assets held for sale . . . . .	24	5	2	84
Total liabilities . . . . .		<u>9,575</u>	<u>11,885</u>	<u>6,802</u>
Net assets . . . . .		<u>1,759</u>	<u>981</u>	<u>2,976</u>
<i>Capital and reserves</i>				
Combined share capitals . . . . .	30	225	209	197
Combined share premiums . . . . .	31	2,807	2,529	2,143
Combined shares held in treasury . . . . .	32	(698)	(783)	(619)
Translation reserve . . . . .	33	(100)	(14)	(145)
Other combined reserves . . . . .	34	(502)	(988)	1,389
Combined shareholders' equity . . . . .		<u>1,732</u>	<u>953</u>	<u>2,965</u>
Non-controlling interests . . . . .		<u>27</u>	<u>28</u>	<u>11</u>
Total equity . . . . .		<u>1,759</u>	<u>981</u>	<u>2,976</u>

*The accompanying notes on pages F-10 to F-53 are an integral part of these combined financial statements*

**COMBINED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	Combined share capitals £m	Combined share premiums £m	Combined shares held in treasury £m	Translation reserve £m	Other combined reserves £m	Combined shareholders' equity £m	Non- controlling interests £m	Total equity £m
Balance at January 1, 2009. . . . .		209	2,529	(783)	(14)	(988)	953	28	981
Total comprehensive income for the year . . . . .		—	—	—	(122)	510	388	4	392
Dividends declared . . . . .	15	—	—	—	—	(457)	(457)	(3)	(460)
Issue of ordinary shares, net of expenses . . . . .		20	395	—	—	419	834	—	834
Increase in share based remuneration reserve . . . . .		—	—	—	—	17	17	—	17
Settlement of share awards . . . . .		—	—	57	—	(60)	(3)	—	(3)
Exchange differences on translation of capital and reserves		(4)	(117)	28	36	57	—	(2)	(2)
Balance at December 31, 2009		<u>225</u>	<u>2,807</u>	<u>(698)</u>	<u>(100)</u>	<u>(502)</u>	<u>1,732</u>	<u>27</u>	<u>1,759</u>

	Note	Combined share capitals £m	Combined share premiums £m	Combined shares held in treasury £m	Translation reserve £m	Other combined reserves £m	Combined shareholders' equity £m	Non- controlling interests £m	Total equity £m
Balance at January 1, 2008 . . . . .		197	2,143	(619)	(145)	1,389	2,965	11	2,976
Total comprehensive income for the year . . . . .		—	—	—	367	19	386	4	390
Dividends declared . . . . .	15	—	—	—	—	(2,404)	(2,404)	—	(2,404)
Issue of ordinary shares, net of expenses . . . . .		1	53	—	—	—	54	—	54
Increase in shares held in treasury . . . . .	32	—	—	(94)	—	—	(94)	—	(94)
Increase in share based remuneration reserve . . . . .		—	—	—	—	46	46	—	46
Settlement of share awards . . . . .		—	—	8	—	(8)	—	—	—
Acquisitions . . . . .		—	—	—	—	—	—	11	11
Exchange differences on translation of capital and reserves . . . . .		11	333	(78)	(236)	(30)	—	2	2
Balance at December 31, 2008. . . . .		<u>209</u>	<u>2,529</u>	<u>(783)</u>	<u>(14)</u>	<u>(988)</u>	<u>953</u>	<u>28</u>	<u>981</u>

	Note	Combined share capitals £m	Combined share premiums £m	Combined shares held in treasury £m	Translation reserve £m	Other combined reserves £m	Combined shareholders' equity £m	Non- controlling interests £m	Total equity £m
Balance at January 1, 2007. . . . .		191	1,879	(377)	(136)	409	1,966	13	1,979
Total comprehensive income for the year . . . . .		—	—	—	115	1,350	1,465	3	1,468
Dividends declared . . . . .	15	—	—	—	—	(416)	(416)	—	(416)
Issue of ordinary shares, net of expenses . . . . .		3	174	—	—	—	177	—	177
Increase in shares held in treasury . .	32	—	—	(273)	—	—	(273)	—	(273)
Increase in share based remuneration reserve . . . . .		—	—	—	—	46	46	—	46
Settlement of share awards . . . . .		—	—	49	—	(49)	—	—	—
Acquisitions . . . . .		—	—	—	—	—	—	—	—
Exchange differences on translation of capital and reserves . . . . .		3	90	(18)	(124)	49	—	(5)	(5)
Balance at December 31, 2007 . . . . .		<u>197</u>	<u>2,143</u>	<u>(619)</u>	<u>(145)</u>	<u>1,389</u>	<u>2,965</u>	<u>11</u>	<u>2,976</u>

*The accompanying notes on pages F-10 to F-53 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 issued by the International Accounting Standards Board (“IASB”) and IFRS as adopted by the European Union.

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 two parent companies, Reed Elsevier PLC and Reed Elsevier NV (“the combined businesses”).

**2. Accounting policies**

The Reed Elsevier accounting policies are set out below:

*Principles of combination*

In preparing the combined financial statements, subsidiaries of Reed Elsevier Group plc and Elsevier Reed Finance BV are accounted for under the purchase method and investments in associates and joint ventures are accounted for under the equity method. All transactions and balances between the combined businesses are eliminated.

On acquisition of a subsidiary, or interest in an associate or joint venture, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets, including identifiable intangible assets, acquired. This includes those adjustments made to bring accounting policies into line with those of the combined businesses. The results of subsidiaries sold or acquired are included in the combined financial statements up to or from the date that control passes from or to the combined businesses.

Non-controlling interests in the net assets of the combined businesses are identified separately from combined shareholders’ equity. Non-controlling interests consist of the amount of those interests at the date of original acquisition and the minority share of changes in equity since the date of acquisition.

*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 statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the statement of financial position date. Exchange differences arising are recorded in the income statement other than where hedge accounting applies as set out below.

Assets and liabilities of foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items and cash flows of foreign operations are translated at the average exchange rate for the period. Significant individual items of income and expense and cash flows in foreign operations are translated at the rate prevailing on the date of transaction. 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 and transactional — on despatch or occurrence of the transaction; advertising — on publication or over the period of online display; and exhibitions — on occurrence of the exhibition.

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

## 2. Accounting policies – (continued)

### *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 comprehensive income 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 statement of financial position 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 net pension assets are separately included in the statement of financial position. 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 Reed Elsevier's share based remuneration is equity settled.

### *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to bring to use are capitalised. All other interest on borrowings is expensed as incurred. The cost of issuing borrowings is generally expensed over the period of the borrowing so as to produce a constant periodic rate of charge.

### *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 statement of financial position 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.

## 2. Accounting policies – (continued)

### *Intangible assets*

Intangible assets acquired as part of a business combination are stated in the statement of financial position at their fair value as at the date of acquisition, less accumulated amortisation. Internally generated intangible assets are stated in the statement of financial position 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. trademarks, 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 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 statement of financial position 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 statement of financial position 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, including market comparisons and discounts of future cash flows, having regard to maximising the use of observable inputs and adjusting for risk. Advice from independent valuation experts are used as appropriate.

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

### *Impairment*

At each statement of financial position 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, which is the higher of value in use and fair value less costs to sell, 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, value in use 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 in administration and other expenses.

### *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

## 2. Accounting policies – (continued)

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 or software and the corresponding liability to pay rentals is shown net of interest in the statement of financial position 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.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances, call deposits and other short term highly liquid investments and are held in the statement of financial position at fair value.

### *Assets held for sale*

Assets of businesses that are available for immediate sale in their current condition and for which a sales process has been initiated are classified as assets held for sale, and are carried at the lower of amortised cost and fair value less costs to sell. Non-current assets are not amortised or depreciated following their classification as held for sale. Liabilities of businesses held for sale are also separately classified on the statement of financial position.

### *Discontinued operations*

A discontinued operation is a component of the combined businesses that represent a separate major line of business or geographical area of operations that has been disposed of or is held for sale. When an operation is classified as discontinued, the comparative income statement and statement of cash flows are re-presented as if the operation had been discontinued from the start of the comparative period.

### *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 statement of financial position 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 initially at fair value and subsequently at amortised cost.

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 statement of financial position 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 within finance costs. The offsetting gains or losses from remeasuring the fair value of the related derivatives are also recognised in the income statement within finance costs. When the related derivative expires, is sold or terminated, or no longer qualifies for hedge accounting, the cumulative change in fair value of the hedged borrowing is amortised in the income statement over the period to maturity of the borrowings using the effective interest method.

## 2. Accounting policies – (continued)

The fair values of interest rate swaps, interest rate options, forward rate agreements and forward foreign exchange contracts represent the replacement costs calculated using observable market rates of interest and exchange. The fair value of long term borrowings is calculated by discounting expected future cash flows at observable market rates. These instruments are accordingly classified as Level 2 in the IFRS7 fair value hierarchy.

Cash flow 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 and remain in equity until either the forecasted transaction occurs or is no longer expected to occur.

### *Provisions*

Provisions are recognised when a present obligation exists as a result of a past event, and it is probable that settlement of the obligation will be required. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the statement of financial position date.

### *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.

### *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 judgement, relate to the valuation of goodwill and intangible assets, share based remuneration, pensions, taxation and property provisioning. The carrying amounts of goodwill and intangible assets are reviewed at least annually, 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. Further detail on impairment testing is provided in note 16. The charge for share based remuneration is determined based on the number of awards that are expected to vest and the fair value of awards at the date of grant by use of binomial or Monte Carlo simulation models as appropriate, which require judgements to be made regarding expected levels of vesting, share price volatility, dividend yield, risk free rates of return and expected option lives. Further detail on share based remuneration is provided in note 9. Key estimates in accounting for defined benefit pension schemes 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. Further detail is provided in note 8. Reed Elsevier's policy is to make provision for tax uncertainties where it is considered probable that tax payments may arise. Deferred taxation is provided for nearly all differences between the statement of financial position 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. Property provisions are determined based on management's estimates of future sublease income.

### *Standards and amendments effective for the year*

IFRS8 — Operating Segments 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 has not changed significantly the disclosure of information in respect of Reed Elsevier's operating segments.

Amendment to IAS23 — Borrowing Costs removes the option to immediately recognise as an expense borrowing costs relating to assets requiring a substantial period of time to get ready for use or sale and requires such costs to be capitalised. Adoption of this standard has required a change of accounting policy on borrowing costs and has not led to any significant of borrowing costs being capitalised in the year ended December 31, 2009.

Amendment to IAS1 — Presentation of Financial Statements introduces changes to the way in which movements in equity must be disclosed and requires an entity to disclose separately each component of other comprehensive income not recognised

## 2. Accounting policies – (continued)

in profit or loss. The amendment also requires disclosure of the amount of income tax relating to each component of other comprehensive income as well as several other minor disclosure amendments.

Amendment to IFRS2 — Share Based Payment clarifies that cancellations of share options, whether by the entity or holder, should be accounted for as an acceleration of the vesting period. The amendment also restricts the definition of a vesting condition to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. The amendment has not significantly impacted the measurement, presentation or disclosure of share based remuneration in the combined financial statements.

Amendment to IFRS7 — Financial Instruments: Disclosures requires financial instruments held at fair value to be disclosed according to a three tier hierarchy depending on the inputs used in their valuation. Adoption of this amendment has resulted in minor changes to Reed Elsevier's disclosures for financial instruments.

### *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.

Amendments to IFRS3 — Business Combinations (effective for the 2010 financial year). The amendments introduce changes that will require future transaction related costs (including professional fees) to be expensed and adjustments to contingent consideration to be recognised in income and will allow non-controlling interests to be measured at either fair value or the proportionate share of net identifiable assets.

Amendments to IAS27 — Consolidated and Separate Financial Statements (effective for the 2010 financial year). The amendments introduce changes to the accounting for partial disposals of subsidiaries, associates and joint ventures. Adoption of these amendments is not expected to significantly impact the measurement, presentation or disclosure of future disposals.

Amendment to IAS39 — Financial Instruments: Recognition and Measurement (effective for the 2010 financial year). The amendment clarifies the eligibility of hedge accounting for inflation and hedging with options. Adoption of this amendment is not expected to have a significant impact on the measurement, presentation or disclosure of financial instruments in the combined financial statements.

Amendments to IAS32 — Financial Instruments: Presentation (effective for the 2010 financial year). The amendment provides relief to companies making rights issues in a currency other than their functional currency. This amendment does not affect Reed Elsevier as shares are not issued in currencies other than its functional currencies.

IFRS9 — Financial Instruments (effective for the 2013 financial year, with earlier adoption permitted). The standard replaces the existing classification and measurement requirements in IAS39 for financial assets by requiring entities to classify them as being measured either at amortised cost or fair value depending on the business model and contractual cash flow characteristics of the asset. Adoption of this standard is not expected to have a significant impact on the measurement, presentation or disclosure of financial assets in the combined financial statements.

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 has adopted IFRS8 — Operating Segments with effect from January 1, 2009 and this has not resulted in a change to reported segments. Reed Elsevier's reported segments are based on the internal reporting structure and financial information provided to the Chief Executive Officer and Boards.

Reed Elsevier is a publisher and information provider organised as four business segments: Elsevier, comprising scientific, technical and medical publishing; LexisNexis, providing legal, tax, regulatory, risk information and analytics, and business information solutions to professional, business and government customers; Reed Exhibitions, organising trade exhibitions and conferences; and Reed Business Information, providing information and marketing solutions to business professionals.

Adjusted operating profit is a performance measure included on the basis that it is a key financial measure used by management to evaluate performance and allocate resources to the business segments. Adjusted operating profit represents operating profit before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and is grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs relate principally to the major restructuring programmes announced in February 2008 and 2009. Exceptional restructuring costs principally comprise severance, outsourcing migration and associated property costs.



### 3. Segment analysis – (continued)

#### *Analysis by business segment*

	2009 £m	2008 £m	2007 £m
<i>Revenue</i>			
Elsevier . . . . .	1,985	1,700	1,507
LexisNexis . . . . .	2,557	1,940	1,594
Reed Exhibitions . . . . .	638	707	577
Reed Business Information . . . . .	891	987	906
Total . . . . .	<u>6,071</u>	<u>5,334</u>	<u>4,584</u>
<i>Operating profit</i>			
Elsevier . . . . .	563	443	410
LexisNexis . . . . .	337	291	287
Reed Exhibitions . . . . .	79	123	106
Reed Business Information . . . . .	(163)	55	91
Subtotal . . . . .	816	912	894
Corporate costs . . . . .	(35)	(50)	(45)
Unallocated net pension credit . . . . .	6	39	39
Total . . . . .	<u>787</u>	<u>901</u>	<u>888</u>
<i>Adjusted operating profit</i>			
Elsevier . . . . .	693	568	477
LexisNexis . . . . .	665	513	406
Reed Exhibitions . . . . .	152	183	139
Reed Business Information . . . . .	89	126	121
Subtotal . . . . .	1,599	1,390	1,143
Corporate costs . . . . .	(35)	(50)	(45)
Unallocated net pension credit . . . . .	6	39	39
Total . . . . .	<u>1,570</u>	<u>1,379</u>	<u>1,137</u>



### 3. Segment analysis – (continued)

#### Analysis by geographical origin

	2009 £m	2008 £m	2007 £m
<i>Revenue</i>			
North America . . . . .	3,228	2,544	2,147
United Kingdom . . . . .	897	905	896
The Netherlands . . . . .	662	594	505
Rest of Europe . . . . .	851	893	708
Rest of world . . . . .	433	398	328
Total . . . . .	<u>6,071</u>	<u>5,334</u>	<u>4,584</u>
<i>Operating profit</i>			
North America . . . . .	252	334	353
United Kingdom . . . . .	183	183	180
The Netherlands . . . . .	218	179	179
Rest of Europe . . . . .	95	151	118
Rest of world . . . . .	39	54	58
Total . . . . .	<u>787</u>	<u>901</u>	<u>888</u>
<i>Adjusted operating profit</i>			
North America . . . . .	777	618	505
United Kingdom . . . . .	257	239	211
The Netherlands . . . . .	243	206	181
Rest of Europe . . . . .	212	237	174
Rest of world . . . . .	81	79	66
Total . . . . .	<u>1,570</u>	<u>1,379</u>	<u>1,137</u>

Revenue is analysed before the £118 million (2008: £104 million; 2007: £103 million) share of joint ventures' revenue, of which £25 million (2008: £23 million; 2007: £21 million) relates to LexisNexis, principally to Giuffrè, £90 million (2008: £80 million; 2007: £82 million) relates to Reed Exhibitions, principally to exhibition joint ventures, and £3 million (2008: £1 million; 2007: nil) relates to Reed Business Information.

Share of post-tax results of joint ventures of £15 million (2008: £18 million; 2007: £16 million) included in operating profit comprises £4 million (2008: £4 million; 2007: £3 million) relating to LexisNexis, £10 million (2008: £14 million; 2007: £13 million) relating to Reed Exhibitions and £1 million (2008: nil; 2007: nil) relating to Reed Business Information. The unallocated net pension credit of £6 million (2008: £39 million; 2007: £39 million) comprises the expected return on pension scheme assets of £189 million (2008: £219 million; 2007: £196 million) less interest on pension scheme liabilities of £183 million (2008: £180 million; 2007: £157 million).

A reconciliation of operating profit to adjusted operating profit is provided below:

	2009 £m	2008 £m	2007 £m
Operating profit — continuing operations . . . . .	£787	£901	£888
Adjustments:			
Amortisation of acquired intangible assets . . . . .	368	281	221
Impairment of acquired intangible assets and goodwill . . . . .	177	9	—
Exceptional restructuring costs . . . . .	182	152	—
Acquisition related costs . . . . .	48	27	20
Reclassification of tax in joint ventures . . . . .	8	9	8
Adjusted operating profit from continuing operations . . . . .	<u>£1,570</u>	<u>£1,379</u>	<u>£1,137</u>

### 3. Segment analysis – (continued)

#### *Analysis by geographical market*

	2009 £m	2008 £m	2007 £m
<i>Revenue</i>			
North America . . . . .	3,310	2,624	2,233
United Kingdom . . . . .	513	580	603
The Netherlands . . . . .	243	234	206
Rest of Europe . . . . .	1,132	1,136	897
Rest of world . . . . .	873	760	645
Total . . . . .	6,071	5,334	4,584

#### *Analysis by type*

	2009 £m	2008 £m	2007 £m
<i>Revenue</i>			
Subscriptions . . . . .	2,711	2,381	2,079
Circulation/transactions . . . . .	1,708	1,142	916
Advertising . . . . .	585	737	699
Exhibitions . . . . .	626	702	569
Other . . . . .	441	372	321
Total . . . . .	6,071	5,334	4,584

#### *Analysis by business segment*

	2009 £m	2008 £m	2007 £m
<i>Expenditure on acquired goodwill and intangible assets</i>			
Elsevier . . . . .	4	31	193
LexisNexis . . . . .	7	2,705	42
Reed Exhibitions . . . . .	12	58	61
Reed Business Information . . . . .	—	64	67
Total . . . . .	23	2,858	363

### 3. Segment analysis – (continued)

	2009 £m	2008 £m	2007 £m
<i>Capital expenditure additions</i>			
Elsevier . . . . .	72	54	50
LexisNexis . . . . .	139	74	76
Reed Exhibitions . . . . .	11	11	8
Reed Business Information . . . . .	18	26	21
Subtotal . . . . .	240	165	155
Corporate . . . . .	17	7	1
Total . . . . .	257	172	156
<i>Amortisation and impairment of acquired intangible assets and goodwill</i>			
Elsevier . . . . .	78	76	62
LexisNexis . . . . .	231	137	105
Reed Exhibitions . . . . .	63	46	27
Reed Business Information . . . . .	173	31	27
Total . . . . .	545	290	221
<i>Depreciation and other amortisation</i>			
Elsevier . . . . .	73	51	47
LexisNexis . . . . .	99	68	72
Reed Exhibitions . . . . .	7	6	4
Reed Business Information . . . . .	29	25	23
Subtotal . . . . .	208	150	146
Corporate . . . . .	15	17	2
Total . . . . .	223	167	148

Capital expenditure comprises additions to property, plant and equipment and internally developed intangible assets. Amortisation and impairment of acquired intangible assets and goodwill includes amounts in respect of joint ventures of £12 million (2008: £3 million; 2007: £2 million) in Reed Exhibitions. Other than the depreciation, amortisation and impairment above, non cash items include £17 million (2008: £46 million; 2007: £38 million) relating to the recognition of share based remuneration and comprise £4 million (2008: £7 million; 2007: £8 million) in Elsevier; £7 million (2008: £8 million; 2007: £10 million) in LexisNexis; £2 million (2008: £3 million; 2007: £3 million) in Reed Exhibitions; £2 million (2008: £6 million; 2007: £8 million) in Reed Business Information; and £2 million (2008: £22 million; 2007: £9 million) in Corporate.

### 3. Segment analysis – (continued)

#### *Analysis by business segment*

	2009 £m	2008 £m	2007 £m
<i>Total assets</i>			
Elsevier . . . . .	2,915	3,264	2,515
LexisNexis . . . . .	5,872	6,758	2,531
Reed Exhibitions . . . . .	728	862	658
Reed Business Information . . . . .	547	864	682
Subtotal. . . . .	10,062	11,748	6,386
Taxation . . . . .	208	353	141
Cash . . . . .	734	375	2,467
Net pension assets . . . . .	110	152	183
Assets held for sale. . . . .	5	49	341
Other assets . . . . .	215	189	260
Total . . . . .	11,334	12,866	9,778

#### *Analysis by geographical location*

	2009 £m	2008 £m	2007 £m
<i>Total assets</i>			
North America . . . . .	7,570	9,123	4,549
United Kingdom. . . . .	1,164	967	2,119
The Netherlands . . . . .	687	742	1,541
Rest of Europe . . . . .	1,504	1,630	1,300
Rest of world. . . . .	409	404	269
Total . . . . .	11,334	12,866	9,778

Investments in joint ventures of £135 million (2008: £145 million; 2007: £116 million) included in segment assets above comprise £38 million (2008: £42 million; 2007: £30 million) relating to LexisNexis; £92 million (2008: £99 million; 2007: £83 million) relating to Reed Exhibitions; and £5 million (2008: £4 million; 2007: £2 million) relating to Reed Business Information.

### 4. Discontinued operations

Discontinued operations comprise the results of the Education division, the disposal of which completed in January 2008 with the sale of the educational assessment business. The disposal of the US K-12 Schools Education and International businesses had completed in 2007.

#### *Net profit from discontinued operations*

	2009 £m	2008 £m	2007 £m
Revenue . . . . .	—	12	752
Operating costs . . . . .	—	(12)	(640)
Operating profit and profit before tax . . . . .	—	—	112
Taxation . . . . .	—	—	(34)
Profit after taxation . . . . .	—	—	78
Gain on disposals. . . . .	—	67	611
Tax on disposals . . . . .	—	(49)	(380)
Net profit from discontinued operations . . . . .	—	18	309

#### 4. Discontinued operations — (continued)

The gain on disposals of discontinued operations in 2008 relates to the sale of the educational assessment business (2007: US K-12 Schools Education and International businesses). Net assets disposed in 2008 comprise £92 million (2007: £318 million) of goodwill, £74 million (2007: £383 million) of intangible assets, £9 million (2007: £39 million) of property, plant and equipment, £53 million (2007: £377 million) of inventory and £16 million of other net assets (2007: £40 million). Tax on disposals in 2007 is stated before taking account of tax credits of £223 million in respect of previously unrecognised deferred tax assets and capital losses. These were realised as a result of the disposal of discontinued operations, but were reported within continuing operations whence they first arose.

##### *Cash flows from discontinued operations*

	2009 £m	2008 £m	2007 £m
Net cash flow from operating activities . . . . .	—	2	33
Net cash flow (used in)/from investing activities . . . . .	—	(50)	1,879
Net cash flow from financing activities . . . . .	—	—	—
Net movement in cash and cash equivalents . . . . .	—	(48)	1,912

Net cash flow from investing activities in 2008 includes cash proceeds, net of expenses, on the completed disposals of £270 million (2007: £1,912 million) and taxes paid on completed disposals of £320 million (2007: nil). Cash and cash equivalents disposed of in 2008 was nil (2007: £7 million).

#### 5. Operating profit

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

	Note	2009 £m	2008 £m	2007 £m
<i>Staff costs</i>				
Wages and salaries . . . . .		1,610	1,384	1,192
Social security costs . . . . .		183	164	144
Pensions . . . . .	8	42	59	49
Share based remuneration . . . . .	9	17	46	38
Total staff costs . . . . .		1,852	1,653	1,423
<i>Depreciation, amortisation and impairment</i>				
Amortisation of acquired intangible assets . . . . .	17	364	278	219
Share of joint ventures' amortisation of acquired intangible assets . . . . .		4	3	2
Impairment of acquired intangible assets and goodwill . . . . .	16, 17	169	9	—
Impairment of goodwill in joint ventures . . . . .		8	—	—
Amortisation of internally developed intangible assets . . . . .	17	139	88	72
Depreciation of property, plant and equipment . . . . .	19	84	79	76
Total depreciation, amortisation and impairment . . . . .		768	457	369
<i>Other expenses and income</i>				
Pre-publication costs, inventory expenses and other cost of sales . . . . .		2,252	1,916	1,624
Operating lease rentals expense . . . . .		132	116	105
Operating lease rentals income . . . . .		(12)	(13)	(15)

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

Staff costs for discontinued operations for the year ended December 31, 2008 were £5 million (2007: £162 million) for wages and salaries; nil (2008: nil; 2007: £10 million) for social security costs; nil (2008: nil; 2007: £11 million) for pensions and nil (2008: nil; 2007: £8 million) for share based remuneration.

## 6. Auditors' remuneration

	2009 £m	2008 £m	2007 £m
For audit services . . . . .	4.5	4.8	3.9
For non audit services . . . . .	1.2	2.1	1.5
Total auditors' remuneration . . . . .	5.7	6.9	5.4

Auditors' remuneration for audit services comprises £0.4 million (2008: £0.4 million; 2007: £0.4 million) payable to the auditors of the parent companies and £4.1 million (2008: £4.4 million; 2007: £3.5 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 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: £0.7 million (2008: £0.6 million; 2007: £0.6 million) for taxation services, £0.1 million (2008: £1.3 million; 2007: £0.7 million) for due diligence and other transaction related services and £0.4 million (2008: £0.2 million; 2007: £0.2 million) for other non audit services.

## 7. Personnel

*Number of people employed – continuing operations*

	At December 31,		Average during the year		
	2009	2008	2009	2008	2007
<i>Business segment</i>					
Elsevier . . . . .	6,800	7,200	6,900	7,200	7,200
LexisNexis . . . . .	15,200	15,900	15,400	13,800	13,400
Reed Exhibitions . . . . .	2,500	2,700	2,600	2,700	2,600
Reed Business Information . . . . .	6,900	8,200	7,500	8,300	8,100
Sub-total . . . . .	31,400	34,000	32,400	32,000	31,300
Corporate/shared functions . . . . .	900	800	900	800	300
Total . . . . .	32,300	34,800	33,300	32,800	31,600
<i>Geographical location</i>					
North America . . . . .	17,600	18,800	18,000	16,600	15,600
United Kingdom . . . . .	4,900	5,300	5,000	5,400	5,400
The Netherlands . . . . .	2,000	2,300	2,100	2,400	2,400
Rest of Europe . . . . .	4,200	4,700	4,500	4,700	4,600
Rest of world . . . . .	3,600	3,700	3,700	3,700	3,600
Total . . . . .	32,300	34,800	33,300	32,800	31,600

The number of people employed by the discontinued operations at December 31, 2008 was nil. The average number of people employed by discontinued operations during 2008 was 100 (2007: 4,300).

## 8. 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 for the purpose of valuation under IAS19 — Employee Benefits are presented below as the weighted average of the various defined benefit pension schemes. The defined benefit pension expense for each year is based on the assumptions and scheme valuations set at December 31 of the prior year.

	At December 31,		
	2009	2008	2007
Discount rate . . . . .	5.8%	6.2%	5.9%
Expected rate of return on scheme assets . . . . .	7.0%	7.1%	7.1%
Expected rate of salary increases . . . . .	4.0%	3.7%	4.4%
Inflation . . . . .	3.1%	2.7%	3.1%
Future pension increases . . . . .	3.1%	2.8%	3.2%

## 8. Pension schemes – (continued)

The expected rates of return on individual categories of scheme assets are determined by reference to relevant market indices and market expectations of real rates of return. 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 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)	2009		2008		2007	
	Male (years)	Female (years)	Male (years)	Female (years)	Male (years)	Female (years)
Member currently aged 60 . . . . .	88	87	86	87	86	87
Member currently aged 45 . . . . .	88	87	86	87	86	87

The pension expense recognised within the income statement comprises:

	2009 £m	2008 £m	2007 £m
Service cost (including curtailment credits of £43 million (2008: nil; 2007: £19 million)) . . . . .	24	75	78
Interest on pension scheme liabilities . . . . .	183	180	157
Expected return on scheme assets . . . . .	(189)	(219)	(196)
Net defined benefit pension expense . . . . .	18	36	39
Defined contribution pension expense . . . . .	24	23	21
Total pension expense . . . . .	42	59	60

The service cost in 2007 includes £8 million in respect of discontinued operations. In 2007 a total of £3 million was recognised as an expense in relation to defined contribution pension schemes in respect of discontinued operations. Included in gains on disposals of discontinued operations in 2008 are £3 million (2007: £11 million) of pension curtailment credits.

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

	2009			2008			2007		
	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 start of year . . . . .	(3,051)	2,682	(369)	(2,968)	3,018	50	(3,008)	2,772	(236)
Service cost . . . . .	(24)	—	(24)	(75)	—	(75)	(78)	—	(78)
Interest on pension scheme liabilities . . . . .	(183)	—	(183)	(180)	—	(180)	(157)	—	(157)
Expected return on scheme assets . . . . .	—	189	189	—	219	219	—	196	196
Actuarial (loss)/gain . . . . .	(295)	301	6	418	(765)	(347)	190	34	224
Contributions by employer . . . . .	—	101	101	—	79	79	—	83	83
Contributions by employees . . . . .	(12)	12	—	(13)	13	—	(13)	13	—
Benefits paid . . . . .	134	(134)	—	119	(119)	—	114	(110)	4
Acquisitions . . . . .	—	—	—	(9)	—	(9)	—	—	—
Curtailment on disposal of operations . . . . .	—	—	—	3	—	3	11	—	11
Exchange translation differences . . . . .	129	(84)	45	(346)	237	(109)	(27)	30	3
At end of year . . . . .	(3,302)	3,067	(235)	(3,051)	2,682	(369)	(2,968)	3,018	50

The net pension obligations of £235 million at December 31, 2009 (2008: £369 million; 2007: surplus £50 million) comprise schemes in deficit with net pension obligations of £345 million (2008: £521 million; 2007: £133 million) and schemes in surplus with net pension assets of £110 million (2008: £152 million; 2007: £183 million).



## 8. Pension schemes – (continued)

As at December 31, 2009 the defined benefit obligations comprise £3,172 million (2008: £2,923 million; 2007: £2,877 million) in relation to funded schemes and £130 million (2008: £128 million; 2007: £91 million) in relation to unfunded schemes. The weighted average duration of defined benefit scheme liabilities is 19 years (2008: 19 years; 2007: 19 years).

Deferred tax liabilities of £31 million (2008: £44 million; 2007: £51 million) and deferred tax assets of £122 million (2008: £190 million; 2007: £52 million) are recognised in respect of the pension scheme surpluses and deficits respectively.

The fair value of scheme assets held as equities, bonds and other assets, and their expected rates of return as at December 31, is shown below:

	2009			2008			2007		
	Expected rate of return on scheme assets	Fair value of scheme assets	Proportion of total scheme assets	Expected rate of return on scheme assets	Fair value of scheme assets	Proportion of total scheme assets	Expected rate of return on scheme assets	Fair value of scheme assets	Proportion of total scheme assets
	%	£m	%	%	£m	%	%	£m	%
Equities . . . . .	8.6	1,827	60	8.9	1,408	52	8.3	1,904	63
Bonds . . . . .	4.5	1,069	35	4.3	1,167	44	4.6	970	32
Other . . . . .	5.3	171	5	5.5	107	4	5.3	144	5
Total . . . . .	7.0	3,067	100	7.1	2,682	100	7.1	3,018	100

The actual return on scheme assets for the year ended December 31, 2009 was a £490 million gain (2008: £546 million loss; 2007: £230 million gain).

A summary of pension balances in respect of funded and unfunded schemes for the five years ended December 31, 2009 is set out below.

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets . . . . .	3,067	2,682	3,018	2,772	2,575
Defined benefit obligations . . . . .	(3,302)	(3,051)	(2,968)	(3,008)	(2,980)
Net pension (obligations)/surplus . . . . .	(235)	(369)	50	(236)	(405)

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Gains and losses arising during the year:					
Experience gains/(losses) on scheme liabilities . . . . .	18	(9)	(28)	(30)	(25)
Experience gains/(losses) on scheme assets . . .	301	(765)	34	99	230
Actuarial gains/(losses) arising on the present value of scheme liabilities due to changes in:					
— discount rates . . . . .	(249)	202	367	198	(217)
— inflation . . . . .	(124)	198	(152)	(77)	—
— life expectancy and other actuarial assumptions . . . . .	60	27	3	(51)	(25)
	6	(347)	224	139	(37)
Net cumulative (losses)/gains at start of year . . .	(95)	252	28	(111)	(74)
Net cumulative (losses)/gains at end of year . . .	(89)	(95)	252	28	(111)

Regular contributions to defined benefit pension schemes in 2010 are expected to be approximately £89 million.

## 8. Pension schemes – (continued)

### *Sensitivity analysis*

Valuation of Reed Elsevier's pension scheme liabilities involves judgements 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. Differences arising from actual experience or future changes in assumptions may materially affect future pension charges. 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 . . . . .	5
Decrease/increase in defined benefit pension obligations . . . . .	<u>143</u>
Increase/decrease of one year in assumed life expectancy:	
Increase/decrease in annual net pension expense . . . . .	5
Increase/decrease in defined benefit pension obligations . . . . .	<u>75</u>
Increase/decrease of 0.25% in the expected inflation rate:	
Increase/decrease in annual net pension expense . . . . .	6
Increase/decrease in defined benefit pension obligations . . . . .	<u>122</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 £8 million and would increase/decrease the amount of the net pension surplus by £91 million.

## 9. 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 Plan (LTIP), the Retention Share Plan (RSP) and the Bonus Investment Plan (BIP). Share options granted under ESOS and LTIP 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, LTIP, 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 LTIP, 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. LTIP grants made in 2006, 2007, 2008 and 2009 are also 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, 2009 are set out below. The fair values of grants are recognised in the income statement over the vesting period, typically three years.

## 9. Share based remuneration – (continued)

### 2009 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 . . . . .	4,303	0.93	4	2,799	1.44	4	8
Other . . . . .	1,284	1.25	2	588	0.87	1	3
Total share options . . . . .	5,587	1.00	6	3,387	1.34	5	11
Conditional shares							
ESOS . . . . .	770	4.91	4	500	7.52	4	8
LTIP . . . . .	1,845	6.26	12	1,198	9.73	12	24
RSP . . . . .	204	4.95	1	133	7.58	1	2
BIP . . . . .	661	4.48	3	352	6.48	2	5
Total conditional shares . . . . .	3,480	5.55	20	2,183	8.57	19	39
Total . . . . .			26			24	50

### 2008 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 . . . . .	4,397	1.14	5	2,891	1.57	4	9
Other . . . . .	656	1.73	1	694	0.97	1	2
Total share options . . . . .	5,053	1.22	6	3,585	1.45	5	11
Conditional shares							
ESOS . . . . .	717	5.79	4	469	8.85	4	8
LTIP . . . . .	1,524	6.98	11	1,006	10.85	11	22
RSP . . . . .	19	5.79	—	13	8.89	—	—
BIP . . . . .	720	6.17	4	319	9.10	3	7
Total conditional shares . . . . .	2,980	6.49	19	1,807	10.01	18	37
Total . . . . .			25			23	48

## 9. Share based remuneration – (continued)

### 2007 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 . . . . .	4,246	1.30	5	2,802	1.66	5	10
Other . . . . .	1,058	1.78	2	423	0.99	—	2
Total share options . . . . .	5,304	1.40	7	3,225	1.57	5	12
Conditional shares							
ESOS . . . . .	775	5.94	5	510	8.96	5	10
LTIP . . . . .	1,584	7.14	11	1,047	10.92	11	22
RSP . . . . .	78	5.50	—	53	7.78	—	—
BIP . . . . .	662	5.67	4	308	8.20	3	7
Total conditional shares . . . . .	3,099	6.48	20	1,918	9.88	19	39
Total . . . . .			27			24	51

The main assumptions used to determine the fair values 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		
	2009	2008	2007	2009	2008	2007
Weighted average share price at date of grant						
ESOS . . . . .	£5.39	£6.26	£6.42	€9.35	€12.16	€14.41
LTIP . . . . .	£5.44	£6.27	£6.43	€9.50	€12.19	€14.45
RSP . . . . .	£5.42	£6.28	£6.39	€9.42	€12.21	€14.31
BIP . . . . .	£4.91	£6.68	£6.15	€8.05	€12.51	€13.37
Other . . . . .	£5.02	£6.30	£6.01	€8.31	€11.55	€13.44
Expected share price volatility . . . . .	26%	22%	22%	26%	22%	22%
Expected option life . . . . .	4 years	4 years	4 years	4 years	4 years	4 years
Expected dividend yield . . . . .	3.1%	2.7%	2.7%	3.4%	3.2%	3.2%
Risk free interest rate . . . . .	2.0%	4.4%	5.6%	2.4%	3.6%	4.2%
Expected lapse rate . . . . .	3-5%	3-5%	3-5%	3-4%	3-4%	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.

## 9. Share based remuneration – (continued)

The share based remuneration awards outstanding as at December 31, 2009 in respect of both Reed Elsevier PLC and Reed Elsevier NV ordinary shares, are set out below.

In respect of Reed Elsevier PLC ordinary shares								
ESOS		LTIP		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, 2007 . . . . .	48,192	523	5,017	488	3,373	414	56,582	513
Granted . . . . .	4,246	642	—	—	1,058	480	5,304	610
Exercised . . . . .	(16,724)	497	(2,145)	487	(771)	411	(19,640)	493
Forfeited . . . . .	(1,105)	564	—	—	(476)	431	(1,581)	524
Expired . . . . .	(542)	571	—	—	(74)	415	(616)	552
Outstanding at January 1, 2008 . . . . .	34,067	547	2,872	489	3,110	434	40,049	534
Granted . . . . .	4,397	626	—	—	656	504	5,053	610
Exercised . . . . .	(6,134)	517	(547)	487	(659)	411	(7,340)	505
Forfeited . . . . .	(846)	607	—	—	(441)	459	(1,287)	556
Expired . . . . .	(1,312)	570	—	—	(35)	407	(1,347)	561
Outstanding at January 1, 2009 . . . . .	30,172	562	2,325	489	2,631	454	35,128	549
Granted . . . . .	4,303	539	—	—	1,284	402	5,587	508
Exercised . . . . .	(781)	436	—	—	(436)	404	(1,217)	424
Forfeited . . . . .	(1,638)	602	—	—	(578)	469	(2,216)	549
Expired . . . . .	(1,490)	522	(66)	487	(41)	408	(1,597)	518
Outstanding at December 31, 2009 . . . . .	30,566	562	2,259	489	2,860	436	35,685	547
Exercisable at December 31, 2007 . . . . .	19,704	536	2,872	489	50	425	22,626	530
Exercisable at December 31, 2008 . . . . .	19,692	540	2,325	489	69	420	22,086	534
Exercisable at December 31, 2009 . . . . .	20,763	547	2,259	489	349	422	23,371	540

In respect of Reed Elsevier NV ordinary shares								
ESOS		LTIP		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, 2007 . . . . .	32,956	11.55	3,445	10.58	1,846	12.21	38,247	11.50
Granted . . . . .	2,802	14.41	—	—	423	13.44	3,225	14.28
Exercised . . . . .	(10,737)	10.73	(1,527)	10.57	(202)	11.50	(12,466)	10.73
Forfeited . . . . .	(738)	12.29	—	—	(23)	13.89	(761)	12.34
Expired . . . . .	(390)	13.28	—	—	—	—	(390)	13.28
Outstanding at January 1, 2008 . . . . .	23,893	12.16	1,918	10.60	2,044	12.54	27,855	12.08
Granted . . . . .	2,891	12.16	—	—	694	11.55	3,585	12.04
Exercised . . . . .	(2,579)	10.78	(109)	10.57	(5)	10.85	(2,693)	10.77
Forfeited . . . . .	(560)	13.04	—	—	(376)	12.94	(936)	13.00
Expired . . . . .	(1,834)	13.43	—	—	—	—	(1,834)	13.43
Outstanding at January 1, 2009 . . . . .	21,811	12.23	1,809	10.60	2,357	12.19	25,977	12.11
Granted . . . . .	2,799	9.35	—	—	588	8.31	3,387	9.17
Exercised . . . . .	—	—	—	—	(32)	7.93	(32)	7.93
Forfeited . . . . .	(1,203)	11.73	—	—	(376)	12.00	(1,579)	11.84
Expired . . . . .	(1,790)	11.98	(46)	10.57	—	—	(1,836)	11.94
Outstanding at December 31, 2009 . . . . .	21,617	11.88	1,763	10.60	2,537	11.32	25,917	11.74
Exercisable at December 31, 2007 . . . . .	14,266	12.16	1,918	10.60	2,044	12.54	18,228	12.04
Exercisable at December 31, 2008 . . . . .	14,875	12.04	1,809	10.60	2,357	12.19	19,041	11.92
Exercisable at December 31, 2009 . . . . .	15,217	12.01	1,763	10.60	2,537	11.32	19,517	11.79

## 9. Share based remuneration – (continued)

	Number of Reed Elsevier PLC ordinary shares ('000)				
	ESOS	LTIP	RSP	BIP	Total
<i>Conditional shares</i>					
Outstanding at January 1, 2007 . . . . .	1,149	4,244	1,832	1,733	8,958
Granted . . . . .	775	1,584	78	662	3,099
Exercised . . . . .	(112)	(2,226)	(1,698)	(457)	(4,493)
Forfeited. . . . .	(156)	(170)	(67)	(95)	(488)
Outstanding at January 1, 2008 . . . . .	1,656	3,432	145	1,843	7,076
Granted . . . . .	717	1,524	19	720	2,980
Exercised . . . . .	(85)	—	(101)	(561)	(747)
Forfeited. . . . .	(237)	(440)	(28)	(101)	(806)
Outstanding at January 1, 2009 . . . . .	2,051	4,516	35	1,901	8,503
Granted . . . . .	770	1,845	204	661	3,480
Exercised . . . . .	(867)	(1,767)	(24)	(622)	(3,280)
Forfeited. . . . .	(87)	(442)	—	(26)	(555)
Outstanding at December 31, 2009. . . . .	1,867	4,152	215	1,914	8,148
	Number of Reed Elsevier NV ordinary shares ('000)				
	ESOS	LTIP	RSP	BIP	Total
<i>Conditional shares</i>					
Outstanding at January 1, 2007 . . . . .	770	2,858	1,278	649	5,555
Granted . . . . .	510	1,047	53	308	1,918
Exercised . . . . .	(71)	(1,523)	(1,165)	(199)	(2,958)
Forfeited. . . . .	(151)	(151)	(68)	(34)	(404)
Outstanding at January 1, 2008 . . . . .	1,058	2,231	98	724	4,111
Granted . . . . .	469	1,006	13	319	1,807
Exercised . . . . .	(57)	—	(63)	(176)	(296)
Forfeited. . . . .	(112)	(259)	(24)	(29)	(424)
Outstanding at January 1, 2009 . . . . .	1,358	2,978	24	838	5,198
Granted . . . . .	500	1,198	133	352	2,183
Exercised . . . . .	(580)	(1,162)	(17)	(315)	(2,074)
Forfeited. . . . .	(65)	(311)	—	(10)	(386)
Outstanding at December 31, 2009. . . . .	1,213	2,703	140	865	4,921

The weighted average share price at the date of exercise of share options and conditional shares during 2009 was 506p (2008: 632p; 2007: 621p) for Reed Elsevier PLC ordinary shares and €8.45 (2008: €12.22; 2007: €13.76) for Reed Elsevier NV ordinary shares.

## 9. Share based remuneration – (continued)

Range of exercise prices for outstanding share options

	2009		2008		2007	
	Number of share options outstanding '000	Weighted average remaining period till expiry (years)	Number of share options outstanding '000	Weighted average remaining period till expiry (years)	Number of share options outstanding '000	Weighted average remaining period till expiry (years)
<i>Reed Elsevier PLC ordinary shares (pence)</i>						
351-400 . . . . .	16	0.3	252	1.2	668	1.6
401-450 . . . . .	2,157	2.6	1,927	1.5	2,652	2.4
451-500 . . . . .	8,219	2.9	9,111	4.6	12,356	4.8
501-550 . . . . .	12,638	6.0	9,834	6.1	12,716	7.1
551-600 . . . . .	3,593	2.3	3,856	3.4	4,331	4.3
601-650 . . . . .	6,600	7.6	7,452	8.5	4,280	8.8
651-700 . . . . .	2,462	1.2	2,696	2.2	3,046	3.2
Total . . . . .	35,685	4.3	35,128	5.3	40,049	4.8
<i>Reed Elsevier NV ordinary shares (euro)</i>						
7.01-8.00 . . . . .	175	9.2	—	—	—	—
8.01-9.00 . . . . .	511	9.0	—	—	—	—
9.01-10.00 . . . . .	4,011	6.8	1,617	4.3	1,954	5.1
10.01-11.00 . . . . .	4,912	4.4	5,771	4.8	6,791	5.8
11.01-12.00 . . . . .	6,297	5.1	6,866	6.2	8,912	7.2
12.01-13.00 . . . . .	2,854	7.4	3,362	8.7	402	5.3
13.01-14.00 . . . . .	2,990	2.5	3,777	3.0	4,269	4.6
14.01-15.00 . . . . .	3,971	4.0	4,382	4.9	5,041	6.5
15.01-16.00 . . . . .	196	1.3	202	2.4	486	2.3
Total . . . . .	25,917	5.2	25,977	5.4	27,855	6.0

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 32). Conditional shares will be met from shares held by the EBT.

## 10. Net finance costs

	2009 £m	2008 £m	2007 £m
Interest on short term bank loans, overdrafts and commercial paper . . . . .	(63)	(62)	(45)
Interest on other loans . . . . .	(226)	(137)	(130)
Interest on obligations under finance leases . . . . .	(1)	—	(1)
Total borrowing costs . . . . .	(290)	(199)	(176)
Acquisition related finance costs . . . . .	—	(18)	—
Fair value losses on designated fair value hedge relationships . . . . .	—	—	(2)
Losses on derivatives not designated as hedges . . . . .	(8)	(8)	(2)
Fair value losses on interest rate derivatives formerly designated as cash flow hedges transferred from equity . . . . .	—	—	(2)
Finance costs . . . . .	(298)	(225)	(182)
Interest on bank deposits . . . . .	5	31	34
Gains on loans and derivatives not designated as hedges . . . . .	2	2	9
Finance income . . . . .	7	33	43
Net finance costs . . . . .	(291)	(192)	(139)

Finance costs include £46 million (2008: £6 million; 2007: £1 million) transferred from the hedge reserve. A net loss of £11 million (2008: £60 million loss; 2007: £11 million loss) on interest rate derivatives designated as cash flow hedges was recognised directly in equity in the hedge reserve to be recognised in future periods.



## 10. Net finance costs – (continued)

Acquisition related finance costs in 2008 comprised underwriting and arrangement fees relating to the ChoicePoint acquisition incurred prior to completion.

## 11. Disposals and other non operating items

	2009 £m	2008 £m	2007 £m
Revaluation of held for trading investment . . . . .	8	(6)	(2)
(Loss)/gain on disposal and write down of businesses and other assets . . .	(69)	(86)	65
Net (loss)/gain on disposals and other non operating items . . . . .	(61)	(92)	63

The loss on disposal and write down of businesses and other assets in 2009 principally comprises severance and excess property costs in relation to assets held for sale and related closures, in particular RBI US controlled circulation titles.

## 12. Taxation

	2009 £m	2008 £m	2007 £m
<i>Current tax</i>			
United Kingdom . . . . .	44	40	59
The Netherlands . . . . .	37	49	40
Rest of world . . . . .	(1)	36	(111)
Total current tax charge/(credit) . . . . .	80	125	(12)
<i>Deferred tax</i>			
Origination and reversal of temporary differences . . . . .	(40)	30	(70)
Total taxation charge/(credit) on profit from continuing operations . . . . .	40	155	(82)

The current tax charge includes a tax credit of £34 million (2008: nil; 2007: nil) in respect of prior year disposals.

The current tax credit in 2007 includes credits of £223 million in respect of previously unrecognised deferred tax assets and capital losses that were realised as a result of the disposal of discontinued operations.

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:

	2009 £m	2008 £m	2007 £m
Profit before tax from continuing operations . . . . .	435	617	812
Tax at average applicable rates . . . . .	41	127	195
Tax on share of results of joint ventures . . . . .	(6)	(5)	(5)
Deferred tax on unrealised exchange differences on long term inter affiliate lending . . . . .	—	—	(21)
Prior year credits on disposals . . . . .	(34)	—	—
Non deductible goodwill impairment . . . . .	19	—	—
Net tax on share based remuneration . . . . .	10	20	10
Offset of tax reliefs against capital gains and tax base differences on disposals . . . . .	—	—	(261)
Non deductible amounts and other items . . . . .	10	13	—
Tax expense/(credit) . . . . .	40	155	(82)
Tax expense/(credit) as a percentage of profit before tax . . . . .	9%	25%	(10)%

The following tax has been recognised directly in equity during the year.

## 12. Taxation – (continued)

	2009 £m	2008 £m	2007 £m
Tax on actuarial movements on defined benefit pension schemes . . . . .	(10)	116	(65)
Tax on fair value movements on cash flow hedges . . . . .	(15)	59	(2)
Deferred tax (charge)/credits on share based remuneration . . . . .	—	(19)	17
Net tax (charge)/credit recognised directly in equity . . . . .	(25)	156	(50)

## 13. Statement of cash flows

### *Reconciliation of profit before tax to cash generated from operations — continuing operations*

	2009 £m	2008 £m	2007 £m
Profit before tax . . . . .	435	617	812
Disposals and other non operating items . . . . .	61	92	(63)
Net finance costs . . . . .	291	192	139
Share of results of joint ventures . . . . .	(15)	(18)	(16)
Operating profit before joint ventures . . . . .	772	883	872
Amortisation and impairment of acquired intangible assets and goodwill . . . . .	533	287	219
Amortisation of internally developed intangible assets . . . . .	139	88	72
Depreciation of property, plant and equipment . . . . .	84	79	76
Share based remuneration . . . . .	17	46	38
Total non cash items . . . . .	773	500	405
Decrease/(increase) in inventories and pre-publication costs . . . . .	47	4	(11)
Decrease/(increase) in receivables . . . . .	112	(106)	(35)
(Decrease)/increase in payables . . . . .	(100)	171	(13)
Decrease/(increase) in working capital . . . . .	59	69	(59)
Cash generated from operations . . . . .	1,604	1,452	1,218

### *Cash flow on acquisitions — continuing operations*

	Note	2009 £m	2008 £m	2007 £m
Purchase of businesses . . . . .	14	(9)	(2,112)	(293)
Payment of ChoicePoint change of control and other non operating payables assumed . . . . .		(56)	(19)	—
Investments in joint ventures . . . . .		—	—	(24)
Deferred payments relating to prior year acquisitions . . . . .		(29)	(30)	(10)
Total . . . . .		(94)	(2,161)	(327)

Cash and cash equivalents include £5 million (2008: £55 million; 2007: nil) held in trust to satisfy liabilities in respect of change of control obligations related to the acquisition of ChoicePoint.

## 14. Acquisitions

### *Acquisitions in 2009 — continuing operations*

During the year a number of small acquisitions were made for a total consideration of £11 million, after taking account of net cash acquired of £3 million.

#### 14. Acquisitions — (continued)

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

	Book value on acquisition £m	Fair value £m
Goodwill . . . . .	—	6
Intangible assets . . . . .	—	17
Property, plant and equipment . . . . .	—	—
Current assets . . . . .	—	—
Current liabilities . . . . .	(11)	(11)
Deferred tax . . . . .	—	(1)
Net assets acquired . . . . .	(11)	11
Consideration (after taking account of £3 million net cash acquired) . . . . .		11
Less: consideration deferred to future years . . . . .		(2)
Net cash flow . . . . .		9

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 the ability of the business to generate higher returns than individual assets, 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 fair value of the assets and liabilities acquired are provisional pending the completion of the valuation exercises. Final fair values will be incorporated in the 2010 combined financial statements. There were no significant adjustments to the provisional fair values of prior year acquisitions established in 2008.

The businesses acquired in 2009 contributed £6 million to revenue, increased profit attributable by £1 million and contributed £2 million to net cash inflow from operating activities for the part year under Reed Elsevier ownership and before taking account of acquisition financing costs. 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 £6,072 million and £395 million respectively.

#### *Acquisitions in 2008 — continuing operations*

On September 19, 2008 Reed Elsevier acquired the entire share capital of ChoicePoint, Inc. for a total consideration of £1,931 million, after taking account of net cash acquired of £46 million. A number of other acquisitions, none of which were individually significant, were made for a total consideration of £200 million, after taking account of net cash acquired of £5 million.

#### 14. Acquisitions — (continued)

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

	Note	ChoicePoint		Other		Total Fair value £m
		Book value on acquisition £m	Fair value £m	Book value on acquisition £m	Fair value £m	
Goodwill . . . . .	(i)	—	1,162	—	117	1,279
Intangible assets . . . . .	(ii)	15	1,471	—	108	1,579
Property, plant and equipment . . . . .		46	46	2	2	48
Current assets . . . . .		117	117	11	11	128
Current liabilities . . . . .		(221)	(221)	(16)	(16)	(237)
Borrowings . . . . .		(219)	(219)	—	—	(219)
Current tax . . . . .		19	19	3	3	22
Deferred tax . . . . .		6	(444)	—	(25)	(469)
Net assets acquired . . . . .		(237)	1,931	—	200	2,131
Consideration (after taking account of £51 million net cash acquired) . . . . .	(iii)					2,131
Less: consideration deferred to future years . . . . .						(19)
Net cash flow . . . . .						2,112

- (i) 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 the ability of a business to generate higher returns than individual assets, 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.
- (ii) The provisional fair value of intangible assets acquired with ChoicePoint were established by management with advice from independent qualified valuers.
- (iii) Consideration for ChoicePoint comprises £1,955 million to acquire the entire share capital and £22 million of professional fees and other costs relating to the acquisition.

#### 15. Equity dividends

*Ordinary dividends declared in the year*

	2009 £m	2008 £m	2007 £m
Reed Elsevier PLC . . . . .	228	204	206
Reed Elsevier NV . . . . .	232	214	210
Total . . . . .	460	418	416

Ordinary dividends declared in the year, in amounts per ordinary share, comprise: a 2008 final dividend of 15.0p and a 2009 interim dividend of 5.4p giving a total of 20.4p (2008: 18.9p; 2007: 16.3p) for Reed Elsevier PLC; and a 2008 final dividend of €0.290 and a 2009 interim dividend of €0.107 giving a total of €0.397 (2008: €0.425; 2007: €0.418) for Reed Elsevier NV.

The directors of Reed Elsevier PLC have proposed a final dividend of 15.0p (2008: 15.0p; 2007: 13.6p). The directors of Reed Elsevier NV have proposed a final dividend of €0.293 (2008: €0.290; 2007: €0.311). The total cost of funding the proposed final dividends is expected to be £360 million, for which no liability has been recognised at the statement of financial position date.

## 15. Equity dividends – (continued)

*Ordinary dividends paid and proposed relating to the financial year*

	2009 £m	2008 £m	2007 £m
Reed Elsevier PLC . . . . .	245	221	204
Reed Elsevier NV . . . . .	250	222	205
Total . . . . .	495	443	409

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.

On January 18, 2008, Reed Elsevier PLC and Reed Elsevier NV paid special distributions of 82.0p and €1.767 per ordinary share respectively, from the net proceeds of the disposal of the Education division. The aggregate distribution of £2,013 million (including £27 million paid to the employee benefit trust) was recognised when paid. The special distributions were accompanied by consolidations of the ordinary share capitals of Reed Elsevier PLC and Reed Elsevier NV on the basis of 58 new ordinary shares for every 67 existing ordinary shares, reflecting the ratio of the aggregate special distribution to the combined market capitalisation of Reed Elsevier PLC and Reed Elsevier NV (excluding the 5.8% indirect equity interest in Reed Elsevier NV held by Reed Elsevier PLC) as at December 12, 2007, the date of the announcement of the special distribution.

## 16. Goodwill

	2009 £m	2008 £m	2007 £m
At January 1 . . . . .	4,901	2,462	2,802
Acquisitions . . . . .	6	1,279	101
Disposals . . . . .	(7)	(4)	(323)
Impairment . . . . .	(110)	(9)	—
Reclassified from/(to) held for sale . . . . .	22	—	(117)
Exchange translation differences . . . . .	(473)	1,173	(1)
At December 31 . . . . .	4,339	4,901	2,462

The carrying amount of goodwill is after cumulative amortisation of £1,573 million (2008: £1,715 million; 2007: £1,313 million) which was charged prior to the adoption of IFRS.

Impairment charges comprise £93 million in Reed Business Information, principally relating to its US and International businesses, which have seen a significant contraction in print advertising revenues, and £17 million in Reed Exhibitions relating to deteriorating prospects for a number of minor exhibitions, principally in Reed Exhibitions Continental Europe.

## 16. Goodwill – (Continued)

### *Impairment review*

Impairment testing of goodwill and indefinite lived intangible assets is performed at least annually based on cash generating units (CGUs). A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. CGUs which are not individually significant have been aggregated for presentation purposes. Typically, when an acquisition is made the acquired business is fully integrated into the relevant business unit and CGU, and the goodwill arising is allocated to the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. The carrying value of goodwill recorded in the major groups of CGUs is set out below.

	2009 £m	2008 £m	2007 £m
Elsevier . . . . .	963	1,074	767
LexisNexis US Legal . . . . .	1,012	1,104	787
LexisNexis Risk Solutions . . . . .	1,659	1,846	271
LexisNexis International . . . . .	133	137	118
LexisNexis . . . . .	2,804	3,087	1,176
Reed Exhibitions Continental Europe . . . . .	304	336	264
Reed Exhibitions other . . . . .	60	71	38
Reed Exhibitions . . . . .	364	407	302
Reed Business Information US . . . . .	73	162	113
Reed Business Information UK . . . . .	69	71	41
Reed Business Information NL . . . . .	29	33	23
Reed Business Information International . . . . .	37	67	40
Reed Business Information . . . . .	208	333	217
Total . . . . .	4,339	4,901	2,462

The carrying value of each CGU 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. Estimated future cash flows are determined by reference to latest budgets and forecasts for the next five years approved by management, after which a long-term perpetuity growth rate is applied. The estimates of future cash flows are consistent with past experience adjusted for management's estimates of future performance. The key assumptions used in the value in use calculations are discount rates and perpetuity growth rates. The discount rates used are based on the Reed Elsevier weighted average cost of capital, adjusted to reflect a risk premium specific to each CGU. The Reed Elsevier weighted average cost of capital reflects an assumed equity return, based on the risk free rate for government bonds adjusted for an equity risk premium, and the Reed Elsevier post tax cost of debt. The pre-tax discounts rates applied are 9.5% for Elsevier; 10.0-10.5% for LexisNexis; 10.5-11.0% for Reed Exhibitions and 10.5-16.0% for Reed Business Information. Cash flows subsequent to the forecast period of five years are assumed to grow at nominal perpetuity growth rates. The rates assumed are based on long-term historic growth rates of the territories where the CGUs operate and the growth prospects for the sectors in which the CGUs operate. The nominal perpetuity growth rates for all CGUs do not exceed 3%.

The value in use calculations and impairment reviews are sensitive to changes in key assumptions, particularly relating to discount rates and cash flow growth. A sensitivity analysis has been performed based on changes in key assumptions considered to be possible by management: an increase in discount rate of 0.5%; a decrease in the compound annual growth rate (CAGR) for adjusted operating cash flow in the five year forecast period of between 2.0% and 5.0%, depending on the CGU; and a decrease in perpetuity growth rates of 0.5%. The sensitivity analysis shows that no impairments would result under each of the sensitivity scenarios other than in the case of a 5.0% decline in adjusted operating cash flow CAGR over the five year forecast period which, if applied across all CGUs, would result in an impairment of £111 million.

## 17. 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, 2007 . . . . .	1,355	2,871	4,226	633	4,859
Acquisitions . . . . .	63	199	262	—	262
Additions . . . . .	—	—	—	80	80
Disposals . . . . .	(544)	(118)	(662)	(60)	(722)
Reclassified to held for sale . . . . .	(29)	(116)	(145)	(32)	(177)
Exchange translation differences . . . . .	(27)	33	6	16	22
At January 1, 2008 . . . . .	818	2,869	3,687	637	4,324
Acquisitions . . . . .	1,349	230	1,579	—	1,579
Additions . . . . .	—	—	—	115	115
Disposals . . . . .	—	(15)	(15)	(19)	(34)
Exchange translation differences . . . . .	652	851	1,503	207	1,710
At January 1, 2009 . . . . .	2,819	3,935	6,754	940	7,694
Acquisitions . . . . .	5	12	17	—	17
Additions . . . . .	—	—	—	179	179
Disposals . . . . .	(1)	(14)	(15)	(20)	(35)
Reclassified (to)/from held for sale and other transfers . . . . .	—	(233)	(233)	21	(212)
Exchange translation differences . . . . .	(288)	(310)	(598)	(78)	(676)
At December 31, 2009 . . . . .	<u>2,535</u>	<u>3,390</u>	<u>5,925</u>	<u>1,042</u>	<u>6,967</u>
<i>Amortisation and impairment</i>					
At January 1, 2007 . . . . .	276	1,720	1,996	339	2,335
Charge for the year . . . . .	52	176	228	73	301
Disposals . . . . .	(166)	(111)	(277)	(52)	(329)
Reclassified to held for sale . . . . .	(2)	(77)	(79)	(9)	(88)
Exchange translation differences . . . . .	(8)	13	5	11	16
At January 1, 2008 . . . . .	152	1,721	1,873	362	2,235
Charge for the year . . . . .	84	194	278	88	366
Disposals . . . . .	—	(15)	(15)	(8)	(23)
Exchange translation differences . . . . .	74	515	589	123	712
At January 1, 2009 . . . . .	310	2,415	2,725	565	3,290
Charge for the year . . . . .	155	209	364	139	503
Impairment . . . . .	7	52	59	—	59
Disposals . . . . .	(1)	(8)	(9)	(20)	(29)
Reclassified (to)/from held for sale and other transfers . . . . .	—	(217)	(217)	2	(215)
Exchange translation differences . . . . .	(34)	(191)	(225)	(48)	(273)
At December 31, 2009 . . . . .	<u>437</u>	<u>2,260</u>	<u>2,697</u>	<u>638</u>	<u>3,335</u>
<i>Net book amount</i>					
At December 31, 2007 . . . . .	666	1,148	1,814	275	2,089
At December 31, 2008 . . . . .	2,509	1,520	4,029	375	4,404
At December 31, 2009 . . . . .	<u>2,098</u>	<u>1,130</u>	<u>3,228</u>	<u>404</u>	<u>3,632</u>



## 17. Intangible assets – (continued)

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trademarks, 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 £698 million (2008: £902 million; 2007: £817 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 £356 million (2008: £397 million; 2007: £288 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. Indefinite lived intangibles are tested for impairment at least annually using the same value in use assumptions as set out in note 16.

Impairment charges in 2009 comprise amounts of £10 million in Reed Exhibitions, relating to deteriorating prospects for a number of minor exhibitions, and £49 million in Reed Business Information's US and International businesses, which have seen a significant contraction in print advertising revenues.

The amortisation charge includes nil (2008: nil; 2007: £10 million) in respect of discontinued operations.

## 18. Investments

	2009 £m	2008 £m	2007 £m
Investments in joint ventures . . . . .	135	145	116
Available for sale investments . . . . .	9	24	90
Venture capital investments held for trading . . . . .	32	25	21
Total . . . . .	176	194	227

Share of results of joint ventures includes impairment charges of £8 million (2008: nil; 2007: nil) in respect of minor joint ventures in Reed Exhibitions.

The value of £11 million (2008: £9 million; 2007: £9 million) of venture capital investments held for trading has been determined by reference to quoted market prices. The value of other venture capital investments and available for sale investments have been determined by reference to other observable market inputs.

An analysis of changes in the carrying value of investments in joint ventures is set out below:

	2009 £m	2008 £m	2007 £m
At January 1 . . . . .	145	116	73
Share of results of joint ventures . . . . .	15	18	16
Dividends received from joint ventures . . . . .	(23)	(23)	(12)
Additions . . . . .	—	4	31
Exchange translation differences . . . . .	(2)	30	8
At December 31 . . . . .	135	145	116

The principal joint ventures at December 31, 2009 are exhibition joint ventures within Reed Exhibitions and Giuffrè (an Italian legal publisher in which Reed Elsevier has a 40% shareholding) within LexisNexis.

## 18. Investments – (Continued)

Summarised aggregate information in respect of joint ventures and Reed Elsevier's share is set out below:

	Total joint ventures			Reed Elsevier share		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Revenue . . . . .	246	209	214	118	104	103
Net profit for the year . .	51	37	36	15	18	16
Total assets . . . . .	316	325	302	149	152	143
Total liabilities . . . . .	(152)	(163)	(165)	(73)	(75)	(76)
Net assets . . . . .	164	162	137	76	77	67
Goodwill . . . . .				59	68	49
Total . . . . .				135	145	116

## 19. Property, plant and equipment

	2009			2008			2007		
	Land and buildings £m	Fixtures and equipment £m	Total £m	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 . . . . .	259	644	903	157	510	667	179	667	846
Acquisitions . . . . .	—	—	—	30	18	48	—	1	1
Capital expenditure . . .	10	68	78	13	44	57	6	70	76
Disposals . . . . .	(8)	(54)	(62)	(1)	(66)	(67)	(26)	(183)	(209)
Reclassified from/(to) held for sale . . . . .	—	18	18	—	—	—	(2)	(45)	(47)
Exchange translation differences . . . . .	(23)	(50)	(73)	60	138	198	—	—	—
At December 31 . . . . .	238	626	864	259	644	903	157	510	667
<i>Accumulated depreciation</i>									
At January 1 . . . . .	106	468	574	71	357	428	83	465	548
Acquisitions . . . . .	—	—	—	—	—	—	—	1	1
Disposals . . . . .	(2)	(50)	(52)	(1)	(56)	(57)	(19)	(148)	(167)
Reclassified from/(to) held for sale . . . . .	—	12	12	—	—	—	(1)	(30)	(31)
Charge for the year . . .	12	72	84	10	69	79	8	69	77
Exchange translation differences . . . . .	(10)	(36)	(46)	26	98	124	—	—	—
At December 31 . . . . .	106	466	572	106	468	574	71	357	428
Net book amount . . . . .	132	160	292	153	176	329	86	153	239

No depreciation is provided on freehold land of £50 million (2008: £51 million; 2007: £37 million). The net book amount of property, plant and equipment at December 31, 2009 includes £4 million (2008: £6 million; 2007: £17 million) in respect of assets held under finance leases relating to fixtures and equipment.

## 20. Financial instruments

Details of the objectives, policies and strategies pursued by Reed Elsevier in relation to financial instruments and its capital structure are set out on pages 34 to 36 of Item 5: Operating and Financial Review and Prospects; Liquidity and Capital Resources — Reed Elsevier. 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

## 20. Financial instruments – (continued)

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.

At December 31, 2009	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	
<b>Borrowings</b>								
Fixed rate borrowings . . . .	(3,824)	(252)	(592)	(542)	(837)	(815)	(2,409)	(5,447)
Floating rate borrowings. . .	(882)	(673)	(4)	(115)	(4)	(100)	(5)	(901)
<b>Derivative financial liabilities</b>								
Interest rate derivatives . . .	(45)	(28)	(12)	(5)	(3)	(4)	(12)	(64)
Cross currency interest rate swaps . . . . .	—	(6)	(10)	(14)	(183)	(184)	—	(397)
Forward foreign exchange contracts . . . . .	(57)	(907)	(378)	(165)	—	—	—	(1,450)
<b>Derivative financial assets</b>								
Interest rate derivatives . . .	3	15	5	—	16	—	—	36
Cross currency interest rate swaps . . . . .	54	12	13	15	192	217	—	449
Forward foreign exchange contracts . . . . .	14	875	374	166	—	—	—	1,415
<b>Total . . . . .</b>	<b>(4,737)</b>	<b>(964)</b>	<b>(604)</b>	<b>(660)</b>	<b>(819)</b>	<b>(886)</b>	<b>(2,426)</b>	<b>(6,359)</b>

At December 31, 2008	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	
<b>Borrowings</b>								
Fixed rate borrowings . . . .	(2,265)	(124)	(123)	(504)	(447)	(177)	(1,967)	(3,342)
Floating rate borrowings. . .	(3,877)	(536)	(1,740)	(1,516)	(225)	(1)	(5)	(4,023)
<b>Derivative financial liabilities</b>								
Interest rate derivatives . . .	(89)	(27)	(37)	(20)	(7)	(3)	—	(94)
Cross currency interest rate swaps . . . . .	—	(13)	(8)	(13)	(14)	(199)	(204)	(451)
Forward foreign exchange contracts . . . . .	(169)	(909)	(358)	(177)	(45)	—	—	(1,489)
<b>Derivative financial assets</b>								
Interest rate derivatives . . .	1	1	—	—	—	—	—	1
Cross currency interest rate swaps . . . . .	51	15	13	15	15	211	237	506
Forward foreign exchange contracts . . . . .	24	837	307	157	42	—	—	1,343
<b>Total . . . . .</b>	<b>(6,324)</b>	<b>(756)</b>	<b>(1,946)</b>	<b>(2,058)</b>	<b>(681)</b>	<b>(169)</b>	<b>(1,939)</b>	<b>(7,549)</b>

## 20. Financial instruments – (continued)

At December 31, 2007	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	
<b>Borrowings</b>								
Fixed rate borrowings . . . .	(1,993)	(486)	(95)	(95)	(368)	(327)	(1,602)	(2,973)
Floating rate borrowings. . .	(1,136)	(770)	(14)	(232)	(7)	(169)	(3)	(1,195)
<b>Derivative financial liabilities</b>								
Interest rate derivatives . . .	(9)	(5)	(5)	(2)	—	—	(6)	(18)
Cross currency interest rate swaps . . . . .	—	(241)	(6)	(7)	(7)	(8)	(158)	(427)
Forward foreign exchange contracts . . . . .	(13)	(654)	(265)	(118)	—	—	—	(1,037)
<b>Derivative financial assets</b>								
Interest rate derivatives . . .	16	4	7	5	3	2	4	25
Cross currency interest rate swaps . . . . .	155	395	5	5	5	5	166	581
Forward foreign exchange contracts . . . . .	39	680	276	120	—	—	—	1,076
<b>Total . . . . .</b>	<b>(2,941)</b>	<b>(1,077)</b>	<b>(97)</b>	<b>(324)</b>	<b>(374)</b>	<b>(497)</b>	<b>(1,599)</b>	<b>(3,968)</b>

Fixed rate term debt of \$1,500 million (£955 million), €600 million (£536 million) and £300 million and floating rate term debt of £50 million (£45 million) were issued in the year and used to repay floating rate borrowings maturing within two years. The term debt was issued in four, five, eight and ten year maturities.

The carrying amount of derivative financial liabilities comprises £9 million (2008: nil; 2007: nil) in relation to fair value hedges, £67 million (2008: £240 million; 2007: £18 million) in relation to cash flow hedges and £26 million (2008: £18 million; 2007: £4 million) held for trading. The carrying amount of derivative financial assets comprises £50 million (2008: £41 million; 2007: £170 million) in relation to fair value hedges, £12 million (2008: £8 million; 2007: £28 million) in relation to cash flow hedges and £9 million (2008: £27 million; 2007: £12 million) held for trading. Derivative financial assets and liabilities held for trading comprise interest rate derivatives and forward foreign exchange contracts that were not designated as hedging instruments.

At December 31, 2009, Reed Elsevier had access to a \$2,500 million committed bank facility maturing in May 2010, which was undrawn, and a \$2,000 million committed bank facility, forward starting in May 2010 and maturing in May 2012. In January 2010 the \$2,500 million committed facility maturing in May 2010 was cancelled and the start date of the \$2,000 million committed facility brought forward to start immediately. This back up facility provides security of funding for \$2,000 million of short term debt to May 2012.

After taking account of the maturity of committed bank facilities that back short term borrowings at December 31, 2009, and after utilising available cash resources, no borrowings mature within one year (2008: nil; 2007: nil), no borrowings mature in the second year (2008: 31%; 2007: nil), 19% of borrowings mature in the third year (2008: 33%; 2007: 27%), 35% in the fourth and fifth years (2008: 12%; 2007: 29%), 36% in the sixth to tenth years (2008: 16%; 2007: 31%), and 10% beyond the tenth year (2008: 8%; 2007: 13%).

### 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. The impact of market risks on net post employment benefit obligations and taxation is excluded from the following market risk sensitivity analysis.

#### 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, 2009, 90% of net borrowings were either fixed rate or had 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 £4 million (2008: £25 million; 2007: £7 million), based on the composition of financial instruments

## 20. Financial instruments – (continued)

including cash, cash equivalents, bank loans and commercial paper borrowings at December 31, 2009. A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £4 million (2008: £25 million; 2007: £7 million).

The impact on net equity of a theoretical change in interest rates as at December 31, 2009 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 £14 million (2008: £39 million; 2007: £10 million) and a 100 basis point increase in interest rates would increase net equity by an estimated £15 million (2008: £38 million; 2007: £10 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 26).

A theoretical weakening of all currencies by 10% against sterling at December 31, 2009 would decrease the carrying value of net assets, excluding net borrowings, by £466 million (2008: £551 million; 2007: £262 million). This would be offset to a large degree by a decrease in net borrowings of £321 million (2008: £495 million; 2007: £123 million). A strengthening of all currencies by 10% against sterling at December 31, 2009 would increase the carrying value of net assets, excluding net borrowings, by £581 million (2008: £685 million; 2007: £328 million) and increase net borrowings by £392 million (2008: £605 million; 2007: £150 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 £17 million (2008: £38 million; 2007: £106 million). A 10% strengthening of all foreign currencies against sterling on this basis would increase net profit for the year by £20 million (2008: £46 million; 2007: £130 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 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 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 statement of financial position.

Included within trade receivables are the following amounts which are past due but for which no allowance has been made. Past due up to one month £248 million (2008: £284 million; 2007: £234 million); past due two to three months £66 million (2008: £123 million; 2007: £78 million); past due four to six months £25 million (2008: £35 million; 2007: £26 million); and past due greater than six months nil (2008: £11 million; 2007: £21 million). Examples of trade receivables which are past due but for which no allowance has been made include those receivables where there is no concern over the creditworthiness of the customer and where the history of dealings with the customer indicate the amount will be settled.

## 20. Financial instruments – (continued)

### 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 £1,104 million were in place at December 31, 2009 swapping fixed rate term debt issues denominated in sterling, euros and Swiss francs (CHF) to floating rate sterling, euro and US dollar (USD) debt respectively for the whole of their term (2008: £300 million swapping fixed rate term debt issues denominated in CHF to floating rate USD debt for the whole 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 three years ended December 31, 2009 were as follows:

#### Gains/(losses) on borrowings and related derivatives

	January 1, 2007 £m	Fair value movement gain/(loss) £m	Exchange gain/(loss) £m	December 31, 2007 £m
USD debt . . . . .	1	(16)	—	(15)
Related interest rate swaps . . . . .	(1)	16	—	15
	—	—	—	—
EUR debt . . . . .	(116)	(35)	2	(149)
Related EUR to USD cross currency interest rate swaps . . . . .	117	34	(2)	149
	1	(1)	—	—
CHF debt . . . . .	(56)	49	1	(6)
Related CHF to USD cross currency interest rate swaps . . . . .	57	(50)	(1)	6
	1	(1)	—	—
Total USD, EUR and CHF debt . . . . .	(171)	(2)	3	(170)
Total related interest rate derivatives . . . . .	173	—	(3)	170
Net gain . . . . .	2	(2)	—	—

## 20. Financial instruments – (continued)

	January 1, 2008 £m	Fair value movement gain/(loss) £m	De-designated £m	Exchange gain/(loss) £m	December 31, 2008 £m
USD debt . . . . .	(15)	(46)	62	(1)	—
Related interest rate swaps . . . . .	15	46	(62)	1	—
	—	—	—	—	—
EUR debt . . . . .	(149)	161	—	(12)	—
Related EUR to USD cross currency interest rate swaps . . . . .	149	(161)	—	12	—
	—	—	—	—	—
CHF debt . . . . .	(6)	(25)	—	(10)	(41)
Related CHF to USD cross currency interest rate swaps . . . . .	6	25	—	10	41
	—	—	—	—	—
Total USD, EUR and CHF debt . . . . .	(170)	90	62	(23)	(41)
Total related interest rate derivatives . . . . .	170	(90)	(62)	23	41
Net gain . . . . .	—	—	—	—	—

	January 1, 2009 £m	Fair value movement gain/(loss) £m	Exchange gain/(loss) £m	December 31, 2009 £m
GBP debt . . . . .	—	9	—	9
Related interest rate swaps . . . . .	—	(9)	—	(9)
	—	—	—	—
EUR debt . . . . .	—	(2)	—	(2)
Related interest rate swaps . . . . .	—	2	—	2
	—	—	—	—
CHF debt . . . . .	(41)	(11)	4	(48)
Related CHF to USD cross currency interest rate swaps . . . . .	41	11	(4)	48
	—	—	—	—
Total GBP, EUR and CHF debt . . . . .	(41)	(4)	4	(41)
Total related interest rate derivatives . . . . .	41	4	(4)	41
Net gain . . . . .	—	—	—	—

All fair value hedges were highly effective throughout the three years ended December 31, 2009. A fair value loss of nil (2008: nil; 2007: £2 million) has been included within finance costs.

Gross borrowings as at December 31, 2009 included £59 million (2008: £78 million; 2007: nil) in relation to fair value adjustments to borrowings previously designated in a fair value hedge relationship which were de-designated in 2008. The related derivatives were closed out on de-designation with a cash inflow of £62 million. £11 million (2008: £2 million; 2007: nil) of these fair value adjustments were amortised in the year as a reduction to finance costs.

### 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 debt (including commercial paper, short term bank loans and floating rate term debt).
- (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.



## 20. Financial instruments – (continued)

Movements in the hedge reserve (pre-tax) in 2009, 2008 and 2007, 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, 2007: (losses)/gains deferred . . . . .	(2)	4	50	52
(Losses)/gains arising in 2007 . . . . .	—	(11)	14	3
Amounts recognised in income statement . . . . .	2	(1)	(30)	(29)
Exchange translation differences . . . . .	—	—	2	2
Hedge reserve at January 1, 2008: (losses)/gains deferred . . . . .	—	(8)	36	28
Losses arising in 2008. . . . .	—	(60)	(183)	(243)
Amounts recognised in income statement . . . . .	—	6	(25)	(19)
Exchange translation differences . . . . .	—	(18)	(4)	(22)
Hedge reserve at January 1, 2009: losses deferred . . . . .	—	(80)	(176)	(256)
(Losses)/gains arising in 2009 . . . . .	—	(11)	64	53
Amounts recognised in income statement . . . . .	—	46	58	104
Exchange translation differences . . . . .	—	7	3	10
Hedge reserve at December 31, 2009: losses deferred . . . . .	—	(38)	(51)	(89)

All cash flow hedges were highly effective throughout the three years ended December 31, 2009.

A tax credit of £24 million (2008: £61 million credit; 2007: £8 million charge) in respect of the above gains and losses at December 31, 2009 was also deferred in the hedge reserve.

Of the amounts recognised in the income statement in the year, losses of £58 million (2008: gains of £25 million; 2007: gains of £30 million) were recognised in revenue, and losses of £46 million (2008: £6 million; 2007: £1 million) were recognised in finance costs. A tax credit of £20 million (2008: £5 million charge; 2007: £9 million charge) 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 losses on cash flow hedges at December 31, 2009 are currently expected to be recognised in the income statement in future years as follows:

	Interest rate hedges £m	Foreign exchange hedges £m	Total hedge reserve pre-tax £m
2010. . . . .	(19)	(33)	(52)
2011. . . . .	(11)	(16)	(27)
2012. . . . .	(6)	(1)	(7)
2013. . . . .	(2)	(1)	(3)
2014. . . . .	—	—	—
Losses deferred in hedge reserve at end of year. . . . .	(38)	(51)	(89)

The cash flows for these hedges are expected to occur in line with the recognition of the 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.

## 21. Deferred tax

	2009 £m	2008 £m	2007 £m
Deferred tax assets . . . . .	208	353	141
Deferred tax liabilities . . . . .	(1,272)	(1,525)	(695)
Total . . . . .	(1,064)	(1,172)	554

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	Excess of amortisa- tion over tax allowances £m	Tax losses carried forward £m	Pensions liabilities £m	Other temporary differences - assets £m	Total £m
Deferred tax (liability)/asset at January 1, 2007 . . . .	(133)	(642)	(6)	(69)	6	7	92	65	(680)
(Charge)/credit to profit . . . . .	(29)	63	—	35	2	(3)	(15)	17	70
(Charge)/credit to equity . . . . .	—	—	(44)	(2)	—	—	(21)	17	(50)
Acquisitions . . . . .	—	(38)	—	—	—	1	—	—	(37)
Disposals . . . . .	34	95	(1)	—	—	—	(3)	(25)	100
Reclassified as held for sale . . . . .	1	24	—	15	—	—	—	—	40
Exchange translation differences . . . . .	2	—	—	—	—	—	(1)	2	3
Deferred tax (liability)/asset at January 1, 2008 . . . .	(125)	(498)	(51)	(21)	8	5	52	76	(554)
(Charge)/credit to profit . . . . .	(37)	69	(6)	(5)	2	—	(10)	(43)	(30)
Credit to equity . . . . .	—	—	13	7	—	—	103	33	156
Acquisitions . . . . .	—	(536)	—	—	—	—	4	63	(469)
Disposals . . . . .	—	7	—	—	—	—	—	—	7
Exchange translation differences . . . . .	(57)	(281)	—	(4)	—	1	41	18	(282)
Deferred tax (liability)/asset at January 1, 2009 . . . .	(219)	(1,239)	(44)	(23)	10	6	190	147	(1,172)
(Charge)/credit to profit . . . . .	(20)	118	(4)	4	19	3	(24)	(56)	40
Credit/(charge) to equity . . . . .	—	—	17	—	—	—	(27)	(15)	(25)
Transfers . . . . .	—	—	—	—	—	—	—	(20)	(20)
Acquisitions . . . . .	—	(1)	—	—	—	—	—	—	(1)
Exchange translation differences . . . . .	23	115	—	1	(2)	—	(17)	(6)	114
Deferred tax (liability)/asset at December 31, 2009 . .	(216)	(1,007)	(31)	(18)	27	9	122	50	(1,064)

## 22. Inventories and pre-publication costs

	2009 £m	2008 £m	2007 £m
Raw materials . . . . .	9	11	9
Pre-publication costs . . . . .	168	233	154
Finished goods . . . . .	98	104	108
Total . . . . .	<u>275</u>	<u>348</u>	<u>271</u>

## 23. Trade and other receivables

	2009 £m	2008 £m	2007 £
Trade receivables . . . . .	1,367	1,578	1,054
Allowance for doubtful debts . . . . .	<u>(80)</u>	<u>(77)</u>	<u>(48)</u>
	1,287	1,501	1,006
Prepayments and accrued income . . . . .	<u>205</u>	<u>184</u>	<u>142</u>
Total . . . . .	<u>1,492</u>	<u>1,685</u>	<u>1,148</u>

Trade receivables are predominantly non-interest bearing and their carrying amounts approximate to their fair value.

Trade receivables are stated net of allowances for bad and doubtful debts. The movements in the provision during the year were as follows:

	2009 £m	2008 £m	2007 £m
At January 1 . . . . .	77	48	50
Charge for the year . . . . .	33	29	19
Trade receivables written off . . . . .	<u>(24)</u>	<u>(20)</u>	<u>(17)</u>
Acquisitions . . . . .	—	4	—
Reclassified as held for sale . . . . .	—	—	(5)
Exchange translation differences . . . . .	<u>(6)</u>	<u>16</u>	<u>1</u>
At December 31 . . . . .	<u>80</u>	<u>77</u>	<u>48</u>

## 24. Assets and liabilities held for sale

The major classes of assets and liabilities of operations classified as held for sale are as follows:

	2009 £m	2008 £m	2007 £m
Goodwill . . . . .	—	24	117
Intangible assets . . . . .	—	3	89
Property, plant and equipment . . . . .	—	7	16
Inventories and pre-publication costs . . . . .	—	—	54
Trade and other receivables . . . . .	<u>5</u>	<u>15</u>	<u>65</u>
Total assets held for sale . . . . .	<u>5</u>	<u>49</u>	<u>341</u>
Trade and other payables . . . . .	5	2	44
Deferred tax liabilities . . . . .	—	—	40
Total liabilities associated with assets held for sale . . . . .	<u>5</u>	<u>2</u>	<u>84</u>

Assets held for sale as at December 31, 2009 relate to Reed Business Information's US controlled circulation titles. In 2009 assets and associated liabilities held for sale at December 31, 2008 were retained and reclassified accordingly. Assets and associated liabilities held for sale at December 31, 2007 principally relate to the educational assessment business, sold in January 2008.

## 25. Trade and other payables

	2009 £m	2008 £m	2007 £m
Payables and accruals . . . . .	1,251	1,394	1,000
Deferred income . . . . .	1,220	1,375	966
Total . . . . .	2,471	2,769	1,966

## 26. Borrowings

	2009			2008			2007		
	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	Falling due within 1 year £m	Falling due in more than 1 year £m	Total £m
Financial liabilities measured at amortised cost:									
Short term bank loans, overdrafts and commercial paper . . . . .	515	—	515	446	—	446	753	—	753
Finance leases . . . . .	7	20	27	2	1	3	5	6	11
Other loans . . . . .	156	2,247	2,403	—	4,652	4,652	—	1,378	1,378
Other loans in fair value hedging relationships . . . . .	—	1,144	1,144	—	341	341	369	618	987
Other loans previously in fair value hedging relationships . . . . .	—	617	617	—	700	700	—	—	—
Total . . . . .	678	4,028	4,706	448	5,694	6,142	1,127	2,002	3,129

The total fair value of financial liabilities measured at amortised cost is £3,262 million (2008: £5,201 million; 2007: £2,206 million). The total fair value of other loans in fair value hedging relationships is £1,257 million (2008: £325 million; 2007: £1,054 million). The total fair value of other loans previously in fair value hedging relationships is £646 million (2008: £773 million; 2007: nil).

### Analysis by year of repayment

	2009				2008				2007			
	Short term bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m	Short term bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m	Short term bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m
Within 1 year . . . . .	515	156	7	678	446	—	2	448	753	369	5	1,127
Within 1 to 2 years . . . . .	—	342	7	349	—	1,706	1	1,707	—	—	3	3
Within 2 to 3 years . . . . .	—	431	6	437	—	1,885	—	1,885	—	220	3	223
Within 3 to 4 years . . . . .	—	633	7	640	—	578	—	578	—	276	—	276
Within 4 to 5 years . . . . .	—	779	—	779	—	104	—	104	—	423	—	423
After 5 years . . . . .	—	1,823	—	1,823	—	1,420	—	1,420	—	1,077	—	1,077
	—	4,008	20	4,028	—	5,693	1	5,694	—	1,996	6	2,002
Total . . . . .	515	4,164	27	4,706	446	5,693	3	6,142	753	2,365	11	3,129

Fixed rate term debt of \$1,500 million (£955 million), €600 million (£536 million) and £300 million and floating rate term debt of €50 million (£45 million) were issued in the period and used to repay floating rate borrowings maturing within two years. The term debt was issued in four, five, eight and ten year maturities. Short term bank loans, overdrafts and commercial paper were backed up at December 31, 2009 by a \$2,500 million (£1,548 million) committed bank facility maturing in May 2010, which was undrawn, with an additional \$2,000 million (£1,238 million) committed bank facility, forward starting in May 2010 and maturing in May 2012. In January 2010 the \$2,500 million committed bank facility maturing in May 2010 was cancelled and the start date of the \$2,000 million committed bank facility brought forward to start immediately. This facility provides security of funding for \$2,000 million of short term debt to May 2012.

## 26. Borrowings – (continued)

### Analysis by currency

	2009				2008				2007			
	Short term bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m	Short term bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m	Short term bank loans, overdrafts and commercial paper £m	Other loans £m	Finance leases £m	Total £m
US Dollars . . . . .	371	2,828	27	3,226	10	5,128	3	5,141	108	1,841	11	1,960
£ Sterling . . . . .	—	691	—	691	—	400	—	400	7	400	—	407
Euro . . . . .	117	645	—	762	375	165	—	540	572	124	—	696
Other currencies . . . . .	27	—	—	27	61	—	—	61	66	—	—	66
Total . . . . .	515	4,164	27	4,706	446	5,693	3	6,142	753	2,365	11	3,129

Included in the US dollar amounts for other loans above is £316 million (2008: £341 million; 2007: £521 million) of debt denominated in Swiss francs (CHF 500 million; 2008: CHF 500 million; 2007: CHF 350 million) and euros (nil; 2008: nil; 2007: €500 million) that was swapped into US dollars on issuance and against which there are related derivative financial instruments, which, as at December 31, 2009, had a fair value of £48 million (2008: £41 million; 2007: £155 million).

## 27. Lease arrangements

### Finance leases

At December 31, 2009 future finance lease obligations fall due as follows:

	2009 £m	2008 £m	2007 £m
Within one year . . . . .	7	2	5
In the second to fifth years inclusive . . . . .	23	1	7
	30	3	12
Less future finance charges . . . . .	(3)	—	(1)
Total . . . . .	27	3	11
Present value of future finance lease obligations payable:			
Within one year . . . . .	7	2	5
In the second to fifth years inclusive . . . . .	20	1	6
Total . . . . .	27	3	11

The fair value of the lease obligations approximates to their carrying amount.

### 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, 2009 outstanding commitments under non-cancellable operating leases fall due as follows:

	2009 £m	2008 £m	2007 £m
Within one year . . . . .	140	144	104
In the second to fifth years inclusive . . . . .	354	426	319
After five years . . . . .	229	293	275
Total . . . . .	723	863	698

Of the above outstanding commitments, £677 million (2008: £805 million) relate to land and buildings.

## 27. Lease arrangements – (continued)

Reed Elsevier has a number of properties that are sub-leased. The future lease receivables contracted with sub-tenants fall as follows:

	2009 £m	2008 £m	2007 £m
Within one year . . . . .	17	21	14
In the second to fifth years inclusive . . . . .	36	52	42
After five years . . . . .	7	14	11
Total . . . . .	<u>60</u>	<u>87</u>	<u>67</u>

## 28. Provisions

	2009			2008			2007	
	Property £m	Restructuring £m	Total £m	Property £m	Restructuring £m	Total £m	Property £m	Total £m
At January 1 . . . . .	45	69	114	21	—	21	28	28
Charged . . . . .	70	157	227	22	57	79	—	—
Utilised . . . . .	(20)	(114)	(134)	(9)	—	(9)	(6)	(6)
Exchange translation differences . . . . .	(6)	(6)	(12)	11	12	23	(1)	(1)
At December 31 . . . . .	<u>89</u>	<u>106</u>	<u>195</u>	<u>45</u>	<u>69</u>	<u>114</u>	<u>21</u>	<u>21</u>

Property provisions relate to estimated sub-lease shortfalls and guarantees given in respect of certain property leases for various periods up to 2024. Restructuring provisions relate to costs incurred in connection with the major restructuring programmes announced in February 2008 and 2009, principally in respect of severance and outsourcing migration costs, and the restructuring in anticipation of sale and related closures of Reed Business Information's US controlled circulation titles.

Provisions have been analysed between current and non-current as set out below:

	2009 £m	2008 £m	2007 £m
Current liabilities . . . . .	134	79	—
Non-current liabilities . . . . .	61	35	21
Total . . . . .	<u>195</u>	<u>114</u>	<u>21</u>

## 29. Contingent liabilities and capital commitments

There are contingent liabilities amounting to £22 million (2008: £26 million; 2007: £28 million) in respect of property lease guarantees.

## 30. Combined share capitals

	2009 £m	2008 £m	2007 £m
At January 1 . . . . .	209	197	191
Issue of ordinary shares . . . . .	20	1	3
Exchange translation differences . . . . .	(4)	11	3
At December 31 . . . . .	<u>225</u>	<u>209</u>	<u>197</u>

In July 2009, Reed Elsevier PLC placed 109,198,190 new ordinary shares at 405p per share for proceeds, net of issue costs, of £435 million and Reed Elsevier NV placed 63,030,989 new ordinary shares at €7.08 per share for net proceeds of €441 million. The number of shares issued represented 9.9% of the issued ordinary share capital of the respective parent companies prior to the placings. No share premium was recognised in Reed Elsevier PLC as the company took advantage of section 612 of the Companies Act 2006 regarding merger relief.

Combined share capitals exclude the shares of Reed Elsevier NV held by a subsidiary of Reed Elsevier PLC.

### 30. Combined share capitals — (continued)

Disclosures in respect of share capital are given in note 13 to the Reed Elsevier PLC consolidated financial statements and note 14 to the Reed Elsevier NV consolidated financial statements.

### 31. Combined share premiums

	2009 £m	2008 £m	2007 £m
At January 1 . . . . .	2,529	2,143	1,879
Issue of ordinary shares, net of expenses . . . . .	395	53	174
Exchange translation differences . . . . .	(117)	333	90
At December 31 . . . . .	<u>2,807</u>	<u>2,529</u>	<u>2,143</u>

Combined share premiums exclude the share premium in respect of shares of Reed Elsevier NV held by a subsidiary of Reed Elsevier PLC.

### 32. Combined shares held in treasury

	Shares held by EBT £m	Shares held by parent companies £m	Total £m
At January 1, 2007. . . . .	161	216	377
Purchase of shares . . . . .	74	199	273
Exchange translation differences . . . . .	(49)	—	(49)
At January 1, 2008. . . . .	<u>—</u>	<u>18</u>	<u>18</u>
Purchase of shares . . . . .	186	433	619
Settlement of share awards . . . . .	54	40	94
Exchange translation differences . . . . .	(8)	—	(8)
At January 1, 2009. . . . .	<u>—</u>	<u>78</u>	<u>78</u>
Purchase of shares . . . . .	232	551	783
Settlement of share awards . . . . .	(57)	—	(57)
Exchange translation differences . . . . .	<u>—</u>	<u>(28)</u>	<u>(28)</u>
At December 31, 2009 . . . . .	<u>175</u>	<u>523</u>	<u>698</u>

At December 31, 2009 shares held in treasury related to 15,350,605 (2008: 20,078,899; 2007: 18,723,830) Reed Elsevier PLC ordinary shares and 8,219,196 (2008: 11,177,422; 2007: 10,100,765) Reed Elsevier NV ordinary shares held by the Reed Elsevier Group plc Employee Benefit Trust (“EBT”); and 34,196,298 (2008: 34,196,298; 2007: 35,846,500) Reed Elsevier PLC ordinary shares and 23,952,791 (2008: 23,952,791; 2007: 25,301,500) Reed Elsevier NV ordinary shares held by the respective parent companies.

The number of shares held by the EBT and parent companies were reduced in 2008 by the share consolidations of the parent companies which accompanied the payment of the special distribution from the net proceeds of the disposal of the Education division. The ordinary share capitals of the parent companies were consolidated on the basis of 58 new ordinary shares for every 67 existing ordinary shares, reflecting the ratio of the aggregate special distribution to the combined market capitalisation of Reed Elsevier PLC and Reed Elsevier NV (excluding the 5.8% indirect equity interest in Reed Elsevier NV held by Reed Elsevier PLC) as at December 12, 2007, the date of the announcement of the special distribution.

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.



### 33. Translation reserve

	2009 £m	2008 £m	2007 £m
At January 1 . . . . .	(14)	(145)	(136)
Exchange differences on translation of foreign operations . . . . .	(122)	340	(33)
Cumulative exchange differences on disposal of foreign operations . . . . .	—	27	148
Exchange translation differences on capital and reserves . . . . .	36	(236)	(124)
At December 31 . . . . .	<u>(100)</u>	<u>(14)</u>	<u>(145)</u>

### 34. Other combined reserves

	2009			2008	2007
	Hedge reserve £m	Other reserves £m	Total £m	Total £m	Total £m
At January 1 . . . . .	(195)	(793)	(988)	1,389	409
Profit attributable to parent companies' shareholders . . . . .	—	391	391	476	1,200
Dividends declared . . . . .	—	(457)	(457)	(2,404)	(416)
Issue of ordinary shares, net of expenses . . . . .	—	419	419	—	—
Actuarial gains/(losses) on defined benefit pension schemes . . . . .	—	6	6	(347)	224
Fair value movements on available for sale investments . . . . .	—	—	—	(9)	—
Cumulative fair value movements on disposals of available for sale investments . . . . .	—	1	1	—	(7)
Fair value movements on cash flow hedges . . . . .	53	—	53	(243)	3
Tax recognised directly in equity . . . . .	(15)	(10)	(25)	156	(50)
Increase in share based remuneration reserve . . . . .	—	17	17	46	46
Settlement of share awards . . . . .	—	(60)	(60)	(8)	(49)
Transfer from hedge reserve to net profit (net of tax) . . . . .	84	—	84	(14)	(20)
Exchange translation differences . . . . .	<u>8</u>	<u>49</u>	<u>57</u>	<u>(30)</u>	<u>49</u>
At December 31 . . . . .	<u>(65)</u>	<u>(437)</u>	<u>(502)</u>	<u>(988)</u>	<u>1,389</u>

Other reserves principally comprise retained earnings, the share based remuneration reserve and available for sale investment reserve.

### 35. 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 £2 million (2008: £4 million; 2007: £6 million). As at December 31, 2009 amounts owed by joint ventures were £4 million (2008: £3 million; 2007: £7 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.

**35. Related party transactions — (continued)**

	<b>2009</b> <b>£m</b>	<b>2008</b> <b>£m</b>	<b>2007</b> <b>£m</b>
Salaries and other short term employee benefits . . . . .	6	7	8
Post employment benefits . . . . .	1	1	1
Share based remuneration . . . . .	1	10	9
Termination benefits . . . . .	1	—	—
Total . . . . .	<u>9</u>	<u>18</u>	<u>18</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.

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**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 statements of financial position of Reed Elsevier PLC and its subsidiaries (“the Company”) as of December 31, 2009, 2008 and 2007, and the related consolidated statements of income, cash flows, comprehensive income and changes in equity for each of the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements 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, 2009, 2008 and 2007, and the results of its operations and cash flows for each of the years then ended, in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2009, 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 17, 2010 (see Item 19 — Exhibit 15.5) expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE LLP  
London, England  
February 17, 2010

**REED ELSEVIER PLC**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	2009 £m	2008 £m	2007 £m
Administrative expenses . . . . .	3	(2)	(1)	(1)
Effect of tax credit equalisation on distributed earnings . . . . .	4	(12)	(11)	(11)
Share of results of joint ventures . . . . .	12	213	258	658
Operating profit . . . . .		199	246	646
Finance income/(charges) . . . . .	7	2	1	(3)
Profit before tax . . . . .		201	247	643
Taxation . . . . .	8	(6)	(6)	(19)
Profit attributable to ordinary shareholders . . . . .		195	241	624

**REED ELSEVIER PLC**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	2009 £m	2008 £m	2007 £m
Profit attributable to ordinary shareholders . . . . .	195	241	624
Share of joint ventures' other comprehensive (expense)/income for the year . . . . .	(2)	(48)	140
Total comprehensive income for the year . . . . .	193	193	764

	Note	2009 pence	2008 pence	2007 pence
<i>Earnings per ordinary share (EPS)</i>				
Basic earnings per share				
From continuing operations of the combined businesses . . . . .	10	17.2p	21.2p	36.6p
From discontinued operations of the combined businesses . . . . .	10	—	0.9p	13.1p
From total operations of the combined businesses . . . . .	10	17.2p	22.1p	49.7p
Diluted earnings per share				
From continuing operations of the combined businesses . . . . .	10	17.1p	21.0p	36.2p
From discontinued operations of the combined businesses . . . . .	10	—	0.9p	12.9p
From total operations of the combined businesses . . . . .	10	17.1p	21.9p	49.1p

*The accompanying notes on pages F-61 to F-68 are an integral part of these consolidated financial statements*

**REED ELSEVIER PLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	2009 £m	2008 £m	2007 £m
<i>Cash flows from operating activities</i>				
Cash used by operations . . . . .	11	(2)	(1)	(2)
Interest received/(paid) . . . . .		2	—	(3)
Tax paid . . . . .		(6)	(10)	(16)
Net cash used in operating activities . . . . .		(6)	(11)	(21)
<i>Cash flows from investing activities</i>				
Dividends received from joint ventures . . . . .		—	500	850
Increase in investment in joint ventures . . . . .		(462)	—	—
Net cash (used in)/from investing activities . . . . .		(462)	500	850
<i>Cash flows from financing activities</i>				
Equity dividends paid . . . . .	9	(228)	(1,245)	(206)
Proceeds on issue of ordinary shares . . . . .		440	32	92
Purchase of treasury shares . . . . .		—	(20)	(92)
Repayment of loan from joint ventures . . . . .	11	—	—	(36)
Decrease/(increase) in net funding balances due from joint ventures . . . . .	11	256	744	(587)
Net cash from/(used in) financing activities . . . . .		468	(489)	(829)
Movement in cash and cash equivalents . . . . .		—	—	—

*The accompanying notes on pages F-61 to F-68 are an integral part of these consolidated financial statements*



**REED ELSEVIER PLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2009**

	Note	2009 £m	2008 £m	2007 £m
<i>Non-current assets</i>				
Investments in joint ventures . . . . .	12	927	515	1,584
Total assets . . . . .		<u>927</u>	<u>515</u>	<u>1,584</u>
<i>Current liabilities</i>				
Taxation . . . . .		11	11	16
Total liabilities . . . . .		<u>11</u>	<u>11</u>	<u>16</u>
Net assets . . . . .		<u>916</u>	<u>504</u>	<u>1,568</u>
<i>Capital and reserves</i>				
Called up share capital . . . . .	13	180	164	163
Share premium account . . . . .	14	1,159	1,154	1,123
Shares held in treasury (including in joint ventures) . . . . .	15	(317)	(347)	(302)
Capital redemption reserve . . . . .	16	4	4	4
Translation reserve . . . . .	17	92	157	(37)
Other reserves . . . . .	18	<u>(202)</u>	<u>(628)</u>	<u>617</u>
Total equity . . . . .		<u>916</u>	<u>504</u>	<u>1,568</u>

*The accompanying notes on pages F-61 to F-68 are an integral part of these consolidated financial statements*

**REED ELSEVIER PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	Share capital £m	Share premium £m	Shares held in treasury £m	Capital redemption reserve £m	Translation reserve £m	Other reserves £m	Total equity £m
Balance at January 1 2009 . . . . .		164	1,154	(347)	4	157	(628)	504
Total comprehensive income for the year . .		—	—	—	—	(65)	258	193
Equity dividends declared . . . . .	9	—	—	—	—	—	(228)	(228)
Issue of ordinary shares, net of expenses . .		16	5	—	—	—	419	440
Share of joint ventures' settlement of share awards by employee benefit trust. . . . .		—	—	30	—	—	(32)	(2)
Share of joint ventures' increase in share based remuneration reserve. . . . .		—	—	—	—	—	9	9
Balance at December 31 2009		<u>180</u>	<u>1,159</u>	<u>(317)</u>	<u>4</u>	<u>92</u>	<u>(202)</u>	<u>916</u>

	Note	Share capital £m	Share premium £m	Shares held in treasury £m	Capital redemption reserve £m	Translation reserve £m	Other reserves £m	Total equity £m
Balance at January 1 2008 . . . . .		163	1,123	(302)	4	(37)	617	1,568
Total comprehensive income for the year . .		—	—	—	—	194	(1)	193
Equity dividends declared . . . . .	9	—	—	—	—	—	(1,245)	(1,245)
Issue of ordinary shares, net of expenses . .		1	31	—	—	—	—	32
Increase in shares held in treasury (including joint ventures) . . . . .	15	—	—	(49)	—	—	—	(49)
Share of joint ventures' settlement of share awards by employee benefit trust. . . . .		—	—	4	—	—	(4)	—
Share of joint ventures' increase in share based remuneration reserve. . . . .		—	—	—	—	—	24	24
Equalisation adjustments . . . . .		—	—	—	—	—	(19)	(19)
Balance at December 31 2008 . . . . .		<u>164</u>	<u>1,154</u>	<u>(347)</u>	<u>4</u>	<u>157</u>	<u>(628)</u>	<u>504</u>

	Note	Share capital £m	Share premium £m	Shares held in treasury £m	Capital redemption reserve £m	Translation reserve £m	Other reserves £m	Total equity £m
Balance at January 1 2007 . . . . .		161	1,033	(200)	4	(98)	140	1,040
Total comprehensive income for the year . .		—	—	—	—	61	703	764
Equity dividends declared . . . . .	9	—	—	—	—	—	(206)	(206)
Issue of ordinary shares, net of expenses . .		2	90	—	—	—	—	92
Increase in shares held in treasury (including joint ventures) . . . . .	15	—	—	(130)	—	—	—	(130)
Share of joint ventures' settlement of share awards by employee benefit trust. . . . .		—	—	28	—	—	(28)	—
Share of joint ventures' increase in share based remuneration reserve. . . . .		—	—	—	—	—	24	24
Equalisation adjustments . . . . .		—	—	—	—	—	(16)	(16)
Balance at December 31 2007 . . . . .		<u>163</u>	<u>1,123</u>	<u>(302)</u>	<u>4</u>	<u>(37)</u>	<u>617</u>	<u>1,568</u>

*The accompanying notes on pages F-61 to F-68 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 under the historic cost convention and 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 IFRS as adopted by the European Union (“EU”).

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-15.

*Investments*

Reed Elsevier PLC’s 52.9% economic interest in the net assets of the combined businesses has been shown on the statement of financial position 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 statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the statement of financial position 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 statement of financial position 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.

### *Critical judgements and key sources of estimation uncertainty*

Critical judgments in the preparation of the combined financial statements are set out on page F-14.

### *Standards, amendments and interpretations not yet effective*

Recently issued standards, amendments and interpretations and their impact on future accounting policies and reporting have been considered on page F-14 and F-15 of the combined financial statements and are not expected to have a significant impact on the consolidated financial statements.

## 3. Administrative expenses

Administrative expenses include £712,000 (2008: £604,000; 2007: £526,000) 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 (2008: nil; 2007: nil).

## 4. Effect of tax credit equalisation on distributed earnings

The tax credit equalisation adjustment arises on ordinary 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 £26,000 (2008: £26,000; 2007: £25,000). Further information on the audit and non-audit fees paid by the Reed Elsevier combined businesses to Deloitte LLP and its associates is set out in note 6 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. Transactions with key management personnel are set out in note 35 to the combined financial statements.

## 7. Finance income/(charges)

	2009 £m	2008 £m	2007 £m
Finance income/(charges) from joint ventures . . . . .	2	1	(3)

## 8. Taxation

	2009 £m	2008 £m	2007 £m
UK corporation tax . . . . .	6	6	19

## 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.

	2009 £m	2008 £m	2007 £m
Profit before tax . . . . .	201	247	643
Tax at applicable rate 28% (2008: 28%; 2007: 30%) . . . . .	56	69	193
Tax at applicable rate on share of results of joint ventures . . . . .	(60)	(72)	(194)
Other . . . . .	10	9	20
Tax expense . . . . .	6	6	19

## 9. Equity dividends

<i>Ordinary dividends declared in the year</i>	2009 pence	2008 pence	2007 pence	2009 £m	2008 £m	2007 £m
Ordinary shares						
Final for prior financial year . .	15.0p	13.6p	11.8p	163	146	149
Interim for financial year . . . .	5.4p	5.3p	4.5p	65	58	57
Total . . . . .	20.4p	18.9p	16.3p	228	204	206

The directors of Reed Elsevier PLC have proposed a final dividend of 15.0p (2008: 15.0p; 2007: 13.6p). The cost of funding the proposed final dividend is expected to be £180 million. No liability has been recognised at the statement of financial position date.

<i>Ordinary dividends paid and proposed relating to the financial year</i>	2009 pence	2008 pence	2007 pence
Ordinary shares			
Interim (paid). . . . .	5.4p	5.3p	4.5p
Final (proposed). . . . .	15.0p	15.0p	13.6p
Total . . . . .	20.4p	20.3p	18.1p

On January 18, 2008 the company paid a special distribution of 82.0p per ordinary share from the net proceeds of the disposal of the Education division. The distribution of £1,041 million was recognised when paid.

## 10. Earnings per ordinary share (“EPS”)

	2009		
	Weighted average number of shares (millions)	Earnings £m	EPS pence
<i>Basic EPS</i>			
From total operations of the combined businesses . . . . .	1,131.4	195	17.2p
<i>Diluted EPS</i>			
From total operations of the combined businesses . . . . .	1,139.5	195	17.1p

**10. Earnings per ordinary share (“EPS”) — (continued)**

	<b>2008</b>		
	<b>Weighted average number of shares (millions)</b>	<b>Earnings £m</b>	<b>EPS pence</b>
<i>Basic EPS</i>			
From continuing operations of the combined businesses . . . . .	1,089.5	231	21.2p
From discontinued operations of the combined businesses . . . . .	<u>1,089.5</u>	<u>10</u>	<u>0.9p</u>
From total operations of the combined businesses . . . . .	<u>1,089.5</u>	<u>241</u>	<u>22.1p</u>
<i>Diluted EPS</i>			
From continuing operations of the combined businesses . . . . .	1,101.3	231	21.0p
From discontinued operations of the combined businesses . . . . .	<u>1,101.3</u>	<u>10</u>	<u>0.9p</u>
From total operations of the combined businesses . . . . .	<u>1,101.3</u>	<u>241</u>	<u>21.9p</u>
	<b>2007</b>		
	<b>Weighted average number of shares (millions)</b>	<b>Earnings £m</b>	<b>EPS pence</b>
<i>Basic EPS</i>			
From continuing operations of the combined businesses . . . . .	1,256.5	460	36.6p
From discontinued operations of the combined businesses . . . . .	<u>1,256.5</u>	<u>164</u>	<u>13.1p</u>
From total operations of the combined businesses . . . . .	<u>1,256.5</u>	<u>624</u>	<u>49.7p</u>
<i>Diluted EPS</i>			
From continuing operations of the combined businesses . . . . .	1,271.3	460	36.2p
From discontinued operations of the combined businesses . . . . .	<u>1,271.3</u>	<u>164</u>	<u>12.9p</u>
From total operations of the combined businesses . . . . .	<u>1,271.3</u>	<u>624</u>	<u>49.1p</u>

The diluted EPS figures are calculated after taking account of the effect of potential additional ordinary shares arising from 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, 2009 are shown below:

	Year Ended December 31,				
	Shares in issue (millions)	Treasury shares (millions)	2009 Shares in issue net of treasury shares (millions)	2008 Shares in issue net of treasury shares (millions)	2007 Shares in issue net of treasury shares (millions)
<i>Number of ordinary shares</i>					
At January 1 . . . . .	1,136.9	(54.3)	1,082.6	1,251.3	1,249.6
Share consolidation . . . . .	—	—	—	(168.1)	—
Issue of ordinary shares . . . . .	110.4	—	110.4	6.4	18.5
Share repurchases . . . . .	—	—	—	(3.2)	(15.2)
Net release/(purchase) of shares by employee benefit trust . . . . .	—	4.7	4.7	(3.8)	(1.6)
At December 31 . . . . .	<u>1,247.3</u>	<u>(49.6)</u>	<u>1,197.7</u>	<u>1,082.6</u>	<u>1,251.3</u>
Weighted average number of equivalent ordinary shares during the year . . . . .			<u>1,131.4</u>	<u>1,089.5</u>	<u>1,256.5</u>

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:

	2009 (millions)	2008 (millions)	2007 (millions)
Weighted average number of shares — Basic . . . . .	1,131.4	1,089.5	1,256.5
Weighted average number of dilutive shares under option . . . . .	<u>8.1</u>	<u>11.8</u>	<u>14.8</u>
Weighted average number of shares — Diluted . . . . .	<u>1,139.5</u>	<u>1,101.3</u>	<u>1,271.3</u>

# 11. Statement of cash flows

## Reconciliation of profit before tax to cash used by operations

	2009 £m	2008 £m	2007 £m
Profit before tax . . . . .	201	247	643
Effect of tax credit equalisation on distributed earnings . . . . .	12	11	11
Net finance (income)/charges . . . . .	(2)	(1)	3
Share of results of joint ventures . . . . .	<u>(213)</u>	<u>(258)</u>	<u>(658)</u>
Operating loss before joint ventures . . . . .	(2)	(1)	(1)
Decrease in payables . . . . .	—	—	(1)
Cash used by operations . . . . .	<u>(2)</u>	<u>(1)</u>	<u>(2)</u>

## Reconciliation of net funding balances due from joint ventures

	2009 £m	2008 £m	2007 £m
At January 1 . . . . .	777	1,521	898
Cash flow . . . . .	<u>(256)</u>	<u>(744)</u>	<u>623</u>
At December 31 . . . . .	<u>521</u>	<u>777</u>	<u>1,521</u>

## 12. Investments in joint ventures

	2009 £m	2008 £m	2007 £m
Share of results of joint ventures . . . . .	213	258	658
Share of joint ventures':			
Net (expense)/income recognised directly in equity . . . . .	(47)	(54)	77
Cumulative exchange differences on disposal of foreign operations . . .	—	14	78
Cumulative fair value movements on disposal of available for sale investments . . . . .	1	—	(4)
Transfer to net profit from hedge reserve . . . . .	44	(8)	(11)
Purchases of treasury shares by employee benefit trust . . . . .	—	(29)	(38)
Increase in share based remuneration reserve . . . . .	9	24	24
Settlement of share awards by employee benefit trust . . . . .	(2)	—	—
Equalisation adjustments . . . . .	(12)	(30)	(27)
Dividends received from joint ventures . . . . .	—	(500)	(850)
Increase in investment in joint ventures . . . . .	462	—	—
(Decrease)/increase in net funding balances due from joint ventures . . . .	(256)	(744)	587
Net movement in the year . . . . .	412	(1,069)	494
At January 1 . . . . .	515	1,584	1,090
At December 31 . . . . .	<u>927</u>	<u>515</u>	<u>1,584</u>

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		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Revenue . . . . .	6,071	5,334	4,584	3,212	2,822	2,425
Net profit for the year . .	<u>395</u>	<u>480</u>	<u>1,203</u>	<u>213</u>	<u>258</u>	<u>658</u>

Reed Elsevier PLC's share of joint ventures' net profit attributable to parent company shareholders for the year excludes the net loss that arose directly in Reed Elsevier PLC of £6 million (2008: £6 million; 2007: £23 million).

	Total joint ventures			Reed Elsevier PLC shareholders' share		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Total assets . . . . .	11,334	12,866	9,778	5,996	6,806	5,173
Total liabilities . . . . .	<u>(9,575)</u>	<u>(11,885)</u>	<u>(6,802)</u>	<u>(5,590)</u>	<u>(7,068)</u>	<u>(5,110)</u>
Net assets/(liabilities) . .	<u>1,759</u>	<u>981</u>	<u>2,976</u>	<u>406</u>	<u>(262)</u>	<u>63</u>
Attributable to:						
Joint ventures . . . . .	1,732	953	2,965	406	(262)	63
Non-controlling interests . . . . .	<u>27</u>	<u>28</u>	<u>11</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,759</u>	<u>981</u>	<u>2,976</u>	<u>406</u>	<u>(262)</u>	<u>63</u>
Funding balances due from joint ventures . .	<u>521</u>	<u>777</u>	<u>1,521</u>	<u>521</u>	<u>777</u>	<u>1,521</u>
Total . . . . .	<u>927</u>	<u>515</u>	<u>1,584</u>	<u>927</u>	<u>515</u>	<u>1,584</u>

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 £388 million (2008: £198 million; 2007: £1,305 million) and borrowings of £2,489 million (2008: £3,249 million; 2007: £1,655 million) respectively.



### 13. Share capital

	<u>No. of shares</u>	<u>£m</u>
<i>Authorised</i>		
Ordinary shares of 14 <sup>5</sup> / <sub>16</sub> p each . . . . .	1,247,275,833	180
Unclassified shares of 14 <sup>5</sup> / <sub>16</sub> p each . . . . .	790,796,375	114
Total . . . . .		<u>294</u>

All of the ordinary shares rank equally with respect to voting rights and rights to receive dividends. There are no restrictions on the rights to transfer shares.

#### *Called up share capital — issued and fully paid*

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>No. of shares</u>	<u>£m</u>	<u>No. of shares</u>	<u>£m</u>	<u>No. of shares</u>	<u>£m</u>
At January 1 . . . . .	1,136,924,693	164	1,305,891,497	163	1,287,364,048	161
Share consolidation . . . . .	—	—	(175,418,253)	—	—	—
Issue of ordinary shares . . . . .	110,351,140	16	6,451,449	1	18,527,449	2
At December 31 . . . . .	<u>1,247,275,833</u>	<u>180</u>	<u>1,136,924,693</u>	<u>164</u>	<u>1,305,891,497</u>	<u>163</u>

The issue of ordinary shares relates to the exercise of share options and the share placing in 2009. Details of share option and conditional share schemes are set out in note 9 to the Reed Elsevier combined financial statements.

A share placing was announced on July 30, 2009 for up to 109,198,190 new ordinary shares representing approximately 9.9% of the company's share capital prior to the placing. The shares were fully subscribed at a price of 405p per share, raising £435 million net of issue costs of £7 million. No share premium was recognised as the company took advantages of section 612 within the Companies Act 2006 regarding merger relief. Accordingly, the excess of the net proceeds received over the nominal value of the share capital issued is added to other reserves rather than credited to the share premium account and is distributable.

On January 7, 2008 the existing ordinary shares of 12.5p each were consolidated into new ordinary shares of 14<sup>5</sup>/<sub>16</sub>p each on the basis of 58 new ordinary shares for every 67 existing ordinary shares. The unclassified shares of 12.5p each not in issue were similarly consolidated into new unclassified shares of 14<sup>5</sup>/<sub>16</sub>p each.

Details of shares held in treasury are provided in note 15.

### 14. Share premium

	<u>2009 £m</u>	<u>2008 £m</u>	<u>2007 £m</u>
At January 1 . . . . .	1,154	1,123	1,033
Issue of ordinary shares, net of expenses . . . . .	5	31	90
At December 31 . . . . .	<u>1,159</u>	<u>1,154</u>	<u>1,123</u>

### 15. Shares held in treasury

	<u>2009 £m</u>	<u>2008 £m</u>	<u>2007 £m</u>
At January 1 . . . . .	347	302	200
Share repurchases . . . . .	—	20	92
Share of joint ventures' employee benefit trust purchases . . . . .	—	29	38
Share of joint ventures' settlement of share awards by employee benefit trust . . . . .	(30)	(4)	(28)
At December 31 . . . . .	<u>317</u>	<u>347</u>	<u>302</u>

Further details of shares held in treasury are provided in note 32 to the Reed Elsevier combined financial statements.

**16. Capital redemption reserve**

	<b>2009</b> <b>£m</b>	<b>2008</b> <b>£m</b>	<b>2007</b> <b>£m</b>
At January 1 and December 31 . . . . .	<u>4</u>	<u>4</u>	<u>4</u>

**17. Translation reserve**

	<b>2009</b> <b>£m</b>	<b>2008</b> <b>£m</b>	<b>2007</b> <b>£m</b>
At January 1 . . . . .	157	(37)	(98)
Share of joint ventures' exchange differences on translation of foreign operations . . . . .	(65)	180	(17)
Share of joint ventures' cumulative exchange differences on disposal of foreign operations . . . . .	<u>—</u>	<u>14</u>	<u>78</u>
At December 31 . . . . .	<u>92</u>	<u>157</u>	<u>(37)</u>

**18. Other reserves**

	<b>2009</b> <b>£m</b>	<b>2008</b> <b>£m</b>	<b>2007</b> <b>£m</b>
At January 1 . . . . .	(628)	617	140
Profit attributable to ordinary shareholders . . . . .	195	241	624
Issue of ordinary shares, net of expenses . . . . .	419	—	—
Share of joint ventures':			
Actuarial gains/(losses) on defined benefit pension schemes . . . . .	3	(184)	118
Fair value movements on available for sale investments . . . . .	—	(5)	—
Cumulative fair value movements on disposal of available for sale investments . . . . .	1	—	(4)
Fair value movements on cash flow hedges . . . . .	28	(129)	2
Tax recognised directly in equity . . . . .	(13)	84	(26)
Increase in share based remuneration reserve . . . . .	9	24	24
Settlement of share awards by employee benefit trust . . . . .	(32)	(4)	(28)
Transfer to net profit from hedge reserve . . . . .	44	(8)	(11)
Equalisation adjustments . . . . .	—	(19)	(16)
Equity dividends declared . . . . .	<u>(228)</u>	<u>(1,245)</u>	<u>(206)</u>
At December 31 . . . . .	<u>(202)</u>	<u>(628)</u>	<u>617</u>

**19. Contingent liabilities**

There are contingent liabilities in respect of borrowings of joint ventures guaranteed by Reed Elsevier PLC as follows:

	<b>2009</b> <b>£m</b>	<b>2008</b> <b>£m</b>	<b>2007</b> <b>£m</b>
Fully and unconditionally guaranteed jointly and severally with Reed Elsevier NV . . . . .	<u>4,381</u>	<u>5,765</u>	<u>2,759</u>

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 20 to the Reed Elsevier combined financial statements.

**REED ELSEVIER NV**  
**CONSOLIDATED FINANCIAL STATEMENTS**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the members of the Supervisory and Executive Boards and the shareholders of Reed Elsevier NV:

We have audited the accompanying consolidated statements of financial position of Reed Elsevier NV (“the Company”) as of December 31, 2009, 2008 and 2007, and the related consolidated statements of income, cash flows, comprehensive income and changes in equity for each of the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements 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, 2009, 2008 and 2007, and the results of its operations and cash flows for each of the years then ended, in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2009, 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 17, 2010 (see Item 19 — Exhibit 15.6) expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE ACCOUNTANTS B.V.  
Amsterdam, The Netherlands  
February 17, 2010

**REED ELSEVIER NV**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Note</b>	<b>2009 €m</b>	<b>2008 €m</b>	<b>2007 €m</b>
Administrative expenses . . . . .	4	(2)	(3)	(3)
Share of results of joint ventures . . . . .	12	197	239	803
Operating profit . . . . .		195	236	800
Finance income . . . . .	7	22	77	73
Profit before tax . . . . .		217	313	873
Taxation . . . . .	8	2	(19)	(18)
Profit attributable to ordinary shareholders . . . . .		<u>219</u>	<u>294</u>	<u>855</u>

**REED ELSEVIER NV**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>2009 €m</b>	<b>2008 €m</b>	<b>2007 €m</b>
Profit attributable to ordinary shareholders . . . . .	219	294	855
Share of joint ventures' other comprehensive income/(expense) for the year . . . . .	42	(232)	38
Total comprehensive income for the year . . . . .	<u>261</u>	<u>62</u>	<u>893</u>

	<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<i>Earnings per ordinary share (EPS)</i>				
Basic earnings per share				
From continuing operations of the combined businesses . . . . .	10	€ 0.32	€ 0.43	€ 0.84
From discontinued operations of the combined businesses . . . . .	10	—	€ 0.01	€ 0.26
From total operations of the combined businesses . . . . .	10	<u>€ 0.32</u>	<u>€ 0.44</u>	<u>€ 1.10</u>
Diluted earnings per share				
From continuing operations of the combined businesses . . . . .	10	€ 0.31	€ 0.43	€ 0.83
From discontinued operations of the combined businesses . . . . .	10	—	€ 0.01	€ 0.26
From total operations of the combined businesses . . . . .	10	<u>€ 0.31</u>	<u>€ 0.44</u>	<u>€ 1.09</u>

*The accompanying notes on pages F-75 to F-83 are an integral part of these consolidated financial statements*

**REED ELSEVIER NV**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	2009 €m	2008 €m	2007 €m
<i>Cash flows from operating activities</i>				
Cash used by operations . . . . .	11	(2)	(2)	(2)
Interest received . . . . .		24	78	71
Tax paid . . . . .		(8)	(17)	(18)
Net cash from operating activities . . . . .		<u>14</u>	<u>59</u>	<u>51</u>
<i>Cash flows from investing activities</i>				
Dividends received from joint ventures . . . . .		—	1,200	1,410
Increase in investment in joint ventures . . . . .		(531)	—	—
Net cash (used in)/from investing activities . . . . .		<u>(531)</u>	<u>1,200</u>	<u>1,410</u>
<i>Cash flows from financing activities</i>				
Equity dividends paid . . . . .	9	(260)	(1,569)	(310)
Proceeds on issue of ordinary shares . . . . .		470	27	124
Purchase of treasury shares . . . . .		—	(25)	(176)
Decrease/(increase) in net funding balances due from joint ventures . . . . .	11	<u>298</u>	<u>311</u>	<u>(1,238)</u>
Net cash from/(used in) financing activities . . . . .		<u>508</u>	<u>(1,256)</u>	<u>(1,600)</u>
Movement in cash and cash equivalents . . . . .		<u>(9)</u>	<u>3</u>	<u>(139)</u>

*The accompanying notes on pages F-75 to F-83 are an integral part of these consolidated financial statements*

**REED ELSEVIER NV**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2009**

	Note	2009 €m	2008 €m	2007 €m
<i>Non-current assets</i>				
Investments in joint ventures . . . . .	12	1,031	551	2,075
<i>Current assets</i>				
Amounts due from joint ventures . . . . .		2	4	5
Cash and cash equivalents . . . . .		3	12	9
		5	16	14
Total assets . . . . .		1,036	567	2,089
<i>Current liabilities</i>				
Payables . . . . .	13	10	10	9
Taxation . . . . .		56	66	64
Total liabilities . . . . .		66	76	73
Net assets . . . . .		970	491	2,016
<i>Capital and reserves</i>				
Share capital issued . . . . .	14	53	49	49
Paid-in surplus . . . . .	15	2,168	1,712	1,685
Shares held in treasury (including in joint ventures) . . . . .	16	(434)	(477)	(459)
Translation reserve . . . . .	17	(153)	(138)	(159)
Other reserves . . . . .	18	(664)	(655)	900
Total equity . . . . .		970	491	2,016

*The accompanying notes on pages F-75 to F-83 are an integral part of these consolidated financial statements*

**REED ELSEVIER NV**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Note	Share capital €m	Paid-in surplus €m	Shares held in treasury €m	Translation reserve €m	Other reserves €m	Total equity €m
Balance at January 1 2009 . . . . .		49	1,712	(477)	(138)	(655)	491
Total comprehensive income for the year . . . . .		—	—	—	(25)	286	261
Equity dividends declared . . . . .	9	—	—	—	—	(260)	(260)
Issue of ordinary shares, net of expenses . . . . .		4	456	21	—	(11)	470
Share of joint ventures' settlement of share awards by employee benefit trust . . . . .		—	—	32	—	(34)	(2)
Share of joint ventures' increase in share based remuneration reserve . . . . .		—	—	—	—	10	10
Exchange translation differences . . . . .		—	—	(10)	10	—	—
Balance at December 31 2009 . . . . .		<u>53</u>	<u>2,168</u>	<u>(434)</u>	<u>(153)</u>	<u>(664)</u>	<u>970</u>

	Note	Share capital €m	Paid-in surplus €m	Shares held in treasury €m	Translation reserve €m	Other reserves €m	Total equity €m
Balance at January 1 2008 . . . . .		49	1,685	(459)	(159)	900	2,016
Total comprehensive income for the year . . . . .		—	—	—	57	5	62
Equity dividends declared . . . . .	9	—	—	—	—	(1,569)	(1,569)
Issue of ordinary shares, net of expenses . . . . .		—	27	—	—	—	27
Increase in shares held in treasury (including joint ventures). . . . .	16	—	—	(59)	—	—	(59)
Share of joint ventures' settlement of share awards by employee benefit trust . . . . .		—	—	5	—	(5)	—
Share of joint ventures' increase in share based remuneration reserve . . . . .		—	—	—	—	29	29
Equalisation adjustments . . . . .		—	—	—	—	(15)	(15)
Exchange translation differences . . . . .		—	—	36	(36)	—	—
Balance at December 31 2008 . . . . .		<u>49</u>	<u>1,712</u>	<u>(477)</u>	<u>(138)</u>	<u>(655)</u>	<u>491</u>

	Note	Share capital €m	Paid-in surplus €m	Shares held in treasury €m	Translation reserve €m	Other reserves €m	Total equity €m
Balance at January 1 2007 . . . . .		48	1,562	(282)	(70)	207	1,465
Total comprehensive income for the year . . . . .		—	—	—	(72)	965	893
Equity dividends declared . . . . .	9	—	—	—	—	(310)	(310)
Issue of ordinary shares, net of expenses . . . . .		1	123	—	—	—	124
Increase in shares held in treasury (including joint ventures). . . . .	16	—	—	(230)	—	—	(230)
Share of joint ventures' settlement of share awards by employee benefit trust . . . . .		—	—	36	—	(36)	—
Share of joint ventures' increase in share based remuneration reserve . . . . .		—	—	—	—	34	34
Equalisation adjustments . . . . .		—	—	—	—	40	40
Exchange translation differences . . . . .		—	—	17	(17)	—	—
Balance at December 31 2007 . . . . .		<u>49</u>	<u>1,685</u>	<u>(459)</u>	<u>(159)</u>	<u>900</u>	<u>2,016</u>

*The accompanying notes on pages F-75 to F-83 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.

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-53 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 accounting policies that are in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

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 a subsidiary of 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-15.

*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 statement of financial position 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 statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the statement of financial position date. Exchange differences arising are recorded in the income statement. The gains or 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.

## 2. Accounting policies — (continued)

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 statement of financial position 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.

### *Critical judgements and key sources of estimation uncertainty*

Critical judgments in the preparation of the combined financial statements are set out on page F-14.

### *Standards, amendments and interpretations not yet effective*

Recently issued standards, amendments and interpretations and their impact on future accounting policies and reporting have been considered on page F-14 and F-15 of the combined financial statements and are not expected to have a significant impact on the consolidated financial statements.

## 3. Basis of preparation

The consolidated financial statements of Reed Elsevier NV reflect the 50% economic interest that its shareholders have under the equalisation arrangements in the Reed Elsevier combined businesses, accounted for on an equity basis.

The Reed Elsevier combined financial statements are presented in pounds sterling, which is the functional currency of Reed Elsevier Group plc, a UK registered company which owns the publishing and information businesses of Reed Elsevier. The following analysis presents how the consolidated financial statements of Reed Elsevier NV, presented in euros, are derived from the Reed Elsevier combined financial statements.

### **Reed Elsevier NV consolidated profit attributable to ordinary shareholders**

	Note	2009	2008	2007
Reed Elsevier combined businesses net profit attributable to parent company shareholders in pounds sterling . . .		£391m	£476m	£1,200m
Reed Elsevier combined businesses net profit attributable to parent company shareholders in pounds sterling translated into euros at average exchange rates . . . . .		€438m	€600m	€1,752m
Impact of exchange translation differences . . . . .	(i)	—	€(13)m	€(43)m
Reed Elsevier combined businesses net profit attributable to parent company shareholders in euros . . . . .		€438m	€587m	€1,709m
Reed Elsevier NV's 50% share of combined net profit attributable to ordinary shareholders . . . . .		€219m	€294m	€855m

(i) The combined financial statements for the year ended December 31, 2008 included gains on disposal of discontinued operations which, due to their individual significance, were translated using exchange rates prevailing on the date of the transaction rather than the average exchange rates for the year. The gains on disposal also include cumulative currency translation losses since adoption of IFRS previously taken to reserves. Consequently, the gains expressed in euros were €13 million (2007: €43 million) lower than the amounts derived by translating the gains expressed in sterling at average euro:sterling exchange rates (2008: €1.26 to £1.00; 2007: €1.46 to £1.00).

### 3. Basis of preparation — (continued)

<b>Reed Elsevier NV consolidated total equity</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Reed Elsevier combined shareholders' equity in pounds sterling . . . . .	£1,732m	£953m	£2,965m
Reed Elsevier combined shareholders' equity in pounds sterling translated into euros at year end exchange rates (2009: €1.12 to €1.00; 2008: €1.03 to €1.00; 2007: €1.36 to €1.00) . . . . .	€1,940m	€982m	€4,032m
Reed Elsevier NV's 50% share of combined equity . . . . .	€970m	€491m	€2,016m

### 4. 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 (2008: €0.2 million; 2007: €0.2 million) are included in gross remuneration. Insofar 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 (2008: nil; 2007: nil).

### 5. Auditors' remuneration

Audit fees payable by Reed Elsevier NV were €48,000 (2008: €48,000; 2007: €47,000). 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 6 to the combined financial statements.

### 6. Related party transactions

All transactions with joint ventures, which are related parties of Reed Elsevier NV, are reflected in these financial statements. Key management personnel are also related parties and comprise the members of the Executive Board of Reed Elsevier NV. Transactions with key management personnel are set out in note 35 to the combined financial statements.

### 7. Finance income

	<b>2009 €m</b>	<b>2008 €m</b>	<b>2007 €m</b>
Finance income from joint ventures . . . . .	22	77	73

### 8. 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.

	<b>2009 €m</b>	<b>2008 €m</b>	<b>2007 €m</b>
Profit before tax . . . . .	217	313	873
Tax at applicable rate 25.5% (2008: 25.5%; 2007: 25.5%) . . . . .	55	80	223
Tax at applicable rate on share of results of joint ventures . . . . .	(50)	(61)	(205)
Other . . . . .	(7)	—	—
Tax (credit)/expense . . . . .	(2)	19	18

### 9. Equity dividends

	<b>2009 €</b>	<b>2008 €</b>	<b>2007 €</b>	<b>2009 €m</b>	<b>2008 €m</b>	<b>2007 €m</b>
<i>Ordinary dividends declared in the year</i>						
Ordinary shares						
Final for prior financial year . . . . .	€ 0.290	€ 0.311	€ 0.304	€185	198	225
Interim for financial year . . . . .	€ 0.107	€ 0.114	€ 0.114	€75	72	85
R shares . . . . .	—	—	—	—	—	—
Total . . . . .	€ 0.397	€ 0.425	€ 0.418	€260	270	310

## 9. Equity dividends — (continued)

The directors of Reed Elsevier NV have proposed a final dividend of €0.293 (2008: €0.290; 2007: €0.311). The cost of funding the proposed final dividend is expected to be €205 million. No liability has been recognised at the statement of financial position date.

	2009 €	2008 €	2007 €
<i>Ordinary dividends paid and proposed relating to the financial year</i>			
Ordinary shares			
Interim (paid) . . . . .	€ 0.107	€ 0.114	€ 0.114
Final (proposed) . . . . .	€ 0.293	€ 0.290	€ 0.311
R shares . . . . .	—	—	—
Total . . . . .	<u>€ 0.400</u>	<u>€ 0.404</u>	<u>€ 0.425</u>

On January 18, 2008 the company paid a special distribution of €1.767 per ordinary share from the net proceeds of the disposal of the Education division. The distribution of €1,299 million was recognised when paid.

## 10. Earnings per ordinary share (“EPS”)

	2009		
	Weighted average number of shares (millions)	Earnings €m	EPS €
<i>Basic EPS</i>			
From total operations of the combined businesses . . . . .	693.9	219	€0.32
<i>Diluted EPS</i>			
From total operations of the combined businesses . . . . .	698.7	219	€0.31
	2008		
	Weighted average number of shares (millions)	Earnings €m	EPS €
<i>Basic EPS</i>			
From continuing operations of the combined businesses . . . . .	669.0	289	€0.43
From discontinued operations of the combined businesses . . . . .	669.0	5	€0.01
From total operations of the combined businesses . . . . .	669.0	294	€0.44
<i>Diluted EPS</i>			
From continuing operations of the combined businesses . . . . .	674.9	289	€0.43
From discontinued operations of the combined businesses . . . . .	674.9	5	€0.01
From total operations of the combined businesses . . . . .	674.9	294	€0.44

# 10. Earnings per ordinary share (“EPS”) — (continued)

	2007		
	Weighted average number of shares (millions)	Earnings €m	EPS €
<i>Basic EPS</i>			
From continuing operations of the combined businesses . . . . .	774.9	651	€0.84
From discontinued operations of the combined businesses . . . . .	774.9	204	€0.26
From total operations of the combined businesses . . . . .	774.9	855	€1.10
<i>Diluted EPS</i>			
From continuing operations of the combined businesses . . . . .	784.1	651	€0.83
From discontinued operations of the combined businesses . . . . .	784.1	204	€0.26
From total operations of the combined businesses . . . . .	784.1	855	€1.09

The diluted EPS figures are calculated after taking account of the effect of potential additional ordinary shares arising from share options and conditional shares.

The weighted average number of shares takes into account R shares and 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, 2009 are shown below:

	Year Ended December 31,				
	Shares in issue (millions)	Treasury shares (millions)	2009 Shares in issue net of treasury shares (millions)	2008 Shares in issue net of treasury shares (millions)	2007 Shares in issue net of treasury shares (millions)
<i>Number of ordinary shares</i>					
At January 1 . . . . .	660.6	(35.2)	625.4	724.9	726.0
Share consolidation . . . . .	—	—	—	(97.4)	—
Issue of ordinary shares . . . . .	63.1	—	63.1	2.4	11.7
Share repurchases . . . . .	—	—	—	(2.1)	(11.9)
Net release/(purchase) of shares by employee benefit trust . . . . .	—	3.0	3.0	(2.4)	(0.9)
At December 31 . . . . .	723.7	(32.2)	691.5	625.4	724.9
Weighted average number of equivalent ordinary shares during the year . . . . .			693.9	669.0	774.9

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:

	2009 (millions)	2008 (millions)	2007 (millions)
Weighted average number of shares — Basic . . . . .	693.9	669.0	774.9
Weighted average number of dilutive shares under options . . . . .	4.8	5.9	9.2
Weighted average number of shares — Diluted . . . . .	698.7	674.9	784.1

## 11. Statement of cash flows

### *Reconciliation of profit before tax to cash used by operations*

	2009 €m	2008 €m	2007 €m
Profit before tax . . . . .	217	313	873
Finance income . . . . .	(22)	(77)	(73)
Share of results of joint ventures . . . . .	(197)	(239)	(803)
Operating loss before joint ventures . . . . .	(2)	(3)	(3)
Increase in payables . . . . .	—	1	1
Cash used by operations . . . . .	(2)	(2)	(2)

### *Reconciliation of net funding balances due from joint ventures*

	2009 €m	2008 €m	2007 €m
At January 1 . . . . .	1,553	1,864	626
Cash flow . . . . .	(298)	(311)	1,238
At December 31 . . . . .	1,255	1,553	1,864

## 12. Investments in joint ventures

	2009 €m	2008 €m	2007 €m
Share of results of joint ventures . . . . .	197	239	803
Share of joint ventures':			
Net expense recognised directly in equity . . . . .	(6)	(250)	(45)
Cumulative exchange differences on disposal of foreign operations . . .	—	27	103
Cumulative fair value movements on disposal of available for sale investments . . . . .	1	—	(5)
Transfer to net profit from hedge reserve. . . . .	47	(9)	(15)
Purchases of treasury shares by employee benefit trust . . . . .	—	(34)	(54)
Increase in share based remuneration reserve . . . . .	10	29	34
Settlement of share awards by employee benefit trust . . . . .	(2)	—	—
Equalisation adjustments . . . . .	—	(15)	40
Dividends received from joint ventures . . . . .	—	(1,200)	(1,410)
Increase in investment in joint ventures . . . . .	531	—	—
(Decrease)/increase in net funding balances due from joint ventures . . . .	(298)	(311)	1,238
Net movement in the year . . . . .	480	(1,524)	689
At January 1 . . . . .	551	2,075	1,386
At December 31 . . . . .	1,031	551	2,075

Summarised information showing total amounts in respect of joint ventures and Reed Elsevier NV shareholders' 50% share is set out below:

	Total joint ventures			Reed Elsevier NV share		
	2009 €m	2008 €m	2007 €m	2009 €m	2008 €m	2007 €m
Revenue . . . . .	6,800	6,721	6,693	3,400	3,361	3,347
Net profit for the year . . . . .	442	592	1,713	197	239	803

Reed Elsevier NV's share of joint ventures' net profit attributable to parent company shareholders for the year excludes the net profit that arose directly in Reed Elsevier NV of €22 million (2008: €55 million, 2007: €52 million).

## 12. Investments in joint ventures — (continued)

	Total joint ventures			Reed Elsevier NV shareholders' share		
	2009 €m	2008 €m	2007 €m	2009 €m	2008 €m	2007 €m
Total assets . . . . .	12,694	13,251	13,298	6,342	6,610	6,635
Total liabilities . . . . .	(10,724)	(12,241)	(9,251)	(6,566)	(7,612)	(6,424)
Net assets/(liabilities) . .	<u>1,970</u>	<u>1,010</u>	<u>4,047</u>	<u>(224)</u>	<u>(1,002)</u>	<u>211</u>
Attributable to:						
Joint ventures . . . . .	1,940	981	4,032	(224)	(1,002)	211
Non-controlling interests . . . . .	<u>30</u>	<u>29</u>	<u>15</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,970</u>	<u>1,010</u>	<u>4,047</u>	<u>(224)</u>	<u>(1,002)</u>	<u>211</u>
Net funding balances due from joint ventures . . . . .				<u>1,255</u>	<u>1,553</u>	<u>1,864</u>
Total . . . . .				<u>1,031</u>	<u>551</u>	<u>2,075</u>

The above amounts exclude assets and liabilities held directly by Reed Elsevier NV and include the counterparty balances of amounts owed to and by other Reed Elsevier businesses. Included within Reed Elsevier NV's share of assets and liabilities are cash and cash equivalents of €408 million (2008: €181 million; 2007: €1,669 million) and borrowings of €2,625 million (2008: €3,153 million; 2007: €2,242 million) respectively.

## 13. Payables

Included within payables are employee convertible debenture loans of €10 million (2008: €10 million) with a weighted average interest rate of 4.04% (2008: 5.28%). 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.

## 14. Share capital

### Authorised

	No. of shares	€m
Ordinary shares of €0.07 each . . . . .	1,800,000,000	126
R shares of €0.70 each . . . . .	26,000,000	<u>18</u>
Total . . . . .		<u>144</u>

### Issued and fully paid

	R shares Number	Ordinary shares Number	R shares €m	Ordinary shares €m	Total €m
At January 1, 2007 . . . . .	4,679,249	748,597,124	3	45	48
Issue of ordinary shares . . . . .	<u>—</u>	<u>11,653,240</u>	<u>—</u>	<u>1</u>	<u>1</u>
At January 1, 2008 . . . . .	4,679,249	760,250,364	3	46	49
Share consolidation . . . . .	<u>(628,529)</u>	<u>(102,123,146)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Issue of ordinary shares . . . . .	<u>—</u>	<u>2,502,244</u>	<u>—</u>	<u>—</u>	<u>—</u>
At January 1, 2009 . . . . .	4,050,720	660,629,462	3	46	49
Issue of ordinary shares . . . . .	<u>252,459</u>	<u>63,063,439</u>	<u>—</u>	<u>4</u>	<u>4</u>
At December 31, 2009 . . . . .	<u>4,303,179</u>	<u>723,692,901</u>	<u>3</u>	<u>50</u>	<u>53</u>

The issue of shares relates to the exercise of share options and the share placing in 2009. Details of share option and conditional share schemes are set out in note 9 to the Reed Elsevier combined financial statements.

#### 14. Share capital — (Continued)

A share placing was announced on July 30, 2009 for up to 63,030,989 new ordinary shares representing approximately 9.9% of the company's share capital prior to the placing. The shares were fully subscribed at a price of €7.08 per share, raising €441 million net of issue costs of €5 million. The excess of the net proceeds received over the nominal value of the share capital issued has been credited to paid-in surplus. 252,459 new R shares were also issued for total proceeds of €18 million.

On January 7, 2008 the existing ordinary shares of €0.06 each were consolidated into new ordinary shares of €0.07 each on the basis of 58 new ordinary shares for every 67 existing ordinary shares. The existing R shares of €0.60 were consolidated on a similar basis into new R shares of €0.70.

Details of shares held in treasury are provided in note 16.

At December 31, 2009 4,303,179 R shares were held by a subsidiary of Reed Elsevier PLC. The R shares are convertible at the election of the holders into ten ordinary shares each and each R share carries an entitlement to cast ten votes. They have otherwise the same rights as the ordinary shares, except that Reed Elsevier NV may pay a lower dividend on the R shares.

#### 15. Paid-in surplus

	2009 €m	2008 €m	2007 €m
At January 1 . . . . .	1,712	1,685	1,562
Issue of ordinary shares . . . . .	456	27	123
At December 31 . . . . .	<u>2,168</u>	<u>1,712</u>	<u>1,685</u>

Within paid-in surplus, an amount of €1,991 million (2008: €1,535 million; 2007: €1,508 million) is free of tax.

#### 16. Shares held in treasury

	2009 €m	2008 €m	2007 €m
At January 1 . . . . .	477	459	282
Share repurchases . . . . .	—	25	176
Release of R shares from treasury . . . . .	(21)	—	—
Share of joint ventures' employee benefit trust purchases . . . . .	—	34	54
Share of joint ventures' settlement of share awards by employee benefit trust . . . . .	(32)	(5)	(36)
Exchange translation differences . . . . .	10	(36)	(17)
At December 31 . . . . .	<u>434</u>	<u>477</u>	<u>459</u>

Share repurchases in 2007 include €21 million in respect of the repurchase of R shares from a subsidiary of Reed Elsevier PLC.

Further details of shares held in treasury are provided in note 32 to the Reed Elsevier combined financial statements.

#### 17. Translation reserve

	2009 €m	2008 €m	2007 €m
At January 1 . . . . .	(138)	(159)	(70)
Share of joint ventures' exchange differences on translation of foreign operations . . . . .	(25)	30	(175)
Exchange translation differences on capital and reserves . . . . .	10	(36)	(17)
Share of joint ventures' cumulative exchange differences on disposal of foreign operations . . . . .	—	27	103
At December 31 . . . . .	<u>(153)</u>	<u>(138)</u>	<u>(159)</u>



## 18. Other reserves

	2009 €m	2008 €m	2007 €m
At January 1 . . . . .	(655)	900	207
Profit attributable to ordinary shareholders . . . . .	219	294	855
Issue of ordinary shares, net of expenses . . . . .	(11)	—	—
Share of joint ventures':			
Actuarial gains/(losses) on defined benefit pension schemes . . . . .	4	(219)	165
Fair value movements on available for sale investments . . . . .	—	(6)	—
Cumulative fair value movements on disposal of available for sale investments . . . . .	1	—	(5)
Fair value movements on cash flow hedges . . . . .	29	(153)	2
Tax recognised directly in equity . . . . .	(14)	98	(37)
Increase in share based remuneration reserve . . . . .	10	29	34
Settlement of share awards by employee benefit trust . . . . .	(34)	(5)	(36)
Transfer to net profit from hedge reserve . . . . .	47	(9)	(15)
Equalisation adjustments . . . . .	—	(15)	40
Equity dividends declared . . . . .	(260)	(1,569)	(310)
At December 31 . . . . .	<u>(664)</u>	<u>(655)</u>	<u>900</u>

## 19. Contingent liabilities

There are contingent liabilities in respect of borrowings of joint ventures guaranteed by Reed Elsevier NV as follows:

	2009 €m	2008 €m	2007 €m
Fully and unconditionally guaranteed jointly and severally with Reed Elsevier PLC . . . . .	<u>4,913</u>	<u>5,917</u>	<u>3,745</u>

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 20 to the Reed Elsevier combined financial statements.

## GLOSSARY OF TERMS

### Terms used in Annual Report on Form 20-F

### US equivalent or brief description

Accruals	Accrued expenses
Adjusted operating cash flow	Cash generated from operations plus dividends from joint ventures less net capital expenditure on property, plant and equipment and internally developed intangible assets, and excluding payments in relation to exceptional restructuring and acquisition related costs
Adjusted operating margin	Adjusted operating profit expressed as a percentage of revenue. This is a key financial measure used by management to evaluate performance and allocate resources
Adjusted operating profit	Operating profit before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related 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 allocate resources and is presented in accordance with IFRS 8: Operating Segments
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
Cash flow conversion	Adjusted operating cash flow expressed as a percentage of adjusted operating profit
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
Effective tax rate on adjusted operating profit	Tax rate excluding movements on deferred tax balances not expected to crystallise in the near term, more closely aligning with cash taxes payable, and includes the benefit of deductible tax amortisation on acquired goodwill and intangible assets
EPS	Earnings per ordinary share
Finance lease	Capital lease
Free cash flow	Operating cash flow excluding the effects of interest, tax and dividends
Invested capital	Average capital employed in the year expressed at the average exchange rates for the year. Capital employed represents the net assets of the business before borrowings and derivative financial instruments and current and deferred taxes, after adding back the cumulative amortisation and impairment of acquired intangible assets and goodwill and deducting from goodwill the gross up in respect of deferred tax liabilities recognised on acquisition of intangible assets
Investments	Non-current investments
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Interest payable	Interest expense
Net borrowings	Gross borrowings, less related derivative financial instrument assets and cash and cash equivalents
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
Share based remuneration	Stock based compensation

Shareholders' equity  
Share premium account  
Return on invested capital

Revenue  
Underlying growth

Shareholders' funds  
Premiums paid in excess of par value of ordinary shares  
Post tax adjusted operating profit expressed as a percentage of average capital employed. This is a key financial measure used by management  
Sales  
The year on year growth calculated excluding the effects of acquisitions, disposals and the impact of currency translation. This is a key financial measure as it provides an assessment of year on year organic growth without distortion for part year contributions and the impact of changes in foreign exchange rates

## ITEM 19: EXHIBITS

### Exhibits filed as part of this annual report

- 1.1 Articles of Association of Reed Elsevier PLC (incorporated by reference from Exhibit 1.1 to the 2008 Annual Report on Form 20-F filed with the SEC on March 13, 2009)
- 1.2 Articles of Association of Reed Elsevier NV
- 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) (incorporated by reference from exhibit 4.9 on the 2006 Annual Report on Form 20-F filed with the SEC on March 22, 2007)
- 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) (incorporated by reference from exhibit 4.11 to the 2006 Annual Report on Form 20-F filed with the SEC on March 22, 2007)
- 4.12 Sale and Purchase Agreement, dated July 16, 2007 between Reed Elsevier Group plc, HMRH Acquisition Co., Houghton Mifflin Riverdeep Group plc and Education Media and Publishing Group Limited (incorporated by reference from exhibit 4.12 to the 2007 Annual Report on Form 20-F filed with the SEC on March 20, 2008)
- 4.13 Sale and Purchase Agreement, dated May 4, 2007 between Reed Elsevier Group plc and Pearson plc (incorporated by reference from exhibit 4.13 to the 2007 Annual Report on Form 20-F filed with the SEC on March 20, 2008)
- 4.14 Agreement and plan of merger by and among ChoicePoint Inc., Reed Elsevier Group plc and Deuce Acquisition Inc., dated February 20, 2008 (incorporated by reference from exhibit 4.14 to the 2007 Annual Report on Form 20-F filed with the SEC on March 20, 2008)
- 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 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 18, 2010.

REED ELSEVIER PLC  
Registrant

By: /s/ E ENGSTROM

E Engstrom  
Chief Executive Officer

By: /s/ M H ARMOUR

M H Armour  
Chief Financial Officer

Dated: March 18, 2010

REED ELSEVIER NV  
Registrant

By: /s/ E ENGSTROM

E Engstrom  
Chairman of the Executive Board &  
Chief Executive Officer

By: /s/ M H ARMOUR

M H Armour  
Member, Executive Board &  
Chief Financial Officer

Dated: March 18, 2010



