Reed Elsevier

Annual Reports and Financial Statements 2010






Reed Elsevier is a world leading provider of professional information solutions in the Science, Medical, Risk, Legal and Business sectors.

Our customers use our products every day to advance science, improve medical outcomes, evaluate risk, enable better legal decisions, forge business relationships and gain business insight.

Full report online

The Reed Elsevier Annual Reports and Financial Statements 2010 are available to view online.
www.reedelsevier.com/ar10

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Forward looking statements
The Reed Elsevier Annual Reports and Financial Statements 2010 contain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. These statements are subject to a number of risks and uncertainties that could cause actual results or outcomes to differ materially from those currently being anticipated. The terms "estimate", "project", "plan", "intend", "expect", "should be", "will be", "believe" and similar expressions identify forward-looking statements. Factors which may cause future outcomes to differ from those foreseen in forward-looking statements include, but are not limited to: general economic and business conditions; competitive factors in the industries in which Reed Elsevier operates; demand for Reed Elsevier's products and services; exchange rate fluctuations; legislative, fiscal and regulatory developments; political risks; changes in law and legal interpretations affecting Reed Elsevier's intellectual property rights and internet communications; the availability of third party content and data; terrorism, acts of war and pandemics; the impact of technological change; and other risks referenced from time to time in the filings of Reed Elsevier PLC and Reed Elsevier NV with the US Securities and Exchange Commission.

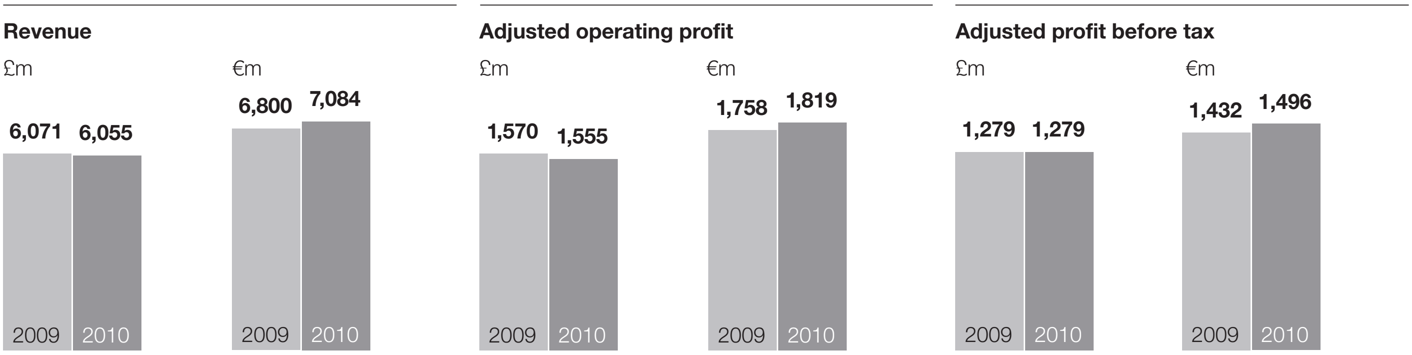
2010 highlights

Improved trading performance and good business progress

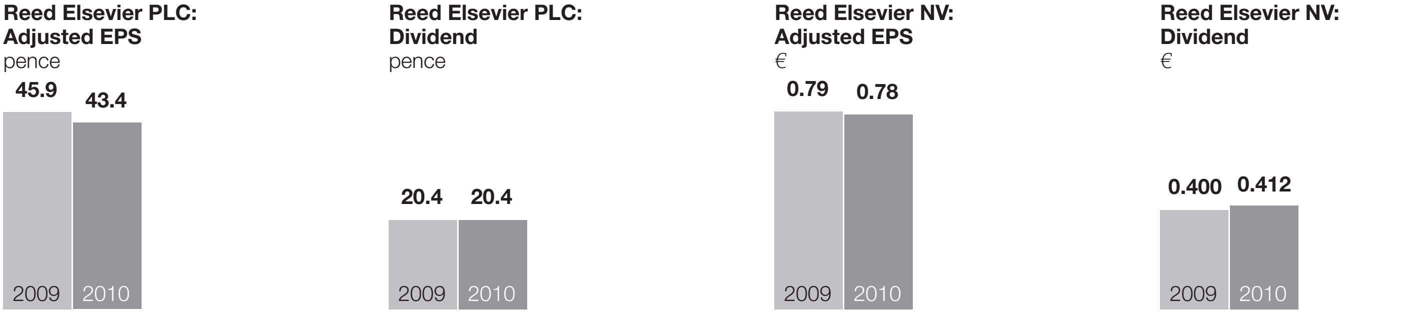
> Revenue growth of 2% underlying against 6% decline in 2009
> Adjusted operating margin 0.2% pts lower at 25.7%
> Good progress on business unit specific priorities
  – New content and information solutions launched
  – Increased product development and sales & marketing
  – Focus on cost efficiency and process innovation
  – Portfolio actions taken
> Strong cash generation

Prospects encouraging; recovery will be gradual

Reed Elsevier combined businesses



Parent companies



Reed Elsevier combined businesses

For the year ended 31 December	£ 2010 £m	£ 2009 £m	£ Change	€ 2010 €m	€ 2009 €m	€ Change	Change at constant currencies	Change underlying
Reported figures								
Revenue	**6,055**	6,071	0%	**7,084**	6,800	+4%	-1%	+2%
Operating profit	**1,090**	787	+39%	**1,275**	881	+45%	+37%	
Profit before tax	**768**	435	+77%	**898**	487	+84%	+74%	
Net profit	**642**	391	+64%	**751**	438	+71%	+61%	
Net borrowings	**3,455**	3,931		**4,043**	4,402			

For the year ended 31 December	£ 2010 £m	£ 2009 £m	£ Change	€ 2010 €m	€ 2009 €m	€ Change	Change at constant currencies	Change underlying
Adjusted figures								
Operating profit	**1,555**	1,570	-1%	**1,819**	1,758	+3%	-2%	-1%
Operating margin	**25.7%**	25.9%		**25.7%**	25.9%			
Profit before tax	**1,279**	1,279	0%	**1,496**	1,432	+4%	-1%	
Net profit	**983**	982	0%	**1,150**	1,099	+5%	-1%	
Operating cash flow	**1,519**	1,558	-3%	**1,777**	1,745	+2%	-3%	
Operating cash flow conversion	**98%**	99%		**98%**	99%			

Parent companies

	Reed Elsevier PLC 2010	Reed Elsevier PLC 2009	Reed Elsevier PLC Change	Reed Elsevier NV 2010	Reed Elsevier NV 2009	Reed Elsevier NV Change	Change at constant currencies
Adjusted earnings per share	**43.4p**	45.9p	-5%	€0.78	€0.79	-1%	-6%
Reported earnings per share	**27.3p**	17.2p	+58%	€0.51	€0.32	+62%	
Ordinary dividend per share	**20.4p**	20.4p	0%	€0.412	€0.400	+3%	

The Reed Elsevier combined businesses encompass the businesses of Reed Elsevier Group plc and Elsevier Reed Finance BV, together with their two parent companies, Reed Elsevier PLC and Reed Elsevier NV (the "Reed Elsevier combined businesses"). The results of Reed Elsevier PLC reflect its shareholders' 52.9% economic interest in the Reed Elsevier combined businesses. The results of Reed Elsevier NV reflect its shareholders' 50% economic interest in the Reed Elsevier combined businesses. The respective economic interests of the Reed Elsevier PLC and Reed Elsevier NV shareholders take account of Reed Elsevier PLC's 5.8% indirect interest in Reed Elsevier NV.

Adjusted figures are additional performance measures used by management and are reconciled to the reported figures in note 10 to the combined financial statements and note 9 to the respective parent company financial statements.

The percentage change at constant currencies refers to the movements at constant exchange rates, using 2009 full year average and hedge rates. Underlying change excludes the results of acquisitions and disposals made both in the year and in the prior year.

Chairman's statement

Anthony Habgood
Chairman

Considerable progress has been made during the year resulting in improvements in trading performance with underlying sales returning to positive organic growth. Reported profits are strongly ahead with the bulk of our major restructuring programmes now behind us. Management has put in place business unit teams to sharpen the focus on value creation and operational execution. I am confident that the good progress which is being made on individual business priorities will deliver further improvements.

I am pleased to report that Reed Elsevier has made significant progress in 2010 as our markets strengthened and we saw the benefit of the actions which management has taken in the business. Underlying revenues were 2% higher in constant currencies with the return to growth reflecting improved performance in our more cyclical markets, together with a sustained commitment to new product development and a focus on sales & marketing initiatives. Our reported revenues were flat at £6,055m expressed in sterling and increased by 4% to €7,084m expressed in euros. During the year, action was taken to divest low return assets, such that total revenues were 1% lower in constant currencies.

Firm action on costs and further innovations in our operational processes has meant that total costs at constant exchange rates declined 1% and adjusted operating margins at 25.7% were just 0.2 percentage points lower than in 2009, despite the increased spending on new product development and sales & marketing. Adjusted operating profits were 1% lower at £1,555m/up 3% at €1,819m. Adjusted profit before tax was flat at £1,279m/up 4% at €1,496m. Adjusted earnings per share were down 5% for Reed Elsevier PLC at 43.4p and 1% lower for Reed Elsevier NV at €0.78, taking into account 4% dilution from the July 2009 equity placing.

Reported operating profit was up 39% to £1,090m/45% to €1,275m. This reflects the absence of intangible asset and goodwill impairment in 2010 and much lower exceptional restructuring charges as we get these programmes behind us. Reported earnings per share for Reed Elsevier PLC were up 58% at 27.3p and for Reed Elsevier NV up 62% at €0.51.

Dividends

The Boards are recommending equalised final dividends of 15.0p for Reed Elsevier PLC and €0.303 for Reed Elsevier NV, flat and up 3% respectively against the prior year. This brings the total for the year to 20.4p for Reed Elsevier PLC and €0.412 for Reed Elsevier NV, respectively unchanged and an increase of 3%. The differing growth rates reflect movements in the sterling-euro exchange rate between dividend announcement dates.

Balance Sheet

During the year our net debt, which is principally denominated in US dollars, reduced from $6.3 billion to $5.4 billion reflecting the excellent cash generation in the year and capital discipline. Our financial position is strong and our balance sheet is well placed to support our business strategies.

Management and Boards

Over the past twelve months, our Chief Executive Officer, Erik Engstrom, has been reshaping the management organisation. LexisNexis, with effect from January 2011, has been divided into the Risk Solutions and Legal & Professional businesses, with distinct management teams reporting directly to him. Reed Business Information has undergone a major restructuring of its portfolio and operations during the year and is now organised by key asset groups, each with its own specific strategic priorities and management team. These changes will further improve the focus of each business in their respective markets and accelerate our progress.

In December 2010, Andrew Prozes retired from our Boards and as Chief Executive Officer of LexisNexis after 10 years of service. During that time, Andy built a leading Risk Solutions business, led the transition of the legal businesses from publishers of content to providers of online solutions, and developed a leadership position in online legal solutions outside the US. I would like to thank Andy for his contribution to the development of LexisNexis and Reed Elsevier over many years.

In April 2010, Dien de Boer-Kruyt retired from the Reed Elsevier NV Supervisory Board. At the Annual General Meetings in April 2011, Lord Sharman will also be stepping down as a non-executive director of our Boards. Both completed more than nine years of valuable Board service. Colin Sharman also served for all this period as an important member of the Audit Committees, eight years as their chairman, and was a key member of the Nominations Committee. I would like to thank both Dien and Colin for their substantial contributions to the Boards through a period of significant change for Reed Elsevier.

Marike van Lier Lels joined the Reed Elsevier NV Supervisory Board in January 2010 in anticipation of Dien's retirement and I am pleased to say that Mr Adrian Hennah will join our Boards as a non-executive director, to succeed Lord Sharman, subject to shareholder approval at the respective Annual General Meetings in April. Adrian is a serving Chief Financial Officer of a FTSE 100 company with over 25 years' experience in finance and operations in the medical devices, technology and pharmaceuticals industries and he will bring highly relevant experience to our board discussions. On appointment, he will become a member of our Audit Committees and of the Corporate Governance Committee.

Going forward

Our markets have stabilised or are showing improvement. Each of our businesses is focused on value creation and operational execution. I am confident that the good progress which is being made on individual business priorities will deliver further improvements.

Anthony Habgood
Chairman

Chief Executive Officer's report

Erik Engstrom
Chief Executive Officer

The year has seen improved trading performance, with 2% organic revenue growth against a 6% decline last year. Increased spend on product development and sales & marketing was largely offset by cost efficiency gains.

During 2010, we also made good progress against the key priorities we outlined for each of the businesses at the start of the year. In Elsevier, subscription renewals for 2010 were completed in line with our expectations and the renewals process for 2011 is well progressed. We continued to develop new content and innovative tools, including the launch of *SciVerse*, an integrated platform for researchers. LexisNexis Risk Solutions captured the benefit of increased market activity and growing demand for data and analytics. LexisNexis Legal & Professional added new features and content sets, including the initial launch of *Lexis Advance for Solos*, the first of a series of tools for specific legal segments. Effective from January 2011, we reorganised LexisNexis Risk Solutions and Legal & Professional to operate as separate businesses, reporting directly to me, to sharpen the management focus on their respective markets. Reed Exhibitions significantly stepped up its launch programme with 35 new shows, particularly targeting high growth sectors and emerging markets and continued to invest in technology and innovation. Within Reed Business Information, we reshaped the portfolio, significantly reduced costs, and invested behind the successful data services business, including in early January this year the acquisition of a majority share in the leading petrochemical and energy information service *CBI China*.

Financial results

Total revenues were flat at £6,055m/up 4% to €7,084m and down 1% at constant currencies, as the portfolio was reshaped through disposal and closure, most notably in Reed Business Information. Importantly on an underlying basis, excluding acquisitions and divestments, revenues returned to growth, up 2%, reflecting both the progress against our business priorities made during the year and our more cyclical markets stabilising.

Adjusted operating profit was lower by 1% at £1,555m/up 3% at €1,819m and down 2% at constant currencies; on an underlying basis adjusted operating profit was down 1%. Increased spend on product development and sales & marketing, particularly in the legal & professional business, was funded largely by cost actions across the businesses with continuing focus on process innovation. Adjusted pre-tax profits were flat at £1,279m/up 4% at €1,496m, and 1% lower at constant currencies.

Adjusted operating cash flow continued to be strong at £1,519m/€1,777m with an excellent 98% conversion of adjusted operating profits into cash. The post tax return on capital employed improved to 10.6%, 0.2 percentage points higher reflecting the strong cash generation and increased capital efficiency.

Adjusted earnings per share were down 5% to 43.4p for Reed Elsevier PLC, 1% lower at €0.78 for Reed Elsevier NV, and 6% lower at constant currencies. This included a 4% dilutive effect from the July 2009 equity placing.

We use adjusted figures as key performance measures, and these are stated principally before amortisation on acquired intangible assets, exceptional restructuring charges and acquisition related costs, and disposal gains and losses. Including these items, reported operating profit and pre-tax profit were 39% and 77% higher in sterling and 45% and 84% higher in euros, reflecting no intangible asset and goodwill impairment and much lower exceptional charges as our major restructuring programmes completed, with charges in 2010 relating to Reed Business Information only. Reported earnings per share were 58% higher at 27.3p for Reed Elsevier PLC and 62% higher at €0.51 for Reed Elsevier NV.

The **Elsevier** science and medical business (46% of adjusted operating profit) saw modest growth reflecting a constrained customer budget environment. Elsevier has continued to develop innovative new content and tools, with the initial launch in 2010 of *SciVerse*, an integrated platform for accessing *ScienceDirect*, *Scopus* and scientific web content. Also launched in beta version is the *SciVerse Application Marketplace* which facilitates collaboration across the scientific community in the development of customised search and discovery applications. Further institutional planning and performance tools are also being developed to help academic and government institutions evaluate their research performance and determine research strategies. In Health Sciences, the focus of development is in clinical decision support point-of-care solutions, clinical practice guidelines and predictive analytics to address the demand to make healthcare more efficient and to improve medical outcomes.

LexisNexis (38% of adjusted operating profit) returned to overall revenue growth, with strong growth in the risk business. Subscription revenues in the legal business continued to reflect the lower levels of law firm activity and employment. Adjusted operating margin was lower due to the weaker revenues and increased spending in the legal business on new product development, related infrastructure and sales & marketing.

In the **risk solutions** business, strong growth in the insurance business is supported by high transactional activity in the US auto and property markets. A continuous pipeline of new data and analytics products also drives growth, ranging from helping insurers better assess underwriting risk to reducing cost and improving the effectiveness of the insurers' workflow, from initial potential customer contact to policy renewal. Recently introduced products include *Data Pre-Fill*, which provides accurate information directly into the insurance workflow on customers, potential customers and their auto ownership, and *Insurance Exchange*, which is directed at improving the efficiency and transparency of communications between insurance agents, brokers and carriers through the sharing of customer application data.

In the **legal & professional** business, continued good progress is being made in the development of the next generation of legal products and advanced operational infrastructure, which will be progressively introduced over the next few years. 2010 saw the initial market introduction, on version 1.0 of the new LexisNexis research platform, of *Lexis Advance for Solos*, a legal research tool specifically for US solo attorneys. This is the first of a series of tools for specific segments of the legal market. Features and content are also being progressively added to existing services such as *Lexis for Microsoft Office*, which enables lawyers to conduct their Lexis searches within Microsoft applications, and *LexisNexis Verdict & Settlement Analyzer*, which provides data and analytics on previous settlements. In the UK, LexisNexis continued to build out its practical guidance service *LexisPSL*, with the introduction of further practice areas, including company commercial. The increased spend on supporting these important developments has in part been mitigated by continuing cost efficiencies, including further outsourcing of production and engineering activities, supply chain management and operational streamlining.

Reed Exhibitions (10% of adjusted operating profit) saw good revenue growth with the net cycling in of biennial exhibitions and a significantly moderated decline in annual show revenues. The 2010 shows have seen overall success, with growing attendances at the majority of annual events and exhibitor numbers up 4% in the top 50 annual shows. While recovery in the larger markets has taken longer to materialise, by contrast, the shows in China, Russia, the Middle East and Brazil grew strongly. Reed Exhibitions significantly stepped up its launch programme in 2010 with 35 new events of which 14 were in Asia, including the successful *Cloud Computing* show in Japan, and the *PAX East* games event in Boston. Reed Exhibitions now operates nearly 100 shows in emerging markets with approximately 40 shows in each of Brazil and China. Reed Exhibitions also continued to develop websites, analytics and other innovative online tools to increase the effectiveness and efficiency of events for both exhibitors and attendees.

Reed Business Information (6% of adjusted operating profit) saw good growth in data services and online marketing solutions and significantly moderated declines in advertising markets. The portfolio was significantly reshaped and refocused. The sale and closure of the US controlled circulation magazines and certain other titles were completed, together with the sale of clusters of titles in Europe and Asia. The business was redefined by asset group and clear, distinct value creation plans were developed for each group. We invested in data services and in January 2011, we increased our investment to a majority position in the leading petrochemical and energy information service in *CBI China*. There was also a significant restructuring of the business with the consolidation of operations, procurement savings and tight cost control.

The business and financial reviews set out in pages 8 to 37 describe in more detail our markets, businesses and the performance and outlook by business.

Outlook

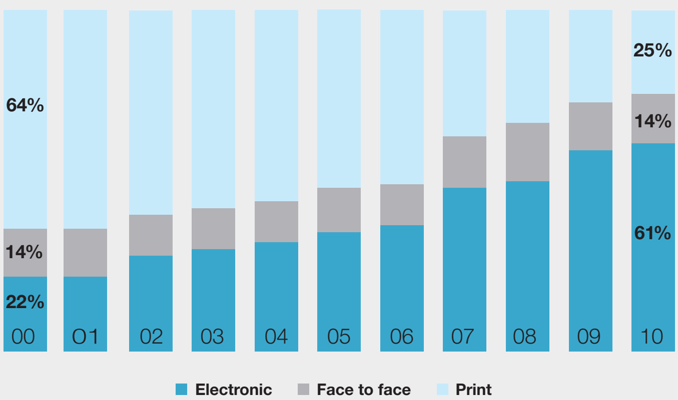
Going forward we will continue to focus on creating value for our customers, in each business unit and across Reed Elsevier. As we go into 2011, most of our markets are stable or improving and we are building on the actions taken in 2010 to strengthen the business further. Overall, we expect a gradual recovery and a continued improvement in performance.

We are focused on creating value for our professional customers through helping them to deliver better outcomes more efficiently. The business units have well defined priorities designed to capture growth and deliver good returns targeting high growth markets supported by a commitment to new product development and increased sales & marketing. Across Reed Elsevier, we enhance these initiatives through the building and leveraging of institutional skills, including professional customer analysis and product development, knowledge, methods and people as well as sharing resources in software, technology and infrastructure.

We have a strong management team in place, with a sharpened focus on value creation and operational execution. Our employees are knowledgeable and passionate about the customers they serve and are critical to achieving our goals over the coming years. I would like to thank them for their continuing enthusiasm and commitment to our customers and to creating value for Reed Elsevier.

Erik Engstrom
Chief Executive Officer

Revenue by format



Reed Elsevier has seen a significant migration from print products to electronic content and tools over the last ten years, so that print revenues now account for only 25% of revenues.

Completion of Reed Elsevier Code of Ethics and Business Conduct training

We prioritise employee ethics training as part of our ongoing commitment to implementing the highest standards of corporate and individual behaviour across Reed Elsevier

93%

Reed Elsevier

ELSEVIER

Elsevier is the world's leading provider of scientific and medical information and serves scientists, health professionals and students worldwide.

Its objective is to help its customers advance science and improve healthcare by providing world class information and innovative solutions that enable customers to make critical decisions, enhance productivity and improve outcomes. Elsevier publishes over 1,800 scientific and medical journals, through *ScienceDirect*, the world's largest database of scientific and medical research, used by over 11 million researchers each year. In 2010, Elsevier published over 2,400 new book titles and clinical reference works both in print and online, as well as offering an extensive portfolio of online information databases and analytics.

LexisNexis®

LexisNexis' content and tools enable legal, risk and other professional customers to make more effective and efficient decisions.

LexisNexis Risk Solutions provides data and analytics that enable its customers to evaluate and manage risks associated with transactions and improve performance.

LexisNexis Legal & Professional provides legal, tax, regulatory and news & business information and analysis to legal, corporate, government, accounting and academic markets.

Reed Exhibitions

Reed Exhibitions is the world's leading events business, with over 450 events in 35 countries. 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. Through its portfolio of exhibitions and conferences it serves 44 industry sectors across the Americas, Europe, the Middle East and Asia Pacific.

Reed Business Information

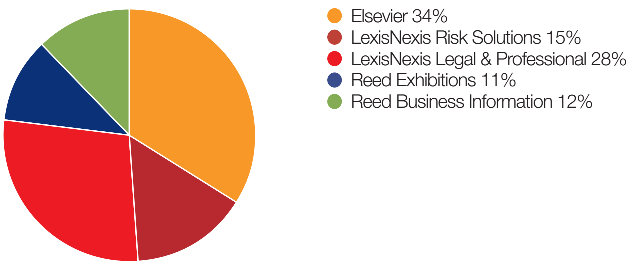
Reed Business Information is a provider of business information, data and marketing solutions in multiple formats. It produces industry critical data services and lead generation tools, and over 100 online community and job sites. It publishes over 100 business magazines with market leading positions in many sectors.

	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue					
Elsevier	**2,026**	1,985	+2%	+2%	+2%
LexisNexis	**2,618**	2,557	+2%	+1%	+1%
Reed Exhibitions	**693**	638	+9%	+9%	+8%
Reed Business Information	**718**	891	-19%	-20%	-2%
	6,055	6,071	0%	-1%	+2%
Adjusted operating profit					
Elsevier	**724**	693	+4%	+4%	+4%
LexisNexis	**592**	665	-11%	-12%	-12%
Reed Exhibitions	**158**	152	+4%	+4%	+4%
Reed Business Information	**89**	89	0%	0%	+4%
Unallocated items	**(8)**	(29)			
	1,555	1,570	-1%	-2%	-1%

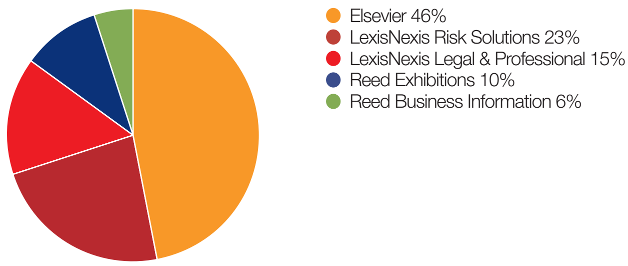
Adjusted operating profit is presented as an additional performance measure used by management and is stated before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and is grossed up to exclude the equity share of taxes in joint ventures. Reconciliations between the reported and adjusted figures are provided in note 10 to the combined financial statements. The percentage change at constant currencies refers to the movements at constant exchange rates, using 2009 full year average and hedge rates. Underlying change excludes the results of acquisitions and disposals made both in the year and the prior year.

In 2010, Reed Elsevier announced that LexisNexis would be reorganised into two separate risk solutions and legal & professional businesses, with the separation effective from 1 January 2011. The charts below reflect the Reed Elsevier business split of revenue and adjusted operating profit including this separation. The adjusted operating profit split is a pro forma division of the 2010 LexisNexis adjusted operating profit for the two businesses.

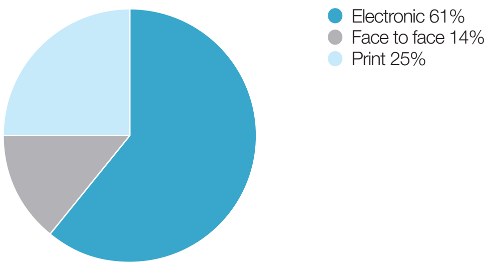
Revenue
£6,055m



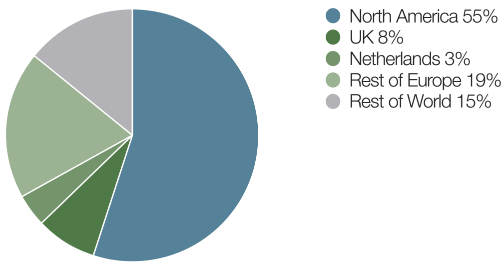
Adjusted operating profit
£1,555m



Revenue by format
£6,055m



Revenue by geographic market
£6,055m



ADVANCING SCIENCE

ELSEVIER IS THE WORLD'S LEADING SCIENTIFIC INFORMATION PROVIDER, SERVING OVER 11 MILLION RESEARCHERS

Elsevier delivers a wide array of information and workflow tools that help researchers generate valuable insights in the advancement of scientific discovery and improve the productivity of research.

IMPROVING MEDICAL OUTCOMES

ELSEVIER IS A WORLD LEADING MEDICAL INFORMATION PROVIDER, USED BY HEALTH PROFESSIONALS WORLDWIDE

Through its medical journals, books, major reference works, databases and online information tools, Elsevier provides critical information and analysis on which its customers rely to base their decisions, to improve medical outcomes and enhance the efficiency of healthcare.

ELSEVIER

Elsevier's scientific and medical information and tools help its customers improve outcomes in science and health

Elsevier is the world's leading provider of scientific and medical information and serves scientists, health professionals and students worldwide. Its objective is to help its customers advance science and improve healthcare by providing world class information and innovative solutions that enable customers to make critical decisions, enhance productivity and improve outcomes.

Total revenues for the year ended 31 December 2010 were £2,026m. Elsevier is a global business with principal operations in Amsterdam, Beijing, Boston, Chennai, Delhi, London, Madrid, Milan, Munich, New York, Oxford, Paris, Philadelphia, Rio de Janeiro, St. Louis, San Diego, Singapore and Tokyo. Elsevier has 6,700 employees.

Elsevier is organised around two market-facing businesses: Science & Technology, which serves the scientific and technology communities, and Health Sciences, which serves the health community. Both of these businesses are supported by a global shared services organisation which provides integrated editorial systems and production services, product platforms, distribution, and other support functions.

Science & Technology is the world's leading scientific information provider. It delivers a wide array of information and workflow tools that help researchers generate valuable insights in the advancement of scientific discovery and improve the productivity of research. Its customers are scientists, academic institutions, research leaders and administrators, corporations and governments which rely on Elsevier to: provide high quality content; review, publish, disseminate and preserve research findings; and create innovative tools to help focus research strategies and improve their effectiveness.

Elsevier publishes over 200,000 new science & technology research articles each year through some 1,150 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 *ScienceDirect*, the world's largest database of scientific and medical research, providing access to over 10 million scientific and medical journal articles, used by over 11 million researchers each year.

Elsevier also publishes over 700 new science & technology book titles annually, supporting bibliographic data, indexes and abstracts, and review and reference works. 14,000 online books are available on *ScienceDirect*, with over 600 online books added each year.

Other major products include *Scopus* and *Reaxys*. *Scopus* is the largest abstract and citation database of research literature in the world, with abstracts and bibliographic information on more than 40 million scientific research articles from 18,000 peer reviewed journals and over 5,000 publishers. *Scopus* also has data on more than 23 million patents. *Reaxys* is a leading solution for synthetic chemists that integrates chemical reaction and compound data searching with synthesis planning.

A major challenge facing researchers and institutions is the ever growing amount of research and related information but the limited time to identify and analyse what is most relevant. To address this challenge, Elsevier has been developing a suite of new products that significantly improve the speed at which researchers are able to find the most relevant information and analyse this information using the most innovative applications. In 2010, *SciVerse Hub* beta was launched providing a single search interface for accessing *ScienceDirect, Scopus* and scientific web content. In November 2010, *SciVerse Application Marketplace & Developer Network* was launched in beta enabling researchers and third party developers to build customised applications on top of Elsevier's information and combine this with other data and analytics held by the customer.

Elsevier is continuing to develop the *SciVal* suite of products that help academic and government institutions evaluate their research performance, determine research strategies and increase institutional efficiencies. Leveraging bibliometric data, such as citations from *Scopus*, *SciVal Spotlight* helps institutions and governments to identify their distinctive research strengths, evaluate performance and increase the focus of their R&D investments. *SciVal Funding* assists researchers and institutions in identifying grants that are most relevant in their research areas. In support of this strategy, *Collexis* was acquired in 2010, a leading developer of semantic technology, which increases the efficiency and effectiveness of the evaluation of grant applications by funding agencies.

Journal Citation Reports® categories where Elsevier journals ranked #1 by Impact Factor*

Elsevier continues to improve journal quality and relevance to the communities they serve through its world class editorial process and by attracting the highest quality research

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*Impact Factor is the average citation rate of a journal's articles over a defined period. The Journal Citation Reports relate to the 2009 and 2008 edition but were published in 2010 and 2009 respectively

Growth in *Scopus* searches

Increased customer base, growth in available content and higher customer usage drives growth in *Scopus* searches

+30%

Health Sciences is a world leading medical information provider. Through its medical journals, books, major reference works, databases and online information tools, Elsevier 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 serves medical researchers, doctors, nurses, allied health professionals and students, as well as hospitals, research institutions, health insurers, managed healthcare organisations and pharmaceutical companies.

Elsevier publishes over 700 health sciences journals, including on behalf of learned societies, and, in 2010, over 1,700 new health sciences book titles and clinical reference works were published both in print and through *ScienceDirect* and other electronic platforms such as *MD Consult. MD Consult* is a leading online clinical information service with more than 2,200 institutional customers. Flagship titles include market leading 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 many countries across the world, Health Sciences leverages its content and solutions into new markets through local language versioning.

Elsevier is a leader in medical education and training resources, particularly to 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 services: the *Evolve* portal provides a rich resource to support faculty and students and now has 2.4 million registered users; *Evolve Reach* (*Health Education Systems Inc.*) provides online review and testing tools for students of nursing and the allied health professionals; *Evolve Teach* provides online resources and solutions to support faculty.

A growing area of focus 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.

Elsevier also provides marketing services to the pharmaceutical industry through advertising and sponsored communications to the specialist community it serves. In 2010, the standalone medical agency communications business *Excerpta Medica* was divested as part of a restructuring of this business focusing more on the services which leverage Health Sciences' core information and distribution platforms.

Market Opportunities

The science and medical information markets have good long term demand growth characteristics. The importance of research and development to economic performance and competitive positioning is well understood by governments, academic institutions and corporations. This is reflected in the long term growth in R&D spend and in the number of researchers worldwide, leading to greater research output and publishing. Additionally there is growing demand for tools that allow research to better target and improve the spend and efficiency of the research process.

In health, market growth is also supported by demographic trends, with ageing populations that require more healthcare, rising prosperity in developing economies with increasing expectations of better healthcare provision, and the increasing focus on improving medical outcomes and efficiency.

Given that a majority of global R&D and healthcare is funded directly or indirectly by governments, spending is influenced by governmental budgetary considerations. The commitment to R&D and health provision does however generally remain high, even in more difficult budgetary environments.

Strategic Priorities

Elsevier's strategic goal is to make valued contributions to the communities it serves in advancing science, improving medical outcomes and enhancing productivity. To achieve this, Elsevier is focused on: building world-class content; deepening its customer engagement to identify how better to help them achieve their desired outcomes more efficiently and effectively; delivering tools which link, analyse and illuminate content and data to help customers make critical decisions and improve their productivity; increasing its investment in high-growth markets and disciplines; and continuously improving organisational efficiency.

In Science & Technology, priorities are to continually enhance the quality and relevance of research and reference content and expand data sets, while adding greater functionality and utility to the newly launced *SciVerse, ScienceDirect, Scopus* and new tools to assist researcher productivity. The *SciVal* suite of performance and planning tools will continue to be expanded to help academic and government institutions target their research spend and improve research efficiency and economic outcomes.

In Health Sciences, priorities are similar, particularly with regard to medical research, focusing on the quality and relevance of content and the functionality of electronic platforms and services. Additionally, Health Sciences continues to build out clinical decision support services to meet customer demand for tools that deliver better medical outcomes and lowers costs for payers, physicians and hospitals. Elsevier is also focused on increasing growth in emerging markets through expansion of local publishing and versioning of content and electronic services.

Evolve unique site visits

Evolve site visits grow as more users register and nursing faculties and students increasingly use electronic resources

+36%

Growth in international *MD Consult* sessions

Increasing expansion in international markets (outside the US) as customers look to use the online clinical information service to access content

+18%

ELSEVIER

Business Model, Distribution Channels and Competition

Science and medical research is principally disseminated on a paid subscription basis to the research facilities of academic institutions, government and corporations, and, in the case of medical and healthcare journals, also to individual practitioners and medical society members. Advertising and promotional revenues are derived from pharmaceutical and other companies.

Electronic products, such as *ScienceDirect, Scopus* and *MDConsult*, are generally sold direct to customers through a dedicated sales force that has offices around the world. Subscription agents facilitate the sales and 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 science and medical publishing 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. Workflow tools face similar competition as well as from software companies and internal solutions developed by customers.

2010 financial performance

Elsevier saw modest growth reflecting a constrained customer budget environment.

Revenues and adjusted operating profits increased by 2% and 4% respectively at constant currencies, with the improvement in adjusted operating margin reflecting increased cost efficiency.

Science & Technology saw 3% revenue growth at constant currencies. *ScienceDirect* and other journal subscription revenues developed much as expected in a difficult academic budget environment. Content quantity, quality and usage continued to grow, reflecting the growth in research activity worldwide. The *Scopus* abstract and indexing database performed particularly well with a significant increase in subscriptions. New content sets and product features were added and *Scopus* saw much higher usage with a 30% increase in customer searches. Other specialist databases also grew well as the development of new features and content continued. In reference and education, in a smaller frontlist publishing year, electronic sales grew well and print revenue decline stabilised.

In Health Sciences, revenues were flat at constant currencies, or up 1% underlying before taking account of small acquisitions and disposals. Modest growth was seen in medical research journal subscriptions revenues, reflecting the same academic budget pressures seen in Science & Technology. Subscriptions to integrated online solutions and other electronic product sales grew well in nursing and health professional education, clinical reference and in the majority of clinical decision support. Growth was tempered, however, by constrained budgets, pending US healthcare reform and moderating enrolment, as career schools adjust to expected legislation affecting student funding. Pharma promotion and other advertising revenues were lower, with continuing weakness in Europe. Emerging markets grew well due to the continued expansion of local publishing to meet the increasing demand for medical education and clinical reference products.

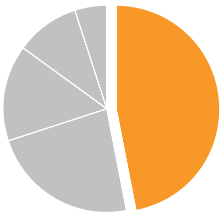
Underlying cost growth was 1%, with increased spend on new product development, sales and marketing offset by additional cost savings in offshore production, procurement and the streamlining of operations and support services. The reported operating margin, after amortisation of acquired intangible assets, was 31.9%, up 3.5 percentage points reflecting in particular that there were no exceptional restructuring costs in 2010.

Going into 2011, the budget environment remains constrained in many markets but with large variations by geography and customer. The customer by customer renewal process for 2011 is well progressed. Good demand growth for electronic tools is continuing. Another year of modest revenue growth for Elsevier is expected.

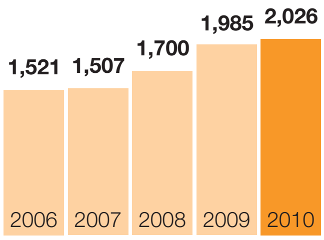
	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue					
Science & Technology	**1,015**	985	+3%	+3%	+3%
Health Sciences	**1,011**	1,000	+1%	0%	+1%
	2,026	1,985	+2%	+2%	+2%
Adjusted operating profit	**724**	693	+4%	+4%	+4%

Revenue
% of Reed Elsevier

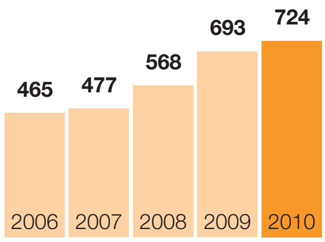
Adjusted operating profit
% of Reed Elsevier



Revenue
£m



Adjusted operating profit
£m



The SciVerse platform combines content from Elsevier products with a new discovery hub and community developed applications

Leading web-based chemical reaction workflow solutions for industrial chemists

Online clinical information service, including reference works, journals and drug information

Science Direct is the world's largest database of scientific and medical research articles

Access to history of drug development through unique online platform

Online evidence-based content to inform nursing clinical decisions at the point of care

Scopus is the world's largest scientific abstract and citation database

Premier life sciences journal with the highest impact factor in cell biology

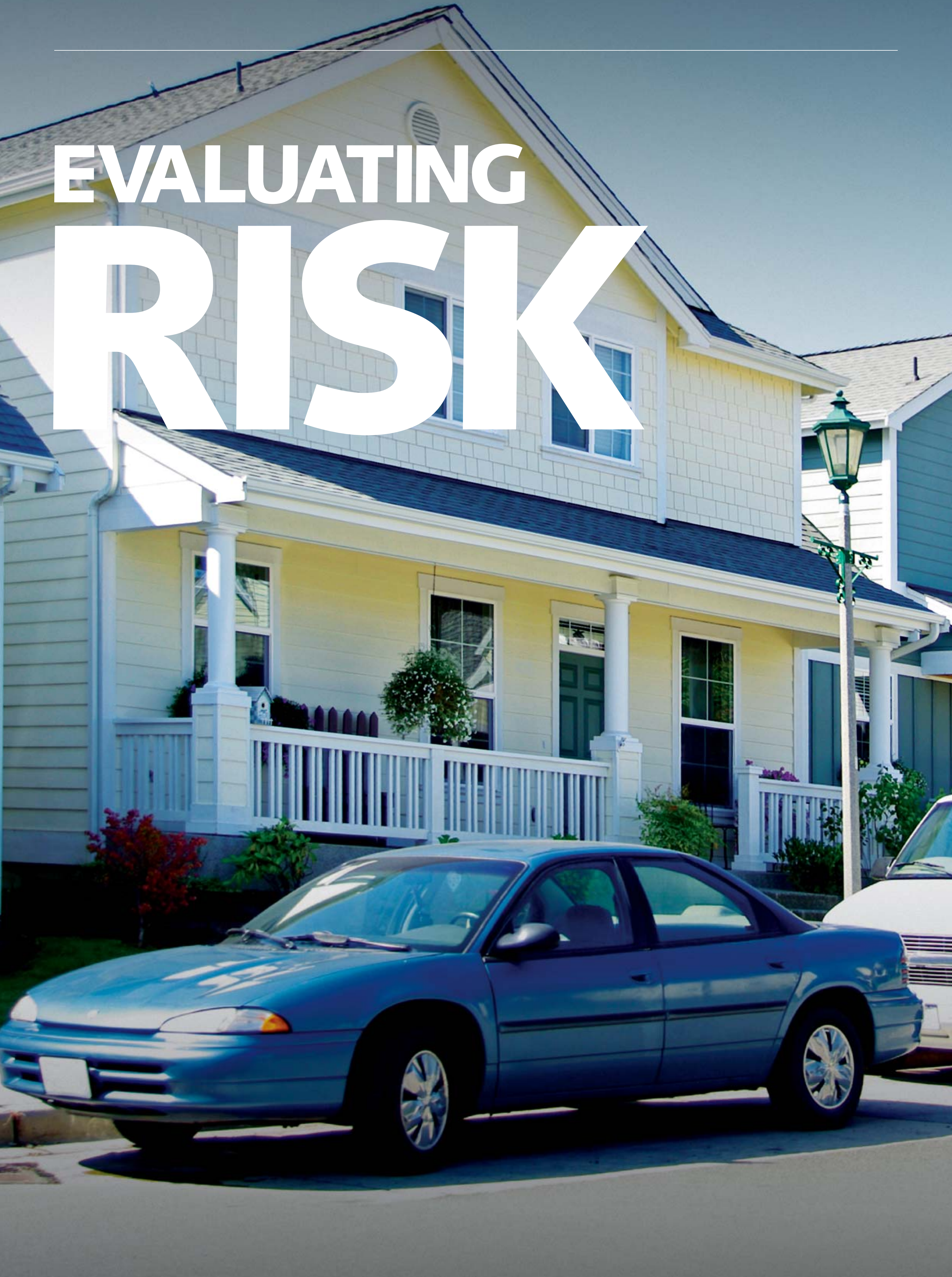
Integrated, online resources that complement Elsevier's nursing textbook content

SciVal provides funding intelligence and research performance tools for academic institutions

One of the world's leading medical journals since 1823

Clinical decision support tool to identify areas for improvement in medical practice

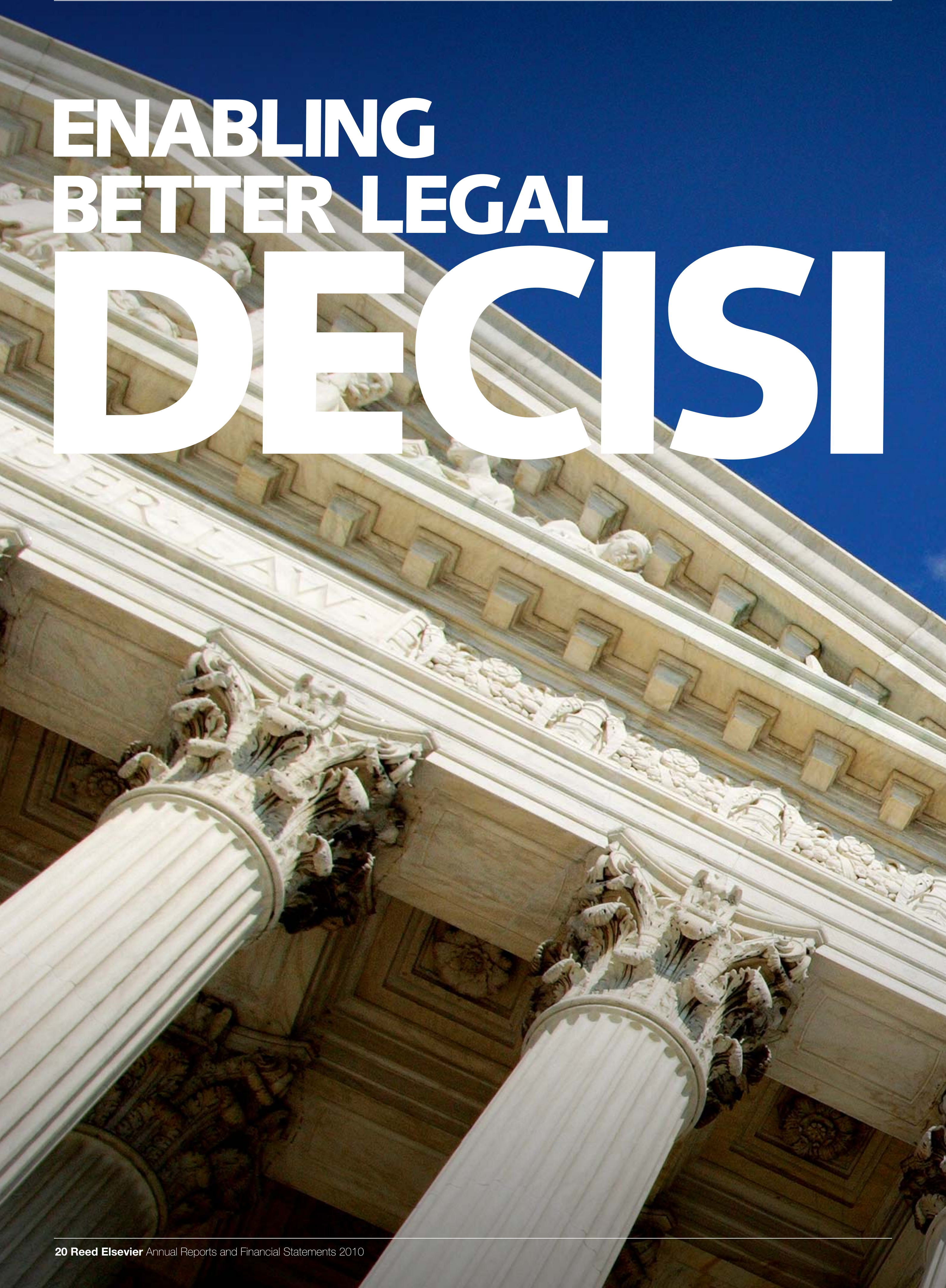
EVALUATING RISK



LEXISNEXIS RISK SOLUTIONS PROVIDES DATA AND ANALYTICS TO EVALUATE AND MANAGE RISKS ASSOCIATED WITH TRANSACTIONS AND IMPROVE PERFORMANCE

The identity verification and risk evaluation data and analytics provided by LexisNexis Risk Solutions utilise a comprehensive database of public records and proprietary information, which is the largest database of its kind in the US market today.

ENABLING BETTER LEGAL DECISI



ONS

LEXISNEXIS LEGAL & PROFESSIONAL IS A WORLD LEADING PROVIDER OF CONTENT AND INFORMATION SOLUTIONS

Serving customers in more than 100 countries, LexisNexis provides resources and services that inform decisions and increase productivity.

LexisNexis

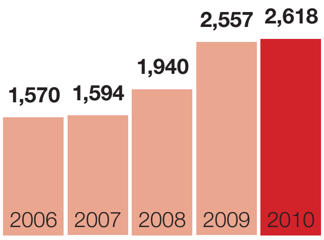
LexisNexis' content and tools enable legal, risk and other professional customers to make more effective and efficient decisions

In 2010, LexisNexis comprised the two market facing businesses: Risk Solutions and Legal & Professional supported by shared service functions. These businesses are described on the following pages.

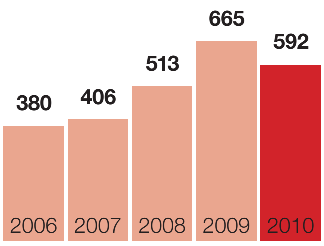
Total LexisNexis revenues for the year ended 31 December 2010 were £2,618m. During 2010, LexisNexis was headquartered in New York and at 31 December 2010 had 14,700 employees worldwide.

	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue	**2,618**	2,557	+2%	+1%	+1%
Adjusted operating profit	**592**	665	-11%	-12%	-12%

Revenue
£m



Adjusted operating profit
£m



2010 financial performance

LexisNexis returned to overall revenue growth, with strong growth in the risk business. Subscription revenues in the legal business continued to reflect the lower levels of law firm activity and employment. Adjusted operating margin was lower due to the weaker revenues and increased spending in the legal business on new product development, related infrastructure and sales & marketing.

LexisNexis revenues increased by 1% and adjusted operating profits declined 12% at constant currencies, both before and after small acquisitions and disposals.

The adjusted operating margin declined 3.4 percentage points due to the revenue decline in the legal businesses combined with significant increases in spend on new legal product development, related infrastructure, sales & marketing, and restructuring costs. This was in part mitigated by continuing cost actions, including further outsourcing of production and engineering activities, supply chain management and operational streamlining in the legal businesses and the further integration within risk solutions. Underlying cost growth was 6%. The reported operating margin, after amortisation of acquired intangible assets and acquisition integration costs, was 12.4%, down 0.8 percentage points from the prior year which included exceptional restructuring costs. There were no exceptional restructuring costs in 2010 other than in respect of acquisition integration.

Effective from January 2011, the LexisNexis business has been split into two separate businesses – Risk Solutions and Legal & Professional – to sharpen the management focus on their respective markets. The division of 2010 adjusted operating profit between the two businesses is provided in the chart below on a pro forma basis for information only.

2010	Revenue £m	Adjusted operating profit* £m	%* Margin
Risk Solutions	**927**	**354**	38.2%
Legal & Professional	**1,691**	**238**	14.1%
Total	**2,618**	**592**	22.6%

* 2010 pro forma split of adjusted operating profit

The adjusted operating margin of LexisNexis in 2010 was 22.6%, with Risk Solutions at 38.2% and Legal & Professional at 14.1% (on a pro forma basis). The overall LexisNexis margin has declined over the last two years from 26.4% in 2008.

In LexisNexis Risk Solutions, the ChoicePoint business represents the majority of the revenue. When it was acquired in 2008 it had a pro forma adjusted operating margin of 24% and the existing LexisNexis risk business had an estimated operating margin in the mid to high 30s%. Since then, the combined Risk Solutions margins have benefited from cost efficiencies derived from the leveraging of resources across Risk Solutions, LexisNexis and Reed Elsevier in product technology, operations and other shared services to reach the 2010 pro forma 38%. Management focus on cost efficiencies will continue.

In LexisNexis Legal & Professional, the 2008 pro forma adjusted operating margin is estimated to have been in the low 20s%. The decline in adjusted operating margin to the 2010 level of 14.1% (pro forma) has been driven by two main factors: first, a decline in revenues of approximately 3.5% per annum (5% decline in 2009 and 2% decline in 2010); and secondly, growth in costs in the business of approximately 2% per annum as restructuring savings and other cost efficiencies have been offset by increased spend on product development and sales & marketing. Going forward, the adjusted operating margin is expected to remain broadly flat in 2011. In the medium term, margin is expected to recover gradually.

LexisNexis Risk Solutions

LexisNexis Risk Solutions provides data and analytics that enable its customers to evaluate and manage risks associated with transactions and improve performance

Risk Solutions is a leading provider of workflow solutions that combine proprietary, public and third-party information, analytics and advanced technology. These solutions assist customers in evaluating, predicting and managing risk and improving operational effectiveness, predominantly in the US.

Total revenues for the year ended 31 December 2010 were £927m. LexisNexis Risk Solutions is headquartered in Alpharetta, Georgia and has principal operations in Georgia, Florida, Connecticut and Ohio, and has 4,400 employees.

LexisNexis Risk Solutions is organised around market facing industry/sector groups: insurance, government, screening, and business services (including the receivables management, financial services and corporate groups), of which insurance is the most significant. These groups are supported by a shared infrastructure providing technology operations, data management, and other support functions including compliance and marketing. A number of transactional support activities, including some financial processes, are provided from a shared services organisation managed by the LexisNexis Legal & Professional business. The Legal & Professional business also distributes Risk Solutions products into legal markets in the US and internationally.

Insurance solutions provides the most comprehensive combination of data, analytics and software to property and casualty (P&C) personal and commercial insurance carriers in the US to improve critical aspects of their 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 and provide important inputs to underwriting policy. Recently introduced products include *Data Pre-Fill*, which provides accurate information directly into the insurance workflow on customers, potential customers and their auto ownership, and *Current Carrier*, which identifies current or previous insurance as well as any lapses in coverage. In 2010, the *Insurance Exchange* was launched enabling the sharing of customer application data among participating insurance agents, brokers and carriers. The exchange is directed at improving the efficiency and transparency of the independent agent-based distribution system for insurance products.

Government solutions provides investigative solutions to US federal, state and local law enforcement and government agencies to help solve cases and identify and locate individuals. Additionally, Government solutions helps mitigate risks of fraud, waste and abuse in government programmes.

Screening solutions focuses on employment-related, resident and volunteer screening, with the largest segment being pre-employment screening services offered across a number of industries including retail, recruitment, banking, and professional services. **Receivables Management** solutions helps debt recovery professionals in the segmentation, management and collection of consumer and business debt. **Financial Services** provides financial institutions with risk management, identity verification, fraud detection, credit risk management, and compliance solutions. These include "know your customer" and anti-money laundering products. The **Corporate** group provides risk and identity management solutions for customers in retail, telecommunications and utilities. The Risk Solutions business also provides identity verification and risk related information to the legal industry.

During 2010, a particular focus has been on developing a pipeline of new solutions for select adjacent markets, sectors and geographies.

The identity verification and risk evaluation solutions provided by Risk Solutions utilise a comprehensive database of public records and proprietary information, which is the largest database of its kind in the US market today. *LexisNexis Accurint* is the flagship identity verification product, powered by the powerful High Performance Cluster Computing (HPCC) technology. This technology enables Risk Solutions to provide its customers with highly relevant search results swiftly and to create new, low-cost solutions quickly and efficiently.

Market Opportunities

Risk Solutions operates in markets with strong long term underlying growth drivers: insurance underwriting transactions; insurance, healthcare and entitlement fraud; credit defaults and financial fraud; regulatory compliance and due diligence requirements surrounding customer enrolment and employment; and security considerations.

In the insurance segment, growth is supported by increasing transactional activity in the auto and property insurance markets and the increasing adoption by insurance carriers of more sophisticated data and analytics in the prospecting, underwriting and claims evaluation processes, to determine appropriate risk pricing, increase competitiveness and improve operating cost efficiency. Transactional activity is driven by the levels of insurance quoting as consumers seek better policy terms, stimulated by increasing competition between insurance companies and rising levels of internet quoting and policy binding.

In screening, demand is driven mainly by employer hiring activity and, in receivables management, by levels of consumer debt defaults and the prospects of recovering those debts; both of these markets are linked to employment levels in the US. A number of factors support demand for risk solutions in the financial services market, including new credit originations, fraud losses and regulatory compliance requirements. Growth in government markets is driven by the increasing use of data and analytics to combat criminal activity and fraud, and to address security issues. The level and timing of demand in this market is influenced by government funding considerations.

Strategic Priorities

Risk Solutions' strategic goal is to make businesses and government more effective, through a better understanding of the risks associated with individuals, other businesses and transactions and by providing the tools to help manage those risks. To achieve this, Risk Solutions is focused on: expanding the range of products across the insurance carrier workflow; leveraging our advanced technology capabilities; delivering innovative new products and expanding the range of risk management solutions across adjacent markets; and completing the multi-year process of integrating the ChoicePoint businesses acquired in September 2008.

Business Model, Distribution Channels and Competition

Risk Solutions' products are predominantly sold on a transactional basis directly to insurance carriers, other corporations and government entities.

Risk Solutions and Verisk sell data and analytics to insurance carriers but largely address different activities. Risk Solutions' principal competitors include Thomson Reuters and First Data Corporation in a number of segments that utilise public records. Major competitors in pre-employment screening are Altegrity and Symphony Technology Group.

Growth in insurance underwriting transactions

Growth in insurance underwriting transactions is supported by increased consumer demand for quotes, encouraged by insurance industry promotion and online quoting

+11%

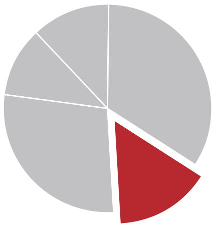
Growth in background screens

Strong employee hiring activity, particulary in the retail sector, and share gains have driven the increase in background screens

+11%

	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue	**927**	865	+7%	+6%	+6%

Revenue
% of Reed Elsevier

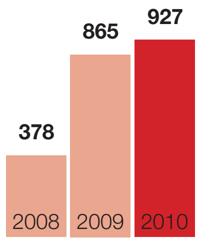


Risk Solutions 15%

Adjusted operating profit
% of Reed Elsevier

Risk Solutions 23%

Revenue
£m



Adjusted operating profit*
£m

* On a pro forma basis

2010 financial performance

LexisNexis Risk Solutions grew revenues 6% at constant currencies, with the insurance segment continuing to grow strongly and the more cyclical markets, most notably employment screening, returning to growth.

The insurance solutions business saw revenue growth of 8% driven by high transactional activity in the auto and property insurance markets and increasing sales of data and analytics products. The transactional activity growth reflects increasing levels of insurance quoting as consumers seek better policy terms stimulated by sustained promotion by insurance companies and the growth of internet quoting and policy binding. A continuous pipeline of new data and analytics products also drives growth, ranging from helping insurers better assess underwriting risk to reducing cost and improving the effectiveness of the insurers' workflow, from initial potential customer contact to policy renewal.

The more cyclical businesses returned to growth as the US economy recovered. The employment screening business grew 12%, compared to a decline of 22% in the prior year, as major retailers and other employers increased hiring activity. Business services saw good growth in the financial services segment with increasing demand for anti-money laundering and fraud prevention products. Demand growth in government markets for identity verification and authentication information and analytics was however held back somewhat by longer sales cycles reflecting the uncertainty over government budgets.

Good growth is expected to continue in insurance with high transactional activity and increasing sales of data and analytics. A strong pipeline of product initiatives continues across the Risk Solutions businesses.

C.L.U.E.®
Most comprehensive US personal insurance claims database

LexisNexis® Identity Management
Range of solutions to help clients verify that an identity exists and authenticate individuals

LexisNexis® Data Prefill
Tool to automate insurance application process providing critical information insurers need to quote and underwrite a policy

LexisNexis® Anti-Money Laundering Solutions
Content and information for anti-money laundering compliance, risk mitigation and enhanced due diligence

LexisNexis® Insurance Exchange
Platform for sharing of customer application data designed to improve and enhance flow of application data and documents

LexisNexis® Employment Screening
Leading US provider of pre-employment screening solutions

Accurint® for Collections
The leading online US solution to help locate debtors quickly and accurately

LexisNexis® Resident Screening
One of the most comprehensive US multi-family housing screening and collections services

Accurint® LE Plus
Integrated suite of tools for US law enforcement investigators

LexisNexis Legal & Professional

LexisNexis Legal & Professional provides legal, tax, regulatory and news & business information and analysis to legal, corporate, government, accounting and academic markets

LexisNexis Legal & Professional is a world leading provider of content and information solutions for legal and other corporate markets. Serving customers in more than 100 countries, LexisNexis Legal & Professional provides resources and services that inform decisions and increase productivity.

Total revenues for the year ended 31 December 2010 were £1,691m. LexisNexis Legal & Professional is headquartered in New York and has principal operations in Ohio and New Jersey in the United States, in London and Paris in Europe, Canada, and in several other countries in Africa and Asia Pacific. It has 10,300 employees worldwide.

LexisNexis Legal & Professional is organised through market facing businesses, the most significant of which are Research & Litigation Solutions and Marketing & Business Solutions in the US and LexisNexis Europe, Middle East, Africa & Australasia and LexisNexis Asia (together reported as International) outside the US. These are supported by global shared services organisations providing platform and product development, operational and distribution services, and other support functions.

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

In **Research & Litigation** solutions, the 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 also partners with law schools to provide services to students as part of their training. In October 2010, LexisNexis launched *Lexis Advance for Solos*, which is a legal research tool built specifically for the US solo attorney market and is the first product to be launched on the new LexisNexis research platform. Both the product and the platform are version 1.0 and over the next few years LexisNexis will be introducing products of increasing sophistication and depth for specific customer segments and to perform specific functions across the legal markets. Earlier in the year, LexisNexis introduced *Lexis for Microsoft Office*, which enables lawyers to conduct their *Lexis* searches within Microsoft applications such as Word and Outlook. Other product introductions included *LexisNexis Verdict & Settlement Analyzer*, which provides data and analytics on previous settlements.

In the business of law, **Marketing & Business** solutions 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 *Lawyers.com*, showcasing the qualifications and credentials of more than one million lawyers and law firms in the US and internationally, and providing law firms with website development, search engine optimisation and other web marketing services.

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.

In **International** markets outside the United States, LexisNexis serves legal, corporate, government and academic markets in Europe, Canada, Africa and Asia Pacific with local and international legal, tax, regulatory and business information. The most significant businesses are in the UK, France, Australia and Canada.

LexisNexis is focused across all its geographies on leveraging best in class content and its market leading international online product platform to deliver innovative electronic information services and workflow tools to help legal and business professionals make better informed decisions more efficiently. Penetration of online information services is growing and electronic revenues now account for over 50% of LexisNexis total revenues outside the US.

Growth in *Lawyers.com* traffic

Increase in consumers searching for lawyers online and growth in law firm online marketing drives growth in traffic to *Lawyers.com*

+12%

Growth in international online legal solutions

Growth in international (outside US) online solutions and workflow tools to help lawyers make better informed decisions more efficiently

+6%

In the UK, LexisNexis is a leading legal information provider in its market. It delivers a wide array of content and services, comprising an unrivalled collection of primary and secondary legislation, case law, expert commentary, and forms and precedents. Its extensive portfolio includes *Halsbury's Laws of England, Simon's Taxes and Butterworths Company Law Service* delivered through the UK's flagship online product *LexisLibrary* and in print. Other electronic products include *Lexis Legal Intelligence*, a resource on legal practice for lawyers, and media monitoring and reputation management tools for the corporate market such as the *NexisDirect* research tool. Additionally, LexisNexis provides law firms with practice management solutions.

In 2010, LexisNexis continued to build its UK legal practical guidance service *LexisPSL*, and now has ten practice areas including company commercial, dispute resolution and employment. *LexisPSL* provides practical guidance on the application of law to complement and integrate with LexisNexis authoritative legal content and commentaries and legal forms and precedents.

In France, LexisNexis 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. These content sources are, as in the UK, being combined with new content and innovative workflow tools to develop practical guidance and practice management solutions. During 2010, LexisNexis divested its legal publishing business in Germany as the investment required to build profitable scale was not considered to have adequate prospective returns. The news and business activities in Germany were retained.

Market Opportunities

Longer term growth in legal and regulatory markets worldwide is driven by increasing levels 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 practice management tools that improve the quality and productivity of research, deliver better legal outcomes, and improve business performance. Notwithstanding this, legal activity and legal information markets are also influenced by economic conditions and corporate activity, as has been seen most recently with the dampening impact on demand of the recent global recession and the somewhat subdued environment that has followed in North America and in Europe.

Strategic Priorities

LexisNexis Legal & Professional's strategic goal is to enable better legal outcomes and 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 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; international expansion and growth of online products and solutions; increasing LexisNexis' presence in emerging markets; and improving operational efficiency.

In the US, the focus is on the continuing development of the next generation of legal research and practice solutions and a major upgrade in operations 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. 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.

Outside the US, LexisNexis is focused on growing online services and developing further high quality actionable content and workflow tools, including the development of practical guidance and practice management applications. Additionally, LexisNexis is focusing on the expansion of its activities in emerging markets.

Business Model, Distribution Channels and Competition

LexisNexis Legal & Professional products and services are generally sold directly to law firms and to corporate, government and academic customers on a paid subscription basis, with subscriptions with law firms often under multi year contracts.

Principal competitors for LexisNexis in US legal markets are West (Thomson Reuters), CCH (Wolters Kluwer) and BNA, and Bloomberg and Factiva (News Corporation) in news and business information. Competitors in litigation solutions also include software companies. Major international competitors include Thomson Reuters, Wolters Kluwer and Factiva.

LexisNexis Legal & Professional

2010 financial performance

The LexisNexis Legal & Professional business saw a small revenue decline of 2% at constant currencies reflecting the impact on renewals and print product of the low levels of law firm activity and employment. Corporate, government and academic markets were lower.

US revenues declined 2% at constant currencies, or 1% underlying before the net effect of small disposals and acquisitions. This compares to a decline of 6% in the prior year. The decline was largely driven by the continued contraction in corporate, government and academic markets which saw revenues 5% lower in a challenging budgetary environment for customers, impacting in particular sales of the news & business information databases to corporate customers, which were down 13%. US law firm revenues were up 2%; these would however have been down 2% ignoring the effect of last year's revenue recognition change in Martindale Hubbell. Law firm subscription, print and transactional revenues remained under pressure as contract renewals reflected the lower levels of law firm activity and lawyer employment than was the case when they were last agreed, typically two to three years ago.

Aside from this late cycle impact on renewals, which by the end of 2011 will be fully reflected in the base, legal markets in the US stabilised and good growth was seen in new sales. Good growth continued in litigation solutions, practice management and other services for law firms. In December 2010, LexisNexis acquired StateNet, the leading publisher of information on the progress of prospective legislation through the US legislative process.

Outside the US, International revenues declined 2% at constant currencies. Online legal solutions saw revenues up 6% with strong demand for technology enabled content and new workflow tools. Market penetration of these services continues to increase across all geographies. Print sales declined, particularly in the UK as law firms cut back on spending and place increasing reliance on online services. Electronic revenues now account for more than 50% of the International business.

Continued good progress is being made in the development of the next generation of legal products and advanced operational infrastructure, which will be progressively introduced over the next few years.

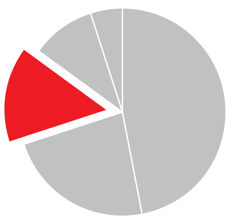
While law firms, corporations and governments remain cautious in their spending, new sales continue to be higher and the environment is more stable. Revenue recovery is expected to be gradual, with the adjusted operating margin broadly flat in 2011.

	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue					
US	**1,121**	1,126	0%	-2%	-1%
International	**570**	566	+1%	-2%	-2%
Total	**1,691**	1,692	0%	-2%	-2%

Revenue
% of Reed Elsevier

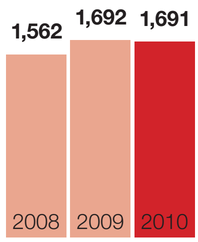
Legal & Professional 28%

Adjusted operating profit
% of Reed Elsevier



Legal & Professional 15%

Revenue
£m



Adjusted operating profit*
£m

* On a pro forma basis

Lexis®
Unparalleled legal, news and public records content for legal professionals

Lexis® *for* Microsoft® Office
Integration of LexisNexis content, open Web search and Microsoft Office

Lexis® Library
LexisNexis® UK flagship legal online product

Matthew Bender®
Critical legal analysis, checklists, forms, and practice guides authored by industry experts covering over 50 major practice areas

LexisNexis® Verdict & Settlement Analyzer
Early case assessment tool for researching and evaluating the risk and opportunity associated with a case

Lexis® PSL
LexisNexis® UK legal practical guidance service

CaseMap®
Software allowing litigators to assess and analyse case information

Lawyers.com℠
Leading website for consumers seeking legal information and counsel

Juris Classeur
Largest, most authoritative online legal resource in France

FORGING BUSINESS RELATIO

NSHIPS

REED EXHIBITIONS IS THE WORLD'S LEADING EVENTS BUSINESS, WITH OVER 450 EVENTS IN 35 COUNTRIES

In 2010 Reed Exhibitions brought together over six million event participants from around the world, generating billions of dollars in business for its customers.

Reed Exhibitions

Reed Exhibitions is the world's leading events business, with over 450 events in 35 countries

Reed Exhibitions' portfolio of exhibitions and conferences serves 44 industry sectors across the Americas, Europe, the Middle East and Asia Pacific. In 2010 Reed Exhibitions brought together over six million event participants from around the world, generating billions of dollars in business for its customers.

Total revenues for the year ended 31 December 2010 were £693m. Reed Exhibitions is a global business headquartered in London and has principal offices in Paris, Vienna, Norwalk Connecticut, Abu Dhabi, Beijing, Tokyo, Sydney and São Paulo. Reed Exhibitions has 2,600 employees worldwide.

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; alternative energy, oil & gas; engineering, manufacturing & processing; gifts; interior design; IT & telecoms; jewellery; life sciences & pharmaceuticals; marketing; property & real estate; sports & recreation; and travel.

Well represented in the developed world, increasingly Reed Exhibitions is investing in the developing economies. Reed Exhibitions expanded in 2010 through new launches in the beauty and healthcare sectors in China; environment, construction and machinery in Brazil; and security in the UAE.

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. To achieve this, Reed Exhibitions is focused on: developing the portfolio through a combination of new launches, strategic partnerships and selective acquisitions in high growth sectors and geographies; and further developing websites, analytics and other online tools to enhance the exhibition experience and add to customer return on investment in event participation.

Business Model, Distribution Channels and Competition

The substantial majority of Reed Exhibitions' revenues are from sales of exhibition space. The balance includes conference fees, advertising in exhibition guides, sponsorship fees and, for some shows, admission charges. Exhibition space is sold directly or through local agents where applicable. Reed Exhibitions often works in collaboration with trade associations, which use the events to promote access for members to domestic and export markets, and with governments, for whom events can provide important support to stimulate foreign investment and promote regional and national enterprise.

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), Informa IIR and Messe Frankfurt. Competition also comes from industry trade associations and convention centres and exhibition hall owners.

2010 financial performance

Reed Exhibitions saw good revenue growth with the net cycling in of biennial exhibitions and a significantly moderated decline in annual show revenues.

Revenues and adjusted operating profits were up 9% and 4% respectively at constant currencies, or 8% and 4% before minor acquisitions.

Underlying revenues, excluding the effect of biennial show cycling, declined by 3% compared with a 6% decline in the first half, with stable performance or modest growth in all major markets in the second half as conditions progressively improved. The 2010 shows have seen overall success, with growing attendances at the majority of annual events and exhibitor numbers up 4% in the top 50 annual shows. In the largest market, Europe, underlying revenues excluding cycling were lower by 4% compared with a 16% decline in the prior year. Particular successes were the *World Travel Market* in London and *InCosmetics* and a robust *Mapic* (retail real estate show) in France.

Growth in exhibitor numbers

The customer value proposition of face to face events continues to be strong with exhibitor numbers increasing at top 50 annual events

+4%

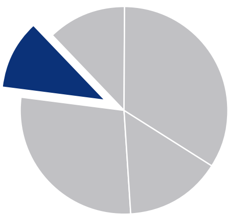
Number of event launches

Stepped up new launch programme including 14 new events in Asia

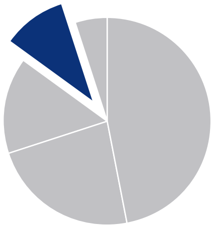
35

	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue	**693**	638	+9%	+9%	+8%
Adjusted operating profit	**158**	152	+4%	+4%	+4%

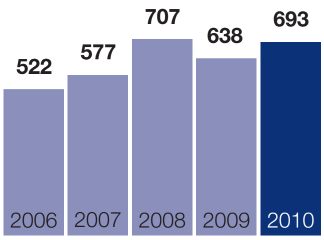
Revenue
% of Reed Elsevier



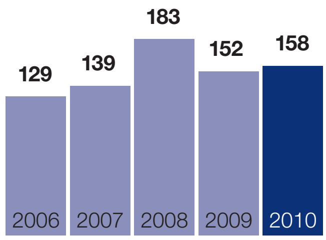
Adjusted operating profit
% of Reed Elsevier



Revenue
£m



Adjusted operating profit
£m



The US also saw significantly moderated declines with revenues down by 5% compared to 15% in 2009. By contrast, the shows in China, Russia, the Middle East and Brazil grew strongly although some of these are joint ventures and are therefore not included in the reported revenues. Successful shows in emerging markets included *Salão do Automóvel* motor show in Brazil, pharmaceutical and aluminium shows in China, and the *Intercharm* beauty show in Russia. Reed Exhibitions now operates nearly 100 shows in emerging markets with approximately 40 shows in each of Brazil and China.

Reed Exhibitions significantly stepped up its launch programme in 2010 with 35 new events of which 14 were in Asia, including the successful *Cloud Computing* show in Japan, and the *PAX East* games event in Boston.

The decline in adjusted operating margin primarily reflects the revenue decline in annual shows and increased spend, including on the development of websites, analytics and other innovative online tools to increase the effectiveness and efficiency of events for both exhibitors and attendees, partly mitigated through cost savings. The reported operating margin, after amortisation of acquired intangible assets, was 18.3%, up from 12.4% in the prior year which included impairment charges on certain minor shows and exceptional restructuring costs. There were no exceptional restructuring costs in 2010.

The outlook is encouraging, with momentum building in annual shows and significant launch activity continuing. 2011 will see the net cycling out of biennial shows, particularly in the first half.

mipcom
The world's entertainment market

World Future Energy Summit
Abu Dhabi 18-21 January 2010
World's platform for sustainable future energy solutions

world travel market
Premier global event for the travel market

Nepcon China 2010
One of the largest and longest standing electronics manufacturing trade events in China

Brasil Offshore
International offshore oil & gas trade show

in-cosmetics
Leading international exhibition for personal care ingredients

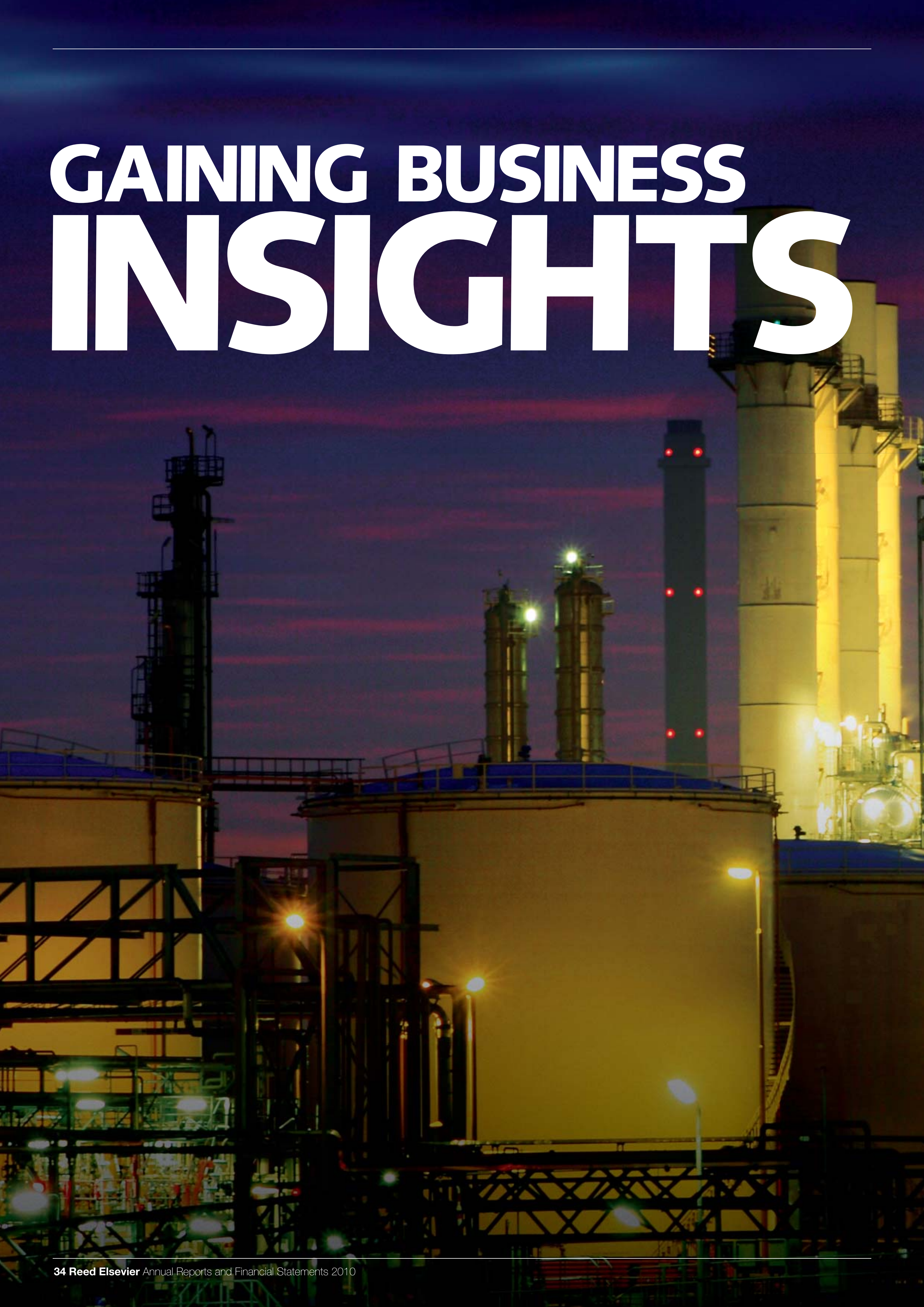
BATIMAT
A world leading construction exhibition

Gifts & Home
One of the largest business gifts & home fairs in China

JCK Las Vegas
The North American jewellery industry's premier trade event

Pollutec
International exhibition of environmental equipment, technology and services

GAINING BUSINESS INSIGHTS



REED BUSINESS INFORMATION IS A PROVIDER OF BUSINESS INFORMATION, DATA AND MARKETING SOLUTIONS IN MULTIPLE FORMATS

Reed Business Information

Reed Business Information is a provider of business information, data and marketing solutions in multiple formats

Reed Business Information (RBI) provides data services, information and marketing solutions to business professionals in the UK, the US, Continental Europe, Asia and Australia. It produces industry critical data services and lead generation tools, and over 100 online community and job sites. It publishes over 100 business magazines with market leading positions in many sectors.

Total revenues for the year ended 31 December 2010 were £718m. RBI is a global business headquartered in London and has principal operations in Sutton in the UK, Amsterdam and Doetinchem in the Netherlands, Boston, Los Angeles and Norcross, Georgia in the US as well as Paris, Milan, Madrid, Bilbao, Sydney and Shanghai. RBI has 5,300 employees worldwide.

RBI's data services enable businesses and professionals to enhance productivity through quicker and easier access to insightful and comprehensive industry information. Online marketing solutions, business to business magazines, online lead generation services and community websites provide effective marketing channels for advertisers to reach target audiences and for industry professionals to access valued information.

In 2010, RBI was significantly restructured and refocused, to reflect the reduction in revenues caused by recession, the accelerated migration of customer marketing spend to web media, and the continued growth and opportunity in data services. During the year, the sale and closure of the US controlled circulation magazines and certain other titles were completed, together with the sale of RBI Germany and clusters of titles in the Netherlands, UK, Italy, Spain, France, Ireland and Asia.

The business was redefined and is now managed by key asset group – data services, online marketing solutions, leading brands, and other magazine brands/websites – and specific strategies and action plans have been developed for each group.

RBI's market-leading data services include *ICIS*, a global information and pricing service for the petrochemicals and energy sector; *Bankers Almanac*, a leading provider of reference data on the banking industry; *XpertHR*, an online service providing HR data, regulatory guidance, best practices and tools for HR professionals; and *Reed Construction Data*, a provider of online construction data to the North American construction industry. In 2010, RBI entered into an agreement to increase its interest in *CBI China*, the market leading petrochemical and energy information service in China, and now has majority ownership. This transaction was completed in January 2011 and has brought *ICIS* unrivalled coverage of the important and growing Chinese and Asian chemicals and energy markets, considerably strengthening its global position.

The major online marketing solutions include: *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 the *Elsevier* magazine in the Netherlands.

Market Opportunities

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

Strategic Priorities

RBI's strategic goal is to help business professionals achieve better outcomes with information and decision support in its individual markets. Its areas of strategic focus are: further growing the data services businesses; capturing the economic recovery in the major online marketing solutions 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 with revenue expectations and drive further organisational effectiveness.

Business Model, Distribution Channels and Competition

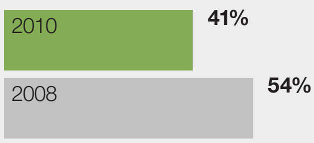
Across the RBI portfolio, user and subscription revenues now account for 59% of the total business with the remaining 41% derived from print and online advertising and lead generation. RBI electronic revenue streams now account for 46% of total revenue.

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 data services and titles compete with a number of publishers on a service and title by title basis including: UBM, McGraw Hill, Wolters Kluwer and Incisive as well as many niche and privately-owned competitors. RBI competes for online advertising with other business to business websites as well as Monster, Google and other search engines.

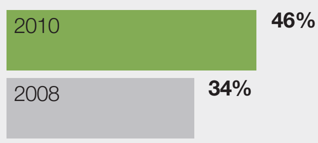
Advertising revenue %

Significant transformation of RBI focusing on subscription data services is reducing its exposure to advertising revenues



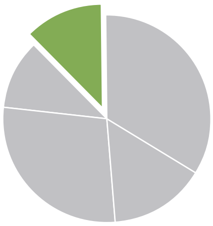
Online revenue %

Demand for online data services and marketing solutions drives increasing proportion of online revenue



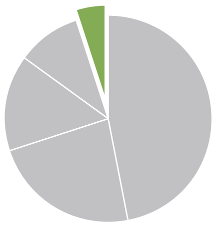
	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue	**718**	891	-19%	-20%	-2%
Adjusted operating profit	**89**	89	0%	0%	+4%

Revenue
% of Reed Elsevier



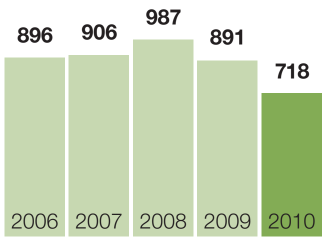
Reed Business Information 12%

Adjusted operating profit
% of Reed Elsevier

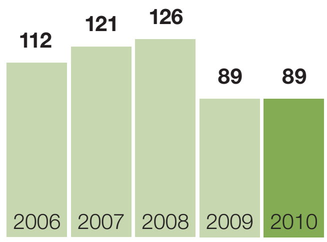


Reed Business Information 6%

Revenue
£m



Adjusted operating profit
£m



2010 financial performance

Reed Business Information saw good growth in data services and online marketing solutions and significantly moderated declines in advertising markets. The portfolio was reshaped through disposals and closures and costs were significantly reduced.

Revenues were down 20% and adjusted operating profits flat at constant currencies. Excluding portfolio changes, underlying revenues were down 2% and adjusted operating profits increased by 4%.

The major data services businesses, which account for approximately 20% of RBI revenues, were up 4% with strong growth in *ICIS, Bankers Almanac* and *XpertHR*, tempered by weakness in *RCD* serving the US construction markets. The major online marketing solutions businesses, accounting for approximately 12% of RBI revenues, were up 10%, with a strong recovery in *Totaljobs* online recruitment services and continuing strong growth in the *Hotfrog* web search business. Business magazines and related services, accounting for approximately 68% of RBI revenues, saw underlying revenues 6% lower driven by print advertising declines which more than offset online growth.

The 2.4% increase in adjusted operating margin reflects the significant restructuring of the business, with the disposal or closure of unprofitable assets and a 3% reduction in costs of the continuing business, with consolidation of operations, procurement savings and tight cost control. The reported operating margin, after amortisation of acquired intangible assets and exceptional restructuring costs, was 0%, up 18 percentage points principally reflecting no impairment charges in 2010.

Data services and online marketing solutions are seeing continued good growth. Portfolio changes and improving markets are also expected to benefit 2011.

ICIS
Global provider of news and pricing data to the chemical and energy industries

hotfrog
Leading online user generated business directory with versions in 38 countries

BANKERSAlmanac.com
A leading supplier of banking intelligence to the global financial industry

emedia
Pioneers in B2B lead generation, emedia specialises in accelerated demand generation from permission-based audiences

XpertHR
Online HR Intelligence
Leading HR legal compliance and good practice toolkit

VARIETY
Premier source of entertainment business news and analysis since 1905

Reed Construction Data
Construction data, building product information, cost data, market analysis and advertising channels to construction industry professionals

ELSEVIER
Leading news and opinion magazine in the Netherlands

totaljobs.com
UK generalist job website attracting over 3.7 million jobseekers and carrying over 125,000 jobs every month

NewScientist
World's leading science and technology media brand

Corporate responsibility

Corporate responsibility ensures good management of risk and opportunities, helps us attract and retain the best people, and strengthens our corporate reputation. It means performing to the highest commercial and ethical standards and channelling our knowledge and strengths, as global leaders in our industries, to make a difference to society.

Constant engagement with stakeholders, including shareholders, employees, communities, governments, and members of civil society, helps us determine material corporate responsibility issues. The Reed Elsevier Board, senior management and the Corporate Responsibility Forum oversee corresponding objectives and monitor performance against them – encompassing our unique contributions as a business, as well as governance, people and community, customers, health and safety, supply chain, and environment.

Our unique contributions

We focus on areas where we can make a positive impact on society through our knowledge, resources and skills. These include universal sustainable access to information, advance of science and health, promotion of the rule of law and justice, and protection of society.

Elsevier, the world's largest scientific publisher, has an important role to play in advancing human welfare and economic progress in places where information resources are often scarce. Among key programmes is Research4Life, in partnership with United Nations agencies and other publishers, which provides core and cutting-edge scientific information to researchers in more than 100 developing countries. In 2010, there were 3.1 million Research4Life article downloads from *ScienceDirect* – a 20% increase over 2009. In the year, the Elsevier Foundation, through its Innovative Libraries in Developing Countries programme, committed over $300,000 to support libraries with grants to improve infrastructure-building access to primary source material. Recipients included HIV/AIDS Audio-Visual Archive, University of Cape Town, South Africa; Library Infrastructure Boost, University of Hargeisa, Somaliland; and the Egyptian National Cancer Database.

LexisNexis concentrates on promoting justice. Its Rule of Law Resource Center is a free online community covering topics like human rights, protecting minority communities, and anti-human trafficking. In 2010, LexisNexis signed an agreement to provide content and support for the World Justice Project's Rule of Law Index, a new quantitative assessment tool ranking over 75 countries. As a founder of the UK's International Law Book Facility, since 2005, LexisNexis has provided 5,000 legal texts to assist professional bodies, advice centres, pro bono groups, law schools, and other institutions involved in access to justice across common law jurisdictions in Africa, Asia, and the Caribbean.

LexisNexis Risk Solutions works to protect society by supporting non-profit organisations such as the National Center for Missing & Exploited Children (NCMEC) and the Cal Ripken Sr. Foundation. Since 2005, LexisNexis has completed nearly 6 million volunteer background checks for such organisations, identifying over 870,000 individuals with criminal convictions, including more than 58,000 registered sex offenders. Employees helped create the ADAM programme which assists in the safe recovery of missing children. In partnership with NCMEC, ADAM distributes missing child posters to police, news media, schools, businesses, medical centres, and other recipients within a specific geographic search area. Since launching in 2000, 117 children have been located.

Reed Exhibitions provides platforms at its trade shows to organisations that support our corporate responsibility focus areas. At the 2010 World Travel Market, its global event for the travel industry, Reed Exhibitions marked World Responsible Tourism Day with the Responsible Tourism Awards, recognising sector initiatives in areas like poverty reduction, low carbon transport and technology, and conservation. Over the last seven years, Reed Exhibitions has given free space at the London Book Fair to Book Aid International, which annually provides 500,000 books – including those donated from across Reed Elsevier – to readers in the developing world, enabling the charity to engage with a wide range of potential book and financial donors.

Reed Business Information (RBI) uses the power of its brands to aid communities. *Variety*, the leading entertainment industry news source published by RBI, has established initiatives like the Power of Youth to spur young entertainers to support philanthropic and humanitarian causes, and to encourage their fans to do so as well. Since its inception in 2007, Power of Youth has raised more than $850,000 to aid children; in 2010 beneficiaries included LA's BEST, Education through Music, Girl Up, and Pencils of Promise. *Variety* has built on the Power of Youth model to launch Power of Women and the Power of Comedy to highlight those using their celebrity to beneficial effect.

Drawing on expertise across Reed Elsevier, in 2010 we launched the Reed Elsevier Environmental Challenge to identify projects that improve sustainable access to water where it is presently at risk. We have provided access to products from our businesses to over 100 registrants from more than 50 countries and winners will be announced in June 2011.

2011 Objectives
- Complete RE Environmental Challenge; launch plans for 2012
- Undertake UNICEF project on the impact of climate change on children
- Further expansion of Research4Life

Percentage of key suppliers as signatories to Reed Elsevier Supplier Code of Conduct

We uphold Reed Elsevier values by requiring our suppliers to meet the same standards we set for ourselves

60%

Reduction in health and safety severity rate (lost days per 200,000 hours worked) 2008-2010

Valuing our people means going beyond legal obligations to ensure staff wellbeing

-29%

Corporate responsibility continued

Governance

2010 Objectives

- Code of Ethics and Business Conduct course completion by 90% of all employees
- Data Privacy and Security course completion by 60% of all employees
- Anti-bribery training for 80% of relevant employees in higher risk roles and geographies

The Reed Elsevier Code of Ethics and Business Conduct (Code) is disseminated to every employee as a guide to our corporate and individual conduct. Encompassing topics such as fair competition, anti-bribery and human rights, it encourages open and principled behaviour. 93% of current employees completed online Code training by year end 2010, and 80% of all employees completed a data privacy and security course. In 2010, we provided anti-bribery training for approximately 78% of relevant employees in higher risk roles and geographies. Further by the close of 2010, 2,700 managers had completed online training on anti-harassment and 5,500 employees on fair competition.

In 2010, we actively promoted the United Nations Global Compact (UNGC) to which we are a signatory – businesses must align their governance and operations with ten principles related to human rights, labour, environment and anti-corruption. We served on the steering group for the United Kingdom; contributed to the UNGC Supply Chain Advisory Group; produced a video on the UNGC for the legal community; and helped launch a report on UK signatories and the Millennium Development Goals.

2011 Objectives

- Code of Ethics and Business Conduct course completion by 95% of all employees
- Full alignment with Adequate Procedures Guidance under the UK Bribery Act; 95% completion of anti-bribery training by relevant employees in higher risk jobs and geographies
- Implementation of updated records management policy

People and community

2010 Objectives

- Advance divisional Employee Opinion Survey (EOS) action plans
- Develop a diversity and inclusion strategy for key locations
- Closer alignment of RE Cares donations with corporate responsibility focus areas
- Increase in-kind contributions

Our 30,200 people are our strength. In 2010, we implemented activities across the business to address the results of our 2009 global Employee Opinion Survey. For example, LexisNexis developed new initiatives to help employees build their management capabilities, with a percentage of executive bonuses tied to higher 2010 interim, 'pulse' survey scores in this and other areas. At Reed Exhibitions, focus groups were held to address career development and satisfaction with feedback translated into management activities.

The Reed Elsevier Diversity and Inclusion (D&I) Statement articulates our commitment to a diverse workforce and environment that respects individuals and their contributions, regardless of their gender, race, or other characteristics. In 2010, we developed a D&I strategy endorsed by the Reed Elsevier Management Committee, with key objectives such as ensuring each key location has a D&I value proposition and broad implementation plan. Our cross-business D&I Working Group, drawing on internal and external expertise, promoted best practice in areas ranging from training to communication. Affinity groups, like women's forums, provide support and mentoring and encourage community involvement.

Reed Elsevier Cares, our global community programme, promotes education for disadvantaged young people, and allows staff up to two days off per year for their own community work. We donated £2.3 million in cash (including through matching gifts) and the equivalent of £6.6 million in products, services, and staff time in 2010. We worked to increase in-kind contributions throughout the year, examples of which include LexisNexis Corporate Responsibility Day which involved nearly 2,000 staff in local community projects, and Elsevier Beijing which worked with an underprivileged school in He Bei Province over two days providing educational support and supplies.

Champions engage colleagues throughout the year in activities such as the Reed Elsevier Cares Challenge, which rewards business sponsored community engagement, and Reed Elsevier Cares Month, with hundreds of events around the globe. During the Month, we launched a global fundraising effort to raise $50,000 for Plan International's Because I'm a Girl campaign to help girls in India, for example, in gaining educational opportunities and awareness of their legal and employment rights. Our annual global book drive involved over 5,000 employees and yielded some 18,240 books for local and developing world readers.

2011 Objectives

- Begin implementation of diversity and inclusion strategy in key locations
- New and improved People sections of internal and external websites
- Launch RE Cares recognition awards

To date, Elsevier has helped the International Council of Nurses (ICN) Mobile Library set up more than 250 mobile libraries to deliver current health information to nursing professionals working in remote areas of 17 developing countries.

Each library is housed in a sturdy, transportable trunk with approximately 80 titles. In 2010, through Elsevier and the Reed Elsevier Cares programme, resources, products, and assistance supported the ICN Supporting Nurses and Nursing in Haiti Fund in aiding post-earthquake recovery and reconstruction with tailored French-language Nursing Mobile Libraries containing books on post-disaster response, infectious diseases, and reinitiating interrupted treatment of life-threatening conditions like HIV and tuberculosis.

Corporate responsibility continued

Customers

2010 Objectives
- Improve customer loyalty as measured by Net Promoter Scores; advance dashboard programmes
- Continue to improve website accessibility

We surveyed more than 150,000 customers through Net Promoter Score (measuring customer loyalty) and business dashboard programmes. This allows us to deepen understanding of their needs and drives forward a customer centric culture across Reed Elsevier. Results, reviewed by the CEO and senior managers, and communicated to staff, illuminate where we are doing well and where we must do better.

We are committed to improving access to our products and services for all users, regardless of physical ability. Upgrades to core LexisNexis products in 2010 have incorporated WCAG 2.0, the most recent web accessibility guidelines. The Accessibility Working Group held educational webinars with disabled customers and accessibility experts, and helped process 3,250 requests for accessible versions of our publications, many from AccessText.org, a service we helped establish – 95% of requests were addressed in one day or less. In 2010, Elsevier won the first JISC Publisher Lookup Award for Accessibility, and also enabled the text-to-speech option on all e-books titles to aid users with sight, motor or other challenges.

2011 Objectives
- Launch CR webinars on non-financial performance to support customer-facing staff
- Consult on Reed Elsevier Editorial Policy
- Assess accessibility of key product websites

Health and safety

2010 Objectives
- 10% reduction in severity rate by 2010 (from 2008 baseline)
- Advance collection of absenteeism data

Our employees have the right to a healthy and safe workplace as outlined in the Reed Elsevier Health and Safety Policy.

To reduce our severity rate (lost days per 200,000 hours worked), we conduct risk assessments and work with a third party resource in the US to assign a nurse case manager to each complex or severe claim. We achieved a 29% reduction in the severity rate between 2008 and 2010.

We concentrated on wellness in the workplace providing stress awareness training, weight loss and smoking cessation programmes. In 2010, we advanced collection of absenteeism data by incorporating it into a new global human resources information system launched in North America during the year.

We held the second RE:Fit2Win global competition in 2010 to recognise employees for walking, cycling, and running, with winners receiving $1,000 for the charity of their choice. 1,083 employees took part.

2011 Objectives
- Benchmark health and safety performance
- Extend preventive care programmes

Supply Chain

2010 Objectives
- 60% of key suppliers as Supplier Code of Conduct signatories
- 40 external audits of high risk suppliers
- Ask key suppliers to become UN Global Compact signatories

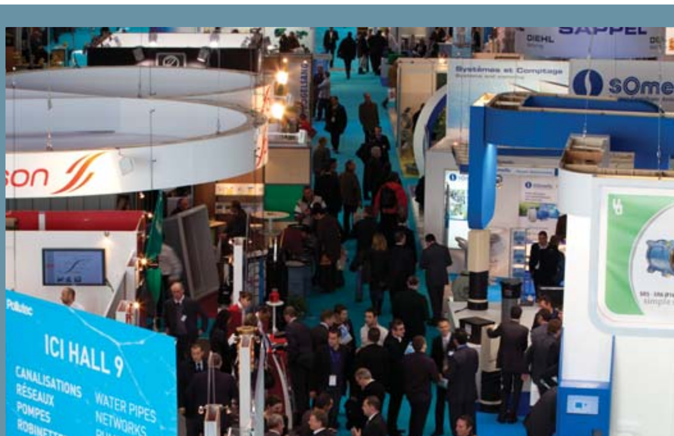
We require our suppliers to meet the high standards we set for ourselves. Our Supplier Code of Conduct stipulates adherence to all laws and best practice in areas such as human rights, labour and the environment. Through our Socially Responsible Supplier (SRS) database, we tracked 606 critical, preferred, and strategic suppliers, and those we deem high risk according to criteria from the Corporate Executive Board's Global Country Analysis Support Tool, human trafficking data from the US State Department, and rankings in the Environmental Performance Index (EPI) produced by Yale University and Columbia University. We achieved our target of 60% of SRS suppliers as signatories to the Supplier Code by year end, and specialists ITS undertook 43 external audits of high risk suppliers. Any incidence of Supplier Code non-compliance identified in the audit process triggers a corrective action plan with supplier remediation required on all issues. We have embedded signing the Supplier Code into our e-sourcing tool as one of the criteria for doing business with us.

We provided training to increase reporting on the Reed Elsevier portion of suppliers' CO_2 emissions and undertook six supplier webinars on the benefits of joining the UN Global Compact.

2011 Objectives
- 75% of key suppliers as Supplier Code of Conduct signatories
- 45 external audits of high risk suppliers
- Introduce Socially Responsible Supplier Academy

Through its trade shows, Reed Exhibitions advances our CR focus areas by bringing people together to share information.

In 2010 Reed Exhibitions ran Pollutec Lyon, a leading international environment exhibition bringing together innovative techniques for the prevention and treatment of pollution of all kinds as well as for the preservation of the environment as a whole. Close to 2,000 exhibitors and over 50,000 visitors attended to discuss innovations in key sectors such as water, waste (which includes recycling and cleaning), air quality, and energy.



Corporate responsibility continued

Environment

Key Performance Indicators	Target	Intensity achievement to date[1]	Absolute achievement to date	2010 Absolute figure	2010 Intensity figure (Absolute/revenue £m)
CO_2 emissions (2006-2015)[2]	-10%	-14%	16%	195,936 tCO_2e	32.36
Total energy (2008-2015)	-5%	1%	15%	273,983 MWh	45.25
Travel emissions (2008-2015)	-5%	-12%	-1%	40,611 tCO_2e	6.71
Water (2008-2015)	-10%	-7%	5%	465,619m^3	76.90
Waste recycled (2015)	70%	n/a	63%	7,720t	1.27

[1]The percentage variance between absolute performance divided by revenue in 2010 compared with absolute performance divided by revenue in start year
[2]Gross CO_2e emissions (scopes 1, 2 and scope 3 business travel)

2010 Objectives
- 20 key sites to achieve five Reed Elsevier Environmental Standards
- Management plans to achieve environmental targets
- Map Reed Elsevier and supplier water stress locations

Our Environmental Champions network, employee-led Green Teams, and engagement through networks such as Publishers Database for Responsible Ethical Paper Sourcing, inform management plans to address our environmental impact. Among them is the Reed Elsevier Environmental Standards programme, which sets benchmark performance levels and inspires green competition among offices. In 2010, 26 sites achieved five or more standards attaining green status, a 38% increase in the number of standards achieved the year previous. We mapped key locations and 149 major suppliers against local water stress to identify where we should concentrate reduction efforts.

We have a positive environmental impact through our environmental publications and services which spread good practice, encourage debate, and aid researchers and decisions makers. The most recent results from independent Market Analysis System (2009) show our share of citations in environmental science represented 36% of the total market, and 69% in energy and fuels. Full details of our 2010 environmental performance are available at www.reedelsevier.com/cr10.

2011 Objectives
- Undertake data centre efficiency study
- 20% of electricity from renewables or offsets
- Establish Green Team Environmental Training Academy

Our internal focus on corporate responsibility is recognised externally

We achieved the following in 2010:

- Platinum, Business in the Community's Corporate Responsibility Index
- Carbon Disclosure Project Leadership Index; 7th out of 350 companies in FTSE CDP Carbon Strategy Index Series
- Carbon Footprint ASN Mutual Funds
- Dow Jones Sustainability Index and SAM Sustainability Yearbook, scoring in top 15% of companies
- Ethibel Pioneer and Ethibel Excellence Investment Registers
- FTSE4Good Index
- Sector leader in investor-led Forest Disclosure Project
- Retained in Goldman Sachs Sustain fund of "best managed companies around the globe that will succeed on a sustainable basis"
- Triodos Bank Sustainable Equity/Bond Fund, first in publishing sector
- VBDO Supply Chain Award

View the 2010 Corporate Responsibility Report at www.reedelsevier.com/cr10

Dow Jones Sustainability Indexes Member 2010/11

CARBON DISCLOSURE PROJECT

Business in the Community CORPORATE RESPONSIBILITY INDEX

FTSE4Good

FOREST FOOTPRINT DISCLOSURE

Chief Financial Officer's report

Reported figures	2010 £m	2009 £m	Change	Change at constant currencies	Change underlying
Revenue	**6,055**	6,071	0%	-1%	+2%
Operating profit	**1,090**	787	+39%	+37%	
Profit before tax	**768**	435	+77%	+74%	
Net profit	**642**	391	+64%	+61%	
Net borrowings	**3,455**	3,931			
Adjusted figures					
Operating profit	**1,555**	1,570	-1%	-2%	-1%
Operating margin	**25.7%**	25.9%			
Profit before tax	**1,279**	1,279	0%	-1%	
Net profit	**983**	982	0%	-1%	
Operating cash flow	**1,519**	1,558	-3%	-3%	
Operating cash flow conversion	**98%**	99%			
Return on invested capital	**10.6%**	10.4%			

	Reed Elsevier PLC			Reed Elsevier NV			
Parent Companies	**2010**	2009	Change	**2010**	2009	Change	Change at constant currencies
Reported earnings per share	**27.3p**	17.2p	+58%	**€0.51**	€0.32	+62%	
Adjusted earnings per share	**43.4p**	45.9p	-5%	**€0.78**	€0.79	-1%	-6%
Ordinary dividend per share	**20.4p**	20.4p	0%	**€0.412**	€0.400	+3%	

Adjusted figures are used by Reed Elsevier as additional performance measures and are stated before the amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and, in respect of earnings, reflect a tax rate that excludes the effect of movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets. Exceptional restructuring costs in 2009 relate to the major restructuring programmes announced in February 2008 and 2009 and in 2010 relate only to the restructuring of RBI. Acquisition related costs relate to acquisition integration and, from 2010, professional and other transaction related fees and adjustments to deferred and contingent consideration now required to be expensed under international financial reporting standards. Profit and loss on disposals and other non operating items are also excluded from the adjusted figures. Reconciliations between the reported and adjusted figures are set out in note 10 to the combined financial statements. Comparison at constant exchange rates uses 2009 full year average and hedge exchange rates. Underlying growth rates are the year on year change at constant currencies, excluding the results of all acquisitions and disposals made both in the year and prior year.

Mark Armour
Chief Financial Officer

Reported figures

Revenues at £6,055m (2009: £6,071m) were flat compared with 2009. At constant exchange rates, revenues were down 1% compared with the prior year. Underlying revenues, i.e. before acquisitions and disposals, were 2% higher. Revenue performance across the business is described in the Business Review.

Reconciliation of reported revenues year-on-year

Year to 31 December	£m	Change
2009 revenue	6,071	
Underlying growth	100	+2%
Acquisitions	5	0%
Disposals	(173)	-3%
Currency effects	52	+1%
2010 revenue	6,055	0%

Reported operating profit, after amortisation and impairment of acquired intangible assets and goodwill and exceptional restructuring and acquisition related costs, was up 39% at £1,090m (2009: £787m). The significant increase principally reflects no intangible asset and goodwill impairment and lower exceptional restructuring charges.

Chief Financial Officer's report continued

The amortisation charge in respect of acquired intangible assets, including the share of amortisation in joint ventures, amounted to £349m (2009: £368m), down £19m as a result of disposals and prior year impairments. Charges for impairment of acquired intangible assets and goodwill were nil (2009: £177m, principally relating to the RBI US business).

Exceptional restructuring costs, which in 2010 relate only to the restructuring of RBI, amounted to £57m (2009: £182m relating to major restructuring programmes across Reed Elsevier announced in February 2008 and 2009) and included severance and vacant property costs. Acquisition related costs amounted to £50m (2009: £48m) principally in respect of the integration within LexisNexis of the ChoicePoint business acquired in September 2008.

Disposals and other non operating losses of £46m principally relate to asset sales and related closures in RBI's US businesses.

Net finance costs were £276m (2009: £291m), with the benefit of free cash flow and the July 2009 share placings being partly offset by the impact of higher coupon term debt issued in 2009 to repay certain of the ChoicePoint acquisition facility loans.

The reported profit before tax, including amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposals and other non operating items, was £768m (2009: £435m).

The reported tax charge was higher at £120m (2009: £40m) reflecting the increase in reported profit before tax and prior year tax credits on disposals. The reported net profit attributable to the parent companies' shareholders was £642m (2009: £391m).

Adjusted figures

Adjusted operating profit was £1,555m (2009: £1,570m), down 1%. (Adjusted operating profits are stated before amortisation of acquired goodwill and intangible assets, acquisition integration and exceptional restructuring costs). At constant exchange rates, adjusted operating profits were down 2%, including in particular the disposals within the RBI US business. Underlying adjusted operating profits, i.e. excluding acquisitions and disposals, were 1% lower. Profit performance across the business is described in the Business Review.

The overall adjusted operating margin at 25.7% was 0.2 percentage points lower than in the prior year, with total costs reduced by 1% at constant exchange rates. Excluding cost reduction from asset disposals and closures, which had a 0.5 percentage points benefit to margin, costs increased by 3% on an underlying basis. Increased spending on new product development, infrastructure, and sales & marketing, particularly in the legal businesses, has been offset by cost actions across the business, including incremental savings from the earlier exceptional restructuring programmes.

Changes in underlying revenue, cost and profit

Year to 31 December 2010	Revenue	Adjusted operating cost	Adjusted operating profit
Elsevier	+2%	+1%	+4%
LexisNexis	+1%	+6%	-12%
Reed Exhibitions	+8%	+10%	+4%
Reed Business Information	-2%	-3%	+4%
Reed Elsevier – underlying	+2%	+3%	-1%
Reed Elsevier – total	-1%	-1%	-2%

The net pension expense was higher at £54m (2009: £42m), reflecting lower curtailment credits of £17m (2009: £43m) from changes to pension plan design and staff reductions, partly offset by an increase in the net pension financing credit to £26m (2009: £6m) reflecting the higher market value of scheme assets. The share based and related remuneration charge was £11m (2009: £17m). Restructuring costs included within adjusted operating profit, i.e. other than in respect of the exceptional restructuring programme in RBI and acquisition integration, amounted to £31m (2009: £21m).

Adjusted profit before tax was £1,279m (2009: £1,279m), flat against the prior year. At constant exchange rates, adjusted profit before tax was down 1%.

Reconciliation of adjusted and reported profit before tax

Year to 31 December	2010 £m	2009 £m
Adjusted profit before tax	1,279	1,279
Amortisation of acquired intangible assets	(349)	(368)
Impairment of acquired intangibles and goodwill	–	(177)
Exceptional restructuring costs	(57)	(182)
Acquisition related costs	(50)	(48)
Reclassification of tax in joint ventures	(9)	(8)
Disposals and other non operating items	(46)	(61)
Reported profit before tax	768	435

The effective tax rate on adjusted profit before tax at 22.7% was similar to the 2009 effective rate. The effective tax rate on adjusted profit before tax excludes movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term, and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets. This more closely aligns with cash tax costs over the longer term. Adjusted operating profits and taxation are grossed up for the equity share of taxes in joint ventures.

The application of tax law and practice is subject to some uncertainty and provisions are held in respect of this. Issues are raised during the course of regular tax audits and discussions including on the deductibility of interest on cross-border financing are ongoing. Although the outcome of open items cannot be predicted, no material impact on results is expected from such issues.

The adjusted net profit attributable to shareholders of £983m (2009: £982m) was flat compared with the prior year. At constant exchange rates, adjusted net profit attributable to shareholders was down 1%.

Chief Financial Officer's report continued

Cash flows

Adjusted operating cash flow was £1,519m (2009: £1,558m), down 3% at both reported exchange rates and constant currencies.

The small decrease in adjusted operating cash flow at constant currencies reflects the 2% decrease in adjusted operating profits at constant currencies. The impact of higher capital expenditure was largely offset by working capital improvements with the rate of conversion of adjusted operating profits into cash flow very high at 98% (2009: 99%).

Conversion of adjusted operating profit into cash

Year to 31 December	2010 £m	2009 £m
Adjusted operating profit	1,555	1,570
Capital expenditure	(311)	(242)
Depreciation and amortisation of internally developed intangible assets	237	223
Working capital and other items	38	7
Adjusted operating cash flow	1,519	1,558
Cash flow conversion rate	98%	99%

Capital expenditure included within adjusted operating cash flow was £311m (2009: £242m), including £228m (2009: £164m) in respect of capitalised development costs included within internally generated intangible assets. The increase from the prior year reflects increased investment in new products and related infrastructure, particularly in the LexisNexis legal business.

Free cash flow, after interest and taxation, was £1,131m (2009: £1,051m) before exceptional restructuring and acquisition related spend. The increase principally reflects the lower than usual taxes paid because of tax repayments from prior years.

Exceptional restructuring spend was £99m (2009: £124m) principally relating to severance and vacant property costs. Payments made in respect of acquisition related costs amounted to £51m (2009: £45m) principally in respect of the ChoicePoint integration. Net tax paid in the year was reduced by £42m (2009: £36m) in respect of exceptional restructuring and acquisition related spend.

Free cash flow before dividends was £1,023m (2009: £918m). Ordinary dividends paid to shareholders in the year, being the 2009 final and 2010 interim dividends, amounted to £483m (2009: £457m). Free cash flow after dividends was £540m (2009: £461m).

Free cash flow

Year to 31 December	2010 £m	2009 £m
Adjusted operating cash flow	1,519	1,558
Interest paid	(287)	(293)
Tax paid	(101)	(214)
Free cash flow before exceptional spend	1,131	1,051
Restructuring expense/acquisition integration*	(108)	(133)
Free cash flow before dividends	1,023	918
Ordinary dividends	(483)	(457)
Free cash flow post dividends	540	461

*Including cash tax relief/repayments

Funding

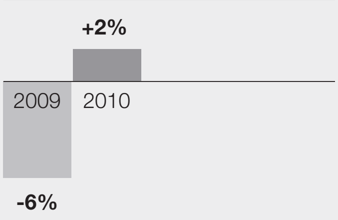
Debt

Net borrowings at 31 December 2010 were £3,455m, a decrease of £476m since 31 December 2009 after currency translation effects which increased net borrowings by £77m on the largely US dollar denominated net debt. The significance of Reed Elsevier Group plc's US operations means that the majority of debt is denominated in US dollars. Excluding currency translation effects, net debt reduced by £553m reflecting the strong free cash flow and limited acquisition activity. Expressed in US dollars, net borrowings at 31 December 2010 were $5,387m, a decrease of $962m since 31 December 2009.

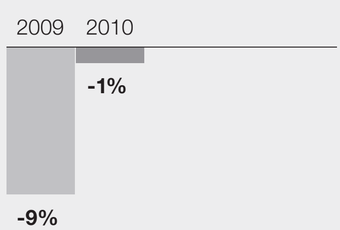
Gross borrowings after fair value adjustments at 31 December 2010 amounted to £4,302m (2009: £4,706m). The fair value of related derivative assets was £105m (2009: £41m). Cash balances totalled £742m (2009: £734m).

As at 31 December 2010, after taking into account interest rate and currency derivatives, a total of 73% of Reed Elsevier's gross borrowings were at fixed rates with a weighted average remaining life of 5.3 years and interest rate of 6.0%.

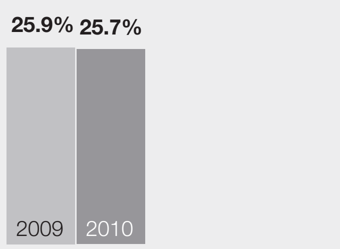
Underlying revenue growth



Underlying adjusted operating profit growth



Adjusted operating margin



Chief Financial Officer's report continued

Spend on acquisitions and investments was £55m, including deferred consideration payable on past acquisitions. An amount of £27m was capitalised in the year as acquired intangible assets and £27m as goodwill. Cash tax relief on certain prior year acquisition costs amounted to £16m. Net cash proceeds less associated restructuring costs from disposals, including tax repayments of £34m in respect of prior year transactions, amounted to £40m.

Net proceeds from the exercise of share options were £11m (2009: £5m). No share repurchases were made by the parent companies in the year (2009: nil) and no shares of the parent companies were purchased by the employee benefit trust (2009: nil). In 2009, proceeds, net of expenses, from share placings by the parent companies were £829m.

Movement in net debt

	2010 £m	2009 £m
Net debt at 1 January	(3,931)	(5,726)
Free cash flow post dividends	540	461
Acquisitions/disposals:		
Disposals*	40	3
Acquisitions*	(39)	(44)
Net proceeds from equity placings and share options exercised	11	834
Other	1	(18)
Currency translation	(77)	559
Net debt at 31 December	(3,455)	(3,931)

*Including cash tax relief/repayments

The ratio of net debt to adjusted ebitda (earnings before interest, tax, depreciation and amortisation) at 31 December 2010 was 1.9x (2009: 2.2x), and 2.5x (2009: 2.9x) on a pensions and lease adjusted basis. Reed Elsevier's target is a ratio of net debt to adjusted ebitda of 2.0-3.0x (on a pensions and lease adjusted basis) over the longer term, consistent with a solid investment grade credit rating.

Liquidity
In January 2010, the start date of a new $2.0bn committed facility maturing in May 2012 was brought forward and the $2.5bn committed facility maturing in May 2010 cancelled. In June 2010, the maturity of the new committed facility was extended to June 2013, with an option for two further one year extensions. This back up facility provides security of funding for $2.0bn of short term debt to June 2013. During the year, $350m of US term debt maturing in August 2011 was redeemed early by taking advantage of the make-whole election.

After taking account of the committed bank facilities and available cash resources, no borrowings mature until 2013 and beyond. The strong free cash flow of the business, the available resources and back up facilities, and Reed Elsevier's ability to access debt capital markets are expected to provide sufficient liquidity to repay or refinance borrowings as they mature.

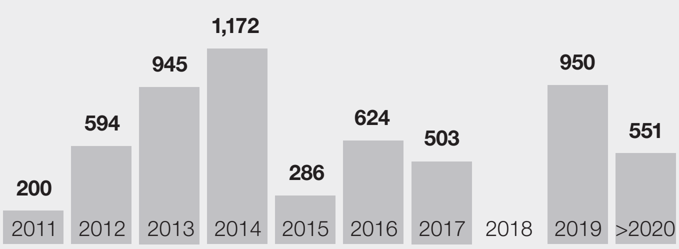
Further details on the treasury policies of the Combined Businesses are on pages 48 and 49 and in note 18 to the Combined Financial Statements.

Capital employed and returns

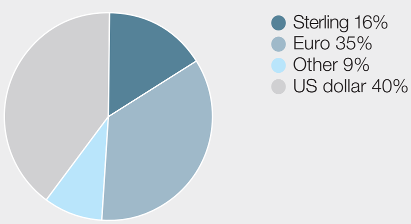
The capital employed at 31 December 2010 was £11,661m (2009: £11,918m) after adding back accumulated amortisation and impairment of acquired intangible assets and goodwill. The decrease of £257m principally reflects asset disposals and strong cash generation.

The return on average capital employed in the year was 10.6% (2009: 10.4%). This is based on adjusted operating profits for the year, less tax at the effective rate, and the average of the capital employed at the beginning and end of the year, retranslated at the average exchange rates, adjusted to exclude the gross up to goodwill in respect of deferred tax liabilities established on acquisitions in relation to intangible assets. The increase in the return reflects the strong cash generation and increased capital efficiency.

Term debt maturities
$m



Currency profile 2010 adjusted profit before tax



Chief Financial Officer's report continued

Accounting policies

The combined financial statements are prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and as issued by the International Accounting Standards Board following the accounting policies shown on pages 90 to 96. The most significant accounting policies in determining the financial condition and results of the combined businesses, and those requiring the most subjective or complex judgement, relate to the valuation of goodwill and intangible assets, share based remuneration, pensions, litigation, taxation and property provisioning. Further detail is provided in the accounting policies on pages 94 and 95.

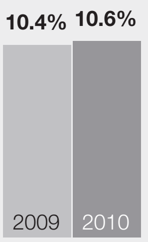
Elsevier Reed Finance BV

Structure
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.

Activities
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* and *PharmaPendium*. In 2010 it continued to strengthen its position as a centre of excellence in the management and development of intellectual property assets. ERSA is responsible for reinsurance activities for Reed Elsevier.

Return on invested capital



Major developments
In 2010, EFSA was active in renegotiating the terms of Reed Elsevier's $2 billion revolving credit facility, which is available to EFSA. It negotiated and advised Reed Elsevier Group plc companies on a number of banking and cash management arrangements in Continental Europe, in particular in the Netherlands and France, as well as Asia and continued to advise on treasury matters, including interest, foreign currency and certain other financial exposures.

The average balance of cash under management by EFSA in 2010, on behalf of Reed Elsevier Group plc and its parent companies, was approximately $0.8 billion (2009: $0.4 billion).

Liabilities and assets
At 31 December 2010, 84% (2009: 92%) of ERF's gross assets were held in US dollars and 15% (2009: 7%) in euros, including $8.7 billion (2009: $10.0 billion) and €0.6 billion (2009: €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 $0.3 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.

Chief Financial Officer's report continued

Parent companies

Reed Elsevier PLC	2010 £m	2009 £m	Change	Change at constant currencies
Reported net profit	327	195	+68%	
Adjusted net profit	520	519	0%	-1%
Reported earnings per share	27.3p	17.2p	+58%	
Adjusted earnings per share	43.4p	45.9p	-5%	-6%
Ordinary dividend per share	20.4p	20.4p	0%	

Reed Elsevier NV	€m	€m		
Reported net profit	376	219	+72%	
Adjusted net profit	575	550	+5%	-1%
Reported earnings per share	€0.51	€0.32	+62%	
Adjusted earnings per share	€0.78	€0.79	-1%	-6%
Ordinary dividend per share	€0.412	€0.400	+3%	

For the parent companies, Reed Elsevier PLC and Reed Elsevier NV, adjusted earnings per share were respectively down 5% at 43.4p (2009: 45.9p) and 1% at €0.78 (2009: €0.79). At constant rates of exchange, the adjusted earnings per share of both companies decreased by 6%.

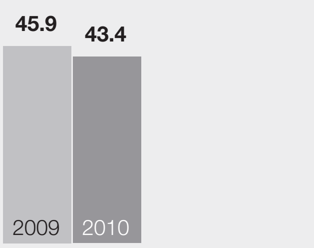
The July 2009 equity placings had a dilutive effect on adjusted earnings per share of approximately 4% in 2010, taking into account the interest expense saved on the borrowings repaid from the proceeds of the equity placings and the increase in the average number of parent company shares in issue. (In July 2009, Reed Elsevier PLC placed 109.2m ordinary shares at 405p per share for proceeds, net of issue costs, of £435m (€487m) and Reed Elsevier NV placed 63.0m ordinary shares at €7.08 per share for net proceeds of €441m (£394m). The numbers of ordinary shares issued represented 9.9% of the issued ordinary share capital of the respective parent companies prior to the placings.)

The reported earnings per share for Reed Elsevier PLC shareholders was 27.3p (2009: 17.2p) and for Reed Elsevier NV shareholders was €0.51 (2009: €0.32). The increase principally reflects lower exceptional restructuring charges and no intangible asset and goodwill impairment in 2010.

The equalised final dividends proposed by the respective boards are 15.0p per share for Reed Elsevier PLC and €0.303 per share for Reed Elsevier NV, unchanged and 3% higher respectively compared with the prior year final dividends. This gives total dividends for the year of 20.4p (2009: 20.4p) and €0.412 (2009: €0.400), unchanged and up 3% respectively. The difference in growth rates in the equalised dividends reflects changes in the euro: sterling exchange rate since the prior year dividend announcement dates.

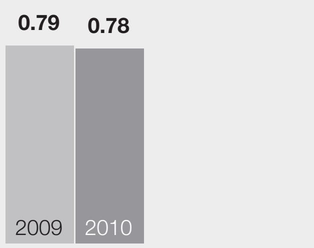
Dividend cover, based on adjusted earnings per share and the total interim and proposed final dividends for the year, is 2.1 times for Reed Elsevier PLC and 1.9 times for Reed Elsevier NV. The dividend policy of the parent companies is, subject to currency considerations, to grow dividends broadly in line with adjusted earnings per share whilst maintaining dividend cover (being the number of times the annual dividend is covered by the adjusted earnings per share) of at least two times over the longer term.

Reed Elsevier PLC
Adjusted EPS
pence

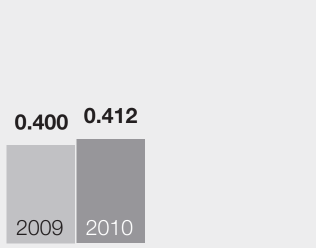


Reed Elsevier PLC
Ordinary dividend
pence

Reed Elsevier NV
Adjusted EPS
€



Reed Elsevier NV
Ordinary dividend
€



Overview
Business review
Financial review
Governance
Financial statements and other information

Chief Financial Officer's report continued

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 line with parent company guidelines) for their respective business and treasury centres. A summary of these policies is given below.

Capital and liquidity management

The capital structure is managed to support Reed Elsevier's objective of maximising long-term shareholder value through appropriate security of funding, 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 and these metrics are monitored and reported to senior management and the board representatives on a quarterly basis. Cash flow conversion of 90% or higher and a net debt to adjusted ebitda target, over the long term, in the range of 2x to 3x on a pensions and lease adjusted basis are consistent with the rating target. The cash flow conversion in 2010 was 98% and as at 31 December 2010 net debt to adjusted ebitda was 2.5x (2009: 2.9x) on a pensions and lease adjusted basis.

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 in 2010 by the repayment of debt out of free cash flow and this focus on debt reduction will continue over the next 12 months.

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. Reed Elsevier maintains a range of borrowing faciltites 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. 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. From time to time, Reed Elsevier may redeem term debt early or repurchase outstanding debt in the open market depending on market conditions.

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

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 31 December 2010 interest expense was fixed on an average of £3.0 billion of forecast debt for the next 12 months. This fixed rate debt reduces to £2.0 billion by the end of 2013 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 31 December 2010, fixed rate term debt (not swapped to floating rate) amounted to £2.5 billion (2009: £2.7 billion) and had a weighted average life remaining of 6.4 years (2009: 6.9 years) and a weighted average interest rate of 6.4% (2009: 6.4%). Interest rate derivatives in place at 31 December 2010, which fix the interest cost on an additional £0.6 billion (2009: £0.8 billion) of variable rate debt, have a weighted average maturity of 1.1 years (2009: 1.7 years) and a weighted average interest rate of 4.2% (2009: 4.2%).

Chief Financial Officer's report continued

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 31 December 2010, the amount of outstanding foreign exchange cover against future transactions was £1.1 billion (2009: £1.0 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 A/A2 by Standard and Poor's, Moody's or Fitch. At 31 December 2010, cash and cash equivalents totalled £742 million, of which 97% was held with banks rated A+/A1 or better.

Mark Armour
Chief Financial Officer

Key performance measures

Reed Elsevier uses a range of performance indicators to help measure its development against strategy and financial objectives. These indicators are integrated into the annual reports and are shown within the following sections:

Chief Executive Officer's report
(pages 6 to 7)

Business Review
(pages 8 to 37)

Corporate responsibility
(pages 38 to 41)

Chief Financial Officer's report
(pages 42 to 49)

Principal risks

Reed Elsevier has established risk management practices that are embedded into the operations of the businesses, based on the framework in internal control issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The principal risks facing Reed Elsevier, which have been considered by the Audit Committees and Boards, are described below. It is not possible to identify every risk that could affect our businesses, and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise and/or adversely affect our business or financial performance. Our risk management and internal control processes are described in the Structure and Corporate Governance section. A description of the business and a discussion of factors affecting performance is set out in the Business and Financial Review and our financial risks are discussed in the Chief Financial Officer's report and in note 18 to the combined financial statements of Reed Elsevier. Important specific risks that have been identified include:

Risk	Mitigation
Economy and market conditions Demand for our products and services may be impacted by factors beyond our control such as the economic environment in the US and other major economies, and government funding.	Our businesses are focused on professional markets which have generally been more resilient in periods of economic downturn. We deliver information solutions, many on a subscription basis, which are important to our customers' effectiveness and efficiency.
Customer acceptance of products Reed Elsevier's businesses are dependent on the continued acceptance by our customers of our products and services and the value placed on them.	We are focused on the needs and economics of our customers and seek to provide content and innovative solutions that help them achieve better outcomes and enhance productivity.
Competition Our businesses operate in highly competitive markets. These markets continue to change in response to technological innovations, changing legislation, regulatory changes, the entrance of new competitors and other factors.	To remain competitive we continuously invest significant resources in our products and services, and the infrastructure to support them. We gain insights into our markets, evolving customers' needs and opportunities, the potential application of new technologies and business models, and the actions of competitors, and these insights inform our market strategies and operational priorities.
Technology failure Reed Elsevier's businesses are increasingly dependent on electronic platforms and networks, primarily the internet, for delivery of products and services. Our businesses could be adversely affected if their electronic delivery platforms and networks experience a significant failure, interruption, or security breach.	We have established procedures for the protection of our technology assets. These include the development of business continuity plans, including IT disaster recovery plans and back-up delivery systems, to reduce business disruption in the event of a major technology failure.
Data security Our businesses maintain databases and information online, including personal information, and could be adversely affected if these experience a breach in security or if we fail to comply with applicable legislation or regulatory or contractual requirements governing such databases and information.	We have established data privacy and security programmes. We test and re-evaluate our procedures and controls with the aim of ensuring that personal data is protected and that we comply with relevant legislation, regulatory and contractual requirements.
Intellectual property rights Our products and services are largely comprised of intellectual property content delivered through a variety of media. We rely on trademark, copyright, patent and other intellectual property laws to establish and protect our proprietary rights in these products and services. There is a risk that our proprietary rights could be challenged, limited, invalidated or circumvented.	We actively engage in developing and promoting the legal protection of intellectual property rights. In our businesses, subscription contracts with customers contain provisions as to the use of proprietary content. We are also vigilant as to the use of our content and, as appropriate, take legal action to challenge illegal distribution sources.

Principal risks continued

Risk	Mitigation
Data sources A number of our businesses rely extensively upon content and data from external sources. Data is obtained from public records, governmental authorities, customers and other information companies, including competitors. 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.	We seek as far as possible to have proprietary content. Where content is supplied to us by third parties, we seek to have contracts which provide mutual commercial benefit. We also maintain an active dialogue with regulatory authorities on privacy and other data related issues, and we promote, with others, the responsible use of data.
Paid subscriptions Our scientific, technical and medical (STM) primary publications, like those of most of our competitors, are published on a paid subscription basis. There has been continuous debate in the government, academic and library communities, which are the principal customers for our STM publications, regarding whether such publications should be 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 paid subscription publications.	We engage extensively with stakeholders in the STM community to better understand their needs and deliver value to them. While we adopt a number of publishing models and continue to experiment, through the principal paid subscription model we encourage the submission of research output by scientists without the penalty of publishing cost. We focus on the integrity and quality of research through the editorial and peer review process; we invest in efficient editorial and distribution platforms and in innovation in platforms and tools to make content and data more accessible and actionable; and we ensure vigilance on plagiarism and the long term preservation of research findings.
Supply chain dependencies Our organisational and operational structures have increased dependency on outsourced and offshored functions. The failure of third parties to whom we have outsourced activities could adversely affect our business performance, reputation and financial condition.	We select our vendors with care and establish service level agreements that we closely monitor, including through key performance indicators. We also have developed business continuity plans to reduce disruption in the event of a major failure by a vendor.
Pensions We operate a number of pension schemes around the world, the largest schemes being of the defined benefit type in the UK, the US 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. Further information on risks associated with defined benefit pensions schemes is set out in note 5 to the Reed Elsevier combined financial statements.	We have well established professional management of our pension schemes and we focus on maintaining appropriate asset allocation and plan designs. We review our funding requirements on a regular basis with the assistance of independent actuaries and ensure that the funding plans are sufficient to meet future liabilities.

Principal risks continued

Risk	Mitigation
Tax Our businesses operate worldwide and our earnings are subject to taxation in many differing jurisdictions and at differing rates. We seek to organise our affairs in a tax efficient manner, taking account of the jurisdictions in which we operate. However, tax laws that apply to Reed Elsevier businesses may be amended by the relevant authorities or interpreted differently which could adversely affect our reported results.	We have clear and consistent tax policies and tax matters are dealt with by a professional tax function, supported by external tax advisors. We maintain an open dialogue with the relevant tax authorities and are vigilant in ensuring that we comply with tax legislation.
Acquisitions We often acquire businesses to reshape and strengthen our portfolio. If we are unable to generate the anticipated benefits such as revenue growth, synergies and/or cost savings associated with these acquisitions this could adversely affect our reputation and financial condition.	Our acquisitions are made within the framework of our overall strategy. We have a well formulated process for reviewing and executing acquisitions and for managing the post acquisition integration. This process is underpinned with clear strategic and financial acquisition criteria. We closely monitor the performance of acquisitions.
Treasury The Reed Elsevier combined financial statements are expressed in pounds sterling and are subject to movements in exchange rates on the translation of the financial information of businesses whose operational currencies are other than sterling. The US is our most important market and, accordingly, significant fluctuations in the US dollar exchange rate could significantly affect our reported results. Macroeconomic, political and market conditions may also adversely affect the availability of short and long term funding, volatility of interest rates, currency exchange rates and inflation.	The main treasury risks faced by Reed Elsevier are liquidity risk, interest rate risk, foreign currency risk and credit risk. Reed Elsevier's approach to funding and management of interest rate and foreign currency exposures is described on pages 48 and 49. The approach to the management of financial risks is described in note 18 to the combined financial statements.
Ethics Our businesses operate around the world and we have over 30,000 employees. A breach of generally accepted ethical business standards could adversely affect our business performance, reputation and financial condition.	Our Reed Elsevier Code of Ethics and Business Conduct is provided to every employee and is supported by training on specific topics. It encompasses such topics as fair competition, anti-bribery and human rights and it encourages open and principled behaviour. We also have well established processes for reporting and investigating unethical conduct. Our approach to managing ethical risks is set out in our Corporate Responsibility Report available at www.reedelsevier.com/cr10
Environmental Reed Elsevier and its businesses have an impact on the environment, principally through the use of energy and water, waste generation and, in our supply chain, through our paper use and print and production technologies.	We are committed to reducing these impacts by limiting resource use whenever possible and by efficiently employing sustainable materials and technologies. We require our suppliers and contractors to meet the same objectives. We seek to ensure that Reed Elsevier's businesses are compliant with all relevant environmental regulation. Our approach to managing environmental risks is set out in our Corporate Responsibility Report available at www.reedelsevier.com/cr10

Governance

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Board Directors

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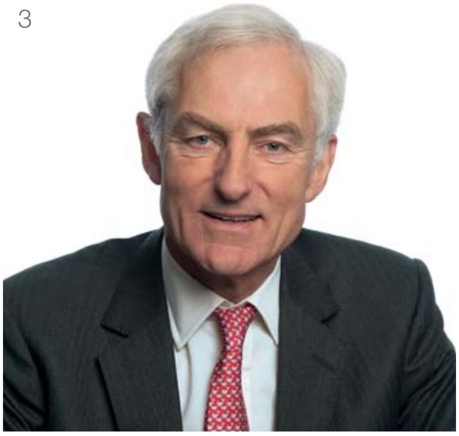

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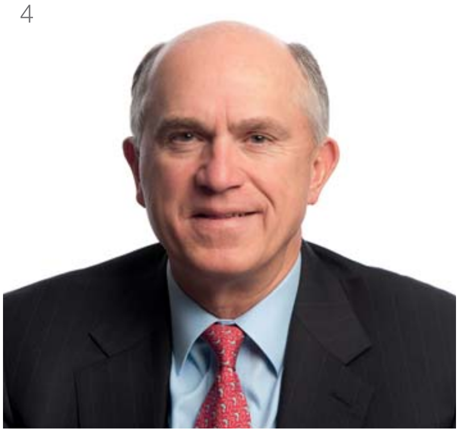

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Executive Directors

1 Erik Engstrom (47)
(Swedish) Chief Executive Officer since 2009. Joined Reed Elsevier as Chief Executive Officer of Elsevier in 2004. 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. Holds a BSc from Stockholm School of Economics, an MSc from the Royal Institute of Technology in Stockholm, and gained an MBA from Harvard Business School as a Fulbright Scholar.

2 Mark Armour (56)
(British) Chief Financial Officer since 1996. Non-executive director of SABMiller plc. Prior to joining Reed Elsevier as Deputy Chief Financial Officer in 1995, was a partner in Price Waterhouse. Holds an MA in Engineering from Cambridge University and qualified as a Chartered Accountant.

Non-Executive Directors

3 Anthony Habgood (64) ■ ● ◆
(British) Appointed Chairman 2009. Chairman of Whitbread plc. Was chairman of Bunzl plc and of Mölnlycke Healthcare Limited and served as chief executive of Bunzl plc, chief executive of Tootal Group plc and a director of The Boston Consulting Group Inc. He has also been a non-executive director of Geest plc; Marks and Spencer plc; National Westminster Bank plc; Powergen plc; and SVG Capital plc. Holds an MA in Economics from Cambridge University and an MS in Industrial Administration from Carnegie Mellon University. He is a visiting Fellow at Oxford University.

4 Mark Elliott (61) ■ ● ◆
(American) Appointed 2003. Chairman of the Remuneration Committee. Chairman of QinetiQ Group plc and a non-executive director of G4S plc. Until his retirement in 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.

5 Lisa Hook (52) ▲ ◆
(American) Appointed 2006. President and chief executive officer of Neustar Inc. A director of The Ocean Foundation. Was president and chief executive officer at 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 a senior counsel to Viacom Cable.

6 Marike van Lier Lels (51) ◆
(Dutch) Appointed 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. Was executive vice president and chief operating officer of the Schiphol Group. Prior to joining Schiphol Group, was a member of the executive board of Deutsche Post Euro Express and held various senior positions with Nedlloyd.

7 Robert Polet (55) ■ ◆
(Dutch) Appointed 2007. President and chief executive officer of Gucci Group. Non-executive director of Wilderness Holdings Limited. 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.

8 David Reid (64) ▲ ■ ● ◆
(British) Appointed 2003. Senior independent director. 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 Group plc and Westbury PLC.

9 Lord Sharman of Redlynch OBE (67) ▲ ● ◆
(British) Appointed 2002. Served as Chairman of the Audit Committee until August 2010. Non-executive chairman of Aviva PLC and a non-executive director of BG Group plc. Member of the House of Lords since 1999. Was chairman of KPMG Worldwide until 1999, having joined KPMG in 1966. Previous non-executive directorships include: chairman of Aegis Group plc; deputy chairman of G4S plc; Young & Co's Brewery plc; AEA Technology plc; and member of the supervisory board of ABN AMRO Holding NV.

10 Ben van der Veer (59) ▲ ● ◆
(Dutch) Appointed 2009. Chairman of the Audit Committee from August 2010. 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, having joined KPMG in 1976.

Board Committee Membership
▲ Audit Committees: Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV
■ Remuneration Committee: Reed Elsevier Group plc
● Nominations Committee: joint Reed Elsevier PLC and Reed Elsevier NV
◆ Corporate Governance Committee: joint Reed Elsevier PLC and Reed Elsevier NV

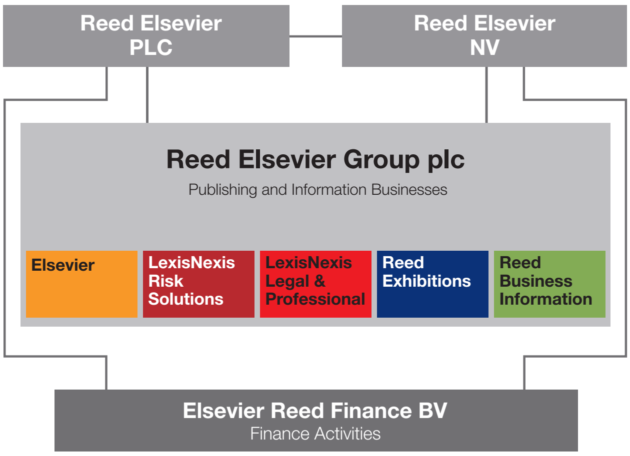
Both of the executive directors are directors of Reed Elsevier Group plc and Reed Elsevier PLC and members of the Executive Board of Reed Elsevier NV.

Mrs van Lier Lels is a member of the Supervisory Board of Reed Elsevier NV. All of the other non-executive directors are directors of Reed Elsevier Group plc and Reed Elsevier PLC and members of the Supervisory Board of Reed Elsevier NV.

Structure and corporate governance

Corporate structure

Reed Elsevier was created in January 1993, when Reed Elsevier PLC and Reed Elsevier NV contributed their business 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. Following the merger of their respective businesses, Reed Elsevier PLC and Reed Elsevier NV entered into a Governing Agreement to regulate their relationship, including the economic interests of the parties and the composition of their boards and those of Reed Elsevier Group plc and of Elsevier Reed Finance BV, as further referred to below.



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 the Reed Elsevier combined businesses, and Reed Elsevier NV shareholders (other than Reed Elsevier PLC) have a 47.1% economic interest in the Reed Elsevier combined businesses. 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 exchange rate used for each dividend calculation is the spot euro/sterling exchange rate, averaged over a period of five consecutive business days commencing on the tenth business day before the announcement of the proposed dividend.

Compliance

Compliance with codes of best practice

The boards of Reed Elsevier PLC and Reed Elsevier NV have implemented standards of corporate governance and disclosure policies applicable to companies listed on the stock exchanges of the United Kingdom, the Netherlands and the United States. The effect of this is that a standard applying to one will, where not in conflict, also be observed by the other.

The boards of Reed Elsevier PLC and Reed Elsevier NV (which comprises an Executive Board and a Supervisory Board, together the Combined Board) support the principles and provisions of corporate governance contained in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the UK Code) and those contained in the Dutch Corporate Governance Code issued in December 2008 (the Dutch Code). The principles and provisions set out in the UK Code and the Dutch Code have applied throughout the financial year ended 31 December 2010. Reed Elsevier PLC, which has its primary listing on the London Stock Exchange, has complied throughout the year with the UK Code. Reed Elsevier NV, which has its primary listing on the Euronext Amsterdam Stock Exchange, has complied throughout the year with the UK Code, and subject to limited exceptions as explained in the Reed Elsevier NV Report of the Supervisory Board and the Executive Board on pages 166 to 169, has applied the best practice provisions of the Dutch Code. The ways in which Reed Elsevier PLC and Reed Elsevier NV have applied the main principles of the UK Code are described below. For further information on the application of the Dutch Code by Reed Elsevier NV, see the Corporate Governance Statement of Reed Elsevier NV published on the Reed Elsevier website, www.reedelsevier.com.

New UK Corporate Governance Code

In May 2010 the Financial Reporting Council issued The UK Corporate Governance Code (the New UK Code), which replaces the UK Code for financial years beginning on or after 29 June 2010. The New UK Code will, therefore, apply to Reed Elsevier in respect of the financial year beginning 1 January 2011. It is the intention of the boards to comply with the New UK Code and in accordance with its recommendation, all directors will seek annual re-election at the respective Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV commencing from the meetings to be held in April 2011.

Relations with shareholders

Reed Elsevier PLC and Reed Elsevier NV participate in regular dialogue with institutional shareholders. Presentations are made by the Chairman, Chief Executive Officer and Chief Financial Officer following the announcement of the interim and full year results and these are simultaneously webcast. Two investor seminars on specific areas of the business are currently planned for 2011 and these will also be webcast. The Chief Executive Officer, the Chief Financial Officer and the investor relations team meet institutional shareholders on a regular basis and the Chairman also makes himself available to major institutions as appropriate. A trading update is provided ahead of the Annual General Meetings of the two companies and towards the end of the financial year through Interim Management Statements. The interim and annual results announcements and presentations, together with the Interim Management Statements, investor seminar presentations and other important announcements and corporate governance documents concerning Reed Elsevier, are published on the Reed Elsevier website, www.reedelsevier.com. In accordance with the provisions of the Dutch Code, Reed Elsevier NV has adopted a bilateral shareholder contact policy, which is also published on the Reed Elsevier website. The boards of Reed Elsevier PLC and Reed Elsevier NV commission periodic reports on the attitudes and views of the companies' institutional shareholders and the results are the subject of formal presentations to the respective boards.

Both Reed Elsevier PLC and Reed Elsevier NV offer e-voting facilities in relation to proxy voting at shareholder meetings. The Annual General Meetings provide an opportunity for the boards to communicate with individual shareholders. The Chairman, the Chief Executive Officer, the Chief Financial Officer, the chairmen of the board committees, other directors and a representative of the external auditors are available to answer questions from shareholders.

Board induction and information

On appointment and as required, directors receive training appropriate to their level of previous experience. This includes the provision of a tailored induction programme so as to provide newly appointed directors with information about the Reed Elsevier businesses and other relevant information to assist them in performing their duties. Non-executive directors are encouraged to visit the Reed Elsevier businesses to meet management and senior staff.

All directors have full and timely access to the information required to discharge their responsibilities fully and efficiently. They have access to the services of the respective company secretaries, other members of Reed Elsevier's management and staff, and external advisors. Directors may take independent professional advice in the furtherance of their duties, at the relevant company's expense.

In addition to scheduled board and board committee meetings held during the year, directors attend many other meetings and site visits. Where a director is unable to attend a board or board committee meeting he or she is provided with all relevant papers and information relating to that meeting and is able to discuss issues arising with the respective Chairman and other board members.

Board evaluation

During the year the Corporate Governance Committee assessed the performance of individual directors and, led by the senior independent director, also assessed the performance of the Chairman. Using questionnaires completed by all directors, the Committee reviewed the functioning and constitution of the boards and their committees. Based on these assessments and on the board effectiveness review, the Committee believes that the performance of each director continues to be effective and that they demonstrate commitment to their respective roles in Reed Elsevier. The Committee currently envisages initiating an independent evaluation of the boards and their committees in 2011.

The boards

The board of Reed Elsevier PLC, the Combined Board of Reed Elsevier NV and the board of Reed Elsevier Group plc are harmonised. All of the directors of Reed Elsevier Group plc are also directors of Reed Elsevier PLC and are a member of either the Executive Board or the Supervisory Board of Reed Elsevier NV. Reed Elsevier NV may nominate for appointment to the Supervisory Board two directors who are not appointed to the boards of either Reed Elsevier PLC or Reed Elsevier Group plc. Marike van Lier Lels was appointed to the Reed Elsevier NV Supervisory Board in January 2010, in succession to Dien de Boer-Kruyt who retired at the conclusion of the Reed Elsevier NV Annual General Meeting in April 2010. The names, nationality and biographical details of each director at the date of this report appear on pages 54 and 55.

The boards of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV each comprise a balance of executive and non-executive directors who bring a wide range of skills and experience to the deliberations of the boards. The boards review the independence of the non-executive directors every year, based on the criteria for independence set out in the UK Code. The UK Code does not consider the Chairman to be independent due to the unique role the Chairman has in corporate governance. Notwithstanding this, Anthony Habgood met the independence criteria contained in the UK Code when he was appointed Chairman in 2009. The boards consider all non-executive directors (other than the Chairman) to be independent of management and free from any business or other relationship which could materially interfere with their ability to exercise independent judgement. Lord Sharman, who was appointed as a non-executive director of Reed Elsevier PLC in January 2002, and a member of the Reed Elsevier NV Supervisory Board in April 2002, will retire from the respective boards at the conclusion of the Reed Elsevier NV and Reed Elsevier PLC Annual General Meetings in April 2011. The boards have determined that Lord Sharman remains independent in character and judgement despite having served on the board of Reed Elsevier PLC for more than nine years; there are also no relationships or circumstances which are likely to affect his independent judgement.

The boards of Reed Elsevier PLC and of Reed Elsevier NV have appointed David Reid to act as senior independent director, who is available to meet with institutional shareholders and assist in resolving concerns in cases where alternative channels are deemed inappropriate. The senior independent director also leads the annual assessment of the functioning and performance of the Chairman of Reed Elsevier PLC/Chairman of the Supervisory Board of Reed Elsevier NV. A profile, which identifies the skills and experience of the non-executive directors of Reed Elsevier PLC and the members of the Supervisory Board of Reed Elsevier NV, is available on the Reed Elsevier website, www.reedelsevier.com.

Reed Elsevier PLC and Reed Elsevier NV shareholders maintain their rights to appoint individuals to the respective boards in accordance with the provisions of the Articles of Association of these companies. Subject to this, no individual may be appointed to the boards of Reed Elsevier PLC, Reed Elsevier NV (either of the Executive Board or the Supervisory Board) or Reed Elsevier Group plc unless recommended by the joint Nominations Committee. Members of the Committee abstain when their own re-appointment is being considered.

Structure and corporate governance continued

Board attendance

Members	Date of appointment (cessation) during the year	Reed Elsevier PLC: Number of meetings held whilst a director	Reed Elsevier PLC: Number of meetings attended	Reed Elsevier NV: Number of meetings held whilst a director	Reed Elsevier NV: Number of meetings attended	Reed Elsevier Group plc: Number of meetings held whilst a director	Reed Elsevier Group plc: Number of meetings attended
Mark Armour		6	5	6	5	7	6
Dien de Boer-Kruyt	(April 2010)	n/a	n/a	2	1	n/a	n/a
Mark Elliott		6	5	6	5	7	6
Erik Engstrom		6	6	6	6	7	7
Anthony Habgood		6	6	6	6	7	7
Lisa Hook		6	5	6	5	7	6
Marike van Lier Lels	January 2010	n/a	n/a	6	5	n/a	n/a
Robert Polet		6	5	6	5	7	6
Andrew Prozes	(December 2010)	6	4	6	4	7	5
David Reid		6	4	6	4	7	5
Lord Sharman		6	4	6	4	7	4
Ben van der Veer		6	6	6	6	7	7

As a general rule, letters of appointment in respect of non-executive directors of Reed Elsevier PLC and members of the Supervisory Board of Reed Elsevier NV provide that individuals will serve for an initial term of three years, and are typically expected to serve two three-year terms, although the boards may invite an individual to serve for an additional period of three years.

The respective Articles of Association of Reed Elsevier PLC and Reed Elsevier NV provide that all directors should be subject to retirement at least every three years and are then able to make themselves available for re-election by shareholders at subsequent Annual General Meetings. Notwithstanding the provisions of the said Articles of Association, the boards intend to comply with the recommendations contained in the New UK Code, and all directors will seek re-election by shareholders annually, commencing with the Annual General Meetings to be held in April 2011.

Board changes

Changes during the year in the composition of the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc are noted in the table above.

Based on recommendations from the Nominations Committee, Marike van Lier Lels was appointed a member of the Reed Elsevier NV Supervisory Board in January 2010. Mrs Van Lier Lels has extensive business and international experience, along with specific knowledge of employee related matters in the Netherlands. Mrs de Boer-Kruyt retired from the Reed Elsevier NV Supervisory Board in April 2010. Mr Prozes retired as an executive director of the boards on 31 December 2010.

Lord Sharman will retire from the boards at the conclusion of the Reed Elsevier NV and Reed Elsevier PLC Annual General Meetings in April 2011, and will not seek re-election. In accordance with the recommendation in the New UK Code, all other directors will retire from the boards at the respective Annual General Meetings and, being eligible, they will offer themselves for re-election. Taking into account the assessment by the Corporate Governance Committee of the qualifications, performance and effectiveness of each individual director seeking re-election, the boards have accepted a recommendation from the Nominations Committee that each director be proposed for re-election at the Annual General Meeting of the respective company.

The boards, in conjunction with external recruitment consultants, have been conducting a search for a suitable candidate as a non-executive director and, on the recommendation of the Nominations Committee, Adrian Hennah will be proposed for appointment as a non-executive director of Reed Elsevier PLC and as a member of the Supervisory Board of Reed Elsevier NV at the Reed Elsevier PLC and Reed Elsevier NV Annual General Meetings in April 2011. Mr Hennah was appointed chief financial officer of Smith & Nephew plc in 2006. He has over 25 years' experience in finance and operations in the medical devices, technology and pharmaceuticals industries, and will bring highly relevant experience to the board discussions. Subject to his appointment at the Annual General Meetings, he will also be appointed a non-executive director of Reed Elsevier Group plc and a member of the Audit Committees and of the Corporate Governance Committee.

Elsevier Reed Finance BV has a two-tier board structure comprising a Supervisory Board and a Management Board. The Supervisory Board consists of Rudolf van den Brink (Chairman), Mark Armour, Ben van der Veer and Marike van Lier Lels, with the Management Board consisting of Jacques Billy, Gerben de Jong and Jans van der Woude. Appointments to the Supervisory Board and the Management Board are made by Elsevier Reed Finance BV's shareholders, in accordance with the company's Articles of Association.

Members	Date of appointment (cessation) during the year	Number of meetings held whilst a director	Number of meetings attended
Mark Armour		3	3
Jacques Billy		3	3
Dien de Boer-Kruyt	(April 2010)	1	1
Rudolf van den Brink		3	3
Gerben de Jong		3	3
Marike van Lier Lels	February 2010	2	2
Ben van der Veer	February 2010	2	2
Jans van der Woude		3	3

Board committees

In accordance with the principles of good corporate governance, the following committees have been established by the respective boards. All of the committees have written terms of reference, which are published on the Reed Elsevier website, www.reedelsevier.com. Membership of each committee during the year is set out on page 59.

Structure and corporate governance continued

Audit Committees: Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc have established Audit Committees. The Committees comprise only non-executive directors. The Committees have been chaired by Ben van der Veer since August 2010, having previously been chaired by Lord Sharman. A report of the Audit Committees, setting out their role and main activities during the year, appears on pages 81 to 84.

Members	Number of meetings held whilst a Committee member	Number of meetings attended
Lisa Hook	5	5
David Reid	5	5
Lord Sharman	5	4
Ben van der Veer	5	5

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

Remuneration Committee: Reed Elsevier Group plc has established a Remuneration Committee, which is responsible for determining the remuneration for the executive directors of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV. The Committee comprises only non-executive directors, and is chaired by Mark Elliott. A Directors' Remuneration Report, which has been approved by the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV, appears on pages 62 to 80. This report also serves as disclosure of the directors' remuneration policy, and the remuneration and interests of the directors in the shares of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV.

Members	Date of appointment during the year	Number of meetings held whilst a Committee member	Number of meetings attended
Mark Elliott		6	6
Anthony Habgood	January 2010	6	6
Robert Polet		6	6
David Reid		6	5

Nominations Committee: Reed Elsevier PLC and Reed Elsevier NV have established a joint Nominations Committee, which provides a formal and transparent procedure for the selection and appointment of new directors to the boards. The Committee comprises only non-executive directors, and is chaired by Anthony Habgood. The Committee's terms of reference include assuring board succession and making recommendations to the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc concerning the appointment or re-appointment of directors to, and the retirement of directors from, those boards. In conjunction with the Reed Elsevier Group plc Remuneration Committee and external consultants, the Committee is also responsible for developing proposals for the remuneration and fees for new directors. In recommending appointments to the Reed Elsevier PLC and Reed Elsevier NV Boards, the Committee considers the knowledge, experience and background of individual directors and has regard to diversity. In respect of the Supervisory Board as a whole, it also has regard to the profile adopted for the constitution of the Supervisory Board (see www.reedelsevier.com).

Members	Number of meetings held whilst a Committee member	Number of meetings attended
Mark Elliott	5	5
Anthony Habgood	5	5
David Reid	5	5
Lord Sharman	5	3

Ben van der Veer was appointed a member of the Committee in January 2011.

Corporate Governance Committee: Reed Elsevier PLC and Reed Elsevier NV have established a joint Corporate Governance Committee, which is responsible for reviewing ongoing developments and best practice in corporate governance. The Committee is also responsible for assessing the performance of the directors and recommending the structure and operation of the various committees of the boards and the qualifications and criteria for membership of each committee, including the independence of members of the boards. The Committee comprises only non-executive directors, and is chaired by Anthony Habgood.

Members	Date of appointment (cessation) during the year	Number of meetings held whilst a Committee member	Number of meetings attended
Dien de Boer-Kruyt	(April 2010)	2	1
Mark Elliott		3	3
Anthony Habgood		3	3
Lisa Hook		3	2
Marike van Lier Lels	January 2010	3	2
Robert Polet		3	3
David Reid		3	3
Lord Sharman		3	3
Ben van der Veer		3	3

Internal control

Parent companies

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

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

Structure and corporate governance continued

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 systems of internal control.

The boards of Reed Elsevier Group plc and Elsevier Reed Finance BV have each implemented an ongoing process for identifying, evaluating, monitoring and managing the more significant risks faced by their respective businesses. These processes have been in place throughout the year ended 31 December 2010 and up to the date of the approvals of the Annual Reports and Financial Statements 2010.

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. The Code is published on the Reed Elsevier website, www.reedelsevier.com.

Each division has identified and evaluated its major risks, the controls in place to manage those risks and the levels 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 50 to 52.

The major strategic risks facing the Reed Elsevier Group plc businesses are considered by the Board. Reed Elsevier's Chief Risk Officer is responsible for providing regular reports to the Board and Audit Committee. Working closely with 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 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 identification and 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 to all Elsevier Reed Finance BV companies. The respective 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.

Annual review

As part of the year end procedures, the Audit Committees and boards of Reed Elsevier PLC, Reed Elsevier NV, Reed Elsevier Group plc and Elsevier Reed Finance BV review the effectiveness of the systems of internal control and risk management during the last financial year. The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss. The boards have confirmed, subject to the above, that as regards financial reporting risks, the respective risk management and control systems provide reasonable assurance against material inaccuracies or loss and have functioned properly during the year.

Structure and corporate governance continued

Responsibilities in respect of the financial statements

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

Applicable accounting standards have been followed and the Reed Elsevier combined financial statements, which are the responsibility of the directors of Reed Elsevier PLC and Reed Elsevier NV, are prepared using accounting policies which comply with International Financial Reporting Standards.

Going concern

The directors of Reed Elsevier PLC and Reed Elsevier NV, having made appropriate enquiries, consider that adequate resources exist for the combined businesses to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the 2010 financial statements. In reaching this conclusion, the directors of Reed Elsevier PLC and Reed Elsevier NV have had due regard to the combined businesses' financial position as at 31 December 2010, the strong free cash flow of the combined businesses, Reed Elsevier's ability to access capital markets and the principal risks facing Reed Elsevier.

A commentary on the Reed Elsevier combined businesses' cash flows, financial position and liquidity for the year ended 31 December 2010 is set out in the Chief Financial Officer's Report on pages 44 and 45. This shows that after taking account of available cash resources and committed bank facilities that back up short term borrowings, none of Reed Elsevier's borrowings fall due within the next two years. Reed Elsevier's policies on liquidity, capital management and management of risks relating to interest rate, foreign exchange and credit exposures are set out on pages 48 and 49. Further information on liquidity of the combined businesses can be found in note 18 of the combined financial statements. The principal risks facing Reed Elsevier are set out on pages 50 to 52.

US certificates

As required by Section 302 of the US Sarbanes-Oxley Act 2002 and by related rules issued by the US Securities and Exchange Commission, the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and of Reed Elsevier NV certify in the respective Annual Reports 2010 on Form 20-F to be filed with the Commission that they are responsible for establishing and maintaining disclosure controls and procedures and that they have:

- designed such disclosure controls and procedures to ensure that material information relating to Reed Elsevier is made known to them;
- evaluated the effectiveness of Reed Elsevier's disclosure controls and procedures;
- based on their evaluation, disclosed to the Audit Committees and the external auditors all significant deficiencies in the design or operation of disclosure controls and procedures and any frauds, whether or not material, that involve management or other employees who have a significant role in Reed Elsevier's internal controls; and
- presented in the Reed Elsevier Annual Report 2010 on Form 20-F their conclusions about the effectiveness of the disclosure controls and procedures.

A Disclosure Committee, comprising the company secretaries of Reed Elsevier PLC and Reed Elsevier NV and other senior Reed Elsevier managers, provides assurance to the Chief Executive Officer and Chief Financial Officer regarding their Section 302 certifications.

Section 404 of the US Sarbanes-Oxley Act 2002 requires the Chief Executive Officer and Chief Financial Officer of Reed Elsevier PLC and of Reed Elsevier NV to certify in the respective Annual Reports 2010 on Form 20-F that they are responsible for maintaining adequate internal control structures and procedures for financial reporting and to conduct an assessment of their effectiveness. The conclusions of the assessment of internal control structures and financial reporting procedures, which are unqualified, are presented in the Reed Elsevier Annual Report 2010 on Form 20-F.

Directors' remuneration report

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This report (the Directors' Remuneration Report) describes how Reed Elsevier applies the principles of good governance relating to directors' remuneration. In respect to the disclosures contained in this report, we have sought to comply with the substance and spirit of prevailing legislation and corporate governance guidelines in the UK and the Netherlands. The Remuneration Committee (the Committee) has sought to balance in a thoughtful and responsible manner the UK legislative requirements with best practice guidelines on disclosure in the Netherlands. This report has been prepared by the Remuneration Committee of Reed Elsevier Group plc in accordance with regulations made under the Companies Act 2006 and the Dutch Corporate Governance Code (the Dutch Code).

The Directors' Remuneration Report was approved by the boards of Reed Elsevier Group plc, Reed Elsevier PLC and Reed Elsevier NV and will be submitted to shareholders for an advisory vote at the Annual General Meeting of Reed Elsevier PLC. In addition, resolutions will be submitted to the Annual General Meeting of Reed Elsevier NV requesting approval for the introduction of a separate annual fee for the senior independent director and for setting the maximum amount of annual remuneration of the Supervisory Board of Reed Elsevier NV at €600,000.

The audited parts of the Directors' Remuneration Report
In compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under Title 9, Book 2 of the Civil Code in the Netherlands, the following elements of this report have been audited: the table entitled 'Transfer values of accrued pension benefits' on page 73; the tables showing 'Aggregate emoluments' and 'Individual fees of non-executive directors' on page 75; the tables on 'Individual emoluments of executive directors' and 'Directors' shareholdings in Reed Elsevier PLC and Reed Elsevier NV' on page 76; and the section 'Share-based awards in Reed Elsevier PLC and Reed Elsevier NV' on pages 76-79.

Introduction from Remuneration Committee Chairman

2010 saw the implementation of two new multi-year incentives, the Reed Elsevier Growth Plan (REGP) and the new Bonus Investment Plan (BIP), both of which received overwhelming shareholder approval at the 2010 Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV. Awards were made in May 2010 under both plans while no awards were made under the Long-Term Incentive Plan (LTIP) approved by shareholders in 2003 (and amended in 2006). As previously communicated to shareholders, no new Long-Term Incentive Plan for executive directors in 2011 or thereafter will be introduced without shareholder approval. No awards were made during the year under the Executive Share Option Scheme (ESOS), also approved by shareholders in 2003, to executive directors.

During the year, awards granted under the 2007-09 cycle of ESOS, BIP and LTIP lapsed for executive directors as a result of performance conditions not being met. ESOS and LTIP awards granted under the 2008-10 cycle lapsed for executive directors prior to the date of this report for the same reasons. In addition, unvested matching awards granted under the BIP prior to 2010 lapsed during the year.

Since the REGP is a one-off arrangement, the executive directors are not eligible for any further grants under that plan and no grants will be made to them in 2011 under the LTIP. For 2011 the executive directors are eligible to participate in the 2011-13 cycle of the new BIP and the Committee intends to make grants of market value options under the ESOS to the executive directors. The grants will be made within the limits and be subject to pre- and post grant performance conditions as previously approved by shareholders. The grants to all participants under the multi-year incentives will be made in May.

Having given no annual salary increases to executive directors since January 2008, the Committee decided to award the executive directors a salary increase of 2.5% each effective 1 January 2011.

Annual bonuses payable for 2010 to the executive directors were below target as the Committee had decided that an on or above target bonus could only be achieved if profits in 2010 exceeded 2009.

Standard terms and conditions were applied to the retirement of Andrew Prozes who retired on 31 December 2010. Furthermore, the Committee revised its terms of reference during the year in the context of best practice guidance.

Our approach to preparing this report has been to meet the highest standards of disclosure. In balancing relevant requirements in the UK and the Netherlands, the Committee had regard to the approach adopted by other large global businesses subject to disclosure requirements in more than one jurisdiction. As in prior years, our aim has been to produce a clear, informative and understandable report.

Mark Elliott
Chairman, Remuneration Committee

Directors' remuneration report continued

Remuneration Committee

Constitution
Throughout 2010, the Committee consisted of independent non-executive directors, as defined by the UK Corporate Governance Code and the Dutch Code, and the Chairman of Reed Elsevier Group plc. Details of Committee members and meeting attendance are contained in the section on 'Structure and corporate governance' in the Annual Reports. 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 Group plc attends appropriate parts of the meetings.

Ian Fraser, Global Human Resources Director, provided material advice to the Committee during the year.

Advisors
Towers Watson acted as external advisers to the Committee throughout 2010 and also provided market data and data analysis. Towers Watson 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.

Terms of reference
During 2010, the Committee reviewed its terms of reference in the context of latest best practice guidance. As a result, the Committee's remit was revised and its duties are in relation to:

Executive Directors
- to establish the remuneration policy for the executive directors and determine the remuneration in all its forms (including pensions and share plan participation), the terms of the service contracts and all other terms and conditions of employment of the executive directors of Reed Elsevier Group plc; and
- approve any compensation or termination payments made to executive directors.

Senior Management
- on the advice of the Chief Executive Officer, to approve the remuneration policy of other senior leaders and of the Company Secretary; and
- to monitor the level and structure of remuneration for this group of executives.

Reed Elsevier Chairman
- on the advice of the Senior Independent Director, to determine the remuneration of the Reed Elsevier Chairman.

General
- to review the ongoing appropriateness and relevance of the remuneration policy, in particular the performance-related elements and their compatibility with risk policies and systems;
- to establish and amend the rules of all share-based incentive plans including the formulation of suitable performance conditions for share based awards and options, and where necessary, to submit them for approval by shareholders;
- to maintain an open and ongoing dialogue with institutional investors on major remuneration policy issues; and
- to discharge its duties with due regard to any published corporate governance guidelines, codes or recommendations regarding the remuneration of directors of listed companies and formation and operation of share schemes which the Committee considers relevant or appropriate including, but not limited to, the UK and Dutch Corporate Governance Codes.

A copy of the terms of reference of the Committee can be found on the Reed Elsevier website, www.reedelsevier.com.

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 longer term performance.
- Aligning the interests of executive directors with shareholders and other stakeholders.

Directors' remuneration report continued

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 (ie salary, annual and multi-year incentives and benefits).
- The intention is to provide total remuneration that reflects sustained individual and business performance; ie 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/or Reed Elsevier NV securities among 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 plans and range from the delivery of specific projects and the achievement of customer metrics or efficiency targets to corporate and social responsibility objectives.

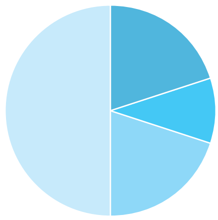
The Committee believes that one of the main drivers of long-term shareholder value is sustained growth in profitability, underpinned by appropriate capital discipline. Therefore growth in EPS and targeted ROIC are both utilised in our multi-year incentives.

The balance between fixed and performance related pay

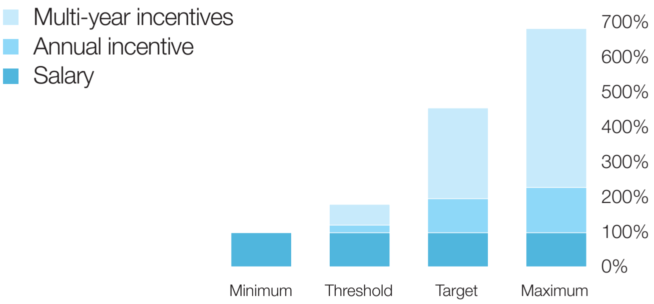
We aim to provide each executive director with an annual total remuneration package comprising fixed and variable pay with the majority of an executive director's total remuneration package linked to performance. At target performance, incentive pay makes up approximately 70% of the annual total remuneration package as shown in the diagram below. The core components of the total remuneration package are described in detail in the remainder of this report.

Fixed pay elements – 30%
- 20% salary
- 10% pensions and other benefits

Variable pay elements – 70%
- 20% annual incentive
- 50% multi-year incentives



To illustrate how our levels of compensation are driven by business performance we have produced the chart below (scale in percent of base salary). This shows the way in which annual remuneration payable to an executive director would vary under different performance scenarios. For the purposes of this illustration assumptions have been made in relation to vesting/payout levels at the different levels of performance.



Our approach to market positioning and benchmarking

The market competitiveness of total remuneration (ie salary, annual and multi-year 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.

Directors' remuneration report continued

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. While relevant benchmark information are a meaningful input to the process, they inform rather than drive the outcome of the review.
- 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 this section. 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 summarises the component parts of the remuneration package provided to the executive directors during 2010. This includes the bonuses earned for performance during 2010, payouts received from and awards granted under the multi-year incentives during the year.

Component		Erik Engstrom	Mark Armour	Andrew Prozes
Base salary (page 66)		£1,000,000	£613,440	$1,215,180
Retirement benefits (page 72)		UK defined benefit plan	UK defined benefit plan	Retired 31 December 2010
Other benefits		Company car or cash allowance and private medical benefit	Company car or cash allowance and private medical benefit	Company car and private medical benefit
Annual incentive (page 66) (earned for 2010 and payable in March 2011)		£999,000	£612,827	$1,146,332
Multi-year incentives granted (page 67)	**REGP**	643,086 PLC and 422,310 NV ordinary shares	394,495 PLC and 259,062 NV ordinary shares	–
	LTIP	–	–	–
	ESOS	–	–	–
	BIP	70,189 NV ADRs	65,054 PLC and 42,512 NV ordinary shares	88,687 PLC and 58,545 NV ordinary shares
Multi-year incentives vested (2007-09 cycle)	**LTIP**	–	–	–
	ESOS	–	–	–
	BIP	–	–	–
Shareholding requirement (page 72)		300% of salary	200% of salary	200% of salary

Policy in relation to the individual remuneration elements is described in greater detail in the remainder of this section.

Directors' remuneration report continued

Base 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 and Reed Elsevier's guidelines for wages and salaries agreed for the whole of Reed Elsevier for the forthcoming financial year. Any increases typically take effect on 1 January.

No increases in the base salary of executive directors have been given since 1 January 2008, except for Erik Engstrom who received a promotional increase in November 2009 following his appointment as CEO of Reed Elsevier Group plc. The Committee decided to award a salary increase of 2.5% to each executive director which increased base salaries with effect from 1 January 2011 to £1,025,000 for Erik Engstrom and £628,776 for Mark Armour. This level of increase is within the guidelines agreed for all employees in respect of 2011 increases.

In respect of salaries for the broader employee population, Reed Elsevier uses the same factors to determine the levels of increase across all employee populations globally: ie 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 2.5% on average will be awarded across the senior management population globally for 2011. This level of increase is in line with increases provided to the wider employee population.

Annual incentive

The annual incentive plan (AIP) 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.

For 2011, executive directors have a target bonus opportunity of 100% of salary that is weighted as follows across four elements (unchanged from 2010):

Measure	Weighting
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 Group plc is Adjusted Profit After Tax (PAT) for the Reed Elsevier combined businesses.

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.

For 2011, the Committee decided to retain the incentive slope and payout range used in 2010 under which a small bonus starts to accrue for achieving 94% of target against each individual financial performance measure. The level of out-performance required to achieve the maximum bonus (150% of target and unchanged) will also be retained.

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. The KPO component for the executive directors and other senior executives will contain at least one KPO relating to the achievement of specific sustainability objectives and targets contained within Reed Elsevier's corporate responsibility agenda.

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 Group plc presents his assessment of performance against KPOs for the CEO of Reed Elsevier Group plc to the Committee while the CEO of Reed Elsevier Group plc presents his assessment of KPO performance for the CFO of Reed Elsevier Group plc. The Committee then discusses and agrees the final KPO score for each executive director.

AIP payments for 2010

In assessing the level of bonus payments for 2010, the Committee noted the following performances:

	% change over 2009 at constant exchange rates	
	Underlying revenue growth	Total Adjusted PAT/OP
Reed Elsevier	+2%	-1%
LexisNexis	+1%	-12%

Reed Elsevier has made significant progress in 2010 as our markets strengthened and we saw the benefit of the actions which management has taken in the business. Underlying revenues were 2% higher in constant currencies with the return to growth reflecting improved performance in our more cyclical markets, together with a sustained commitment to new product development and a focus on sales & marketing initiatives. Firm action on costs and further innovations in our operational processes has meant that total costs at constant exchange rates declined 1% and adjusted operating margins at 25.7% were just 0.2 percentage points lower than in 2009, despite the increased spending on new product development and sales & marketing. Adjusted operating profits were 1% lower at £1,555m/up 3% at €1,819m. Adjusted operating cash flow continued to be strong at £1,519m/€1,777m with an excellent 98% conversion of adjusted operating profits into cash. The post tax return on capital employed improved to 10.6%, 0.2 percentage points higher reflecting the strong cash generation and increased capital efficiency.

LexisNexis returned to overall revenue growth, with strong growth in the risk business. Subscription revenues in the legal business continued to reflect lower levels of law firm activity and employment. Adjusted operating margin was lower due to the weaker revenues and increased spending in the legal business on new product development, related infrastructure and sales & marketing. The increased spend on supporting these important developments has in part been mitigated by continuing cost efficiencies including further outsourcing of production and engineering activities, supply chain management and operational streamlining.

For Erik Engstrom and Mark Armour the sum of the individual scores achieved against the four AIP components exceeded target AIP. However, as Reed Elsevier's PAT did not exceed 2009 adjusted PAT, the overall bonus was capped at just below target.

Directors' remuneration report continued

The following bonuses will be paid to executive directors who served during the year:

	2010 annual bonus (to be paid in March 2011)	% of 2010 base salary earnings
Erik Engstrom	**£999,000**	**99.9**
Mark Armour	**£612,827**	**99.9**
Andrew Prozes	**$1,146,332**	**93.9**

Multi-year incentives

The multi-year incentives comprise the REGP, BIP, ESOS and LTIP.

The purpose of the multi-year incentives is to provide focus on the delivery of the medium to longer term strategy and holding executives accountable for the delivery of that strategy while driving value creation through sustained financial performance, capital discipline and the delivery of returns for shareholders. In addition, the multi-year incentives are structured so as to encourage personal investment and ongoing shareholding in Reed Elsevier PLC and Reed Elsevier NV securities among the senior executive population in order to promote alignment with shareholders and to provide focus on the share price.

Awards under the multi-year incentives take the form of restricted shares and options which typically vest over a period of three years except for the REGP under which awards vest over five years. The vesting of all awards made to executive directors under these plans is subject to meeting a number of stretching performance targets based on internal financial metrics and total shareholder return. Additionally, in the case of ESOS, a financial pre-grant performance condition applies which determines the annual size of the available grant pool for all participants in the plan.

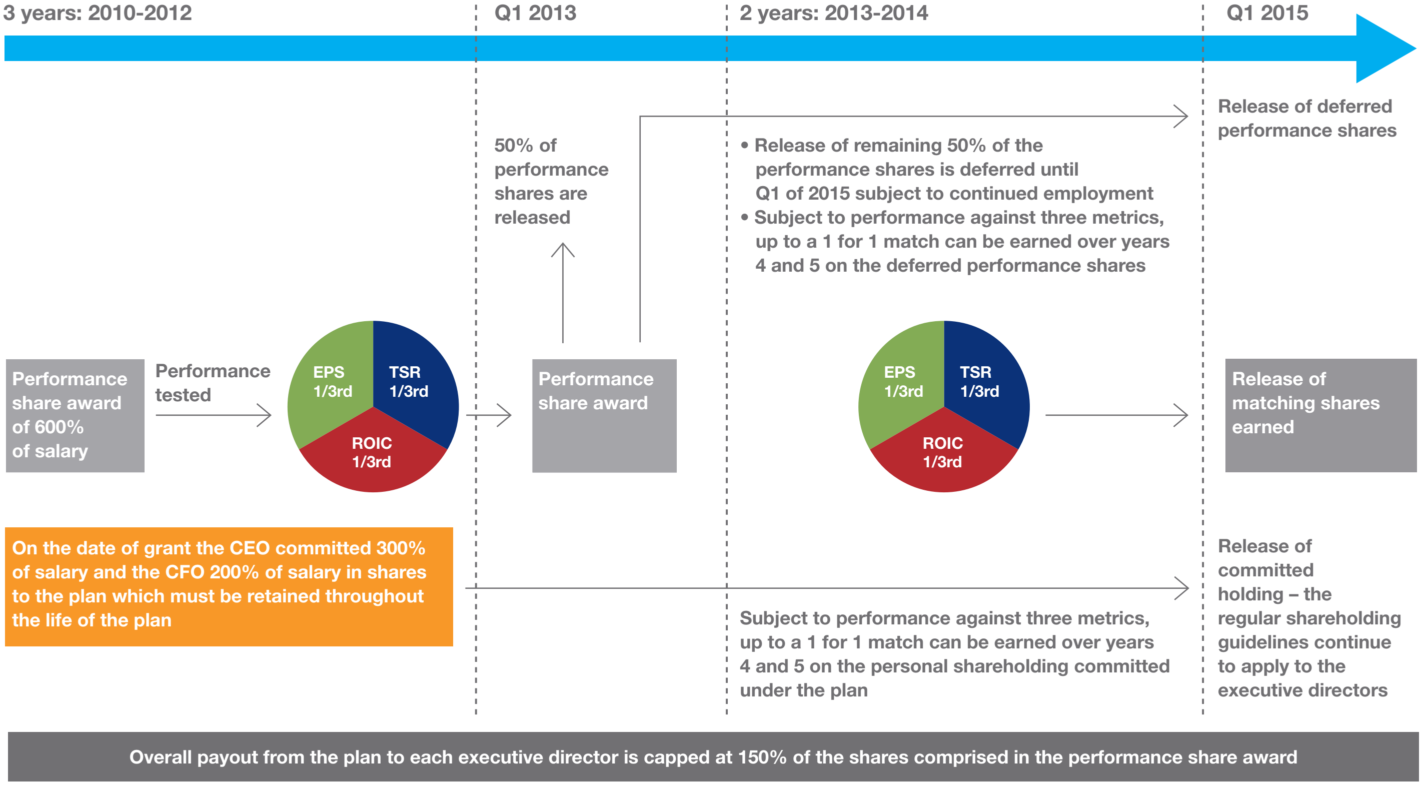
Reed Elsevier Growth Plan (REGP)

The key features of the REGP are summarised below.

Feature	Detail
Frequency of award	• One-off arrangement • Awards were made on 26 May 2010
Eligibility	• CEO and CFO of Reed Elsevier Group plc • As a condition of participation, the executive directors were required to hold Reed Elsevier securities on the date of grant to the value of 300% of salary in the case of the CEO and 200% of salary in the case of the CFO. Any personal shares invested under the BIP did not count towards this holding requirement • The executive directors are required to maintain shareholdings at the respective levels throughout the life of the plan (ie for five years)
Performance period	• Five years split into an initial period of three years followed by a further two years • Opportunity to receive partial payout after three years
Performance conditions	• Relative TSR measured against three comparator groups, Adjusted EPS and ROIC *(see section entitled 'Performance measures and targets' below)* • The performance metrics have equal weighting, with 1/3rd of the award vesting based on performance against the respective metric (additive measurement)
Vesting scale	• Performance hurdle and scaled vesting
Cap	• The number of shares vesting is capped at 150% of the number comprised in the initial performance share award
Dividend equivalents	• Dividend equivalents accrue during the performance period and are paid out in cash when the shares are released, to the extent that the underlying securities vest
Other provisions	• On a change of control, awards vest on a pro-rated basis and subject to performance based on an assessment of progress against targets at the time the change of control occurs • Claw-back applies • Awards under the plan are satisfied with shares purchased in the market

Mechanics

The chart below illustrates how the REGP operates.



Performance measures and targets

Total Shareholder Return (TSR)

The vesting of one third of the REGP award is subject to Reed Elsevier's TSR performance compared against three comparator groups (the TSR tranche).

As Reed Elsevier accesses equity capital markets through three exchanges – London, Amsterdam and New York – in three separate currency zones, three distinct comparator groups are used – a Sterling Comparator Group, a Euro Comparator Group and a US Dollar Comparator Group. The TSR performance of Reed Elsevier PLC ordinary shares (based on the London listing) is measured against the Sterling Comparator Group, the TSR performance of Reed Elsevier NV ordinary shares (based on the Amsterdam listing) is measured against the Euro Comparator Group; and the TSR performance of Reed Elsevier PLC ADRs and Reed Elsevier NV ADRs (based on the New York listing) is measured against the US Dollar Comparator Group. The averaging period applied for TSR measurement purposes is six months prior to the start of the financial year in which the award was made and the final six months of the last financial year of the performance period.

TSR performance is measured separately against each comparator group and the proportion of the TSR tranche that vests is the sum of the payouts achieved against the three comparator groups.

TSR ranking within the relevant TSR comparator group	3-year period: 2010-2012	5-year period: 2010-14
	Vesting percentage of each third of the TSR tranche	Vesting percentage of each third of the TSR tranche
Below Median	0%	0%
Median	30%	30%
Upper quartile	100%	100%

Vesting is on a straight line basis for ranking between the median and the upper quartile.

Directors' remuneration report continued

TSR comparators groups

The constituents of each comparator group were selected on the following basis:

- Companies included in the relevant market index as at 31 December 2009 and nearest in size to Reed Elsevier in terms of market capitalisation.
- The relevant market indices are: (1) FTSE100 for the Sterling Comparator Group; (2) Euronext100 and the DAX30 for the Euro Comparator Group; and (3) the S&P500 for the US Dollar Comparator Group.
- The following companies were excluded for this purpose:
  – companies with mainly domestic revenues (as they do not reflect the global nature of Reed Elsevier's customer base);
  – those engaged in extractive industries (as they are exposed to commodity cycles); and
  – financial services companies (as they have a different risk/reward profile).
- Relevant listed global peers operating in businesses similar to those of Reed Elsevier not otherwise included were added to the relevant comparator group.

Set out below are the comparators included in each currency group applicable to awards made in 2010 under the REGP.

Sterling Comparator Group*	Euro Comparator Group*	US Dollar Comparator Group*
Aggreko	Accor	3M
AstraZeneca	Adidas	Adobe Systems
Autonomy Corp.	Ahold	Agilent Techs.
BAE Systems	Air Liquide	Air Prds. & Chems.
British Airways	Akzo Nobel	Amazon.com
British American Tobacco	Alstom	Analog Devices
Bunzl	ASML Holding	Applied Mats.
Burberry Group	BASF	Avon Products
Cobham	BMW	Baxter Intl.
Compass Group	Carrefour	Becton Dickinson
DMGT	Christian Dior	Caterpillar
Diageo	Daimler	Colgate-Palmolive
Experian	Deutsche Post	Corning
GlaxoSmithkline	EADS	Cummins
Intercontinental Hotels	Essilor Intl.	Deere
Imperial Tobacco Group	Heineken	Dow Chemical
Informa	Hermes Intl.	Dun & Bradstreet
Inmarsat	K+S	E. I. Du pont de Nemours
International Power	Lafarge	Ebay
Intertek Group	Lagardère Groupe	Emerson Electric
Invensys	Linde	FICO
Johnson Matthey	LVMH	Ford Motor
Kingfisher	MAN	Genzyme
National Grid	Metro	H.J. Heinz
Pearson	Michelin	Illinois Tool Works
Reckitt Benckiser Group	Pernod-Ricard	John Wiley
Rexam	Philips Eltn. Koninklijke	Johnson Controls
Rolls-Royce Group	Portugal Telecom SGPS	Juniper Networks
SABMiller	PPR	Life Technologies
Sage Group	Renault	McDonalds
Shire	Saint-Gobain	McGraw-Hill
Smith & Nephew	SAP	Micron Technology
Smiths Group	Schneider Electric	Motorola
Thomas Cook Group	Suez Environnement	News Corp
TUI Travel	Thales	Nike
Unilever (LSE)	ThyssenKrupp	Nvidia
United Business Media	TNT	Paccar
Vodafone	Unilever (AEX)	PPG Industries
Wolseley	Vallourec	Spectra Energy
WPP	Veolia Environnement	Texas Insts.
	Volkswagen	Thomson Reuters (NYSE)
	Wolters Kluwer	United Technologies
		Yum! Brands

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

Return on invested capital (ROIC)

The vesting of one third of the REGP award is subject to the percentage return on invested capital of Reed Elsevier PLC and Reed Elsevier NV (the ROIC tranche) as follows:

3 years: 2010-2012	2 years: 2013-14	Vesting percentage of ROIC tranche
ROIC in 2012, subject to actual exceeding 2009 ROIC calculated on the same basis	ROIC in 2014	
Below 10.2%	Below 10.7%	0%
10.2%	10.7%	60%
11.2% or above	12.7% or above	100%

Vesting is on a straight-line basis for performance between the minimum and maximum levels.

For the purposes of the plan, the following definitions apply:

- Invested capital = arithmetic average of the opening and closing capital employed for the Reed Elsevier combined businesses for the financial year with all cumulative amortisation and impairment charges for acquired intangible assets and goodwill added back. In addition, any exceptional restructuring and acquisition integration charges (net of tax) are capitalised for these purposes and changes in exchange rates and movements in pension deficits are excluded.

- Return = adjusted operating profit for the Reed Elsevier combined businesses before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition integration charges. In addition, it is grossed up to exclude the equity share of taxes in joint ventures and further adjusted to exclude net pension financing credit movement, after applying the effective rate of tax used for adjusted earnings calculations and using exchange rates to match those used in the calculation of invested capital.

In order to ensure that the performance score achieved is a fair reflection of underlying business performance, the Committee retains discretion to determine the treatment of major disposals and acquisitions that require board approval. Any significant adjustments made to the final performance score will be disclosed to shareholders.

Directors' remuneration report continued

Adjusted earnings per share (EPS)

The vesting of one third of the REGP award is subject to performance against growth in adjusted earnings per share measured at constant currencies (Adjusted EPS) (the EPS tranche) as follows:

3 years: 2010-2012	2 years: 2013-14	Vesting percentage of EPS tranche
Average Adjusted EPS growth in years 2011 and 2012 (subject to average Adjusted EPS growth over the whole three-year period being positive)	Average Adjusted EPS growth over the two-year period	
Below 5% p.a.	Below 7% p.a.	0%
5% p.a.	7% p.a.	60%
9% p.a. or above	13% p.a. or above	100%

Vesting is on a straight-line basis for performance between the minimum and maximum levels.

For the purposes of the plan, the following definitions apply:

- Earnings = adjusted reported earnings measured at constant currencies. Adjustments include amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition integration charges, gains/losses on business disposals and tax rate anomalies (deferred tax). The Committee retains discretion to adjust for changes in the net pension financing credit.

- Number of shares = weighted average number of shares in issue excluding shares held in treasury.

In 2010, a multi-year incentive award was granted to senior leaders below the board and its metrics and targets mirror those of the REGP.

Executive Share Option Scheme (ESOS)

The key features of the ESOS are summarised below.

Feature	Detail
Frequency of award	• Annual
Eligibility	• Broadest multi-year incentive operated by Reed Elsevier • Annual awards are made to approximately 1,000 employees across some 20+ countries including the executive directors
Vesting period	• Three years from the date of grant • Options are exercisable between three and ten years from the date of grant or on cessation of employment, if earlier (for defined categories of approved leavers)
Performance conditions	• Pre-grant performance condition of Adjusted EPS growth which determines the size of the annual grant pool available for grants to all participants (see below) • Post-grant performance hurdle of Adjusted EPS growth applicable to the vesting of awards to executive directors
Cap	• Maximum annual award (in terms of the aggregate market value of the shares under option at the date of grant) of three times salary per executive director
Other provisions	• On a change of control, awards vest subject to performance based on an assessment of progress against targets at the time the change of control occurs; participants may exchange their awards for awards in the acquiring company, if available • Claw-back applies • Awards under the plan are satisfied with newly issued shares

The size of the total grant pool available for all participants in a given year is determined based on growth in Adjusted EPS over the three years prior to grant as follows:

Average Adjusted EPS growth p.a. over the three-years prior to grant	% of the 2003 grant pool available for distribution
Less than 6%	50%
6% or more but less than 8%	75%
8% or more but less than 10%	100%
10% or more but less than 12%	125%
12% or more	150%

Adjusted EPS growth for the three years ended 31 December 2010 was less than 6% p.a. which means that the available grant pool for ESOS awards in 2011 is 50% of the 2003 pool.

For 2010, no ESOS awards were made to executive directors. The Committee intends to resume grants under ESOS in 2011 to Erik Engstrom and Mark Armour, in accordance with the terms of the plan approved by shareholders in 2003. The grants will be made within the limits and be subject to such conditions as previously approved by shareholders. This means that the grants will be made within the confines of the available grant pool and the vesting of the awards will be subject to an Adjusted EPS growth hurdle of 6% p.a. In determining the individual levels of grant, the Committee has had regard to the financial performance of Reed Elsevier and grant levels will be set at 50% of the maximum individual grant level.

Due to significant exceptional restructuring charges taken in 2008 and 2009, the Committee increased the approved Adjusted EPS growth hurdle of 6% to 8% for the 2008-10 and 2009-11 cycles of ESOS during which restructuring benefits were realised. Prior to the date of this report, the Committee determined that the 2008-10 cycle of ESOS lapsed for executive directors as the performance hurdle on vesting was not achieved. The 2009-11 cycle of ESOS will be performance-tested in early 2012.

Directors' remuneration report continued

Bonus Investment Plan (BIP)
The bonus investment plan is a voluntary plan aimed at encouraging personal investment in, and ongoing holding of, Reed Elsevier shares to promote greater alignment with shareholders and support the retention of key talent. A new bonus investment plan was approved by shareholders at the 2010 Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV which replaced the bonus investment plan implemented in 2003.

Under the new BIP, participants may invest their own funds to purchase Reed Elsevier securities or allocate securities already owned outright for investment under the plan up to a specified maximum. In return, the participant is granted an equivalent number of matching awards which vest over three years subject to performance (i.e. a maximum match of 1 for 1 can be earned on the personal investment). It is a condition of vesting that the underlying personal investment is retained throughout the vesting period. Dividend equivalents accrue on the matching shares during the vesting period and are paid out in cash at the end to the extent that the matching award vests. The table below summarises the key features of the BIP.

Feature	Detail
Frequency of award	• Annual grants of matching awards • Ten-year life of the plan • First matching awards were made in May 2010
Eligibility	• Approx. 150 senior executives including executive directors • Participation is voluntary
Performance period	• Three financial years
Performance conditions	• Adjusted EPS growth and ROIC (see below) • 50% of the award is subject to Adjusted EPS growth and 50% subject to ROIC (additive measurement)
Vesting scale	• Performance hurdle and scaled vesting
Personal investment	• Up to 100% of the target bonus opportunity net of tax
Other provisions	• On a change of control, awards vest on a pro-rated basis and subject to performance based on an assessment of progress against targets at the time the change of control occurs, unless the Committee determines that awards should not vest and instead be exchanged for equivalent awards over shares in the acquiring company (ie rollover applies) • Claw-back applies • Awards under the plan are satisfied with shares purchased in the market

The following targets and vesting scale apply to the first grant of matching awards made under the plan in 2010:

Match earned on personal investment	Average growth in Adjusted EPS (%) in years 2 and 3 of the performance period subject to average EPS growth being positive over the whole 3-year period	ROIC (%) in 2012 subject to actual exceeding 2009 ROIC
0%	below 4% p.a.	below 10.2%
50%	4% p.a.	10.2%
75%	6.5% p.a.	10.7%
100%	9% p.a. or above	11.2% or above

Straight-line vesting applies to performance between the points.

For awards to be granted in 2011, the following targets and vesting scale apply:

Match earned on personal investment	Average growth in Adjusted EPS (%) over the 3-year performance period	ROIC (%) in the third year of the performance period
0%	below 4% p.a.	below 10.4%
50%	4% p.a.	10.4%
75%	6.5% p.a.	10.9%
100%	9% p.a. or above	11.4% or above

As set out on pages 77-79, on 31 December 2010, the executive directors had no matching awards outstanding under the previous BIP. The 2007-09 cycle of BIP lapsed during 2010 as the performance hurdle of 6% p.a. Adjusted EPS growth was not met. The BIP matching awards granted under performance cycles 2008-10 and 2009-11 lapsed in June 2010 as a result of the executive directors withdrawing their personal investments from these cycles. On 31 December 2010, the executive directors still held the securities withdrawn from both cycles.

Directors' remuneration report continued

Long-Term Incentive Plan (LTIP)

No awards under the LTIP were given to executive directors in 2010.

Awards under this plan were in the form of restricted shares, with half of the award being over shares in Reed Elsevier PLC and the other half over shares in Reed Elsevier NV. A three-year performance period applies and awards vest based on the Adjusted EPS growth and Reed Elsevier's TSR performance compared to a group of industry peers. The 2007-09 cycle of LTIP lapsed during 2010 as the hurdle of 8% Adjusted EPS growth was not met. The 2008-10 cycle of LTIP lapsed as the performance hurdle of 10% Adjusted EPS growth was not met. The 2009-11 cycle of LTIP, as disclosed on pages 77-79, vests for achieving Adjusted EPS growth of 12% and median TSR. Depending on performance, the vesting may be higher or lower based on the following matrix:

Adjusted EPS 2009 awards	TSR ranking: Below median	Median	62.5th percentile	Upper quartile and above
Below 10%	0%	0%	0%	0%
10%	28%	35%	42%	49%
12%	80%	**100%**	120%	140%
14% and above	108%	135%	162%	189%

To the extent that the underlying shares vest, dividend equivalents are paid on the vested shares in cash at the end of the performance period.

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 reflect 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.

The TSR comparator group for the 2008-10 cycle comprised: ChoicePoint, DMGT, Dun & Bradstreet, Emap, FICO, Informa, John Wiley, Lagardère Groupe, McGraw-Hill, Pearson, Taylor Nelson Sofres, Thomson Reuters, UBM, Wolters Kluwer and WPP Group. The TRS comparator group for the 2009 LTIP award comprises: DMGT, Dun & Bradstreet, Experian, FICO, Informa, John Wiley, Lagardère Groupe, McGraw-Hill, Pearson, Thomson Reuters, UBM, Wolters Kluwer and WPP Group. This reflects the composition of the comparator group on the date of grant. Mergers and acquisitions that impact the comparator groups during the three-year performance cycle will be dealt with on a fair and consistent basis in accordance with the following approach. 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 growth and TSR targets at the time the change of control occurs (subject to any rollover that may apply).

Shareholding requirement

The Committee believes that one of the aspects that creates closer alignment between senior management and shareholders is to require executives to build up and maintain a significant personal stake in Reed Elsevier. The shareholding requirements applicable to the executive directors are set out in the table below and as described on page 67 were pre-requisites to participate in the REGP. Shareholding requirements also apply to selected senior executives below the board.

On 31 December 2010, the executive directors' shareholdings were (valued at the mid-market closing prices of Reed Elsevier securities):

	Shareholding requirement (in % of 31 December 2010 annualised base salary)	Actual shareholding as at 31 December 2010 (in % of 31 December 2010 annualised base salary)
Erik Engstrom	300%	361%
Mark Armour	200%	396%
Andrew Prozes*	200%	216%

* The formal shareholding requirement ceased on retirement.

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). During 2010, US-based executive directors were 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

At 31 December 2010, the estimated dilution over a ten-year period from awards over Reed Elsevier PLC shares under all share-based plans was 5.4% of the Reed Elsevier PLC share capital. The estimated dilution over the same period in respect of awards over Reed Elsevier NV shares was 6% of the Reed Elsevier NV share capital at 31 December 2010. The estimated dilution in relation to executive share-based plans was 5% of the Reed Elsevier PLC and 5.5% of the Reed Elsevier NV share capital at 31 December 2010.

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:

Directors' remuneration report continued

- 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 unapproved pension arrangement for salary above the cap.

Prior to 1 November 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 1 November 2007 contributions to his designated retirement account ceased and he became a member of the UK defined benefit pension arrangement.

Andrew Prozes, who retired on 31 December 2010, will be entitled to an annual pension of $613,572 in accordance with the terms of his employment agreement. In view of the split of LexisNexis into two standalone businesses of risk solutions and legal & professional with effect from 1 January 2011, Mr Prozes' retirement date was brought forward by one month from his 65th birthday. In order to fall outside the penalty tax provisions of Section 409A of the US Internal Revenue Code, payment of the pension will commence six months after the retirement date at which point payment of the retirement benefit relating to the six months ending 30 June 2011 will be made in a single sum plus interest at the applicable federal rate.

The pension arrangements for all directors (UK and non-UK) include life assurance cover while 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 31 December 2010 have been calculated using the transfer value basis adopted by the trustees of the pension scheme from 1 October 2008.

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

Transfer values of accrued pension benefits

	Age at 31 December 2010	Director's contributions	Transfer value of accrued pension 31 December 2009	Transfer value of accrued pension 31 December 2010	Increase in transfer value during the year (net of director's contributions)	Accrued annual pension 31 December 2010	Increase in accrued annual pension during the year	Increase in accrued annual pension during the year (net of inflation)	Transfer value at 31 December 2010 of increase in accrued pension during the year (net of inflation and director's contributions)
Erik Engstrom	47	£6,180	£624,769	£1,366,389	£735,440	£105,575	£56,448	£55,269	£709,128
Mark Armour	56	£6,180	£5,170,768	£5,643,891	£466,943	£325,426	£20,450	£13,139	£221,696
Andrew Prozes	64	–	$6,719,734	$7,894,300	$1,174,566	$613,572	$98,373	$98,373	$1,265,670

Service contracts

Executive directors are employed under service contracts that provide for a maximum of one year's notice. The contracts neither specify a predetermined level of severance payment nor contain specific provisions in respect of a 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 contractual terms of the executive directors (and for approximately 100 other senior executives) include certain covenants. These were reviewed during the year within the context of the implementation of the REGP and the new BIP and revised, where appropriate. The covenants are as follows:

> non-competition restrictions apply which prevent the executive from working in a capacity which competes with any Reed Elsevier business which he/she was involved with during the preceding 12 months; from recruiting Reed Elsevier employees and from soliciting Reed Elsevier customers and suppliers for a period of 12 months after leaving employment;

> in the event of the executive resigning, he/she will immediately lose all rights to any outstanding awards under the multi-year incentives including any vested but unexercised options; and

> in the event of a breach of the covenants, any gains made or payouts received, in the period starting six months prior and ending 12 months after leaving employment, on the vesting or exercise of awards from the multi-year incentives may be repayable.

Each of the executive directors has/had a service contract, as summarised in the table below.

	Contract Date	Expiry date (subject to notice period)	Notice period	Subject to:
Erik Engstrom(i)	25 June 2004	14 June 2025	12 months	English law
Mark Armour(i)	7 October 1996	29 July 2014	12 months	English law
Andrew Prozes(ii)	5 July 2000	Retired effective 31 December 2010	*	New York law

(i) Employed by Reed Elsevier Group plc (ii) Employed by Reed Elsevier Inc.

* The terms of his contract provided for a payment of one year's base salary on termination without cause. Since Andrew Prozes retired by mutual agreement on 31 December 2010 no additional payments are due under the terms of his contract. The terms agreed in respect of his retirement are set out below.

Directors' remuneration report continued

Andrew Prozes' retirement arrangements
The following terms applied to Andrew Prozes who retired on 31 December 2010:

- he is eligible for an annual bonus under the AIP for financial year 2010. Any bonus due will be paid by no later than 15 March 2011 and will be subject to performance against his KPOs and LexisNexis financial performance for 2010 in the same way as the bonuses payable to the other executive directors;
- no termination payments were due since he retired;
- in accordance with the terms of his contract, he will be entitled to fully subsidised retiree medical benefits for life which are also available to his surviving spouse;
- he received no grants under ESOS and did not participate in the REGP implemented during 2010;
- the covenants relating to non-competition, non-solicitation and confidentiality remain in place for 12 months post-retirement;
- all unvested share-based awards were treated in accordance with the rules of the plans, and outstanding options remain exercisable for three years from retirement; and
- his LTIP shareholding requirement ceased on retirement.

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.

- Andrew Prozes is a non-executive director of the Cott Corporation and received a fee of $130,000 (£83,871) during 2010 ($127,285 (£81,073) during 2009).
- Mark Armour joined the board of SABMiller plc as a non-executive director on 1 May 2010 and received a fee of £59,610 (pro-rata since appointment) during 2010.

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, who retired during 2010, and Marike van Lier Lels who served/serves only on the Supervisory Board of Reed Elsevier NV, non-executive directors, including the Chairman, are appointed to the boards of Reed Elsevier Group plc, Reed Elsevier PLC and the Supervisory Board of Reed Elsevier NV. Non-executive directors' 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 boards.

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 until her retirement and to Marike van Lier Lels, who served/serves 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, except the Chairman of Reed Elsevier Group plc, who is in receipt of private medical benefit. Fees may be reviewed annually, although in practice they have changed on a less frequent basis. It is the intention to introduce a separate fee for the senior independent director of £20,000 p.a. subject to obtaining relevant approval at the 2011 Annual General Meeting of Reed Elsevier NV. Subject to approval being granted, this fee is proposed to apply retroactively from 1 January 2011.

	Annual fee 2011	Annual fee 2010
Chairman	**£500,000**	£500,000
Non-executive directors	**£55,000/€75,000**	£55,000/€75,000
Senior Independent Director	£20,000 (proposed)	–
Chairman of:		
– Audit Committee	**£15,000/€20,000**	£15,000/€20,000
– Remuneration Committee	**£15,000/€20,000**	£15,000/€20,000

The total annual fee payable to Marike van Lier Lels is €48,000. The Chairman of Reed Elsevier chairs the Nominations Committee and does not receive a separate fee for his role as chairman of that committee.

At the Annual General Meeting of Reed Elsevier NV a proposal will be made to set the maximum amount of annual remuneration of the Supervisory Board of Reed Elsevier NV at €600,000.

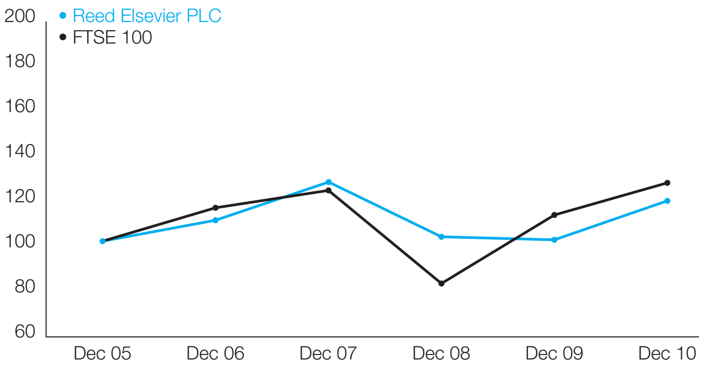
Directors' remuneration report continued

Total Shareholder Return graphs

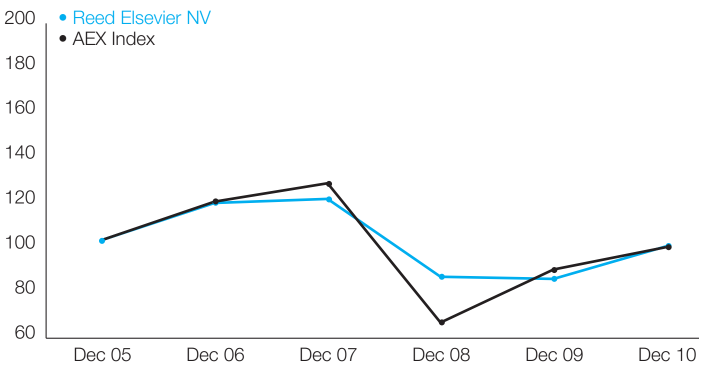
As required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the graphs in this section show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested. They compare the Reed Elsevier PLC performance with that achieved by the FTSE 100, and the Reed Elsevier NV performance with the performance achieved by the Euronext Amsterdam (AEX) Index, over the five-year period from 31 December 2005 to 31 December 2010.

For the five-year period from 31 December 2005, the TSR for Reed Elsevier PLC was 17.3%, against a FTSE 100 return of 26.3%. For Reed Elsevier NV during the same period, TSR was minus 2.7% against an AEX Index return of minus 3.1%. As Reed Elsevier PLC and Reed Elsevier NV are members of the FTSE 100 and AEX Index respectively, these indices are relevant.

Reed Elsevier PLC v FTSE 100 – 5 years



Reed Elsevier NV v AEX – 5 years



For the purposes of the charts, the total shareholder return is calculated on the basis of the average share price in the 30 trading days prior to the respective year ends and on the assumption that dividends were reinvested.

Remuneration and share tables

The information set out in this section forms part of the audited disclosures in this report. For the purposes of the disclosures in this section, the average exchange rates for the relevant year have been used.

Directors' emoluments and fees

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:

	2010 £'000	2009 £'000
Salaries and fees	**3,324**	4,016
Benefits	**97**	360
Annual performance-related bonuses	**2,351**	2,294
Payments for loss of office	**499***	1,124
Pension contributions	**43**	32
Payments to former directors	**–**	284
Pension in respect of former directors	**1,179**	1,034
Total	**7,493**	9,144

* Ian Smith's employment ended on 10 November 2009 under the arrangements described on page 71 of the 2009 Remuneration Report. In accordance with the terms agreed on termination, he received a further five instalments of his previous base salary and benefits during 2010. Payments ceased in November 2010 and there are no further obligations.

Individual fees of non-executive directors

	2010 £	2009 £
Dien de Boer-Kruyt (until 19 April 2010)	**13,675**	42,857
Mark Elliott	**70,000**	70,000
Anthony Habgood (from 1 June 2009)	**500,000***	291,667
Lisa Hook	**55,000**	55,000
Marike van Lier Lels (from 13 January 2010)	**39,744**	–
Robert Polet	**55,000**	55,000
David Reid	**55,000**	55,000
Lord Sharman	**63,750**	70,000
Ben van der Veer (from 3 September 2009)	**71,225**	22,321
Total	**923,394**	661,845

* Excludes private medical insurance benefit of £1,244.

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

The 2007-09 cycle of awards made under ESOS, BIP and LTIP lapsed for the executive directors as a result of performance conditions not being met. The executive directors made no notional pre-tax gains during 2010 on any multi-year incentives (2009: £8,303,637) except for Andrew Prozes who made a gain of £595 on the exercise of vested options during the year. Details are shown on pages 77-79.

Directors' remuneration report continued

Individual emoluments of executive directors

	Salary £	Benefits £	Bonus £	Total 2010 £	Total 2009 £
Erik Engstrom	1,000,000	29,108	999,000	2,028,108	1,851,374
Mark Armour	613,440	22,475	612,827	1,248,742	1,227,550
Andrew Prozes	787,002	45,481*	739,569	1,572,052	1,452,698
Total	2,400,442	97,064	2,351,396	4,848,902	4,531,622

*Includes a cash payment of £24,123 in respect of accrued but untaken holiday at the date of retirement.

Conditional shares awarded in the year under the multi-year incentives are set out by executive director on pages 77-79. Vesting is subject to performance conditions relating to growth in EPS, ROIC and TSR and other conditions, including shareholding requirements, as described on previous pages. The maximum number of conditional shares that can vest under the Reed Elsevier Growth Plan is 150% of the grant award if performance conditions are met over a five-year period. The maximum number of conditional shares that can vest under the Bonus Investment Plan is equivalent to the grant award.

Erik Engstrom was the highest paid director in 2010.

Directors' shareholdings in Reed Elsevier PLC and Reed Elsevier NV

The interests of those individuals who were directors of Reed Elsevier PLC and Reed Elsevier NV as at 31 December 2010 in the issued share capital of the respective companies at the beginning and end of the year are shown below.

	Reed Elsevier PLC ordinary shares		Reed Elsevier NV ordinary shares	
	1 January 2010*	31 December 2010	1 January 2010*	31 December 2010
Mark Armour	248,742	248,742	136,889	136,889
Mark Elliott	–	–	–	–
Erik Engstrom	107,040	107,040	365,580	383,450
Anthony Habgood	50,000	50,000	–	25,000
Lisa Hook	–	–	–	–
Marike van Lier Lels	–	–	–	–
Robert Polet	–	–	–	–
Andrew Prozes	148,142	148,142	112,004	112,004
David Reid	–	–	–	–
Lord Sharman	–	–	–	–
Ben van der Veer	–	–	1,298	1,298

*On date of appointment if subsequent to 1 January 2010.

There have been no changes in the interests of the directors in the Reed Elsevier PLC or Reed Elsevier NV ordinary shares at the date of this report.

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

Details of vested options, including options vested during the year, (all shown in blue) and unvested options and restricted shares held by directors in Reed Elsevier PLC (PLC) and Reed Elsevier NV (NV) as at 31 December 2010 are shown in the tables overleaf. The shading in the tables denotes awards granted during the year of reporting. 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. At the date of this report there have been no changes in the options or restricted shares held by executive directors in office at 31 December 2010 other than those relating to the 2008-10 cycles of ESOS and LTIP as disclosed on pages 77-79. The market price at the date of award of grants made under the REGP, ESOS, BIP and LTIP and gains made on the exercise of options are based on the middle market price of the respective security.

Directors' remuneration report continued

Erik Engstrom

Options

	Year of grant	Option over:	No. of options held on 1 Jan 2010	No. of options granted during 2010	Option price	No. of options exercised during 2010	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on 31 Dec 2010	Unvested options vesting on:	Options exercisable until:
ESOS	2004	PLC ord	63,460		£4.780				63,460		23 Aug 2014
		NV ord	43,866		€10.30				43,866		23 Aug 2014
	2005	PLC ord	154,517		£5.335				154,517		17 Feb 2015
		NV ord	105,412		€11.31				105,412		17 Feb 2015
	2006	PLC ord	178,895		£5.305				178,895		13 Mar 2016
		NV ord	120,198		€11.47				120,198		13 Mar 2016
	2007	PLC ord	130,060		£6.445				–		Lapsed
		NV ord	85,897		€14.51				–		Lapsed
	2008	PLC ord	143,000		£6.275				143,000		Lapsed*
		NV ord	94,000		€12.21				94,000		Lapsed*
	2009	PLC ord	146,923		£5.420				146,923	19 Feb 2012	19 Feb 2019
		NV ord	95,399		€9.415				95,399	19 Feb 2012	19 Feb 2019
LTIP	2004	PLC ord	325,163		£4.78				325,163		23 Aug 2014
		NV ord	224,766		€10.30				224,766		23 Aug 2014
Total PLC ords			1,142,018						1,011,958		
Total NV ords			769,538						683,641		

** Lapsed prior to the date of this report*

Shares

	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2010	No. of shares awarded during 2010	Market price per share at award	No. of shares vested during 2010	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on 31 Dec 2010	Date of vesting
BIP	2007	NV ord	27,572		€13.49				–	Lapsed
	2008	NV ord	30,318		€12.44				–	Lapsed
	2009	NV ord	57,216		€8.201				–	Lapsed
	2010	NV ord		**140,378**	€8.310				140,378	Q1 2013
LTIP	2007	PLC ord	61,453		£6.445				–	Lapsed
		NV ord	40,586		€14.51				–	Lapsed
	2008	PLC ord	68,500		£6.275				68,500	Lapsed*
		NV ord	45,000		€12.21				45,000	Lapsed*
	2009	PLC ord	103,902		£5.420				103,902	19 Feb 2012
		NV ord	67,465		€9.415				67,465	19 Feb 2012
REGP	2010	PLC ord		**643,086**	£4.665				643,086	50% Q1 2013 50% Q1 2015
		NV ord		**422,310**	€8.310				422,310	50% Q1 2013 50% Q1 2015
Total PLC ords			233,855	**643,086**					815,488	
Total NV ords			268,157	**562,688**					675,153	

** Lapsed prior to the date of this report*

Mark Armour

Options

	Year of grant	Option over:	No. of options held on 1 Jan 2010	No. of options granted during 2010	Option price	No. of options exercised during 2010	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on 31 Dec 2010	Unvested options vesting on:	Options exercisable until:
ESOS	2001	PLC ord	62,974		£6.590				62,974		23 Feb 2011
		NV ord	44,882		€14.75				44,882		23 Feb 2011
	2002	PLC ord	74,000		£6.000				74,000		22 Feb 2012
		NV ord	51,926		€13.94				51,926		22 Feb 2012
	2005	PLC ord	150,422		£5.335				150,422		17 Feb 2015
		NV ord	102,618		€11.31				102,618		17 Feb 2015
	2006	PLC ord	158,836		£5.305				158,836		13 Mar 2016
		NV ord	106,720		€11.47				106,720		13 Mar 2016
	2007	PLC ord	130,740		£6.445				–		Lapsed
		NV ord	86,347		€14.51				–		Lapsed
	2008	PLC ord	144,000		£6.275				144,000		Lapsed*
		NV ord	94,000		€12.21				94,000		Lapsed*
	2009	PLC ord	147,692		£5.420				147,692	19 Feb 2012	19 Feb 2019
		NV ord	95,899		€9.415				95,899	19 Feb 2012	19 Feb 2019
LTIP	2004	PLC ord	290,481		£4.872				290,481		19 Feb 2014
		NV ord	199,467		€10.57				199,467		19 Feb 2014
SAYE	2010	PLC ord		**2,173**	£4.176				2,173	1 Aug 2013	1 Feb 2014
Total PLC ords			1,159,145	**2,173**					1,030,578		
Total NV ords			781,859						695,512		

** Lapsed prior to the date of this report*

Shares

	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2010	No. of shares awarded during 2010	Market price per share at award	No. of shares vested during 2010	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on 31 Dec 2010	Date of vesting
BIP	2007	PLC ord	19,859		£6.155				–	Lapsed
		NV ord	13,371		€13.49				–	Lapsed
	2008	PLC ord	25,291		£6.600				–	Lapsed
		NV ord	16,993		€12.44				–	Lapsed
	2009	PLC ord	27,886		£4.985				–	Lapsed
		NV ord	18,568		€8.201				–	Lapsed
	2010	PLC ord		**65,054**	£4.665				65,054	Q1 2013
		NV ord		**42,512**	€8.310				42,512	Q1 2013
LTIP	2007	PLC ord	61,775		£6.445				–	Lapsed
		NV ord	40,799		€14.51				–	Lapsed
	2008	PLC ord	67,000		£6.275				67,000	Lapsed*
		NV ord	44,000		€12.21				44,000	Lapsed*
	2009	PLC ord	76,397		£5.420				76,397	19 Feb 2012
		NV ord	49,605		€9.415				49,605	19 Feb 2012
REGP	2010	PLC ord		**394,495**	£4.665				394,495	50% Q1 2013 50% Q1 2015
		NV ord		**259,062**	€8.310				259,062	50% Q1 2013 50% Q1 2015
Total PLC ords			278,208	**459,549**					602,946	
Total NV ords			183,336	**301,574**					395,179	

** Lapsed prior to the date of this report*

Directors' remuneration report continued

Andrew Prozes

Options

	Year of grant	Option over:	No. of options held on 1 Jan 2010	No. of options granted during 2010	Option price	No. of options exercised during 2010	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on 31 Dec 2010	Unvested options vesting on:	Options exercisable until:
ESOS	2001	PLC ord	83,785		£6.590				83,785		23 Feb 2011
		NV ord	59,714		€14.75				59,714		23 Feb 2011
	2002	PLC ord	103,722		£6.000				103,722		22 Feb 2012
		NV ord	72,783		€13.94				72,783		22 Feb 2012
	2003	PLC ord	132,142		£4.515	1,000	£5.110	£595	131,142		21 Feb 2013
		NV ord	94,086		€9.34				94,086		21 Feb 2013
	2004	PLC ord	162,666		£4.872				162,666		31 Dec 2013
		NV ord	111,699		€10.57				111,699		31 Dec 2013
	2005	PLC ord	154,517		£5.335				154,517		31 Dec 2013
		NV ord	105,412		€11.31				105,412		31 Dec 2013
	2006	PLC ord	182,303		£5.305				182,303		31 Dec 2013
		NV ord	122,487		€11.47				122,487		31 Dec 2013
	2007	PLC ord	132,537		£6.445				–		Lapsed
		NV ord	87,533		€14.51				–		Lapsed
	2008	PLC ord	145,000		£6.275				145,000		31 Dec 2013
		NV ord	96,000		€12.21				96,000		31 Dec 2013
	2009	PLC ord	149,722		£5.420				99,815		31 Dec 2013*
		NV ord	97,216		€9.415				64,811		31 Dec 2013*
LTIP	2004	PLC ord	304,558		£4.872				304,558		31 Dec 2013
		NV ord	209,133		€10.57				209,133		31 Dec 2013
Total PLC ords			1,550,952			1,000		£595	1,367,508		
Total NV ords			1,056,063						936,125		

Shares

	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2010	No. of shares awarded during 2010	Market price per share at award	No. of shares vested during 2010	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on 31 Dec 2010	Date of vesting
BIP	2007	PLC ord	21,548		£6.155				–	Lapsed
		NV ord	14,574		€13.49				–	Lapsed
	2008	PLC ord	20,030		£6.600				–	Lapsed
		NV ord	13,505		€12.44				–	Lapsed
	2009	PLC ord	32,335		£4.985				–	Lapsed
		NV ord	21,626		€8.201				–	Lapsed
	2010	PLC ord		**88,687**	£4.665				29,562	Q1 2013*
		NV ord		**58,545**	€8.310				19,515	Q1 2013*
LTIP	2007	PLC ord	62,623		£6.445				–	Lapsed
		NV ord	41,359		€14.51				–	Lapsed
	2008	PLC ord	68,000		£6.275				68,000	Lapsed**
		NV ord	44,500		€12.21				44,500	Lapsed**
	2009	PLC ord	105,881		£5.420				70,587	19 Feb 2012*
		NV ord	68,750		€9.415				45,833	19 Feb 2012*
Total PLC ords			310,417	**88,687**					168,149	
Total NV ords			204,314	**58,545**					109,848	

** Awards have been pro-rated for service*
*** Lapsed prior to the date of this report*

Directors' remuneration report continued

Other required disclosures in respect of share-based awards
The number of shares and options that vest in respect of all outstanding (unvested) awards under the multi-year incentives depend on the extent to which performance conditions are met.

In respect of the REGP, the maximum number of shares that can vest is 150% of the number of shares shown in the tables above. In respect of ESOS and BIP, the number of awards shown in the table is the maximum capable of vesting. ESOS awards vest on the third anniversary and expire on the tenth anniversary of the date of grant. For LTIP, the number of shares shown in the share tables reflects the target award. The target award under the 2009-11 cycle of LTIP vests for achieving Adjusted EPS growth of 12% and median TSR relative to an industry comparator group. Depending on actual Adjusted EPS growth and TSR, the proportion of the target award that may vest could be lower or higher. The maximum that can potentially vest in respect of these awards is 189% of the number of shares comprised in the target awards shown in the tables above.

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 the SAYE is an all-employee scheme.

The middle market price of a Reed Elsevier PLC ordinary share at the date of award of grants under the REGP and BIP was £4.665. The middle market price of a Reed Elsevier NV ordinary share at the date of award of grants under the REGP and BIP was €8.31.

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range of £4.606 to £5.63 and at 31 December 2010 was £5.415. The middle market price of a Reed Elsevier NV ordinary share during the year was in the range of €8.174 to €10.115 and at 31 December 2010 was €9.257.

Employee Benefit Trust
Any securities required to satisfy entitlements under the REGP, LTIP and BIP are provided by the Employee Benefit Trust (EBT) from market purchases. As a potential beneficiary under the EBT in the same way as other employees of Reed Elsevier, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2010, amounted to 14,654,161 Reed Elsevier PLC ordinary shares (1.17% of issued share capital) and 7,781,790 Reed Elsevier NV ordinary shares (1.01% of issued share capital). These numbers include ordinary share equivalents held in the form of Reed Elsevier PLC ADRs and Reed Elsevier NV ADRs.

Approved by the Board of Reed Elsevier Group plc on 16 February 2011.

Mark Elliott
Chairman of the Remuneration Committee

Approved by the Board of Reed Elsevier PLC on 16 February 2011

Mark Elliott
Non-Executive Director

Approved by the Combined Board of Reed Elsevier NV on 16 February 2011

Mark Elliott
Member of the Supervisory Board

Report of the Audit Committees

This report has been prepared by the Audit Committees of Reed Elsevier PLC and Reed Elsevier NV in conjunction with the Audit Committee of Reed Elsevier Group plc (the Committees) and has been approved by the respective boards.

The report meets the requirements of the UK Corporate Governance Code, issued by the UK Financial Reporting Council, and the Dutch Corporate Governance Code, issued by Dutch Corporate Governance Code Monitoring Committee.

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

(i) to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;

(ii) to review the company's internal financial controls and the company's internal control and risk management systems;

(iii) to monitor and review the effectiveness of the company's internal audit function;

(iv) to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, reappointment 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 auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements; and

(vi) to develop and recommend policy on the engagement of the external auditor to supply non audit services, taking into account relevant ethical guidance regarding the provision of non audit services by the external audit firm, and to monitor compliance.

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

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

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

The terms of reference of each Audit Committee are reviewed annually and a copy of each is published on the Reed Elsevier website, www.reedelsevier.com.

Committee membership
The Committees each comprise at least three independent non-executive directors. The members of each of the Committees that served during the year are: Ben van der Veer (Chairman of the Committees from August 2010), Lord Sharman (Chairman of the Committees until August 2010), Lisa Hook and David Reid. Lord Sharman and David Reid, both UK chartered accountants, and Ben van der Veer, a registered accountant in the Netherlands, are considered to have significant, recent and relevant financial experience. Lord Sharman will retire as a member of the Committees in April 2011. Biographies of the members of each of the Committees are set out on page 55.

Appointments to the Committees are made on the recommendation of the Nominations Committee and are for periods of up to three years, extendable by no more than two additional three-year periods, so long as the member continues to be independent. Details of the remuneration policy in respect of members of the Committees and the remuneration paid to members for the year ended 31 December 2010 are set out in the Directors' Remuneration Report on pages 62 to 80.

Report of the Audit Committees continued

Committee activities
The Committees hold meetings five times a year: in January, February, June, July and December, and reports on these meetings are made to the respective boards at the next board meetings. The principal business of these meetings typically includes:

– January: review of critical accounting policies and practices, and significant financial reporting issues and judgements arising in connection with the annual financial statements, including appropriateness of the going concern assumption; review of risk management activities, compliance and internal control effectiveness; reviewing and approving the internal audit plan; review of internal audit findings; review of the Reed Elsevier policy on auditor independence and the fees paid to the external auditor for audit and non audit services;

– February: review and recommending for approval to the Boards of annual financial statements, results announcement, annual report on Form 20-F and related formal statements; review of external audit findings;

– June: monitoring and assessing the qualification, performance, expertise, resources, objectivity and independence of the external auditors and the effectiveness of the external audit process; agreeing the external audit plan; reviewing significant financial reporting issues and judgements arising in connection with the interim financial statements; review of significant external financial reporting and regulatory developments; review of tax policies: review of compliance activities; review of report from external auditors on control matters; review of internal audit findings;

– July: review of critical accounting policies and practices, and significant financial reporting issues and judgements arising in connection with the interim financial statements, including appropriateness of the going concern assumption; review and recommending for approval to the Boards of the interim financial statements, results announcement and related formal statements; review of external audit findings; review of risk management activities and internal audit findings; review and approval of the external audit engagement letters; review of estimated external audit fees;

– December: review of year end financial reporting and accounting issues; review of significant external financial reporting and regulatory developments; review of external audit findings to date; review of internal audit findings; review of the terms of reference and effectiveness of internal audit; review of the terms of reference of the Audit Committees.

The Audit Committee meetings are typically attended by the Chief Financial Officer, the Reed Elsevier Group plc group financial controller, chief risk officer and director of internal audit, and audit partners of the external auditors. From time to time the Chairman and Chief Executive Officer may attend the Audit Committee meetings. Additionally, the managing director and senior representatives of the external auditors of Elsevier Reed Finance BV attend the July and February meetings of the parent company Audit Committees. At least one meeting each year, the Committees meet separately with the external auditors without management present. The Chairman of the Audit Committees has at least one separate meeting each year with the director of internal audit.

In discharging their principal responsibilities in respect of the 2010 financial year, the Committees have:

(i) received and discussed reports from the Reed Elsevier Group plc group financial controller that set out areas of significance in the preparation of the financial statements, including: review of the carrying values of goodwill and intangible assets for possible impairment, review of estimated useful lives of intangible assets, accounting for pensions and related assumptions, accounting for share based remuneration and related assumptions, review of the carrying value of investments, accounting treatment for acquisitions and disposals and business restructuring, application of revenue recognition and cost capitalisation policies, accounting for derivatives, review of tax reserves and provisions for lease obligations, and the use of the going concern basis in the preparation of the financial statements. Areas of focus in 2010 were the accounting and judgements in respect of: the carrying value of goodwill and intangible assets, taking into account the effects of the recent global recession and subsequent economic environment on business performance; revenue recognition and cost capitalisation as business models evolve from print publications to online services; accounting for the sale and/or closure of a number of Reed Business Information titles and businesses; tax provisioning; and the recognition of liabilities arising from the restructuring programmes and lease obligations.

(ii) reviewed the critical accounting policies and compliance with applicable accounting standards and other disclosure requirements and received regular update reports on accounting and regulatory developments.

Report of the Audit Committees continued

(iii) received and discussed regular reports on the management of material risks and reviewed the effectiveness of the systems of internal control. As part of this review, detailed internal control evaluation and certification is obtained from management across the operating businesses, reviewed by internal audit and discussed with the Committees.

(iv) received and discussed regular reports from the Reed Elsevier Group plc chief risk officer and director of internal audit summarising the status of the Reed Elsevier risk management activities and the findings from internal audit reviews and the actions agreed with management. Areas of focus in 2010 included: project management of development spend, particularly in relation to the significant product and infrastructure investment in the US legal business; restructuring and acquisition integration activities, notably in the restructuring of Reed Business Information and the integration of the ChoicePoint acquisition within LexisNexis Risk Solutions; regulatory compliance and review of information security; business continuity planning; and continued compliance with the requirements of Section 404 of the US Sarbanes-Oxley Act relating to the documentation and testing of internal controls over financial reporting.

(v) reviewed and approved the internal audit plan for 2010 and monitored execution, including progress in respect of recommendations made. Reviewed the resources, budget and effectiveness of the internal audit function.

(vi) received presentations from the Reed Elsevier vice president compliance on the compliance programme, including the operation of Reed Elsevier's codes of conduct, training programmes and whistleblowing arrangements; and from the LexisNexis senior vice president, privacy, security and compliance on management of data privacy, security and compliance.

(vii) received regular updates from the Chief Financial Officer on developments within the finance function.

Ben van der Veer, Lisa Hook and David Reid attended all five meetings of the Committees in 2010. Lord Sharman attended four meetings.

The external auditors have attended all meetings of the Committees. They have provided written reports at the February, June, July and December meetings summarising the most significant findings from their audit work. These reports have been discussed by the Committees and actions agreed where necessary.

External auditor independence and audit effectiveness
The Audit Committees have the delegated responsibility for reviewing the effectiveness of the external audit and overseeing the independence and objectivity of the auditors. Reed Elsevier has a well established policy on audit effectiveness and independence of auditors that sets out inter alia: the responsibilities of the Audit Committee in the selection of auditors to be proposed for appointment or reappointment at the annual general meeting and for agreement on the terms of their engagement and the scope of the annual audit; the auditor independence requirements and the policy on the provision of non audit services; the rotation of audit partners and staff; and the conduct of meetings between the auditors and the Audit Committee. The policy is available on the Reed Elsevier website, www.reedelsevier.com.

Under the policy, the auditors are precluded from engaging in non audit services that would compromise their independence or violate any professional requirements or regulations affecting their appointment as auditors. In general, the auditors may not provide a service which creates a mutuality of interest; places the auditor in a position to audit their own work; results in the auditor acting in a capacity akin to that of a company manager or employee; or puts the auditor in the role of advocate for the company. The policy sets out specific services that may not be provided by the auditors. The auditors may provide non audit services which do not conflict with their independence where their skills and experience make them a logical supplier of the services, and subject to pre-approval by the Audit Committee. The Committees have reviewed and agreed the non audit services provided in 2010 by the external auditors, together with the associated fees which are set out in note 3 to the combined financial statements. The non audit services provided were in the areas of taxation, other audit related services, due diligence and other transaction related services where their knowledge of the Reed Elsevier businesses and experience made them most suitable to carry out the work required.

The external auditors are required to rotate the audit partners responsible for the audit engagement every five years. The lead engagement partner has now completed his second year of auditing Reed Elsevier's financial statements. Any decision to open the audit to tender is taken only on the recommendation of the Committees. The external auditors have confirmed their independence and compliance with the Reed Elsevier policy on auditor independence.

Report of the Audit Committees continued

The Committees conducted a formal review during 2010 of the performance of the external auditors and the effectiveness of the external audit process for the year ended 31 December 2009. As part of this process, the Committees reviewed the report on the external auditors by the Audit Inspection Unit of the UK Financial Reporting Council issued in September 2010 and the report of the Autoriteit Financiële Markten in the Netherlands issued on 1 September 2010 on the general findings of the quality and effectiveness of audits performed by external audit firms (*Rapport algemene bevindingen kwaliteit accountantscontrole en kwaliteitsbewaking*). Based on these reviews, and on their subsequent observations on the planning and execution of the external audit for the year ended 31 December 2010, the Committees have recommended to the respective boards that resolutions for the reappointment of the external auditors be proposed at the forthcoming Annual General Meetings. Deloitte LLP and Deloitte Accountants BV or their predecessor Deloitte firms were first appointed respectively auditors of Reed Elsevier PLC and Reed Elsevier NV for the financial year ended 31 December 1994. In addition to the annual review of the performance of the external auditors and the effectiveness of the audit process, at least every four years the Committees will consider whether the objectives of the audit would be better served through a formal tender process for the auditor appointment.

The effectiveness of the operation of the Audit Committees was reviewed as part of the effectiveness review of the Boards in December 2010.

Ben van der Veer
Chairman of the Audit Committees

16 February 2011

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Combined income statement

For the year ended 31 December	Note	2010 £m	2009 £m
Revenue	1	**6,055**	6,071
Cost of sales		**(2,209)**	(2,252)
Gross profit		**3,846**	3,819
Selling and distribution costs		**(1,091)**	(1,112)
Administration and other expenses		**(1,687)**	(1,935)
Operating profit before joint ventures		**1,068**	772
Share of results of joint ventures		**22**	15
Operating profit	2	**1,090**	787
Finance income	7	**8**	7
Finance costs	7	**(284)**	(298)
Net finance costs		**(276)**	(291)
Disposals and other non operating items	8	**(46)**	(61)
Profit before tax		**768**	435
Taxation	9	**(120)**	(40)
Net profit for the year		**648**	395
Attributable to:			
Parent companies' shareholders		**642**	391
Non-controlling interests		**6**	4
Net profit for the year		**648**	395

Combined statement of comprehensive income

For the year ended 31 December	Note	2010 £m	2009 £m
Net profit for the year		**648**	395
Exchange differences on translation of foreign operations		**94**	(122)
Actuarial (losses)/gains on defined benefit pension schemes	5	**(63)**	6
Cumulative fair value movements on disposal of available for sale investments		**–**	1
Fair value movements on cash flow hedges		**(58)**	53
Transfer to net profit from hedge reserve (net of tax)	18	**46**	84
Tax recognised directly in equity	9	**29**	(25)
Other comprehensive income/(expense) for the year		**48**	(3)
Total comprehensive income for the year		**696**	392
Attributable to:			
Parent companies' shareholders		**690**	388
Non-controlling interests		**6**	4
Total comprehensive income for the year		**696**	392

Combined statement of cash flows

For the year ended 31 December	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	11	**1,649**	1,604
Interest paid		**(295)**	(302)
Interest received		**8**	9
Tax paid (net)		**(9)**	(120)
Net cash from operating activities		**1,353**	1,191
Cash flows from investing activities			
Acquisitions	11	**(50)**	(94)
Purchases of property, plant and equipment		**(83)**	(78)
Expenditure on internally developed intangible assets		**(228)**	(164)
Purchase of investments		**(5)**	(3)
Proceeds from disposals of property, plant and equipment		**7**	4
Net proceeds/(costs) from other disposals		**6**	(2)
Dividends received from joint ventures		**24**	23
Net cash used in investing activities		**(329)**	(314)
Cash flows from financing activities			
Dividends paid to shareholders of the parent companies		**(483)**	(457)
Distributions to non-controlling interests		**(8)**	(3)
(Decrease)/increase in short term bank loans, overdrafts and commercial paper		**(143)**	107
Issuance of other loans		**–**	1,807
Repayment of other loans		**(394)**	(2,862)
Repayment of finance leases		**(7)**	(2)
Proceeds on issue of ordinary shares		**11**	834
Net cash used in financing activities		**(1,024)**	(576)
Increase in cash and cash equivalents	11	**–**	301
Movement in cash and cash equivalents			
At start of year		**734**	375
Increase in cash and cash equivalents		**–**	301
Exchange translation differences		**8**	58
At end of year		**742**	734

Combined statement of financial position

As at 31 December	Note	2010 £m	2009 £m
Non-current assets			
Goodwill	14	**4,441**	4,339
Intangible assets	15	**3,457**	3,632
Investments in joint ventures	16	**136**	135
Other investments	16	**48**	41
Property, plant and equipment	17	**291**	292
Net pension assets	5	**55**	110
Deferred tax assets	19	**151**	208
		8,579	8,757
Current assets			
Inventories and pre-publication costs	20	**228**	275
Trade and other receivables	21	**1,475**	1,492
Derivative financial instruments		**134**	71
Cash and cash equivalents	11	**742**	734
		2,579	2,572
Assets held for sale	22	**–**	5
Total assets		**11,158**	11,334
Current liabilities			
Trade and other payables	23	**2,584**	2,471
Derivative financial instruments		**80**	102
Borrowings	24	**516**	678
Taxation		**646**	479
Provisions	26	**71**	134
		3,897	3,864
Non-current liabilities			
Borrowings	24	**3,786**	4,028
Deferred tax liabilities	19	**1,192**	1,272
Net pension obligations	5	**225**	345
Provisions	26	**88**	61
		5,291	5,706
Liabilities associated with assets held for sale	22	**–**	5
Total liabilities		**9,188**	9,575
Net assets		**1,970**	1,759
Capital and reserves			
Combined share capitals	28	**224**	225
Combined share premiums	29	**2,754**	2,807
Combined shares held in treasury	30	**(677)**	(698)
Translation reserve	31	**29**	(100)
Other combined reserves	32	**(387)**	(502)
Combined shareholders' equity		**1,943**	1,732
Non-controlling interests		**27**	27
Total equity		**1,970**	1,759

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Combined statement of changes in equity

	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 1 January 2010		**225**	**2,807**	**(698)**	**(100)**	**(502)**	**1,732**	**27**	**1,759**
Total comprehensive income for the year		**–**	**–**	**–**	**94**	**596**	**690**	**6**	**696**
Dividends paid	13	**–**	**–**	**–**	**–**	**(483)**	**(483)**	**(8)**	**(491)**
Issue of ordinary shares, net of expenses		**–**	**11**	**–**	**–**	**–**	**11**	**–**	**11**
Decrease in share based remuneration reserve		**–**	**–**	**–**	**–**	**(7)**	**(7)**	**–**	**(7)**
Settlement of share awards		**–**	**–**	**9**	**–**	**(9)**	**–**	**–**	**–**
Exchange differences on translation of capital and reserves		**(1)**	**(64)**	**12**	**35**	**18**	**–**	**2**	**2**
Balance at 31 December 2010		**224**	**2,754**	**(677)**	**29**	**(387)**	**1,943**	**27**	**1,970**
Balance at 1 January 2009		209	2,529	(783)	(14)	(988)	953	28	981
Total comprehensive income for the year		–	–	–	(122)	510	388	4	392
Dividends paid	13	–	–	–	–	(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 31 December 2009		225	2,807	(698)	(100)	(502)	1,732	27	1,759

Accounting policies

The Reed Elsevier combined financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and as issued by the International Accounting Standards Board (IASB). The combined financial statements are prepared on a going concern basis, as explained on page 61.

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

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

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 the original acquisition and the non-controlling share of changes in equity since the date of acquisition.

These financial statements form part of the statutory information to be provided by Reed Elsevier NV, but are not for a legal entity and do not include all the information required to be disclosed by a company in its financial statements under the UK Companies Act 2006 or the Dutch Civil Code. Additional information is given in the Annual Reports and Financial Statements of the parent companies set out on pages 142 to 188. A list of principal businesses is set out on page 198.

In addition to the figures required to be reported by applicable accounting standards, adjusted profit and operating cash flow figures have been presented as additional performance measures. Adjusted figures are shown before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items, related tax effects and movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets.

Adjusted operating profits are also grossed up to exclude the equity share of taxes in joint ventures. Adjusted operating cash flow is measured after dividends from joint ventures and net capital expenditure, but before payments in relation to exceptional restructuring and acquisition related costs. Reconciliations between reported and adjusted figures are provided in note 10.

Foreign exchange translation
The combined financial statements are presented in pounds sterling. Additional information providing a translation into euros of the primary Reed Elsevier combined financial statements and selected notes is presented on pages 129 to 141.

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.

Accounting policies continued

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.

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 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 year 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.

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

Accounting policies continued

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 represents 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. (These investments are classified as either Level 1 or 2 in the IFRS 7 fair value hierarchy.)

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 borrowing using the effective interest method.

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 IFRS 7 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.

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.

Accounting policies continued

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, litigation, taxation, and property provisioning.

Goodwill and intangibles
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 acquired 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 are capitalised and amortised systematically over their estimated useful lives, subject to 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 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.

The carrying amounts of goodwill and indefinite lived intangible assets in each business are reviewed for impairment at least annually. The carrying amounts of all other intangible assets are reviewed where there are indications of possible impairment. An impairment review involves a comparison of the carrying value of the asset with estimated values in use based on latest management cash flow projections. Key areas of judgement in estimating the values in use of businesses are the growth in cash flows over a five year forecast period, the long term growth rate assumed thereafter and the discount rate applied to the forecast cash flows.

The discount rates used are based on the Reed Elsevier weighted average cost of capital, adjusted to reflect a risk premium specific to each business. The pre-tax discount rates applied are 9.5% for Elsevier, 10.0-10.5% for LexisNexis, 10.5-11.0% for Reed Exhibitions and 10.5-12.0% for Reed Business Information. The nominal long term growth rates, which are based on historic growth rates and the growth prospects for businesses, do not exceed 3%. There were no charges for impairment of acquired intangible assets and goodwill in 2010 (2009: £177m principally relating to the RBI controlled circulation titles).

A sensitivity analysis has been performed based on changes in key assumptions considered to be reasonably possible by management: an increase in the discount rate of 0.5%; a decrease in the compound annual growth rate for adjusted operating cash flow in the five year forecast period of 2.0%; and a decrease in perpetuity growth rates of 0.5%. The sensitivity analysis shows that impairment charges resulting from these scenarios would be less than £10m. Further information is provided in note 14 to the combined financial statements.

Share based remuneration
Share based remuneration is determined based on the fair value of an award at the date of grant, and is spread over the vesting period on a straight line basis, taking into account the number of shares that are expected to vest. 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 requires judgements to be made regarding share price volatility, dividend yield, risk free rates of return and expected option lives. The number of awards that are expected to vest requires judgements to be made regarding forfeiture rates and the extent to which performance conditions will be met. The assumptions are determined in conjunction with independent actuaries based on historical data and trends.

The assumptions of share price volatility of 26%, of expected share option life of 4 years, and of expected lapse rate of 3-5% are based on relevant historical data. Other judgements made on grant are based on market data. Assumptions as to future performance against non market related vesting conditions are based on management estimates. The charge for share based and related remuneration was £11m in 2010 (2009: £17m) as a result of reduced vesting assumptions. Further information is provided in note 6 to the combined financial statements.

Pensions
Accounting for defined benefit pension schemes involves judgement about uncertain events, including the life expectancy of the members, salary and pension increases, inflation, the return on scheme assets and the rate at which the future pension payments are discounted. Estimates for these factors are used in determining the pension cost and liabilities reported in the financial statements. These best estimates of future developments are made in conjunction with independent actuaries. Each scheme is subject to a periodic review by independent actuaries.

Accounting policies continued

The principal assumptions as at 31 December 2010, expressed as a weighted average of the various defined benefit pension schemes, were a discount rate of 5.6% (2009: 5.8%; 2008: 6.2%), an expected return on scheme assets of 6.8% (2009: 7.0%; 2008: 7.1%), an expected rate of salary increases of 4.1% (2009: 4.0%; 2008: 3.7%) and inflation of 3.2% (2009: 3.1%; 2008: 2.7%). Future pension increases are assumed at 3.2% (2009: 3.1%; 2008: 2.8%) and average life expectancy of 87-89 years (2009: 87-88 years) for scheme members currently aged 45 and 60 years. The net defined benefit pension expense was £22m (2009: £18m). Excluding the net pension financing credit, the expense was £48m (2009: £24m) reflecting the lower discount rates and higher inflation assumptions at the beginning of the year compared with the prior year, and pension curtailment credits of £17m (2009: £43m) from changes to pension plan design and staff reductions. The net pension financing credit is based on market data at the beginning of the year and was £26m (2009: £6m) reflecting the higher market value of scheme assets. Further information and sensitivity analysis is provided in note 5 to the combined financial statements.

Litigation
Reed Elsevier is involved in various legal proceedings, which arise in the normal course of its business, relating to commercial disputes, employment, data security and product liability. Provisions for liabilities are recognised when it is likely that a settlement is required. Although the outcome of legal proceedings is uncertain, the ultimate resolution of such matters is not expected to have a material impact on results.

Taxation
Reed Elsevier is subject to tax in numerous jurisdictions, giving rise to complex tax issues that require management to exercise judgment in making tax determinations. While Reed Elsevier is confident that tax returns are appropriately prepared and filed, the application of tax law and practice is subject to some uncertainty and provisions are held in respect of this. Issues are raised during the course of regular tax audits and discussions including on the deductibility of interest in the US on certain cross-border financing are ongoing. Although the outcome of open items cannot be predicted, no material impact on results is expected from such issues.

Reed Elsevier's policy in respect of deferred taxation is to provide in full for all taxable temporary differences using the balance sheet liability method. Deferred tax assets are only recognised to the extent that they are considered recoverable based on forecasts of available taxable profits against which they can be utilised over the near term.

Property provisions
Reed Elsevier has exposures to sub-lease shortfalls in respect of certain property leases for periods up to 2024. Provisions are recognised for net liabilities expected to arise on these exposures. Estimation of the provisions requires judgement in respect of future head lease costs, sub lease income and the length of vacancy periods. The charge for property provisions was £36m (2009: £70m) relating to surplus property arising on the restructuring, sale and closure of RBI businesses and includes expected losses on sub leases entered into during 2010 and an estimate of vacancy periods and future market conditions. Further information is provided in note 26 to the combined financial statements.

Other significant accounting policies
The accounting policies in respect of revenue recognition, pre-publication costs and development spend are also significant in determining the financial condition and results of the Reed Elsevier combined businesses, although the application of these policies is more straightforward.

Revenue recognition policies, while an area of management focus, are generally straightforward in application as the timing of product or service delivery and customer acceptance for the various revenue types can be readily determined. Allowances for product returns are deducted from revenues based on historical return rates. Where sales consist of two or more components that operate independently, revenue is recognised as each component is completed by performance, based on attribution of relative value.

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

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

Standards and amendments effective for the year
Those amendments to IFRS which are relevant to Reed Elsevier and are effective for the current year are set out below.

Amendments to IFRS3 – Business Combinations requires transaction related costs (including professional fees) to be expensed and adjustments to contingent and deferred consideration to be recognised in income and allows non-controlling interests to be measured either at fair value or the proportionate share of net identifiable assets. Adoption of this standard has not required a restatement of prior year business combinations and has not had a significant impact in the year ended 31 December 2010.

Amendments to IAS27 – Consolidated and Separate Financial Statements amendments has introduced changes to the accounting for partial disposals of subsidiaries, associates and joint ventures. Adoption of this standard has not had a significant impact in the year ended 31 December 2010.

Amendment to IAS39 – Financial Instruments: Recognition and Measurement clarifies the eligibility of hedge accounting for inflation and hedging with options and has not had a significant impact for the year ended 31 December 2010.

Amendments to IAS32 – Financial Instruments: Presentation amendment provides relief to companies making rights issues in a currency other than their functional currency. This amendment has not affected Reed Elsevier as shares are not issued in currencies other than its functional currencies.

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.

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. For financial liabilities, IFRS9 requires an entity choosing to measure a liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income rather than the income statement. Adoption of this standard is not expected to have a significant impact on the measurement, presentation or disclosure of financial assets and liabilities 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.

Notes to the combined financial statements
for the year ended 31 December 2010

1 Segment analysis

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 in 2010 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 figures are presented as additional performance measures. They are stated before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and are grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs in 2010 relate to the restructuring of the Reed Business Information business and in 2009 relate to the exceptional restructuring programmes across Reed Elsevier. Exceptional restructuring costs principally comprise severance, outsourcing migration and associated property costs. Adjusted operating profit is reconciled to operating profit in note 10.

	Revenue		Operating profit		Adjusted operating profit	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Business segment						
Elsevier	**2,026**	1,985	**647**	563	**724**	693
LexisNexis	**2,618**	2,557	**324**	337	**592**	665
Reed Exhibitions	**693**	638	**127**	79	**158**	152
Reed Business Information	**718**	891	**–**	(163)	**89**	89
Sub-total	**6,055**	6,071	**1,098**	816	**1,563**	1,599
Corporate costs	**–**	–	**(34)**	(35)	**(34)**	(35)
Unallocated net pension credit	**–**	–	**26**	6	**26**	6
Total	**6,055**	6,071	**1,090**	787	**1,555**	1,570

Revenue is analysed before the £116m (2009: £118m) share of joint ventures' revenue, of which £24m (2009: £25m) relates to LexisNexis, principally to Giuffrè, £89m (2009: £90m) relates to Reed Exhibitions, principally to exhibition joint ventures, and £3m (2009: £3m) relates to Reed Business Information.

Share of post-tax results of joint ventures of £22m (2009: £15m) included in operating profit comprises £4m (2009: £4m) relating to LexisNexis, £17m (2009: £10m) relating to Reed Exhibitions and £1m (2009: £1m) relating to Reed Business Information. The unallocated net pension credit of £26m (2009: £6m) comprises the expected return on pension scheme assets of £217m (2009: £189m) less interest on pension scheme liabilities of £191m (2009: £183m).

Analysis of revenue by geographical origin	**2010 £m**	2009 £m
North America	**3,213**	3,228
United Kingdom	**907**	897
The Netherlands	**620**	662
Rest of Europe	**825**	851
Rest of world	**490**	433
Total	**6,055**	6,071

Notes to the combined financial statements
for the year ended 31 December 2010

1 Segment analysis continued

Analysis of revenue by geographical market	2010 £m	2009 £m
North America	**3,303**	3,310
United Kingdom	**490**	513
The Netherlands	**204**	243
Rest of Europe	**1,131**	1,132
Rest of world	**927**	873
Total	**6,055**	6,071

Analysis of revenue by type	2010 £m	2009 £m
Subscriptions	**2,709**	2,711
Circulation/transactions	**1,760**	1,708
Advertising	**491**	585
Exhibitions	**675**	626
Other	**420**	441
Total	**6,055**	6,071

	Expenditure on acquired goodwill and intangible assets		Capital expenditure additions		Amortisation and impairment of acquired intangible assets and goodwill		Depreciation and other amortisation	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Business segment								
Elsevier	**13**	4	**81**	77	**75**	78	**74**	80
LexisNexis	**34**	7	**210**	150	**221**	231	**123**	107
Reed Exhibitions	**6**	12	**12**	11	**23**	63	**14**	7
Reed Business Information	**1**	–	**12**	19	**30**	173	**26**	29
Total	**54**	23	**315**	257	**349**	545	**237**	223

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 £4m (2009: £12m) in Reed Exhibitions. Other than the depreciation, amortisation and impairment above, non cash items include £7m credit (2009: £17m charge) relating to the recognition of share based remuneration and comprise £2m credit (2009: £4m charge) in Elsevier, £1m charge (2009: £7m charge) in LexisNexis, £1m credit (2009: £2m charge) in Reed Exhibitions, £3m credit (2009: £2m charge) in Reed Business Information and £2m credit (2009: £2m charge) in Corporate.

Notes to the combined financial statements
for the year ended 31 December 2010

1 Segment analysis continued

	Total assets	
	2010 £m	2009 £m
Business segment		
Elsevier	**2,871**	2,915
LexisNexis	**5,921**	5,872
Reed Exhibitions	**681**	728
Reed Business Information	**456**	547
Sub-total	**9,929**	10,062
Taxation	**151**	208
Cash and cash equivalents	**742**	734
Net pension assets	**55**	110
Assets held for sale	**–**	5
Other assets	**281**	215
Total	**11,158**	11,334
Geographical location		
North America	**7,556**	7,570
United Kingdom	**933**	1,164
The Netherlands	**854**	687
Rest of Europe	**1,356**	1,504
Rest of world	**459**	409
Total	**11,158**	11,334

Investments in joint ventures of £136m (2009: £135m) included in segment assets above comprise £38m (2009: £38m) relating to LexisNexis, £92m (2009: £92m) relating to Reed Exhibitions and £6m (2009: £5m) relating to Reed Business Information.

Notes to the combined financial statements
for the year ended 31 December 2010

2 Operating profit

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

	Note	2010 £m	2009 £m
Staff costs			
Wages and salaries		**1,594**	1,610
Social security costs		**179**	183
Pensions	5	**54**	42
Share based and related remuneration		**11**	17
Total staff costs		**1,838**	1,852
Depreciation, amortisation and impairment			
Amortisation of acquired intangible assets	15	**345**	364
Share of joint ventures' amortisation of acquired intangible assets		**4**	4
Impairment of acquired intangible assets and goodwill	14, 15	**–**	169
Impairment of goodwill in joint ventures		**–**	8
Amortisation of internally developed intangible assets	15	**158**	139
Depreciation of property, plant and equipment	17	**79**	84
Total depreciation, amortisation and impairment		**586**	768
Other expenses and income			
Pre-publication costs, inventory expenses and other cost of sales		**2,209**	2,252
Operating lease rentals expense		**123**	132
Operating lease rentals income		**(11)**	(12)

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

3 Auditors' remuneration

	2010 £m	2009 £m
Auditors' remuneration		
For audit services	**4.5**	4.5
For non-audit services	**1.2**	1.2
Total auditors' remuneration	**5.7**	5.7

Auditors' remuneration for audit services comprises £0.4m (2009: £0.4m) payable to the auditors of the parent companies and £4.1m (2009: £4.1m) 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: £0.9m (2009: £0.7m) for taxation services, £0.3m (2009: £0.4m) for other audit related services and nil (2009: £0.1m) for due diligence and other transaction related services. Reed Elsevier's policy on auditor independence is set out on page 83.

Notes to the combined financial statements
for the year ended 31 December 2010

4 Personnel

Number of people employed	At 31 December 2010	2009	Average during the year 2010	2009
Business segment				
Elsevier	**6,700**	6,800	**6,800**	6,900
LexisNexis	**14,700**	15,200	**14,900**	15,400
Reed Exhibitions	**2,600**	2,500	**2,600**	2,600
Reed Business Information	**5,300**	6,900	**5,800**	7,500
Sub-total	**29,300**	31,400	**30,100**	32,400
Corporate/shared functions	**900**	900	**900**	900
Total	**30,200**	32,300	**31,000**	33,300
Geographical location				
North America	**16,500**	17,600	**16,900**	18,000
United Kingdom	**4,600**	4,900	**4,700**	5,000
The Netherlands	**1,700**	2,000	**1,800**	2,100
Rest of Europe	**3,800**	4,200	**4,000**	4,500
Rest of world	**3,600**	3,600	**3,600**	3,700
Total	**30,200**	32,300	**31,000**	33,300

5 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 determined for each scheme in conjunction with the respective schemes' independent actuaries and are presented below as the weighted average of the various defined benefit pension schemes. The defined benefit pension expense for each year is based on the assumptions and scheme valuations set at 31 December of the prior year.

	As at 31 December 2010	2009	2008
Discount rate	**5.6%**	5.8%	6.2%
Expected rate of return on scheme assets	**6.8%**	7.0%	7.1%
Expected rate of salary increases	**4.1%**	4.0%	3.7%
Inflation	**3.2%**	3.1%	2.7%
Future pension increases	**3.2%**	3.1%	2.8%

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 the actuaries' expectations for each scheme. The average life expectancies assumed in the valuation of the defined benefit obligations are set out below.

Average life expectancy (at 31 December)	2010 Male (years)	2010 Female (years)	2009 Male (years)	2009 Female (years)
Member currently aged 60	**88**	**87**	88	87
Member currently aged 45	**89**	**88**	88	87

5 Pension schemes continued

The pension expense recognised within the income statement comprises:

	2010 £m	2009 £m
Service cost (including curtailment credits of £17m (2009: £43m))	**48**	24
Interest on pension scheme liabilities	**191**	183
Expected return on scheme assets	**(217)**	(189)
Net defined benefit pension expense	**22**	18
Defined contribution pension expense	**32**	24
Total pension expense	**54**	42

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:

	2010			2009		
	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	**(3,302)**	**3,067**	**(235)**	(3,051)	2,682	(369)
Service cost	**(48)**	**–**	**(48)**	(24)	–	(24)
Interest on pension scheme liabilities	**(191)**	**–**	**(191)**	(183)	–	(183)
Expected return on scheme assets	**–**	**217**	**217**	–	189	189
Actuarial (loss)/gain	**(261)**	**198**	**(63)**	(295)	301	6
Contributions by employer	**–**	**154**	**154**	–	101	101
Contributions by employees	**(11)**	**11**	**–**	(12)	12	–
Benefits paid	**139**	**(139)**	**–**	134	(134)	–
Exchange translation differences	**(3)**	**(1)**	**(4)**	129	(84)	45
At end of year	**(3,677)**	**3,507**	**(170)**	(3,302)	3,067	(235)

The net pension obligations of £170m (2009: £235m) at 31 December 2010 comprise schemes in deficit with net pension obligations of £225m (2009: £345m) and schemes in surplus with net pension assets of £55m (2009: £110m).

As at 31 December 2010 the defined benefit obligations comprise £3,531m (2009: £3,172m) in relation to funded schemes and £146m (2009: £130m) in relation to unfunded schemes. The weighted average duration of defined benefit scheme liabilities is 19 years (2009: 19 years). Deferred tax liabilities of £15m (2009: £31m) and deferred tax assets of £78m (2009: £122m) 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 31 December, are shown below:

	2010			2009		
	Expected rate of return on scheme assets	**Fair value of scheme assets £m**	**Proportion of total scheme assets**	Expected rate of return on scheme assets	Fair value of scheme assets £m	Proportion of total scheme assets
Equities	**8.7%**	**1,963**	**56%**	8.6%	1,827	60%
Bonds	**4.4%**	**1,318**	**38%**	4.5%	1,069	35%
Other	**5.1%**	**226**	**6%**	5.3%	171	5%
Total	**6.8%**	**3,507**	**100%**	7.0%	3,067	100%

The actual return on scheme assets for the year ended 31 December 2010 was a £415m gain (2009: £490m gain).

Notes to the combined financial statements
for the year ended 31 December 2010

5 Pension schemes continued

A summary of pension balances in respect of funded and unfunded schemes for the five years ended 31 December 2010 is set out below.

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	**3,507**	3,067	2,682	3,018	2,772
Defined benefit obligations	**(3,677)**	(3,302)	(3,051)	(2,968)	(3,008)
Net pension (obligations)/surplus	**(170)**	(235)	(369)	50	(236)

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:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Gains and losses arising during the year:					
Experience (losses)/gains on scheme liabilities	**(43)**	18	(9)	(28)	(30)
Experience gains/(losses) on scheme assets	**198**	301	(765)	34	99
Actuarial (losses)/gains arising on the present value of scheme liabilities due to changes in:					
– discount rates	**(162)**	(249)	202	367	198
– inflation	**(50)**	(124)	198	(152)	(77)
– life expectancy and other actuarial assumptions	**(6)**	60	27	3	(51)
	(63)	6	(347)	224	139
Net cumulative (losses)/gains at start of year	**(89)**	(95)	252	28	(111)
Net cumulative (losses)/gains at end of year	**(152)**	(89)	(95)	252	28

Regular contributions to defined benefit pension schemes in respect of 2011 are expected to be approximately £70m.

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, determined in conjunction with independent actuaries. 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:

	£m
Increase/decrease of 0.25% in discount rate:	
Decrease/increase in annual net pension expense	5
Decrease/increase in defined benefit pension obligations	162
Increase/decrease of one year in assumed life expectancy:	
Increase/decrease in annual net pension expense	5
Increase/decrease in defined benefit pension obligations	87
Increase/decrease of 0.25% in the expected inflation rate:	
Increase/decrease in annual net pension expense	5
Increase/decrease in defined benefit pension obligations	137

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 £9m and would decrease/increase the amount of the net pension obligations by £98m.

6 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 Reed Elsevier Growth Plan (REGP), 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. Conditional shares granted under REGP are exercisable for nil consideration if conditions are met after three and five years. 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 in 2009 and prior years 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.

Conditional shares granted under LTIP, REGP, RSP and BIP in 2010 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 as well as the achievement of a percentage return on invested capital of Reed Elsevier PLC and Reed Elsevier NV.

The weighted average fair value per award is based on full vesting on achievement of non market related performance conditions and stochastic models for market related components. The conditional shares and option awards are recognised in the income statement over the vesting period, being between three and five years, on the basis of expected performance against the non market related conditions, with the fair value related to market related components unchanging. Further details of performance conditions are given in the Directors' Remuneration Report on pages 62 to 80.

	In respect of Reed Elsevier PLC ordinary shares		**In respect of Reed Elsevier NV ordinary shares**	
2010 grants	**Number of shares '000**	**Weighted average fair value per award £**	**Number of shares '000**	**Weighted average fair value per award £**
Share options				
– ESOS	**2,204**	**0.77**	**1,448**	**1.08**
– Other	**846**	**0.99**	**381**	**0.82**
Total share options	**3,050**	**0.83**	**1,829**	**1.02**
Conditional shares				
– ESOS	**751**	**4.23**	**493**	**6.37**
– LTIP	**1,677**	**4.01**	**1,101**	**6.11**
– REGP	**1,038**	**6.99**	**681**	**10.66**
– RSP	**236**	**4.23**	**155**	**6.37**
– BIP	**1,714**	**4.64**	**820**	**6.93**
Total conditional shares	**5,416**	**4.82**	**3,250**	**7.32**

	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
2009 grants	Number of shares '000	Weighted average fair value per award £	Number of shares '000	Weighted average fair value per award £
Share options				
– ESOS	4,303	0.93	2,799	1.44
– Other	1,284	1.25	588	0.87
Total share options	5,587	1.00	3,387	1.34
Conditional shares				
– ESOS	770	4.91	500	7.52
– LTIP	1,845	6.26	1,198	9.73
– RSP	204	4.95	133	7.58
– BIP	661	4.48	352	6.48
Total conditional shares	3,480	5.55	2,183	8.57

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6 Share based remuneration continued

The main assumptions used to determine the fair values, which have been established with advice from and data provided by independent actuaries, are set out below.

Assumptions for grants made during the year	In respect of Reed Elsevier PLC ordinary shares 2010	2009	In respect of Reed Elsevier NV ordinary shares 2010	2009
Weighted average share price at date of grant				
– ESOS	**£4.69**	£5.39	**€8.36**	€9.35
– LTIP	**£4.67**	£5.44	**€8.31**	€9.50
– REGP	**£4.67**	–	**€8.31**	–
– RSP	**£4.67**	£5.42	**€8.33**	€9.42
– BIP	**£4.64**	£4.91	**€8.11**	€8.05
– Other	**£5.22**	£5.02	**€8.86**	€8.31
Expected share price volatility	**26%**	26%	**26%**	26%
Expected option life	**4 years**	4 years	**4 years**	4 years
Expected dividend yield	**3.5%**	3.1%	**3.9%**	3.4%
Risk free interest rate	**1.8%**	2.0%	**1.2%**	2.4%
Expected lapse rate	**3-5%**	3-5%	**3-4%**	3-4%

Expected share price volatility has been estimated based on relevant historic data in respect of the Reed Elsevier PLC and Reed Elsevier NV ordinary share prices. Expected share option life has been estimated based on historical exercise patterns in respect of Reed Elsevier PLC and Reed Elsevier NV share options.

The share based remuneration awards outstanding as at 31 December 2010, in respect of both Reed Elsevier PLC and Reed Elsevier NV ordinary shares, are set out below.

Share options: Reed Elsevier PLC	ESOS Number of shares '000	ESOS Weighted average exercise price (pence)	LTIP Number of shares '000	LTIP Weighted average exercise price (pence)	Other Number of shares '000	Other Weighted average exercise price (pence)	Total Number of shares '000	Total Weighted average exercise price (pence)
Outstanding at 1 January 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 1 January 2010	**30,566**	**562**	**2,259**	**489**	**2,860**	**436**	**35,685**	**547**
Granted	**2,204**	**469**	**–**	**–**	**846**	**418**	**3,050**	**455**
Exercised	**(1,039)**	**481**	**(269)**	**487**	**(700)**	**447**	**(2,008)**	**470**
Forfeited	**(988)**	**560**	**–**	**–**	**(367)**	**432**	**(1,355)**	**496**
Expired	**(1,494)**	**578**	**–**	**–**	**(167)**	**425**	**(1,661)**	**554**
Outstanding at 31 December 2010	**29,249**	**557**	**1,990**	**489**	**2,472**	**428**	**33,711**	**544**
Exercisable at 31 December 2009	20,763	547	2,259	489	349	422	23,371	540
Exercisable at 31 December 2010	**19,929**	**559**	**1,990**	**489**	**129**	**468**	**22,048**	**552**

6 Share based remuneration continued

Share options: Reed Elsevier NV	ESOS Number of shares '000	ESOS Weighted average exercise price (€)	LTIP Number of shares '000	LTIP Weighted average exercise price (€)	Other Number of shares '000	Other Weighted average exercise price (€)	Total Number of shares '000	Total Weighted average exercise price (€)
Outstanding at 1 January 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 1 January 2010	**21,617**	**11.88**	**1,763**	**10.60**	**2,537**	**11.32**	**25,917**	**11.74**
Granted	**1,448**	**8.36**	**–**	**–**	**381**	**8.86**	**1,829**	**8.45**
Exercised	**(50)**	**9.31**	**–**	**–**	**(134)**	**8.38**	**(184)**	**8.63**
Forfeited	**(556)**	**10.16**	**–**	**–**	**(452)**	**14.01**	**(1,008)**	**8.75**
Expired	**(1,499)**	**13.00**	**(222)**	**10.57**	**–**	**–**	**(1,721)**	**6.71**
Outstanding at 31 December 2010	**20,960**	**11.61**	**1,541**	**10.60**	**2,332**	**10.57**	**24,833**	**11.45**
Exercisable at 31 December 2009	15,217	12.01	1,763	10.60	2,537	11.32	19,517	11.79
Exercisable at 31 December 2010	**14,862**	**12.22**	**1,541**	**10.60**	**2,332**	**10.57**	**18,735**	**11.88**

Conditional shares: Reed Elsevier PLC	Number of shares '000 ESOS	LTIP	REGP	RSP	BIP	Total
Outstanding at 1 January 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 1 January 2010	**1,867**	**4,152**	**–**	**215**	**1,914**	**8,148**
Granted	**751**	**1,677**	**1,038**	**236**	**1,714**	**5,416**
Exercised	**(594)**	**(15)**	**–**	**(4)**	**(65)**	**(678)**
Forfeited	**(81)**	**(595)**	**–**	**–**	**(173)**	**(849)**
Outstanding at 31 December 2010	**1,943**	**5,219**	**1,038**	**447**	**3,390**	**12,037**

Conditional shares: Reed Elsevier NV	Number of shares '000 ESOS	LTIP	REGP	RSP	BIP	Total
Outstanding at 1 January 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 1 January 2010	**1,213**	**2,703**	**–**	**140**	**865**	**4,921**
Granted	**493**	**1,101**	**681**	**155**	**820**	**3,250**
Exercised	**(389)**	**(10)**	**–**	**(3)**	**(23)**	**(425)**
Forfeited	**(47)**	**(324)**	**–**	**–**	**(82)**	**(453)**
Outstanding at 31 December 2010	**1,270**	**3,470**	**681**	**292**	**1,580**	**7,293**

The weighted average share price at the date of exercise of share options and conditional shares during 2010 was 522p (2009: 506p) for Reed Elsevier PLC ordinary shares and €8.82 (2009: €8.45) for Reed Elsevier NV ordinary shares.

Notes to the combined financial statements
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6 Share based remuneration continued

Range of exercise prices for outstanding share options	2010 Number of shares under option '000	2010 Weighted average remaining period until expiry (years)	2009 Number of shares under option '000	2009 Weighted average remaining period until expiry (years)
Reed Elsevier PLC ordinary shares (pence)				
351-400	**–**	**–**	16	0.3
401-450	**2,017**	**3.3**	2,157	2.6
451-500	**8,919**	**4.5**	8,219	2.9
501-550	**11,299**	**5.6**	12,638	6.0
551-600	**3,153**	**1.6**	3,593	2.3
601-650	**6,053**	**6.6**	6,600	7.6
651-700	**2,270**	**0.2**	2,462	1.2
Total	**33,711**	**4.6**	35,685	4.3
Reed Elsevier NV ordinary shares (euro)				
7.01-8.00	**137**	**8.2**	175	9.2
8.01-9.00	**2,062**	**9.0**	511	9.0
9.01-10.00	**3,915**	**6.0**	4,011	6.8
10.01-11.00	**4,385**	**3.3**	4,912	4.4
11.01-12.00	**5,670**	**4.4**	6,297	5.1
12.01-13.00	**2,653**	**6.8**	2,854	7.4
13.01-14.00	**2,502**	**1.4**	2,990	2.5
14.01-15.00	**3,414**	**3.2**	3,971	4.0
15.01-16.00	**95**	**0.8**	196	1.3
Total	**24,833**	**3.9**	25,917	5.2

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

7 Net finance costs

	2010 £m	2009 £m
Interest on short term bank loans, overdrafts and commercial paper	**(33)**	(63)
Interest on other loans	**(236)**	(226)
Interest on obligations under finance leases	**(1)**	(1)
Total borrowing costs	**(270)**	(290)
Losses on derivatives not designated as hedges	**(14)**	(8)
Finance costs	**(284)**	(298)
Interest on bank deposits	**7**	5
Gains on loans and derivatives not designated as hedges	**1**	2
Finance income	**8**	7
Net finance costs	**(276)**	(291)

Finance costs include £26m (2009: £46m) transferred from the hedge reserve. A net loss of £15m (2009: £11m) on interest rate derivatives designated as cash flow hedges was recognised directly in equity in the hedge reserve to be recognised in future periods.

8 Disposals and other non operating items

	2010 £m	2009 £m
Revaluation of held for trading investments	**8**	8
Loss on disposal and write down of businesses and other assets	**(54)**	(69)
Net loss on disposals and other non operating items	**(46)**	(61)

The loss on disposal and write down of businesses and other assets in 2009 and 2010 principally relate to asset sales and closures in RBI US's businesses.

9 Taxation

	2010 £m	2009 £m
Current tax		
United Kingdom	**44**	44
The Netherlands	**58**	37
Rest of world	**64**	(1)
Total current tax charge	**166**	80
Deferred tax		
Origination and reversal of temporary differences	**(46)**	(40)
Total taxation charge	**120**	40

The current tax charge includes a tax credit of £7m (2009: £34m) in respect of prior year disposals.

Notes to the combined financial statements
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9 Taxation continued

A reconciliation of the notional tax charge based on average applicable rates of tax (weighted in proportion to accounting profits) to the actual total tax expense is set out below.

	2010 £m	2009 £m
Profit before tax	**768**	435
Tax at average applicable rates	**118**	41
Tax on share of results of joint ventures	**(7)**	(6)
Prior year credits on disposals	**(7)**	(34)
Non deductible goodwill impairment	**–**	19
Non deductible loss on disposals	**10**	–
Net tax on share based remuneration	**2**	10
Non deductible amounts and other items	**4**	10
Tax expense	**120**	40
Tax expense as a percentage of profit before tax	**16%**	9%

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

	2010 £m	2009 £m
Tax on actuarial movements on defined benefit pension schemes	**16**	(10)
Tax on fair value movements on cash flow hedges	**12**	(15)
Deferred tax charge on share based remuneration	**1**	–
Net tax credit/(charge) recognised directly in equity	**29**	(25)

10 Adjusted figures

Reed Elsevier uses adjusted figures as additional performance measures. Adjusted figures are stated before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items, related tax effects and movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets. Adjusted operating profit is also grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs in 2010 relate to the restructuring of the Reed Business Information business and in 2009 relate to the exceptional restructuring programmes across Reed Elsevier. Acquisition related costs relate to acquisition integration and, from 2010, professional and other transaction related fees and adjustments to deferred and contingent consideration.

Adjusted operating cash flow is measured after net capital expenditure and dividends from joint ventures but before payments in relation to exceptional restructuring and acquisition related costs. Adjusted figures are derived as follows:

	2010 £m	2009 £m
Operating profit	**1,090**	787
Adjustments:		
Amortisation of acquired intangible assets	**349**	368
Impairment of acquired intangible assets and goodwill	**–**	177
Exceptional restructuring costs	**57**	182
Acquisition related costs	**50**	48
Reclassification of tax in joint ventures	**9**	8
Adjusted operating profit	**1,555**	1,570
Profit before tax	**768**	435
Adjustments:		
Amortisation of acquired intangible assets	**349**	368
Impairment of acquired intangible assets and goodwill	**–**	177
Exceptional restructuring costs	**57**	182
Acquisition related costs	**50**	48
Reclassification of tax in joint ventures	**9**	8
Disposals and other non operating items	**46**	61
Adjusted profit before tax	**1,279**	1,279

10 Adjusted figures continued

	2010 £m	2009 £m
Profit attributable to parent companies' shareholders	**642**	391
Adjustments (post tax):		
Amortisation of acquired intangible assets	**337**	411
Impairment of acquired intangible assets and goodwill	**–**	136
Exceptional restructuring costs	**37**	133
Acquisition related costs	**30**	33
Disposals and other non operating items	**37**	(22)
Deferred tax credits on acquired intangible assets not expected to crystallise in the near term	**(100)**	(100)
Adjusted profit attributable to parent companies' shareholders	**983**	982
Cash generated from operations	**1,649**	1,604
Dividends received from joint ventures	**24**	23
Purchases of property, plant and equipment	**(83)**	(78)
Proceeds from disposals of property, plant and equipment	**7**	4
Expenditure on internally developed intangible assets	**(228)**	(164)
Payments in relation to exceptional restructuring costs	**99**	124
Payments in relation to acquisition related costs	**51**	45
Adjusted operating cash flow	**1,519**	1,558

11 Statement of cash flows

Reconciliation of operating profit before joint ventures to cash generated from operations	2010 £m	2009 £m
Operating profit before joint ventures	**1,068**	772
Amortisation and impairment of acquired intangible assets and goodwill	**345**	533
Amortisation of internally developed intangible assets	**158**	139
Depreciation of property, plant and equipment	**79**	84
Share based remuneration	**(7)**	17
Total non cash items	**575**	773
Decrease in inventories and pre-publication costs	**35**	47
Decrease in receivables	**24**	112
Decrease in payables	**(53)**	(100)
Decrease in working capital	**6**	59
Cash generated from operations	**1,649**	1,604

Cash flow on acquisitions	Note	2010 £m	2009 £m
Purchase of businesses	12	**(38)**	(9)
Payment of ChoicePoint change of control and other non operating payables assumed		**(7)**	(56)
Deferred payments relating to prior year acquisitions		**(5)**	(29)
Total		**(50)**	(94)

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11 Statement of cash flows continued

Reconciliation of net borrowings	Cash & cash equivalents £m	Borrowings £m	Related derivative financial instruments £m	2010 £m	2009 £m
At start of year	**734**	**(4,706)**	**41**	**(3,931)**	(5,726)
Increase in cash and cash equivalents	**–**	**–**	**–**	**–**	301
Net movement in short term bank loans, overdrafts and commercial paper	**–**	**143**	**–**	**143**	(107)
Issuance of other loans	**–**	**–**	**–**	**–**	(1,807)
Repayment of other loans	**–**	**394**	**–**	**394**	2,862
Repayment of finance leases	**–**	**7**	**–**	**7**	2
Change in net borrowings resulting from cash flows	**–**	**544**	**–**	**544**	1,251
Inception of finance leases	**–**	**(2)**	**–**	**(2)**	(26)
Fair value adjustments to borrowings and related derivatives	**–**	**(52)**	**63**	**11**	11
Exchange translation differences	**8**	**(86)**	**1**	**(77)**	559
At end of year	**742**	**(4,302)**	**105**	**(3,455)**	(3,931)

Net borrowings comprise cash and cash equivalents, loan capital, finance leases, promissory notes, bank and other loans, and those derivative financial instruments that are used to hedge the fair value of fixed rate borrowings.

Cash and cash equivalents include £4m (2009: £5m) held in trust to satisfy liabilities in respect of change of control obligations related to the acquisition of ChoicePoint.

12 Acquisitions

During the year a number of small acquisitions were made for a total consideration of £43m (2009: £11m), after taking account of net cash acquired of nil. 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 of the assets and liabilities acquired are summarised below.

	Fair value 2010 £m	Fair value 2009 £m
Goodwill	**27**	6
Intangible assets	**27**	17
Current liabilities	**(2)**	(11)
Deferred tax	**(9)**	(1)
Net assets acquired	**43**	11
Consideration (after taking account of nil net cash acquired)	**43**	11
Less: consideration deferred to future years	**(5)**	(2)
Net cash flow	**38**	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 a business to generate higher returns than individual assets, skilled workforces, acquisition synergies that are specific to Reed Elsevier, and high barriers to market entry. 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.

12 Acquisitions continued

The fair values of the assets and liabilities acquired are provisional pending the completion of the valuation exercises. Final fair values will be incorporated in the 2011 combined financial statements. There were no significant adjustments to the provisional fair values of prior year acquisitions established in 2009.

The businesses acquired in 2010 contributed £2m to revenue, decreased adjusted operating profit by £1m, decreased adjusted profit attributable by £1m, decreased profit attributable by £3m, and contributed nil 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 pro forma basis the Reed Elsevier revenues, adjusted operating profit, adjusted profit attributable and profit attributable for the year would have been £6,065m, £1,556m, £984m and £643m respectively before taking account of acquisition financing costs.

13 Equity dividends

Ordinary dividends declared in the year	**2010 £m**	2009 £m
Reed Elsevier PLC	**245**	228
Reed Elsevier NV	**240**	232
Total	**485**	460

Ordinary dividends declared in the year, in amounts per ordinary share, comprise: a 2009 final dividend of 15.0p and a 2010 interim dividend of 5.4p giving a total of 20.4p (2009: 20.4p) for Reed Elsevier PLC; and a 2009 final dividend of €0.293 and a 2010 interim dividend of €0.109 giving a total of €0.402 (2009: €0.397) for Reed Elsevier NV.

The directors of Reed Elsevier PLC have proposed a final dividend of 15.0p (2009: 15.0p). The directors of Reed Elsevier NV have proposed a final dividend of €0.303 (2009: €0.293). The total cost of funding the proposed final dividends is expected to be £361m, for which no liability has been recognised at the statement of financial position date.

Ordinary dividends paid and proposed relating to the financial year	**2010 £m**	2009 £m
Reed Elsevier PLC	**245**	245
Reed Elsevier NV	**246**	250
Total	**491**	495

Dividends paid to Reed Elsevier PLC and Reed Elsevier NV shareholders are, other than in special circumstances, equalised at the gross level inclusive of the UK tax credit of 10% received by certain Reed Elsevier PLC shareholders. The cost of funding the Reed Elsevier PLC dividends is therefore similar to that of Reed Elsevier NV.

14 Goodwill

	2010 £m	2009 £m
At start of year	**4,339**	4,901
Acquisitions	**27**	6
Disposals	**(38)**	(7)
Impairment	**–**	(110)
Reclassified from held for sale	**–**	22
Exchange translation differences	**113**	(473)
At end of year	**4,441**	4,339

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14 Goodwill continued

The carrying amount of goodwill is after cumulative amortisation of £1,407m (2009: £1,573m) which was charged prior to the adoption of IFRS.

Impairment charges in 2009 comprise £93m in Reed Business Information, principally relating to its US and International businesses, and £17m in Reed Exhibitions, principally in Reed Exhibitions Continental Europe.

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.

Goodwill	2010 £m	2009 £m
Elsevier	**994**	963
LexisNexis US Legal	**1,064**	1,012
LexisNexis Risk Solutions	**1,720**	1,659
LexisNexis International	**115**	133
LexisNexis	**2,899**	2,804
Reed Exhibitions Continental Europe	**293**	304
Reed Exhibitions other	**66**	60
Reed Exhibitions	**359**	364
Reed Business Information US	**63**	73
Reed Business Information UK	**71**	69
Reed Business Information NL	**24**	29
Reed Business Information International	**31**	37
Reed Business Information	**189**	208
Total	**4,441**	4,339

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 discount rates applied are 9.5% for Elsevier, 10.0-10.5% for LexisNexis, 10.5-11.0% for Reed Exhibitions and 10.5-12.0% 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 reasonably possible by management: an increase in the 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 2.0%; and a decrease in perpetuity growth rates of 0.5%. The sensitivity analysis shows that impairment charges resulting from these sensitivity scenarios would be less than £10m.

Notes to the combined financial statements
for the year ended 31 December 2010

15 Intangible assets

	Market and customer related £m	Content, software and other £m	Total acquired intangible assets £m	Internally developed intangible assets £m	Total £m
Cost					
At 1 January 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 1 January 2010	**2,535**	**3,390**	**5,925**	**1,042**	**6,967**
Acquisitions	**11**	**16**	**27**	**–**	**27**
Additions	**–**	**–**	**–**	**230**	**230**
Disposals	**–**	**(99)**	**(99)**	**(77)**	**(176)**
Exchange translation differences	**85**	**44**	**129**	**9**	**138**
At 31 December 2010	**2,631**	**3,351**	**5,982**	**1,204**	**7,186**
Amortisation and impairment					
At 1 January 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 1 January 2010	**437**	**2,260**	**2,697**	**638**	**3,335**
Charge for the year	**161**	**184**	**345**	**158**	**503**
Disposals	**–**	**(93)**	**(93)**	**(64)**	**(157)**
Exchange translation differences	**12**	**33**	**45**	**3**	**48**
At 31 December 2010	**610**	**2,384**	**2,994**	**735**	**3,729**
Net book amount					
At 31 December 2009	2,098	1,130	3,228	404	3,632
At 31 December 2010	**2,021**	**967**	**2,988**	**469**	**3,457**

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trade marks, imprints, brands); customer related assets (e.g. subscription bases, customer lists, customer relationships); and content, software and other intangible assets (e.g. editorial content, software and product delivery systems, other publishing rights, exhibition rights and supply contracts). Included in content, software and other acquired intangible assets are assets with a net book value of £619m (2009: £698m) 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 £368m (2009: £356m) 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 14.

Impairment charges in 2009 comprise amounts of £10m in Reed Exhibitions, and £49m in Reed Business Information's US and International businesses.

Notes to the combined financial statements
for the year ended 31 December 2010

16 Investments

	2010 £m	2009 £m
Investments in joint ventures	**136**	135
Available for sale investments	**10**	9
Venture capital investments held for trading	**38**	32
Total	**184**	176

The value of £12m (2009: £11m) 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 has 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.

	2010 £m	2009 £m
At start of year	**135**	145
Share of results of joint ventures	**22**	15
Dividends received from joint ventures	**(24)**	(23)
Disposals	**(1)**	–
Exchange translation differences	**4**	(2)
At end of year	**136**	135

Share of results of joint ventures includes impairment charges of nil (2009: £8m) in respect of minor joint ventures in Reed Exhibitions.

The principal joint ventures at 31 December 2010 are exhibition joint ventures within Reed Exhibitions and Giuffrè (an Italian legal publisher in which Reed Elsevier has a 40% shareholding) within LexisNexis.

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

	Total joint ventures		Reed Elsevier share	
	2010 £m	2009 £m	2010 £m	2009 £m
Revenue	**235**	246	**116**	118
Net profit for the year	**46**	51	**22**	15
Total assets	**264**	284	**122**	133
Total liabilities	**(132)**	(152)	**(62)**	(73)
Net assets	**132**	132	**60**	60
Goodwill			**76**	75
Total			**136**	135

Notes to the combined financial statements
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17 Property, plant and equipment

	2010			2009		
	Land and buildings £m	**Fixtures and equipment £m**	**Total £m**	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost						
At start of year	**238**	**626**	**864**	259	644	903
Capital expenditure	**7**	**78**	**85**	10	68	78
Disposals	**(5)**	**(141)**	**(146)**	(8)	(54)	(62)
Reclassified from held for sale	**–**	**–**	**–**	–	18	18
Exchange translation differences	**6**	**15**	**21**	(23)	(50)	(73)
At end of year	**246**	**578**	**824**	238	626	864
Accumulated depreciation						
At start of year	**106**	**466**	**572**	106	468	574
Disposals	**(5)**	**(127)**	**(132)**	(2)	(50)	(52)
Reclassified from held for sale	**–**	**–**	**–**	–	12	12
Charge for the year	**12**	**67**	**79**	12	72	84
Exchange translation differences	**2**	**12**	**14**	(10)	(36)	(46)
At end of year	**115**	**418**	**533**	106	466	572
Net book amount	**131**	**160**	**291**	132	160	292

No depreciation is provided on freehold land of £48m (2009: £50m). The net book amount of property, plant and equipment at 31 December 2010 includes £2m (2009: £4m) in respect of assets held under finance leases relating to fixtures and equipment.

Notes to the combined financial statements
for the year ended 31 December 2010

18 Financial instruments

Details of the objectives, policies and strategies pursued by Reed Elsevier in relation to financial instruments and capital management are set out on pages 48 and 49 of the Financial Review. The main financial risks faced by Reed Elsevier are liquidity risk, market risk – comprising interest rate risk and foreign exchange risk – and credit risk. Financial instruments are used to finance the Reed Elsevier businesses and to hedge interest rate and foreign exchange risks. Reed Elsevier's businesses do not enter into speculative derivative transactions. Details of financial instruments subject to liquidity, market and credit risks are described below.

Liquidity risk
Reed Elsevier maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. The remaining contractual maturities for borrowings and derivative financial instruments are shown in the table below. The table shows undiscounted principal and interest cash flows and includes contractual gross cash flows to be exchanged as part of cross currency interest rate swaps and forward foreign exchange contracts where there is a legal right of set-off.

		Contractual cash flow						
At 31 December 2010	**Carrying amount £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**	**Total £m**
Borrowings								
Fixed rate borrowings	**(3,711)**	**(370)**	**(558)**	**(833)**	**(865)**	**(246)**	**(2,210)**	**(5,082)**
Floating rate borrowings	**(591)**	**(383)**	**(53)**	**(6)**	**(99)**	**(67)**	**(5)**	**(613)**
Derivative financial liabilities								
Interest rate derivatives	**(25)**	**(19)**	**(8)**	**(2)**	**–**	**(1)**	**(6)**	**(36)**
Cross currency interest rate swaps	**–**	**(5)**	**(7)**	**(179)**	**(190)**	**–**	**–**	**(381)**
Forward foreign exchange contracts	**(55)**	**(1,283)**	**(413)**	**(154)**	**(32)**	**–**	**–**	**(1,882)**
Derivative financial assets								
Interest rate derivatives	**19**	**15**	**10**	**20**	**–**	**–**	**–**	**45**
Cross currency interest rate swaps	**100**	**14**	**14**	**209**	**248**	**–**	**–**	**485**
Forward foreign exchange contracts	**15**	**1,262**	**401**	**154**	**33**	**–**	**–**	**1,850**
Total	**(4,248)**	**(769)**	**(614)**	**(791)**	**(905)**	**(314)**	**(2,221)**	**(5,614)**

		Contractual cash flow						
At 31 December 2009	Carrying amount £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	Total £m
Borrowings								
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)
Derivative financial liabilities								
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)
Derivative financial assets								
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
Total	(4,737)	(964)	(604)	(660)	(819)	(886)	(2,426)	(6,359)

18 Financial instruments continued

The carrying amount of derivative financial liabilities comprises nil (2009: £9m) in relation to fair value hedges, £68m (2009: £67m) in relation to cash flow hedges and £12m (2009: £26m) held for trading. The carrying amount of derivative financial assets comprises £105m (2009: £50m) in relation to fair value hedges, £12m (2009: £12m) in relation to cash flow hedges and £17m (2009: £9m) 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 31 December 2010, Reed Elsevier had access to a $2,000m committed bank facility maturing in June 2013, which was undrawn.

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2010, and after utilising available cash resources, no borrowings mature within two years (2009: nil), 23% of borrowings mature in the third year (2009: 19%), 27% in the fourth and fifth years (2009: 35%), 39% in the sixth to tenth years (2009: 36%), and 11% beyond the tenth year (2009: 10%).

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 31 December 2010, 73% of gross 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 £3m (2009: £4m), based on the composition of financial instruments including cash, cash equivalents, bank loans and commercial paper borrowings at 31 December 2010. A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £3m (2009: £4m).

The impact on net equity of a theoretical change in interest rates as at 31 December 2010 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 £8m (2009: £14m) and a 100 basis point increase in interest rates would increase net equity by an estimated £9m (2009: £15m). 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 24).

A theoretical weakening of all currencies by 10% against sterling at 31 December 2010 would decrease the carrying value of net assets, excluding net borrowings, by £457m (2009: £466m). This would be offset to a large degree by a decrease in net borrowings of £270m (2009: £321m). A strengthening of all currencies by 10% against sterling at 31 December 2010 would increase the carrying value of net assets, excluding net borrowings, by £570m (2009: £581m) and increase net borrowings by £329m (2009: £392m).

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 £51m (2009: £17m). A 10% strengthening of all foreign currencies against sterling on this basis would increase net profit for the year by £62m (2009: £20m).

Notes to the combined financial statements

for the year ended 31 December 2010

18 Financial instruments continued

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/A2 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 £241m (2009: £248m); past due two to three months £58m (2009: £66m); past due four to six months £16m (2009: £25m); and past due greater than six months £5m (2009: nil). 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.

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 £1,093m (2009: £1,104m) were in place at 31 December 2010 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.

18 Financial instruments continued

The gains and losses on the borrowings and related derivatives designated as fair value hedges, which are included in the income statement, for the two years ended 31 December 2010 were as follows:

Gains/(losses) on borrowings and related derivatives	1 January 2009 £m	Fair value movement gain/(loss) £m	Exchange gain/(loss) £m	**1 January 2010 £m**	**Fair value movement gain/(loss) £m**	**Exchange gain/(loss) £m**	**31 December 2010 £m**
GBP debt	–	9	–	**9**	**(16)**	**–**	**(7)**
Related interest rate swaps	–	(9)	–	**(9)**	**16**	**–**	**7**
	–	–	–	**–**	**–**	**–**	**–**
EUR debt	–	(2)	–	**(2)**	**(10)**	**–**	**(12)**
Related interest rate swaps	–	2	–	**2**	**10**	**–**	**12**
	–	–	–	**–**	**–**	**–**	**–**
CHF debt	(41)	(11)	4	**(48)**	**(37)**	**(1)**	**(86)**
Related CHF to USD cross currency interest rate swaps	41	11	(4)	**48**	**37**	**1**	**86**
	–	–	–	**–**	**–**	**–**	**–**
Total GBP, EUR and CHF debt	(41)	(4)	4	**(41)**	**(63)**	**(1)**	**(105)**
Total related interest rate derivatives	41	4	(4)	**41**	**63**	**1**	**105**
Net gain	–	–	–	**–**	**–**	**–**	**–**

All fair value hedges were highly effective throughout the two years ended 31 December 2010.

Gross borrowings as at 31 December 2010 included £51m (2009: £59m) 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 £62m. £10m (2009: £11m) 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.

Movements in the hedge reserve (pre-tax) in 2009 and 2010, including gains and losses on cash flow hedging instruments, were as follows:

	Interest rate hedges £m	**Foreign exchange hedges £m**	**Total hedge reserve pre-tax £m**
Hedge reserve at 1 January 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 1 January 2010: losses deferred	**(38)**	**(51)**	**(89)**
Losses arising in 2010	**(15)**	**(43)**	**(58)**
Amounts recognised in income statement	**26**	**35**	**61**
Exchange translation differences	**(2)**	**–**	**(2)**
Hedge reserve at 31 December 2010: losses deferred	**(29)**	**(59)**	**(88)**

All cash flow hedges were highly effective throughout the two years ended 31 December 2010.

A tax credit of £21m (2009: £24m) in respect of the above gains and losses at 31 December 2010 was also deferred in the hedge reserve.

Notes to the combined financial statements
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18 Financial instruments continued

Of the amounts recognised in the income statement in the year, losses of £35m (2009: £58m) were recognised in revenue, and losses of £26m (2009: £46m) were recognised in finance costs. A tax credit of £15m (2009: £20m) was recognised in relation to these items.

The deferred losses on cash flow hedges at 31 December 2010 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
2011	**(14)**	**(35)**	**(49)**
2012	**(12)**	**(15)**	**(27)**
2013	**(3)**	**(8)**	**(11)**
2014	**–**	**(1)**	**(1)**
2015	**–**	**–**	**–**
Losses deferred in hedge reserve at end of year	**(29)**	**(59)**	**(88)**

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.

19 Deferred tax

	2010 £m	2009 £m
Deferred tax assets	**151**	208
Deferred tax liabilities	**(1,192)**	(1,272)
Total	**(1,041)**	(1,064)

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 £m	Excess of amortisation over tax allowances £m	Tax losses carried forward £m	Pensions liabilities £m	Other temporary differences £m	Total £m
Deferred tax (liability)/asset at 1 January 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 1 January 2010	**(216)**	**(1,007)**	**(31)**	**(18)**	**27**	**9**	**122**	**50**	**(1,064)**
Credit/(charge) to profit	**2**	**100**	**(7)**	**1**	**(14)**	**4**	**(40)**	**–**	**46**
Credit/(charge) to equity	**–**	**–**	**23**	**7**	**–**	**–**	**(7)**	**6**	**29**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11)**	**(11)**
Acquisitions	**–**	**(9)**	**–**	**–**	**–**	**–**	**–**	**–**	**(9)**
Exchange translation differences	**(9)**	**(28)**	**–**	**–**	**–**	**–**	**3**	**2**	**(32)**
Deferred tax (liability)/asset at 31 December 2010	**(223)**	**(944)**	**(15)**	**(10)**	**13**	**13**	**78**	**47**	**(1,041)**

Notes to the combined financial statements
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20 Inventories and pre-publication costs

	2010 £m	2009 £m
Raw materials	**6**	9
Pre-publication costs	**130**	168
Finished goods	**92**	98
Total	**228**	275

21 Trade and other receivables

	2010 £m	2009 £m
Trade receivables	**1,361**	1,367
Allowance for doubtful debts	**(73)**	(80)
	1,288	1,287
Prepayments and accrued income	**187**	205
Total	**1,475**	1,492

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:

	2010 £m	2009 £m
At start of year	**80**	77
Charge for the year	**15**	33
Trade receivables written off	**(22)**	(24)
Exchange translation differences	**–**	(6)
At end of year	**73**	80

22 Assets and liabilities held for sale

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

	2010 £m	2009 £m
Trade and other receivables	**–**	5
Total assets held for sale	**–**	5
Trade and other payables	**–**	5
Total liabilities associated with assets held for sale	**–**	5

Assets held for sale as at 31 December 2009 related to Reed Business Information's US controlled circulation and other titles.

Notes to the combined financial statements
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23 Trade and other payables

	2010 £m	2009 £m
Payables and accruals	**1,276**	1,251
Deferred income	**1,308**	1,220
Total	**2,584**	2,471

24 Borrowings

	2010			2009		
	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	**379**	**–**	**379**	515	–	515
Finance leases	**7**	**15**	**22**	7	20	27
Other loans	**130**	**1,944**	**2,074**	156	2,247	2,403
Other loans in fair value hedging relationships	**–**	**1,198**	**1,198**	–	1,144	1,144
Other loans previously in fair value hedging relationships	**–**	**629**	**629**	–	617	617
Total	**516**	**3,786**	**4,302**	678	4,028	4,706

The total fair value of financial liabilities measured at amortised cost is £2,796m (2009: £3,262m). The total fair value of other loans in fair value hedging relationships is £1,279m (2009: £1,257m). The total fair value of other loans previously in fair value hedging relationships is £685m (2009: £646m).

Analysis by year of repayment

	2010				2009			
	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	**379**	**130**	**7**	**516**	515	156	7	678
Within 1 to 2 years	**–**	**382**	**7**	**389**	–	342	7	349
Within 2 to 3 years	**–**	**636**	**8**	**644**	–	431	6	437
Within 3 to 4 years	**–**	**825**	**–**	**825**	–	633	7	640
Within 4 to 5 years	**–**	**188**	**–**	**188**	–	779	–	779
After 5 years	**–**	**1,740**	**–**	**1,740**	–	1,823	–	1,823
	–	**3,771**	**15**	**3,786**	–	4,008	20	4,028
Total	**379**	**3,901**	**22**	**4,302**	515	4,164	27	4,706

Short term bank loans, overdrafts and commercial paper were backed up at 31 December 2010 by a $2,000m (£1,283m) committed bank facility maturing in June 2013, which was undrawn.

Notes to the combined financial statements
for the year ended 31 December 2010

24 Borrowings continued

Analysis by currency

	2010				2009			
	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	**225**	**2,566**	**22**	**2,813**	371	2,828	27	3,226
£ Sterling	**–**	**707**	**–**	**707**	–	691	–	691
Euro	**123**	**628**	**–**	**751**	117	645	–	762
Other currencies	**31**	**–**	**–**	**31**	27	–	–	27
Total	**379**	**3,901**	**22**	**4,302**	515	4,164	27	4,706

Included in the US dollar amounts for other loans above is £364m (2009: £316m) of debt denominated in Swiss francs (CHF 500m; 2009: CHF 500m) that was swapped into US dollars on issuance and against which there are related derivative financial instruments, which, as at 31 December 2010, had a fair value of £86m (2009: £48m).

25 Lease arrangements

Finance leases
At 31 December 2010 future finance lease obligations fall due as follows:

	2010 £m	2009 £m
Within one year	**8**	7
In the second to fifth years inclusive	**17**	23
	25	30
Less future finance charges	**(3)**	(3)
Total	**22**	27
Present value of future finance lease obligations payable:		
Within one year	**7**	7
In the second to fifth years inclusive	**15**	20
Total	**22**	27

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 31 December 2010 outstanding commitments under non-cancellable operating leases fall due as follows:

	2010 £m	2009 £m
Within one year	**128**	140
In the second to fifth years inclusive	**306**	354
After five years	**208**	229
Total	**642**	723

Of the above outstanding commitments, £609m (2009: £677m) relate to land and buildings.

Notes to the combined financial statements
for the year ended 31 December 2010

25 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:

	2010 £m	2009 £m
Within one year	**17**	17
In the second to fifth years inclusive	**25**	36
After five years	**5**	7
Total	**47**	60

26 Provisions

	2010			2009		
	Property £m	**Restructuring £m**	**Total £m**	Property £m	Restructuring £m	Total £m
At start of year	**89**	**106**	**195**	45	69	114
Charged	**36**	**31**	**67**	70	157	227
Utilised	**(22)**	**(82)**	**(104)**	(20)	(114)	(134)
Exchange translation differences	**2**	**(1)**	**1**	(6)	(6)	(12)
At end of year	**105**	**54**	**159**	89	106	195

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 at 31 December 2010 principally relate to Reed Business Information.

At 31 December 2010 provisions are included within current and non-current liabilities as follows:

	2010 £m	2009 £m
Current liabilities	**71**	134
Non-current liabilities	**88**	61
Total	**159**	195

27 Contingent liabilities and capital commitments

There are contingent liabilities amounting to £10m (2009: £22m) in respect of property lease guarantees.

28 Combined share capitals

	2010 £m	2009 £m
At start of year	**225**	209
Issue of ordinary shares	**–**	20
Exchange translation differences	**(1)**	(4)
At end of year	**224**	225

In July 2009, Reed Elsevier PLC placed 109,198,190 new ordinary shares at 405p per share for proceeds, net of issue costs, of £435m and Reed Elsevier NV placed 63,030,989 new ordinary shares at €7.08 per share for net proceeds of €441m. 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.

Disclosures in respect of share capital are given in note 12 to the Reed Elsevier PLC consolidated financial statements and note 13 to the Reed Elsevier NV consolidated financial statements.

29 Combined share premiums

	2010 £m	2009 £m
At start of year	**2,807**	2,529
Issue of ordinary shares, net of expenses	**11**	395
Exchange translation differences	**(64)**	(117)
At end of year	**2,754**	2,807

Combined share premiums exclude the share premium in respect of shares of Reed Elsevier NV held by a subsidiary of Reed Elsevier PLC.

30 Combined shares held in treasury

	Shares held by EBT £m	Shares held by parent companies £m	Total £m
At 1 January 2009	232	551	783
Settlement of share awards	(57)	–	(57)
Exchange translation differences	–	(28)	(28)
At 1 January 2010	**175**	**523**	**698**
Settlement of share awards	**(9)**	**–**	**(9)**
Exchange translation differences	**–**	**(12)**	**(12)**
At 31 December 2010	**166**	**511**	**677**

At 31 December 2010, shares held in treasury related to 14,654,161 (2009: 15,350,605) Reed Elsevier PLC ordinary shares and 7,781,790 (2009: 8,219,196) Reed Elsevier NV ordinary shares held by the Reed Elsevier Group plc Employee Benefit Trust (EBT); and 34,196,298 (2009: 34,196,298) Reed Elsevier PLC ordinary shares and 23,952,791 (2009: 23,952,791) Reed Elsevier NV ordinary shares held by the respective parent companies.

The EBT purchases Reed Elsevier PLC and Reed Elsevier NV shares which, at the trustees' discretion, can be used in respect of the exercise of share options and to meet commitments under conditional share awards.

31 Translation reserve

	2010 £m	2009 £m
At start of year	**(100)**	(14)
Exchange differences on translation of foreign operations	**94**	(122)
Exchange translation differences on capital and reserves	**35**	36
At end of year	**29**	(100)

Notes to the combined financial statements
for the year ended 31 December 2010

32 Other combined reserves

	Hedge reserve 2010 £m	Other reserves 2010 £m	Total 2010 £m	Total 2009 £m
At start of year	**(65)**	**(437)**	**(502)**	(988)
Profit attributable to parent companies' shareholders	**–**	**642**	**642**	391
Dividends paid	**–**	**(483)**	**(483)**	(457)
Issue of ordinary shares, net of expenses	**–**	**–**	**–**	419
Actuarial (losses)/gains on defined benefit pension schemes	**–**	**(63)**	**(63)**	6
Cumulative fair value movements on disposals of available for sale investments	**–**	**–**	**–**	1
Fair value movements on cash flow hedges	**(58)**	**–**	**(58)**	53
Tax recognised directly in equity	**12**	**17**	**29**	(25)
(Decrease)/increase in share based remuneration reserve	**–**	**(7)**	**(7)**	17
Settlement of share awards	**–**	**(9)**	**(9)**	(60)
Transfer from hedge reserve to net profit (net of tax)	**46**	**–**	**46**	84
Exchange translation differences	**(2)**	**20**	**18**	57
At end of year	**(67)**	**(320)**	**(387)**	(502)

Other reserves principally comprise retained earnings, the share based remuneration reserve and available for sale investment reserve.

33 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 £1m (2009: £2m). As at 31 December 2010, amounts owed by joint ventures were £2m (2009: £4m). 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.

	2010 £m	2009 £m
Salaries and other short term employee benefits	**5**	6
Post employment benefits	**1**	1
Termination benefits	**–**	1
Share based remuneration	**(1)**	1
Total	**5**	9

34 Exchange rates

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

	Income statement		Statement of financial position	
	2010	2009	**2010**	2009
Euro to sterling	**1.17**	1.12	**1.17**	1.12
US dollars to sterling	**1.55**	1.57	**1.56**	1.62

35 Approval of financial statements

The combined financial statements were approved and authorised for issue by the Boards of directors of Reed Elsevier PLC and Reed Elsevier NV on 16 February 2011.

Independent auditors' report

to the members of Reed Elsevier PLC and shareholders of Reed Elsevier NV

Report on the combined financial statements
We have audited the combined financial statements of Reed Elsevier PLC (registered in England and Wales), Reed Elsevier NV (registered in Amsterdam), Reed Elsevier Group plc (registered in England and Wales), Elsevier Reed Finance BV (registered in Amsterdam) and their respective subsidiaries, associates and joint ventures (together "the combined businesses"), for the year ended 31 December 2010 ("the combined financial statements"), which comprise the combined income statement, the combined statement of comprehensive income, the combined statement of cash flows, the combined statement of financial position, the combined statement of changes in equity, the accounting policies and the related notes 1 to 35.

Our audit work has been undertaken so that we might state to the members of Reed Elsevier PLC and shareholders of Reed Elsevier NV those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Reed Elsevier PLC and Reed Elsevier NV, and the members of Reed Elsevier PLC as a body and the shareholders of Reed Elsevier NV as a body, for our audit work, for this report, or for the opinions we have formed.

Responsibilities of directors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the combined financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and for being satisfied that they give a true and fair view and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities
Our responsibility is to audit and express an opinion on the combined financial statements in accordance with International Standards on Auditing (UK and Ireland) as issued by the United Kingdom Auditing Practices Board, and Dutch law, including the Dutch Standards on Auditing. Those standards require us to comply with our respective professions' ethical requirements, including the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the combined financial statements
An audit involves obtaining evidence about the amounts and disclosures in the combined financial statements sufficient to give reasonable assurance that the combined financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the combined businesses' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the combined financial statements.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the combined financial statements
In our opinion the combined financial statements:

> give a true and fair view of the state of the combined businesses' affairs as at 31 December 2010 and of its profit for the year then ended; and

> have been properly prepared in accordance with IFRSs as adopted by the European Union

Other matter
We have also audited the information in the parts of the Directors' Remuneration Report presented in the Reed Elsevier Annual Reports and Financial Statements ("the Remuneration Report") that are described as having been audited. The separate audit reports on the consolidated financial statements of Reed Elsevier PLC and Reed Elsevier NV, which have been audited under locally adopted standards and which include the other opinions required by local laws and regulations, appear on pages 160 and 182.

Douglas King (Senior statutory auditor)
For and on behalf of
Deloitte LLP
Chartered Accountants
and Statutory Auditor
London, United Kingdom
16 February 2011

A Sandler
Deloitte Accountants B.V.
Amsterdam
The Netherlands
16 February 2011

Summary combined financial information in euros

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Introduction

The Reed Elsevier combined financial statements are presented in pounds sterling. This summary financial information presents the primary combined financial statements and selected notes in euros using the exchange rates provided in note 34 to the combined financial statements, except for significant transactions which are translated at the relevant spot rate.

Combined income statement

For the year ended 31 December	Note	2010 €m	2009 €m
Revenue	1	**7,084**	6,800
Cost of sales		**(2,584)**	(2,523)
Gross profit		**4,500**	4,277
Selling and distribution costs		**(1,276)**	(1,246)
Administration and other expenses		**(1,974)**	(2,167)
Operating profit before joint ventures	1	**1,250**	864
Share of results of joint ventures		**25**	17
Operating profit		**1,275**	881
Finance income		**9**	8
Finance costs		**(332)**	(334)
Net finance costs		**(323)**	(326)
Disposals and other non operating items		**(54)**	(68)
Profit before tax		**898**	487
Taxation		**(140)**	(45)
Net profit for the year		**758**	442
Attributable to:			
Parent companies' shareholders		**751**	438
Non-controlling interests		**7**	4
Net profit for the year		**758**	442

Combined statement of comprehensive income

For the year ended 31 December	2010 €m	2009 €m
Net profit for the year	**758**	442
Exchange differences on translation of foreign operations	**196**	(50)
Actuarial (losses)/gains on defined benefit pension schemes	**(74)**	7
Cumulative fair value movements on disposal of available for sale investments	**–**	1
Fair value movements on cash flow hedges	**(68)**	59
Transfer to net profit from hedge reserve (net of tax)	**54**	94
Tax recognised directly in equity	**34**	(28)
Other comprehensive income for the year	**142**	83
Total comprehensive income for the year	**900**	525
Attributable to:		
Parent companies' shareholders	**893**	521
Non-controlling interests	**7**	4
Total recognised income for the year	**900**	525

Combined statement of cash flows

For the year ended 31 December	Note	2010 €m	2009 €m
Cash flows from operating activities			
Cash generated from operations	4	**1,929**	1,796
Interest paid		**(345)**	(338)
Interest received		**9**	10
Tax paid (net)		**(10)**	(134)
Net cash from operating activities		**1,583**	1,334
Cash flows from investing activities			
Acquisitions	4	**(58)**	(106)
Purchases of property, plant and equipment		**(97)**	(87)
Expenditure on internally developed intangible assets		**(267)**	(184)
Purchase of investments		**(6)**	(3)
Proceeds from disposals of property, plant and equipment		**8**	4
Net proceeds/(costs) from other disposals		**7**	(2)
Dividends received from joint ventures		**28**	26
Net cash used in investing activities		**(385)**	(352)
Cash flows from financing activities			
Dividends paid to shareholders of the parent companies		**(565)**	(512)
Distributions to non-controlling interests		**(9)**	(3)
(Decrease)/increase in short term bank loans, overdrafts and commercial paper		**(168)**	120
Issuance of other loans		**–**	2,024
Repayment of other loans		**(461)**	(3,206)
Repayment of finance leases		**(8)**	(2)
Proceeds on issue of ordinary shares		**13**	934
Net cash used in financing activities		**(1,198)**	(645)
Increase in cash and cash equivalents	4	**–**	337
Movement in cash and cash equivalents			
At start of year		**822**	386
Increase in cash and cash equivalents		**–**	337
Exchange translation differences		**46**	99
At end of year		**868**	822

Combined statement of financial position

As at 31 December	Note	2010 €m	2009 €m
Non-current assets			
Goodwill		**5,196**	4,860
Intangible assets		**4,045**	4,068
Investments in joint ventures		**159**	151
Other investments		**56**	46
Property, plant and equipment		**341**	327
Net pension assets	2	**64**	123
Deferred tax assets		**177**	233
		10,038	9,808
Current assets			
Inventories and pre-publication costs		**267**	308
Trade and other receivables		**1,725**	1,671
Derivative financial instruments		**157**	79
Cash and cash equivalents	4	**868**	822
		3,017	2,880
Assets held for sale		**–**	6
Total assets		**13,055**	12,694
Current liabilities			
Trade and other payables		**3,023**	2,768
Derivative financial instruments		**94**	114
Borrowings	5	**604**	759
Taxation		**755**	536
Provisions	6	**83**	150
		4,559	4,327
Non-current liabilities			
Borrowings	5	**4,430**	4,511
Deferred tax liabilities		**1,395**	1,425
Net pension obligations	2	**263**	386
Provisions	6	**103**	69
		6,191	6,391
Liabilities associated with assets held for sale		**–**	6
Total liabilities		**10,750**	10,724
Net assets		**2,305**	1,970
Capital and reserves			
Combined share capitals	7	**262**	252
Combined share premiums	8	**3,222**	3,144
Combined shares held in treasury	9	**(792)**	(782)
Translation reserve		**229**	79
Other combined reserves	10	**(648)**	(753)
Combined shareholders' equity		**2,273**	1,940
Non-controlling interests		**32**	30
Total equity		**2,305**	1,970

Combined statement of changes in equity

	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 1 January 2010	**252**	**3,144**	**(782)**	**79**	**(753)**	**1,940**	**30**	**1,970**
Total comprehensive income for the year	**–**	**–**	**–**	**196**	**697**	**893**	**7**	**900**
Dividends paid	**–**	**–**	**–**	**–**	**(565)**	**(565)**	**(9)**	**(574)**
Issue of ordinary shares, net of expenses	**–**	**13**	**–**	**–**	**–**	**13**	**–**	**13**
Decrease in share based remuneration reserve	**–**	**–**	**–**	**–**	**(8)**	**(8)**	**–**	**(8)**
Settlement of share awards	**–**	**–**	**11**	**–**	**(11)**	**–**	**–**	**–**
Exchange differences on translation of capital and reserves	**10**	**65**	**(21)**	**(46)**	**(8)**	**–**	**4**	**4**
Balance at 31 December 2010	**262**	**3,222**	**(792)**	**229**	**(648)**	**2,273**	**32**	**2,305**
Balance at 1 January 2009	215	2,605	(806)	174	(1,207)	981	29	1,010
Total comprehensive income for the year	–	–	–	(50)	571	521	4	525
Dividends paid	–	–	–	–	(512)	(512)	(3)	(515)
Issue of ordinary shares, net of expenses	22	442	–	–	470	934	–	934
Increase in share based remuneration reserve	–	–	–	–	19	19	–	19
Settlement of share awards	–	–	64	–	(67)	(3)	–	(3)
Exchange differences on translation of capital and reserves	15	97	(40)	(45)	(27)	–	–	–
Balance at 31 December 2009	252	3,144	(782)	79	(753)	1,940	30	1,970

Notes to the summary combined financial information in euros

1 Segment analysis

	Revenue		Operating profit		Adjusted operating profit	
	2010 €m	2009 €m	**2010 €m**	2009 €m	**2010 €m**	2009 €m
Business segment						
Elsevier	**2,370**	2,223	**757**	631	**847**	776
LexisNexis	**3,063**	2,864	**379**	377	**693**	745
Reed Exhibitions	**811**	715	**149**	88	**185**	170
Reed Business Information	**840**	998	**–**	(183)	**104**	99
Sub-total	**7,084**	6,800	**1,285**	913	**1,829**	1,790
Corporate costs	**–**	–	**(40)**	(39)	**(40)**	(39)
Unallocated net pension credit	**–**	–	**30**	7	**30**	7
Total	**7,084**	6,800	**1,275**	881	**1,819**	1,758

Revenue is analysed before the €136m (2009: €132m) share of joint ventures' revenue, of which €28m (2009: €28m) relates to LexisNexis, principally to Giuffrè, €104m (2009: €101m) relates to Reed Exhibitions, principally to exhibition joint ventures, and €4m (2009: €3m) relates to Reed Business Information.

Share of post-tax results of joint ventures of €25m (2009: €17m) included in operating profit comprises €5m (2009: €5m) relating to LexisNexis, €19m (2009: €11m) relating to Reed Exhibitions and €1m (2009: €1m) relating to Reed Business Information. The unallocated net pension credit of €30m (2009: €7m) comprises the expected return on pension scheme assets of €254m (2009: €212m) less interest on pension scheme liabilities of €224m (2009: €205m).

Analysis of revenue by geographical origin	**2010 €m**	2009 €m
North America	**3,759**	3,615
United Kingdom	**1,061**	1,005
The Netherlands	**726**	742
Rest of Europe	**965**	953
Rest of world	**573**	485
Total	**7,084**	6,800

Analysis of revenue by geographical market	**2010 €m**	2009 €m
North America	**3,864**	3,707
United Kingdom	**573**	575
The Netherlands	**239**	272
Rest of Europe	**1,323**	1,268
Rest of world	**1,085**	978
Total	**7,084**	6,800

Analysis of revenue by type	**2010 €m**	2009 €m
Subscriptions	**3,170**	3,037
Circulation/transactions	**2,059**	1,913
Advertising	**574**	655
Exhibitions	**790**	701
Other	**491**	494
Total	**7,084**	6,800

Notes to the summary combined financial information in euros

1 Segment analysis continued

	Expenditure on acquired goodwill and intangible assets		Capital expenditure additions		Amortisation and impairment of acquired intangible assets and goodwill		Depreciation and other amortisation	
	2010 €m	2009 €m	**2010 €m**	2009 €m	**2010 €m**	2009 €m	**2010 €m**	2009 €m
Business segment								
Elsevier	**15**	5	**95**	86	**88**	87	**87**	90
LexisNexis	**41**	8	**246**	168	**258**	259	**144**	120
Reed Exhibitions	**7**	13	**14**	13	**27**	70	**16**	8
Reed Business Information	**1**	–	**14**	21	**35**	194	**30**	32
Total	**64**	26	**369**	288	**408**	610	**277**	250

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 €4m (2009: €13m) in Reed Exhibitions. Other than the depreciation, amortisation and impairment above, non cash items include €8m credit (2009: €19m charge) relating to the recognition of share based remuneration and comprise €2m credit (2009: €5m charge) in Elsevier, €1m charge (2009: €8m charge) in LexisNexis, €1m credit (2009: €2m charge) in Reed Exhibitions, €4m credit (2009: €2m charge) in Reed Business Information and €2m credit (2009: €2m charge) in Corporate.

	Total assets	
	2010 €m	2009 €m
Business segment		
Elsevier	**3,359**	3,265
LexisNexis	**6,928**	6,576
Reed Exhibitions	**797**	815
Reed Business Information	**533**	613
Sub-total	**11,617**	11,269
Taxation	**177**	233
Cash and cash equivalents	**868**	822
Net pension assets	**64**	123
Assets held for sale	**–**	6
Other assets	**329**	241
Total	**13,055**	12,694
Geographical location		
North America	**8,840**	8,478
United Kingdom	**1,092**	1,304
The Netherlands	**999**	769
Rest of Europe	**1,587**	1,685
Rest of world	**537**	458
Total	**13,055**	12,694

Investments in joint ventures of €159m (2009: €151m) included in segment assets above comprise €44m (2009: €42m) relating to LexisNexis, €108m (2009: €103m) relating to Reed Exhibitions and €7m (2009: €6m) relating to Reed Business Information.

Notes to the summary combined financial information in euros

2 Pension schemes

The pension expense recognised within the income statement comprises:

	2010 €m	2009 €m
Service cost (including curtailment credits of €20m (2009: €48m))	**56**	27
Interest on pension scheme liabilities	**224**	205
Expected return on scheme assets	**(254)**	(212)
Net defined benefit pension expense	**26**	20
Defined contribution pension expense	**37**	27
Total pension expense	**63**	47

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:

	2010			2009		
	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	**(3,698)**	**3,435**	**(263)**	(3,143)	2,763	(380)
Service cost	**(56)**	**–**	**(56)**	(27)	–	(27)
Interest on pension scheme liabilities	**(224)**	**–**	**(224)**	(205)	–	(205)
Expected return on scheme assets	**–**	**254**	**254**	–	212	212
Actuarial (loss)/gain	**(306)**	**232**	**(74)**	(330)	337	7
Contributions by employer	**–**	**180**	**180**	–	113	113
Contributions by employees	**(13)**	**13**	**–**	(13)	13	–
Benefits paid	**163**	**(163)**	**–**	150	(150)	–
Exchange translation differences	**(168)**	**152**	**(16)**	(130)	147	(17)
At end of year	**(4,302)**	**4,103**	**(199)**	(3,698)	3,435	(263)

The net pension obligations of €199m (2009: €263m) at 31 December 2010 comprise schemes in deficit with net pension obligations of €263m (2009: €386m) and schemes in surplus with net pension assets of €64m (2009: €123m).

As at 31 December 2010 the defined benefit obligations comprise €4,131m (2009: €3,553m) in relation to funded schemes and €171m (2009: €145m) in relation to unfunded schemes.

Notes to the summary combined financial information in euros

3 Adjusted figures

Reed Elsevier uses adjusted figures as additional performance measures. Adjusted figures are stated before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and loses and other non operating items, related tax effects and movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets. Adjusted operating profit is also grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs in 2010 relate to the restructuring of the Reed Business Information business and in 2009 relate to the exceptional restructuring programmes across Reed Elsevier. Acquisition related costs relate to acquisition integration and, from 2010, professional and other transaction related fees and adjustments to deferred and contingent consideration.

Adjusted operating cash flow is measured after net capital expenditure and dividends from joint ventures but before payments in relation to exceptional restructuring and acquisition related costs.

	2010 €m	2009 €m
Operating profit	**1,275**	881
Adjustments:		
Amortisation of acquired intangible assets	**408**	412
Impairment of acquired intangible assets and goodwill	**–**	198
Exceptional restructuring costs	**67**	204
Acquisition related costs	**58**	54
Reclassification of tax in joint ventures	**11**	9
Adjusted operating profit	**1,819**	1,758
Profit before tax	**898**	487
Adjustments:		
Amortisation of acquired intangible assets	**408**	412
Impairment of acquired intangible assets and goodwill	**–**	198
Exceptional restructuring costs	**67**	204
Acquisition related costs	**58**	54
Reclassification of tax in joint ventures	**11**	9
Disposals and other non operating items	**54**	68
Adjusted profit before tax	**1,496**	1,432
Profit attributable to parent companies' shareholders	**751**	438
Adjustments (post tax):		
Amortisation of acquired intangible assets	**394**	460
Impairment of acquired intangible assets and goodwill	**–**	152
Exceptional restructuring costs	**44**	149
Acquisition related costs	**35**	37
Disposals and other non operating items	**43**	(25)
Deferred tax credits on acquired intangible assets not expected to crystallise in the near term	**(117)**	(112)
Adjusted profit attributable to parent companies' shareholders	**1,150**	1,099
Cash generated from operations	**1,929**	1,796
Dividends received from joint ventures	**28**	26
Purchases of property, plant and equipment	**(97)**	(87)
Proceeds from disposals of property, plant and equipment	**8**	4
Expenditure on internally developed intangible assets	**(267)**	(184)
Payments in relation to exceptional restructuring costs	**116**	139
Payments in relation to acquisition related costs	**60**	51
Adjusted operating cash flow	**1,777**	1,745

Notes to the summary combined financial information in euros

4 Statement of cash flows

Reconciliation of operating profit before joint ventures to cash generated from operations	2010 €m	2009 €m
Operating profit before joint ventures	**1,250**	864
Amortisation and impairment of acquired intangible assets and goodwill	**404**	597
Amortisation of internally developed intangible assets	**185**	156
Depreciation of property, plant and equipment	**92**	94
Share based remuneration	**(8)**	19
Total non cash items	**673**	866
Decrease in inventories and pre-publication costs	**40**	53
Decrease in receivables	**28**	125
Decrease in payables	**(62)**	(112)
Decrease in working capital	**6**	66
Cash generated from operations	**1,929**	1,796

Cash flow on acquisitions	2010 €m	2009 €m
Purchase of businesses	**(44)**	(10)
Payment of ChoicePoint change of control and other non operating payables assumed	**(8)**	(63)
Deferred payments relating to prior year acquisitions	**(6)**	(33)
Total	**(58)**	(106)

Reconciliation of net borrowings	Cash & cash equivalents €m	Borrowings €m	Related derivative financial instruments €m	2010 €m	2009 €m
At start of year	**822**	**(5,270)**	**46**	**(4,402)**	(5,898)
Increase in cash and cash equivalents	**–**	**–**	**–**	**–**	337
Net movement in short term bank loans, overdrafts and commercial paper	**–**	**168**	**–**	**168**	(120)
Issuance of other loans	**–**	**–**	**–**	**–**	(2,024)
Repayment of other loans	**–**	**461**	**–**	**461**	3,206
Repayment of finance leases	**–**	**8**	**–**	**8**	2
Change in net borrowings resulting from cash flows	**–**	**637**	**–**	**637**	1,401
Inception of finance leases	**–**	**(2)**	**–**	**(2)**	(29)
Fair value adjustments to borrowings and related derivatives	**–**	**(61)**	**74**	**13**	12
Exchange translation differences	**46**	**(338)**	**3**	**(289)**	112
At end of year	**868**	**(5,034)**	**123**	**(4,043)**	(4,402)

Net borrowings comprise cash and cash equivalents, loan capital, finance leases, promissory notes, bank and other loans, and those derivative financial instruments that are used to hedge the fair value of fixed rate borrowings.

Cash and cash equivalents include €5m (2009: €6m) held in trust to satisfy liabilities in respect of change of control obligations related to the acquisition of ChoicePoint.

Notes to the summary combined financial information in euros

5 Borrowings

	2010			2009		
	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	**444**	**–**	**444**	577	–	577
Finance leases	**8**	**18**	**26**	8	22	30
Other loans	**152**	**2,274**	**2,426**	174	2,517	2,691
Other loans in fair value hedging relationships	**–**	**1,402**	**1,402**	–	1,281	1,281
Other loans previously in fair value hedging relationships	**–**	**736**	**736**	–	691	691
Total	**604**	**4,430**	**5,034**	759	4,511	5,270

The total fair value of financial liabilities measured at amortised cost is €3,271m (2009: €3,653m). The total fair value of other loans in fair value hedging relationships is €1,496m (2009: €1,408m). The total fair value of other loans previously in fair value hedging relationships is €801m (2009: €724m).

Analysis by year of repayment

	2010				2009			
	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	**444**	**152**	**8**	**604**	577	174	8	759
Within 1 to 2 years	**–**	**447**	**8**	**455**	–	383	7	390
Within 2 to 3 years	**–**	**744**	**10**	**754**	–	483	7	490
Within 3 to 4 years	**–**	**965**	**–**	**965**	–	709	8	717
Within 4 to 5 years	**–**	**220**	**–**	**220**	–	872	–	872
After 5 years	**–**	**2,036**	**–**	**2,036**	–	2,042	–	2,042
	–	**4,412**	**18**	**4,430**	–	4,489	22	4,511
Total	**444**	**4,564**	**26**	**5,034**	577	4,663	30	5,270

Short term bank loans, overdrafts and commercial paper were backed up at 31 December 2010 by a $2,000m (€1,501m) committed bank facility maturing in June 2013, which was undrawn.

Analysis by currency

	2010				2009			
	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	**263**	**3,002**	**26**	**3,291**	416	3,167	30	3,613
£ Sterling	**–**	**827**	**–**	**827**	–	774	–	774
Euro	**144**	**735**	**–**	**879**	131	722	–	853
Other currencies	**37**	**–**	**–**	**37**	30	–	–	30
Total	**444**	**4,564**	**26**	**5,034**	577	4,663	30	5,270

Included in the US dollar amounts for other loans above is €425m (2009: €354m) of debt denominated in Swiss francs (CHF 500m; 2009: CHF 500m) that was swapped into US dollars on issuance and against which there are related derivative financial instruments which, as at 31 December 2010, had a fair value of €100m (2009: €53m).

Notes to the summary combined financial information in euros

6 Provisions

	2010			2009		
	Property €m	**Restructuring €m**	**Total €m**	Property €m	Restructuring €m	Total €m
At start of year	**99**	**120**	**219**	46	71	117
Charged	**42**	**36**	**78**	78	176	254
Utilised	**(26)**	**(96)**	**(122)**	(22)	(128)	(150)
Exchange translation differences	**8**	**3**	**11**	(3)	1	(2)
At end of year	**123**	**63**	**186**	99	120	219

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 at 31 December 2010 principally relate to Reed Business Information.

At 31 December 2010 provisions are included within current and non-current liabilities as follows:

	2010 €m	2009 €m
Current liabilities	**83**	150
Non-current liabilities	**103**	69
Total	**186**	219

7 Combined share capitals

	2010 €m	2009 €m
At start of year	**252**	215
Issue of ordinary shares	**–**	22
Exchange translation differences	**10**	15
At end of year	**262**	252

In July 2009, Reed Elsevier PLC placed 109,198,190 new ordinary shares at 405p per share for proceeds, net of issue costs, of £435m and Reed Elsevier NV issued 63,030,989 new ordinary shares at €7.08 per share for net proceeds of €441m. 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.

8 Combined share premiums

	2010 €m	2009 €m
At start of year	**3,144**	2,605
Issue of ordinary shares, net of expenses	**13**	442
Exchange translation differences	**65**	97
At end of year	**3,222**	3,144

Combined share premiums exclude the share premium in respect of shares of Reed Elsevier NV held by a subsidiary of Reed Elsevier PLC.

Notes to the summary combined financial information in euros

9 Combined shares held in treasury

	Shares held by EBT €m	Shares held by parent companies €m	Total €m
At 1 January 2009	239	567	806
Settlement of share awards	(64)	–	(64)
Exchange translation differences	21	19	40
At 1 January 2010	**196**	**586**	**782**
Settlement of share awards	**(11)**	**–**	**(11)**
Exchange translation differences	**9**	**12**	**21**
At 31 December 2010	**194**	**598**	**792**

10 Other combined reserves

	Hedge reserve 2010 €m	Other reserves 2010 €m	Total 2010 €m	Total 2009 €m
At start of year	**(73)**	**(680)**	**(753)**	(1,207)
Profit attributable to parent companies' shareholders	**–**	**751**	**751**	438
Dividends paid	**–**	**(565)**	**(565)**	(512)
Issue of ordinary shares, net of expenses	**–**	**–**	**–**	470
Actuarial (losses)/gains on defined benefit pension schemes	**–**	**(74)**	**(74)**	7
Cumulative fair value movements on disposal of available for sale investments	**–**	**–**	**–**	1
Fair value movements on cash flow hedges	**(68)**	**–**	**(68)**	59
Tax recognised directly in equity	**14**	**20**	**34**	(28)
(Decrease)/increase in share based remuneration reserve	**–**	**(8)**	**(8)**	19
Settlement of share awards	**–**	**(11)**	**(11)**	(67)
Transfer from hedge reserve to net profit (net of tax)	**54**	**–**	**54**	94
Exchange translation differences	**(6)**	**(2)**	**(8)**	(27)
At end of year	**(79)**	**(569)**	**(648)**	(753)

11 Exchange rates

	Income statement		Statement of financial position	
	2010	2009	**2010**	2009
Sterling to euro	**0.85**	0.89	**0.85**	0.89
US dollars to euro	**1.32**	1.40	**1.33**	1.44

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Company number: 77536

Directors' report

The directors present their report, together with the financial statements of the group and company, for the year ended 31 December 2010.

As a consequence of the merger of the company's businesses with those of Reed Elsevier NV in 1993, described on page 56, the shareholders of Reed Elsevier PLC and Reed Elsevier NV can be regarded as having the interests of a single economic group. The Reed Elsevier combined financial statements represent the combined interests of both sets of shareholders and encompass the businesses of Reed Elsevier Group plc, Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the parent companies, Reed Elsevier PLC and Reed Elsevier NV ("the combined businesses" or "Reed Elsevier"). This directors' report and the financial statements of the group and company should be read in conjunction with the combined financial statements and other reports set out on pages 4 to 128. A review of the Reed Elsevier combined businesses and their performance in the year is set out on pages 8 to 37, a summary of the principal risks facing Reed Elsevier is set out on pages 50 to 52, and the Reed Elsevier statement on Corporate Responsibility is set out on pages 38 to 41.

Principal activities
The company is a holding company and its principal investments are its direct 50% shareholding in Reed Elsevier Group plc and 39% shareholding in Elsevier Reed Finance BV, which are engaged in publishing and information activities and financing activities respectively. The remaining shareholdings in these two companies are held by Reed Elsevier NV. Reed Elsevier PLC also has an indirect equity interest in Reed Elsevier NV. Reed Elsevier PLC and Reed Elsevier NV have retained their separate legal identities and are publicly held companies. Reed Elsevier PLC's securities are listed in London and New York and Reed Elsevier NV's securities are listed in Amsterdam and New York.

Financial statement presentation
The consolidated financial statements of Reed Elsevier PLC include the 52.9% economic interest that shareholders have under the equalisation arrangements in the Reed Elsevier combined businesses, accounted for on an equity basis.

Under the terms of the merger agreement, 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. Because of the tax credit, Reed Elsevier PLC normally requires proportionately less cash to fund its net dividend than Reed Elsevier NV does to fund its gross dividend. An adjustment is therefore required in the consolidated income statement of Reed Elsevier PLC to share this tax benefit between the two sets of shareholders in accordance with the equalisation agreement. The equalisation adjustment arises on dividends paid by Reed Elsevier PLC to its shareholders and it reduced the consolidated attributable earnings by £13m (2009: £12m), being 47.1% of the total amount of the tax credit.

In addition to the reported figures, adjusted profit figures are presented as additional performance measures used by management. These exclude the tax credit equalisation adjustment and, in relation to the results of joint ventures, the company's share of amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items, related tax effects and movements in deferred taxation assets and liabilities not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets.

Consolidated income statement
Reed Elsevier PLC's shareholders' 52.9% share of the adjusted profit before tax of the Reed Elsevier combined businesses was £677m, the same as the 2009 level. Reported profit before tax, including the Reed Elsevier PLC shareholders' share of amortisation and impairment charges, exceptional restructuring and acquisition related costs and disposals and other non operating items, was £328m (2009: £201m). The increase largely reflects the intangible asset and goodwill impairment charges in the prior year and lower exceptional restructuring spend in 2010 compared to the prior year. Elsevier saw continued growth although at a lower rate than the prior year due to a constrained customer budget environment. The LexisNexis risk business saw strong growth, driven by the insurance sector and the return to growth in more cyclical markets. The LexisNexis legal and professional businesses saw a small underlying revenue decline reflecting the impact on renewals and print product of the low levels of law firm activity and employment. Reed Exhibitions benefited from a net cycling in of biennial exhibitions and a return to growth in annual exhibitions in the second half of the year. Reed Business Information saw good growth in data services and online marketing solutions and significantly moderated declines in advertising markets, while the portfolio was reshaped through disposals and closures and costs significantly reduced. The adjusted operating margin declined 0.2 percentage points reflecting increased spend on product development, sales & marketing and infrastructure, largely offset by tight cost control and the incremental benefits from the earlier restructuring programmes.

Reed Elsevier PLC's shareholders' share of the adjusted profit attributable of the combined businesses was £520m, up from £519m in 2009. After deducting the company's share of the post tax charge for amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items and deferred taxes not expected to crystallise in the near term, the reported net profit for the year was £327m, up from £195m in 2009.

Adjusted earnings per share decreased 5% to 43.4p (2009: 45.9p). At constant rates of exchange, the adjusted earnings per share were 6% lower. Including the effect of the tax credit equalisation as well as amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items, and tax adjustments, the basic earnings per share was 27.3p (2009: 17.2p).

Consolidated statement of financial position
The consolidated statement of financial position of Reed Elsevier PLC reflects its 52.9% economic interest in the net assets of Reed Elsevier which as at 31 December 2010 was £1,028m (2009: £916m). The £112m increase in net assets reflects the company's share in the attributable profits of Reed Elsevier partially offset by dividends paid.

Directors' report continued

Dividends

The board is recommending an equalised final dividend of 15.0p per ordinary share, unchanged from the prior year. This gives total ordinary dividends for the year of 20.4p (2009: 20.4p), unchanged on 2009. The final dividend will be paid on 17 May 2011 to shareholders on the Register on 26 April 2011.

Dividend cover, based on adjusted earnings per share and the total interim and proposed final dividends for the year, is 2.1 times. The boards of the company and Reed Elsevier NV have adopted dividend policies in recent years in respect of their equalised dividends that, subject to currency considerations, grow dividends broadly in line with adjusted earnings per share whilst maintaining dividend cover (being the number of times the annual dividend is covered by the adjusted earnings per share) of at least two times over the longer term.

The total dividend paid on the ordinary shares in the financial year was £245m (2009: £228m).

Parent company financial statements

The individual parent company financial statements of Reed Elsevier PLC are presented on pages 161 to 163, and are prepared under UK Generally Accepted Accounting Practice (UK GAAP). Parent company shareholders' funds as at 31 December 2010 were £2,791m (2009: £2,444m).

Corporate Governance

The company has complied throughout the year with the provisions of the Combined Code on Corporate Governance issued in June 2008 (the "UK Code"). The UK Code is publicly available at www.frc.org.uk. Details of how the principles of the UK Code have been applied and the directors' statement on internal control are set out in the Structure and Corporate Governance report on pages 56 to 61.

In May 2010 the Financial Reporting Council issued The UK Corporate Governance Code ("the New UK Code"), which replaces the UK Code for financial years beginning on or after 29 June 2010. The New UK Code will, therefore, apply in respect of the company's financial year beginning 1 January 2011.

Details of the role and responsibilities, membership and activities of the Reed Elsevier Audit Committees, including the company's Audit Committee, are set out in the Report of the Audit Committees on pages 81 to 84.

Directors

The following served as directors of the company during the year:

A J Habgood (Chairman)
E Engstrom (Chief Executive Officer)
M H Armour (Chief Financial Officer)
M W Elliott
L Hook
R B Polet
A Prozes (Retired 31 December 2010)
D E Reid (senior independent director)
Lord Sharman of Redlynch OBE
B van der Veer

Biographical details of the directors at the date of this report are given on pages 54 and 55.

Directors are appointed in accordance with the Articles of Association, which provides that any director appointed during the year holds office only until the next following Annual General Meeting and is then eligible for election by the shareholders. The company's Articles of Association provide that at every Annual General Meeting of the company, one third of the directors (or if their number is not a multiple of three the number nearest to one third) shall retire from office and, if they wish, put themselves up for re-election by the shareholders. The New UK Code, applicable in respect of the company's financial year beginning 1 January 2011, recommends that all directors should seek re-election by shareholders annually. Accordingly, the board intends to implement this provision with effect from the Annual General Meeting to be held in April 2011.

The office of director shall be vacated if he or she: (i) resigns; (ii) becomes bankrupt or compounds with his or her creditors generally; (iii) is or may be suffering from a mental illness; (iv) is prohibited by law from being a director; or (v) is removed from office pursuant to the company's Articles of Association. Subject to the shareholders' rights to appoint individuals to the board in accordance with the company's Articles of Association, no individual may be appointed to the board unless such appointment is recommended by the Nominations Committee.

Lord Sharman will retire as a director at the conclusion of the Annual General Meeting in April 2011, and will not seek re-election. In accordance with the provisions of the New UK Code, all other directors will retire from the board at the Annual General Meeting in 2011 and, being eligible, they will each offer themselves for re-election. Taking into account the assessment by the Corporate Governance Committee of the qualifications, performance and effectiveness of each individual director seeking re-election, the board has accepted a recommendation from the Nominations Committee that each director be proposed for re-election at the 2011 Annual General Meeting.

The board, in conjunction with external recruitment consultants, has been conducting a search for a suitable candidate as a non-executive director and, on the recommendation of the Nominations Committee, Adrian Hennah will be proposed for appointment as a non-executive director of Reed Elsevier PLC and as a member of the Supervisory Board of Reed Elsevier NV at the Reed Elsevier PLC and Reed Elsevier NV Annual General Meetings in April 2011. Mr Hennah was appointed chief financial officer of Smith & Nephew plc in 2006. He has over 25 years' experience in finance and operations in the medical devices, technology and pharmaceuticals industries, and will bring highly relevant experience to the board discussions. Subject to his appointment at the Annual General Meetings, he will also be appointed a non-executive director of Reed Elsevier Group plc and a member of the Audit Committees and of the Corporate Governance Committee.

The notice period applicable to the service contracts of E Engstrom and M H Armour is 12 months. The remaining directors seeking re-appointment at the 2011 Annual General Meeting do not have service contracts.

Details of directors' remuneration and their interests in the share capital of the company are provided in the Directors' Remuneration Report on pages 62 to 80.

Directors' report continued

Share capital

The company's issued share capital comprises a single class of ordinary shares, all of which are listed on the London Stock Exchange. All issued shares are fully paid up and carry no additional obligations or special rights. Each share carries the right to one vote at general meetings of the company. In a general meeting, subject to any rights and restrictions attached to any shares, on a show of hands every member who is present in person shall have one vote and every proxy present who has been duly appointed by one or more members entitled to vote on the resolution has one vote (although a proxy has one vote for and one vote against the resolution if: (i) the proxy has been duly appointed by more than one member entitled to vote on the resolution; and (ii) the proxy has been instructed by one or more of those members to vote for the resolution and by one or more other of those members to vote against it). Subject to any rights or restrictions attached to any shares, on a vote on a resolution on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder. Proxy appointments and voting instructions must be received by the company's registrars not less than 48 hours before a general meeting. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights attached to the shares.

At the 2010 Annual General Meeting, shareholders passed a resolution authorising the directors to allot shares up to a nominal value of £9m, representing less than 5% of the company's issued share capital. Since the 2010 Annual General Meeting no shares have been issued under this authority. The shareholder authority also permitted the directors to allot shares in order to satisfy entitlements under employee share plans, and details of such allotments are noted below. The authority to allot shares will expire at the 2011 Annual General Meeting, and a resolution to further extend the authority will be submitted to the shareholders at the 2011 Annual General Meeting.

During the year, 2,010,391 ordinary shares in the company were issued in order to satisfy entitlements under employee share plans as follows:

> 704,655 under a UK SAYE share option scheme at prices between 377.6p and 504.0p per share.
> 1,305,736 under executive share option schemes at prices between 451.5p and 534.0p per share.

The issued share capital as at 31 December 2010 is shown in note 12 to the consolidated financial statements.

Authority to purchase shares

At the 2010 Annual General Meeting, shareholders passed a resolution authorising the purchase of up to 124.7 million ordinary shares in the company (representing less than 10% of the issued ordinary shares) by market purchase. No shares were purchased under this authority during the year. As at 31 December 2010 there were 34,196,298 ordinary shares held in treasury, representing 2.74% of the issued ordinary shares. The authority to make market purchases will expire at the 2011 Annual General Meeting, and a resolution to further extend the authority will be submitted to the shareholders at the 2011 Annual General Meeting.

Substantial share interests

As at 16 February 2011, the company had been notified by the following shareholders that they held an interest of 3% or more in voting rights of the issued share capital of the company:

> Legal & General Group plc	4.30%
> Silchester International Investors Limited	3.03%

The percentage interests stated above are as disclosed at the date on which the interests were notified to the company.

In addition to the interests noted above, the company is aware that as at the year end Scottish Widows Investment Partnership held, approximately, a 4.83% shareholding in the company and BlackRock Group held, approximately, a 4.22% shareholding in the company.

Employee benefit trust

The Trustee of the Reed Elsevier Group plc Employee Benefit Trust held an interest in 14,654,161 ordinary shares in the company (representing 1.17% of the issued ordinary shares) as at 31 December 2010. The Trustee may vote or abstain from voting any shares it holds in any way it sees fit.

Significant agreements – change of control

The Governing Agreement between Reed Elsevier PLC and Reed Elsevier NV states that upon a change of control of Reed Elsevier PLC (for these purposes, the acquisition by a third party of 50% or more of the issued share capital having voting rights), should there not be a comparable offer from the offeror for Reed Elsevier NV, Reed Elsevier NV may serve notice upon Reed Elsevier PLC varying certain provisions of the Governing Agreement, including the governance and the standstill provisions.

There are a number of borrowing agreements including credit facilities that in the event of a change of control of both Reed Elsevier PLC and Reed Elsevier NV and, in some cases, a consequential credit rating downgrade to sub-investment grade may, at the option of the lenders, require repayment and/or cancellation as appropriate.

Powers of directors

Subject to the provisions of the Companies Act 2006, the company's Articles of Association and any directions given by special resolutions, the business of the company shall be managed by the board which may exercise all the powers of the company.

Directors' indemnity

In accordance with the company's Articles of Association, the company has granted directors an indemnity, to the extent permitted by law, in respect of liabilities incurred as a result of their office. The company also purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its directors.

Related party transactions

Internal controls are in place to ensure that any related party transactions involving directors or their connected persons are carried out on an arm's length basis and are properly recorded.

Directors' report continued

Conflict of interest
The company's Articles of Association permit the board to approve situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the company. The board has established a formal system whereby the Nominations Committee considers and decides whether to authorise any such conflict or potential conflict, and whether to impose limits or conditions when giving authorisation. In reaching its decision, the Nominations Committee is required to act in a way it considers would be most likely to promote the success of the company.

Creditor payment policy
Reed Elsevier companies agree terms and conditions for business transactions with suppliers, including the terms of payment. Reed Elsevier does not operate a standard code in respect of payments to suppliers. The average time taken to pay suppliers during the year was between 30 and 45 days (2009: between 30 and 45 days).

Charitable donations
Through the Reed Elsevier Cares programme, which concentrates on education for disadvantaged young people, Reed Elsevier companies made donations during the year for charitable purposes amounting to £2.3m (2009: £2.5m) of which £0.5m (2009: £0.5m) was in the United Kingdom. Further information concerning the Reed Elsevier Cares programme is available from the Reed Elsevier Corporate Responsibility Report at www.reedelsevier.com/CorporateResponsibility.

Political donations
Reed Elsevier does not make donations to EU political organisations or incur EU political expenditure. In the United States, Reed Elsevier companies donated £53,000 (2009: £46,000) to political organisations. In line with US law, these donations were not made at federal level, but only to candidates and political parties at the state and local levels.

Financial Statements and accounting records
The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to: select suitable accounting policies and then apply them consistently; make judgments and accounting estimates that are reasonable and prudent; state whether applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained in the financial statements; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, IAS1 requires that directors: properly select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' responsibility statement
The board confirms that to the best of its knowledge:

> the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union, give a true and fair view of the financial position and profit or loss of the group; and

> the Directors' Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

Neither the company nor the directors accept any liability to any person in relation to the Annual Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

Directors' report continued

Disclosure of information to auditors
As part of the process of approving the company's 2010 financial statements, the directors have taken steps pursuant to section 418(2) of the Companies Act 2006 to ensure that they are aware of any relevant audit information and to establish that the company's auditors are aware of that information. In that context, so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware.

Going concern
The directors, having made appropriate enquiries, consider that adequate resources exist for the combined businesses to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the 2010 financial statements. In reaching this conclusion, the directors have had due regard to the combined businesses' financial position as at 31 December 2010, the strong free cash flow of the combined businesses, Reed Elsevier's ability to access capital markets and the principal risks facing Reed Elsevier.

A commentary on the Reed Elsevier combined businesses' cash flows, financial position and liquidity for the year ended 31 December 2010 is set out in the Chief Financial Officer's Report on pages 44 and 45. This shows that, after taking account of available cash resources and committed bank facilities that back up short term borrowings, none of Reed Elsevier's borrowings fall due within the next two years. Reed Elsevier's policies on liquidity, capital management and management of risks relating to interest rate, foreign exchange and credit exposures are set out on pages 48 and 49. Further information on liquidity of the combined businesses can be found in note 18 of the combined financial statements. The principal risks facing Reed Elsevier are set out on pages 50 to 52.

Auditors
Resolutions for the re-appointment of Deloitte LLP as auditors of the company and to authorise the directors to fix their remuneration will be submitted to shareholders at the 2011 Annual General Meeting.

By order of the board	Registered Office
Stephen J Cowden Secretary 16 February 2011	1-3 Strand London WC2N 5JR

Consolidated income statement

For the year ended 31 December	Note	**2010 £m**	2009 £m
Administrative expenses	1	**(2)**	(2)
Effect of tax credit equalisation on distributed earnings	2	**(13)**	(12)
Share of results of joint ventures	11	**342**	213
Operating profit		**327**	199
Finance income	5	**1**	2
Profit before tax		**328**	201
Taxation	6	**(1)**	(6)
Profit attributable to ordinary shareholders		**327**	195

Consolidated statement of comprehensive income

For the year ended 31 December	**2010 £m**	2009 £m
Profit attributable to ordinary shareholders	**327**	195
Share of joint ventures' other comprehensive income/(expense) for year	**25**	(2)
Total comprehensive income for the year	**352**	193

Earnings per ordinary share

For the year ended 31 December	Note	**2010 pence**	2009 pence
Basic earnings per share	8	**27.3**	17.2
Diluted earnings per share	8	**27.1**	17.1

Consolidated statement of cash flows

For the year ended 31 December	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash used by operations	10	**(2)**	(2)
Interest received		**1**	2
Tax paid		**(3)**	(6)
Net cash used in operating activities		**(4)**	(6)
Cash flows from investing activities			
Dividends received from joint ventures	11	**589**	–
Increase in investment in joint ventures	11	**(596)**	(462)
Net cash used in investing activities		**(7)**	(462)
Cash flows from financing activities			
Equity dividends paid	7	**(245)**	(228)
Proceeds on issue of ordinary shares		**9**	440
Decrease in net funding balances due from joint ventures	10	**247**	256
Net cash from financing activities		**11**	468
Movement in cash and cash equivalents		**–**	–

Consolidated statement of financial position

As at 31 December	Note	**2010 £m**	2009 £m
Non-current assets			
Investments in joint ventures	11	**1,037**	927
Total assets		**1,037**	927
Current liabilities			
Taxation		**9**	11
Total liabilities		**9**	11
Net assets		**1,028**	916
Capital and reserves			
Called up share capital	12	**180**	180
Share premium account	13	**1,168**	1,159
Shares held in treasury (including in joint ventures)	14	**(312)**	(317)
Capital redemption reserve	15	**4**	4
Translation reserve	16	**142**	92
Other reserves	17	**(154)**	(202)
Total equity		**1,028**	916

The consolidated financial statements were approved by the Board of directors, 16 February 2011.

A J Habgood
Chairman

M H Armour
Chief Financial Officer

Consolidated statement of changes in equity

	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 1 January 2010		**180**	**1,159**	**(317)**	**4**	**92**	**(202)**	**916**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**50**	**302**	**352**
Equity dividends paid	7	**–**	**–**	**–**	**–**	**–**	**(245)**	**(245)**
Issue of ordinary shares, net of expenses		**–**	**9**	**–**	**–**	**–**	**–**	**9**
Share of joint ventures' settlement of share awards by employee benefit trust		**–**	**–**	**5**	**–**	**–**	**(5)**	**–**
Share of joint ventures' decrease in share based remuneration reserve		**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Balance at 31 December 2010		**180**	**1,168**	**(312)**	**4**	**142**	**(154)**	**1,028**
Balance at 1 January 2009		164	1,154	(347)	4	157	(628)	504
Total comprehensive income for the year		–	–	–	–	(65)	258	193
Equity dividends paid	7	–	–	–	–	–	(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 31 December 2009		180	1,159	(317)	4	92	(202)	916

Group accounting policies

Basis of preparation
These consolidated financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. They report the consolidated statements of income, cash flow and financial position of Reed Elsevier PLC, and have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared on a going concern basis, as explained on page 147.

Unless otherwise indicated, all amounts shown in the financial statements are in millions of pounds.

The basis of the merger of the businesses of Reed Elsevier PLC and Reed Elsevier NV is set out on page 56.

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 90 to 96.

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.

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 and 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 judgements in the preparation of the combined financial statements are set out on pages 94 and 95.

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 96 of the combined financial statements and are not expected to have a significant impact on the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2010

1 Administrative expenses

Administrative expenses include £742,000 (2009: £712,000) 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 (2009: nil).

2 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 on page 152.

3 Auditors' remuneration

Audit fees payable by Reed Elsevier PLC were £27,000 (2009: £26,000). 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 3 to the combined financial statements.

4 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 33 to the combined financial statements.

5 Finance income

	2010 £m	2009 £m
Finance income from joint ventures	**1**	2

6 Taxation

	2010 £m	2009 £m
UK corporation tax	**1**	6

A reconciliation of the notional tax charge based on the applicable rate of tax to the actual total tax expense is set out below.

	2010 £m	2009 £m
Profit before tax	**328**	201
Tax at applicable rate 28% (2009: 28%)	**92**	56
Tax at applicable rate on share of results of joint ventures	**(96)**	(60)
Other	**5**	10
Tax expense	**1**	6

7 Equity dividends

Ordinary dividends declared in the year	**2010 pence**	2009 pence	**2010 £m**	2009 £m
Ordinary shares				
Final for prior financial year	**15.0p**	15.0p	**180**	163
Interim for financial year	**5.4p**	5.4p	**65**	65
Total	**20.4p**	20.4p	**245**	228

The directors of Reed Elsevier PLC have proposed a final dividend of 15.0p (2009: 15.0p). The cost of funding the proposed final dividend is expected to be £180m. No liability has been recognised at the statement of financial position date.

Ordinary dividends paid and proposed relating to the financial year	**2010 pence**	2009 pence
Ordinary shares		
Interim (paid)	**5.4p**	5.4p
Final (proposed)	**15.0p**	15.0p
Total	**20.4p**	20.4p

8 Earnings per ordinary share ("EPS")

	2010			2009		
	Weighted average number of shares (millions)	**Earnings £m**	**EPS pence**	Weighted average number of shares (millions)	Earnings £m	EPS pence
Basic earnings per share	**1,199.1**	**327**	**27.3**	1,131.4	195	17.2
Based on 52.9% interest in total operations of the combined businesses	**1,199.1**	**340**	**28.4**	1,131.4	207	18.3
Diluted earnings per share	**1,205.1**	**327**	**27.1**	1,139.5	195	17.1

The diluted EPS figures are calculated after taking account of the effect of potential additional ordinary shares arising from share options and conditional shares.

Notes to the consolidated financial statements
for the year ended 31 December 2010

8 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 31 December 2010 are shown below.

	Year ended 31 December			
Number of ordinary shares	**Shares in issue (millions)**	**Treasury shares (millions)**	**2010 Shares in issue net of treasury shares (millions)**	2009 Shares in issue net of treasury shares (millions)
At start of year	**1,247.3**	**(49.6)**	**1,197.7**	1,082.6
Issue of ordinary shares	**2.0**	**–**	**2.0**	110.4
Net release of shares by employee benefit trust	**–**	**0.7**	**0.7**	4.7
At end of year	**1,249.3**	**(48.9)**	**1,200.4**	1,197.7
Weighted average number of equivalent ordinary shares during the year			**1,199.1**	1,131.4

9 Adjusted figures

Adjusted profit and earnings per share figures are used by management as additional performance measures. The adjusted figures are derived as follows:

	Profit attributable to ordinary shareholders		Basic earnings per share	
Earnings per share	**2010 £m**	2009 £m	**2010 pence**	2009 pence
Reported figures	**327**	195	**27.3**	17.2
Effect of tax credit equalisation on distributed earnings	**13**	12	**1.1**	1.1
Profit attributable to ordinary shareholders based on 52.9% economic interest in the Reed Elsevier combined businesses	**340**	207	**28.4**	18.3
Share of adjustments in joint ventures:				
Amortisation of acquired intangible assets	**178**	217	**14.8**	19.2
Impairment of acquired intangible assets and goodwill	**–**	72	**–**	6.4
Exceptional restructuring costs	**20**	70	**1.7**	6.2
Acquisition related costs	**15**	18	**1.2**	1.6
Disposals and other non operating items	**20**	(12)	**1.7**	(1.1)
Deferred tax adjustments	**(53)**	(53)	**(4.4)**	(4.7)
Adjusted figures	**520**	519	**43.4**	45.9

10 Statement of cash flows

Reconciliation of administrative expenses to cash used by operations	2010 £m	2009 £m
Administrative expenses	**(2)**	(2)
Cash used by operations	**(2)**	(2)

Reconciliation of net funding balances due from joint ventures	2010 £m	2009 £m
At start of year	**521**	777
Cash flow	**(247)**	(256)
At end of year	**274**	521

11 Investments in joint ventures

	2010 £m	2009 £m
Share of results of joint ventures	**342**	213
Share of joint ventures':		
Net income/(expense) recognised directly in equity	**1**	(47)
Cumulative fair value movements on disposal of available for sale investments	**–**	1
Transfer to net profit from hedge reserve	**24**	44
(Decrease)/increase in share based remuneration reserve	**(4)**	9
Settlement of share awards by employee benefit trust	**–**	(2)
Equalisation adjustments	**(13)**	(12)
Dividends received from joint ventures	**(589)**	–
Increase in investment in joint ventures	**596**	462
Decrease in net funding balances due from joint ventures	**(247)**	(256)
Net movement in the year	**110**	412
At start of year	**927**	515
At end of year	**1,037**	927

During the year the company received a dividend of £589m from Elsevier Reed Finance BV. The company also subscribed for 3,751 new ordinary R shares in Reed Elsevier Group plc for £596m.

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	
	2010 £m	2009 £m	2010 £m	2009 £m
Revenue	**6,055**	6,071	**3,203**	3,212
Net profit for the year	**648**	395	**342**	213

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 £2m (2009: £6m).

Notes to the consolidated financial statements
for the year ended 31 December 2010

11 Investments in joint ventures continued

	Total joint ventures		Reed Elsevier PLC shareholders' share	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Total assets	**11,158**	11,334	**5,903**	5,996
Total liabilities	**(9,188)**	(9,575)	**(5,140)**	(5,590)
Net assets	**1,970**	1,759	**763**	406
Attributable to:				
Joint ventures	**1,943**	1,732	**763**	406
Non-controlling interests	**27**	27	**–**	–
	1,970	1,759	**763**	406
Funding balances due from joint ventures			**274**	521
Total			**1,037**	927

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 £393m (2009: £388m) and borrowings of £2,276m (2009: £2,489m) respectively.

12 Share capital

Authorised	**No. of shares**	**£m**
Ordinary shares of 14$^{51}/_{116}$p each	**1,249,286,224**	**180**
Unclassified shares of 14$^{51}/_{116}$p each	**788,785,984**	**114**
Total		**294**

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	**No. of shares**	**2010 £m**	No. of shares	2009 £m
At start of year	**1,247,275,833**	**180**	1,136,924,693	164
Issue of ordinary shares	**2,010,391**	**–**	110,351,410	16
At end of year	**1,249,286,224**	**180**	1,247,275,833	180

The issue of ordinary shares relates to the exercise of share options and the 2009 share placing. Details of share option and conditional share schemes are set out in note 6 to the Reed Elsevier combined financial statements.

A share placing was announced on 30 July 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 £435m net of issue costs of £7m. No share premium was recognised in the company as it took advantage of section 612 of 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.

Details of shares held in treasury are provided in note 14.

Notes to the consolidated financial statements

for the year ended 31 December 2010

13 Share premium

	2010 £m	2009 £m
At start of year	**1,159**	1,154
Issue of ordinary shares, net of expenses	**9**	5
At end of year	**1,168**	1,159

14 Shares held in treasury

	2010 £m	2009 £m
At start of year	**317**	347
Share of joint ventures' settlement of share awards by employee benefit trust	**(5)**	(30)
At end of year	**312**	317

Further details of shares held in treasury are provided in note 30 to the Reed Elsevier combined financial statements.

15 Capital redemption reserve

	2010 £m	2009 £m
At start and end of year	**4**	4

16 Translation reserve

	2010 £m	2009 £m
At start of year	**92**	157
Share of joint ventures' exchange differences on translation of foreign operations	**50**	(65)
At end of year	**142**	92

17 Other reserves

	2010 £m	2009 £m
At start of year	**(202)**	(628)
Profit attributable to ordinary shareholders	**327**	195
Issue of ordinary shares, net of expenses	**–**	419
Share of joint ventures':		
Actuarial (losses)/gains on defined benefit pension schemes	**(33)**	3
Cumulative fair value movements on disposal of available for sale investments	**–**	1
Fair value movements on cash flow hedges	**(31)**	28
Tax recognised directly in equity	**15**	(13)
(Decrease)/increase in share based remuneration reserve	**(4)**	9
Settlement of share awards by employee benefit trust	**(5)**	(32)
Transfer to net profit from hedge reserve	**24**	44
Equity dividends paid	**(245)**	(228)
At end of year	**(154)**	(202)

Notes to the consolidated financial statements
for the year ended 31 December 2010

18 Contingent liabilities

There are contingent liabilities in respect of borrowings of joint ventures guaranteed by Reed Elsevier PLC as follows:

	2010 £m	2009 £m
Guaranteed jointly and severally with Reed Elsevier NV	**3,924**	4,381

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 18 to the Reed Elsevier combined financial statements.

19 Principal joint ventures

		% holding
Reed Elsevier Group plc		
Incorporated and operating in Great Britain	£18,385 ordinary R shares	100%
1-3 Strand	£18,385 ordinary E shares	–
London WC2N 5JR	£100,000 7.5% cumulative preference non voting shares	100%
Holding company for operating businesses involved in science & medical, risk management, legal and business publishing and organisation of trade exhibitions	Equivalent to a 50% equity interest	
Elsevier Reed Finance BV		
Incorporated in the Netherlands	133 ordinary R shares	100%
Radarweg 29	205 ordinary E shares	–
1043 NX Amsterdam, the Netherlands		
Holding company for financing businesses	Equivalent to a 39% equity interest	

The E shares in Reed Elsevier Group plc and Elsevier Reed Finance BV are owned by Reed Elsevier NV.

20 Principal subsidiary

		% holding
Reed Holding BV		
Incorporated in the Netherlands	191 ordinary shares	100%
Radarweg 29		
1043 NX Amsterdam, the Netherlands		

At 31 December 2010 Reed Holding BV owned 4,303,179 (2009: 4,303,179) shares of a separate class in Reed Elsevier NV. The equalisation arrangements entered into between Reed Elsevier PLC and Reed Elsevier NV at the time of the merger give Reed Elsevier PLC a 5.8% economic interest in Reed Elsevier NV.

Independent auditor's report on the consolidated financial statements to the members of Reed Elsevier PLC

We have audited the consolidated financial statements of Reed Elsevier PLC for the year ended 31 December 2010 ("the consolidated financial statements"), which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of financial position, the consolidated statement of changes in equity, the group accounting policies and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the consolidated financial statements:

> give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended;

> have been properly prepared in accordance with IFRSs as adopted by the European Union; and

> have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

> the directors' statement contained within the Structure and Corporate Governance report in relation to going concern;

> the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 2008 Combined Code specified for our review; and

> certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the individual parent company financial statements of Reed Elsevier PLC for the year ended 31 December 2010 and on the information in the parts of the Directors' Remuneration Report presented in the Reed Elsevier Annual Reports and Financial Statements 2010 that are described as having been audited.

Douglas King (Senior statutory auditor)
For and on behalf of
Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom
16 February 2011

Parent company balance sheet

As at 31 December	Note	2010 £m	2009 £m
Fixed assets			
Investments in subsidiary undertakings	1	**309**	309
Investments in joint ventures	1	**2,304**	1,702
		2,613	2,011
Current assets			
Debtors: amounts due from joint ventures		**274**	521
		274	521
Creditors: amounts falling due within one year			
Other creditors		**(10)**	–
Taxation		**(9)**	(11)
Amounts owed to subsidiary undertakings		**(77)**	(77)
		(96)	(88)
Net current assets		**178**	433
Net assets		**2,791**	2,444
Capital and reserves			
Called up share capital		**180**	180
Share premium account		**1,168**	1,159
Shares held in treasury		**(224)**	(224)
Capital redemption reserve		**4**	4
Other reserves		**134**	138
Profit and loss reserve		**1,529**	1,187
Shareholders' funds		**2,791**	2,444

The parent company financial statements were approved by the Board of directors, 16 February 2011.

A J Habgood
Chairman

M H Armour
Chief Financial Officer

Parent company reconciliation of shareholders' funds

	Share capital £m	Share premium account £m	Shares held in treasury £m	Capital redemption reserve £m	Other reserves £m	Profit and loss reserve £m	Total £m
At 1 January 2009	164	1,154	(224)	4	129	1,002	2,229
Profit attributable to ordinary shareholders	–	–	–	–	–	(6)	(6)
Equity dividends paid	–	–	–	–	–	(228)	(228)
Issue of ordinary shares, net of expenses	16	5	–	–	–	419	440
Equity instruments granted to employees of combined businesses	–	–	–	–	9	–	9
At 1 January 2010	**180**	**1,159**	**(224)**	**4**	**138**	**1,187**	**2,444**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**587**	**587**
Equity dividends paid	**–**	**–**	**–**	**–**	**–**	**(245)**	**(245)**
Issue of ordinary shares, net of expenses	**–**	**9**	**–**	**–**	**–**	**–**	**9**
Equity instruments granted to employees of combined businesses	**–**	**–**	**–**	**–**	**(4)**	**–**	**(4)**
At 31 December 2010	**180**	**1,168**	**(224)**	**4**	**134**	**1,529**	**2,791**

Parent company accounting policies

Basis of preparation
The parent company financial statements have been prepared under the historical cost convention in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Unless otherwise indicated, all amounts in the financial statements are in millions of pounds.

The parent company financial statements are prepared on a going concern basis, as explained on page 147.

As permitted by section 408 of the Companies Act 2006, the company has not presented its own profit and loss account.

The Reed Elsevier PLC accounting policies under UK GAAP are set out below.

Investments
Fixed asset investments in the Reed Elsevier combined businesses are stated at cost, less provision, if appropriate, for any impairment in value. The fair value of the award of share options and conditional shares over Reed Elsevier PLC ordinary shares to employees of the Reed Elsevier combined businesses are treated as a capital contribution.

Principal joint ventures and subsidiaries are set out in notes 19 and 20 of the Reed Elsevier PLC consolidated financial statements.

Shares held in treasury
The consideration paid, including directly attributable costs, for shares repurchased is recognised as shares held in treasury and presented as a deduction from total equity. Details of share capital and shares held in treasury are set out in notes 12 and 14 of the Reed Elsevier PLC consolidated financial statements.

Foreign exchange translation
Transactions entered into in foreign currencies are recorded at the exchange rates applicable at the time of the transaction.

Taxation
Deferred taxation is provided in full for timing differences using the liability method. Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term. Deferred taxation balances are not discounted.

Notes to the parent company financial statements

1 Investments

	Subsidiary undertaking £m	Joint ventures £m	Total £m
At 1 January 2009	303	1,237	1,540
Increase in investments	6	456	462
Equity instruments granted to Reed Elsevier employees	–	9	9
At 1 January 2010	**309**	**1,702**	**2,011**
Increase in investments	**–**	**596**	**596**
Equity instruments granted to Reed Elsevier employees	**–**	**6**	**6**
At 31 December 2010	**309**	**2,304**	**2,613**

Independent auditor's report on the parent company financial statements to the members of Reed Elsevier PLC

We have audited the parent company financial statements of Reed Elsevier PLC for the year ended 31 December 2010 ("the company financial statements") which comprise the parent company balance sheet, the parent company reconciliation of shareholders' funds, the parent company accounting policies and the related note on page 162. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, or "UK GAAP").

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the parent company financial statements:
> give a true and fair view of the state of the parent company's affairs as at 31 December 2010 and of its profit for the year then ended;

> have been properly prepared in accordance with UK GAAP; and

> have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

> the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the consolidated financial statements of Reed Elsevier PLC for the year ended 31 December 2010.

Douglas King (Senior statutory auditor)
For and on behalf of
Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom
16 February 2011

5 year summary

	Note	**2010 £m**	2009 £m	2008 £m	2007 £m	2006 £m
Combined financial information						
Revenue – continuing operations	2	**6,055**	6,071	5,334	4,584	4,509
Reported operating profit – continuing operations	2	**1,090**	787	901	888	837
Adjusted operating profit – continuing operations	2	**1,555**	1,570	1,379	1,137	1,081
Reported profit attributable to shareholders – total operations		**642**	391	476	1,200	623
Adjusted profit attributable to shareholders – total operations		**983**	982	919	852	796
Reed Elsevier PLC consolidated financial information						
Reported profit attributable to shareholders	3	**327**	195	241	624	320
Adjusted profit attributable to shareholders	4	**520**	519	486	451	421
Reported earnings per ordinary share (pence)	3	**27.3p**	17.2p	22.1p	49.7p	25.6p
Adjusted earnings per ordinary share (pence)	4	**43.4p**	45.9p	44.6p	35.9p	33.6p
Dividend per ordinary share (pence)	5	**20.4p**	20.4p	20.3p	18.1p	15.9p

(1) Adjusted figures are presented as additional performance measures used by management and are stated before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and in respect of attributable profit, reflect a tax rate that excludes the effect of movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwilll and intangible assets. Acquisition related finance costs and profit and loss from disposal gains and losses and other non operating items are also excluded from the adjusted figures.

(2) Revenue, reported operating profit and adjusted operating profit are presented for continuing operations. Net profit from discontinued operations is included in profit attributable to shareholders.

(3) Reported profit attributable to shareholders and reported earnings per share are based on the 52.9% share of the Reed Elsevier combined profit attributable to shareholders, adjusted to equalise the benefit of the UK dividend tax credit with Reed Elsevier NV shareholders as a reduction in reported profits.

(4) Adjusted profit attributable to shareholders and adjusted earnings per share are based on the 52.9% share of the Reed Elsevier combined profit attributable to Reed Elsevier PLC shareholders.

(5) Dividend per ordinary share is based on the interim dividend and proposed final dividend for the relevant year, and does not include the 82.0p per share special distribution in 2008.

Reed Elsevier NV annual report and financial statements

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Report of the Supervisory Board and the Executive Board

The Supervisory Board and the Executive Board (which jointly make up “the Combined Board”) present their joint report, together with the financial statements of the group and of the company, for the year ended 31 December 2010.

As a consequence of the merger of the company’s businesses with those of Reed Elsevier PLC in 1993, described on page 56, the shareholders of Reed Elsevier NV and Reed Elsevier PLC can be regarded as having the interests of a single economic group. The Reed Elsevier combined financial statements represent the combined interests of both sets of shareholders and encompass the businesses of Reed Elsevier Group plc, Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the parent companies, Reed Elsevier NV and Reed Elsevier PLC (“the combined businesses” or “Reed Elsevier”).

This report of the Supervisory Board and the Executive Board and the consolidated and parent company financial statements should be read in conjunction with the Reed Elsevier combined financial statements and other reports set out on pages 4 to 141, which are incorporated by reference herein. Summary combined financial information in euros is set out on pages 129 to 141. The combined financial statements on pages 86 to 128 are to be considered as part of the notes to the statutory financial statements. The annual report of Reed Elsevier NV within the meaning of article 2:391 of the Dutch Civil Code consists of pages 166 to 169 and, incorporated by reference, pages 4 to 141. The Corporate Governance Statement of Reed Elsevier NV dated 16 February 2011 is published on the Reed Elsevier website (www.reedelsevier.com) and is incorporated by reference herein as per the Vaststellingsbesluit nadere voorschriften inhoud jaarverslag January 2010 article 2a under 1 sub b.

Principal activities

The company is a holding company and its principal investments are its direct 50% shareholding in Reed Elsevier Group plc and its direct 61% shareholding in Elsevier Reed Finance BV, which are engaged in publishing and information activities and financing activities respectively. The remaining shareholdings in these two companies are held by Reed Elsevier PLC.

Reed Elsevier NV and Reed Elsevier PLC have retained their separate legal identities and are publicly held companies. Reed Elsevier NV’s securities are listed in Amsterdam and New York and Reed Elsevier PLC’s securities are listed in London and New York.

Financial statement presentation

The consolidated financial statements of Reed Elsevier NV include the 50% economic interest that its shareholders (including Reed Elsevier PLC, which has an indirect 5.8% interest in the company) have under the equalisation arrangements in the Reed Elsevier combined businesses, accounted for on an equity basis.

Under the terms of the merger agreement, dividends paid to Reed Elsevier NV and Reed Elsevier PLC 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 addition to the reported figures, adjusted profit figures are presented as additional performance measures used by management. These exclude, in relation to the results of joint ventures, the company’s share of amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items, related tax effects and movements in deferred taxation assets and liabilities not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets.

Consolidated income statement

Reed Elsevier NV’s shareholders’ 50% share of the adjusted profit before tax of the Reed Elsevier combined businesses was €748m, up from €716m in 2009 reflecting the 3% increase in adjusted operating profits and the lower net interest expense. Reported profit before tax, including the Reed Elsevier NV shareholders’ share of amortisation and impairment charges, exceptional restructuring and acquisition related costs and disposals and non operating items, was €379m (2009: €217m). The increase largely reflects intangible asset and goodwill impairment charges in the prior year and lower exceptional restructuring spend in 2010 compared to the prior year. Elsevier saw continued growth although at a lower rate than the prior year due to a constrained customer budget environment. The LexisNexis risk business saw strong growth, driven by the insurance sector and the return to growth in more cyclical markets. The LexisNexis legal and professional businesses saw a small underlying revenue decline reflecting the impact on renewals and print product of the low levels of law firm activity and employment. Reed Exhibitions benefited from a net cycling in of biennial exhibitions and a return to growth in annual exhibitions in the second half of the year. Reed Business Information saw good growth in data services and online marketing solutions and significantly moderated declines in advertising markets, while the portfolio was reshaped through disposals and closures and costs significantly reduced. The adjusted operating margin declined 0.2 percentage points reflecting increased spend on product development, sales & marketing and infrastructure, partially offset by tight cost control and the incremental benefits of the earlier restructuring programmes.

Reed Elsevier NV’s shareholders’ share of the adjusted profit attributable of the combined businesses was €575m, up from €550m in 2009. After deducting the company’s share of the post tax charge for amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items and deferred taxes not expected to crystallise in the near term, the reported net profit for the year was €376m, up from €219m in 2009.

Adjusted earnings per share decreased 1% to €0.78 (2009: €0.79). At constant rates of exchange, the adjusted earnings per share were 6% lower. Including amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses and other non operating items, and tax adjustments, the basic earnings per share was €0.51 (2009: €0.32).

Report of the Supervisory Board and the Executive Board continued

Consolidated statement of financial position

The consolidated statement of financial position of Reed Elsevier NV reflects its 50% economic interest in the net assets of Reed Elsevier which as at 31 December 2010 was €1,137m (2009: €970m). The €167m increase in net assets reflects the company's share in the attributable profits of Reed Elsevier partially offset by dividends paid.

Parent company financial statements

In accordance with article 2:362(1) of the Dutch Civil Code, the individual parent company financial statements of Reed Elsevier NV (presented on pages 183 to 187) are prepared under UK generally accepted accounting practice (UK GAAP) The profit attributable to the shareholders of Reed Elsevier NV was €9m (2009: €22m) and net assets as at 31 December 2010, principally representing the investments in Reed Elsevier Group plc and Elsevier Reed Finance BV under the historical cost method and loans to their subsidiaries, were €4,884m (2009: €4,065m). Free reserves as at 31 December 2010 were €4,655m (2009: €3,833m), comprising reserves and paid-in surplus less shares held in treasury.

Dividends

The Combined Board is recommending an equalised final dividend of €0.303 per ordinary share, up 3% compared with the prior year. This gives total ordinary dividends for the year of €0.412 (2009: €0.400), up 3% on 2009. The final dividend will be paid on 17 May 2011.

Dividend cover, based on adjusted earnings per share and the total interim and proposed final dividends for the year, is 1.9 times. The boards of the company and Reed Elsevier PLC have adopted dividend policies in recent years in respect of their equalised dividends that, subject to currency considerations, grow dividends broadly in line with adjusted earnings per share whilst maintaining dividend cover (being the number of times the annual dividend is covered by the adjusted earnings per share) of at least two times over the longer term.

The total dividend paid on the ordinary shares in the financial year was €281m (2009: €260m).

Share capital

During 2010, 184,116 ordinary shares in the company were issued as follows:

> 134,350 under convertible debentures at prices between €7.35 and €9.45
> 49,766 under executive share option schemes at prices between €8.31 and €9.34

Information regarding shares outstanding at 31 December 2010 is shown in note 13 to the consolidated financial statements.

As at 31 December 2010 31,734,581 of the ordinary shares were held in treasury including 7,781,790 held by the Reed Elsevier Group plc Employee Benefit Trust. No R shares were held in treasury.

As at 16 February 2011, based on the public database of and on notification received from the Netherlands Authority for the Financial Markets, the company is aware of interests in the capital and voting rights of the issued share capital of the company of at least 5% by Reed Elsevier PLC and Mondrian Investment Partners Limited.

Corporate Governance

Reed Elsevier NV and Reed Elsevier PLC are subject to various corporate governance principles and best practice codes, in particular the Dutch Corporate Governance Code (the Dutch Code) and the UK Combined Code (the UK Code). In May 2010 the Financial Reporting Council issued the UK Corporate Governance Code ("the New UK Code"), which replaces the UK code for financial years beginning on or after 29 June 2010. The New UK Code will, therefore, apply in respect of the company's financial year beginning 1 January 2011. Reed Elsevier NV may not apply fully the verbatim language of these codes, but does fully apply the principles and best practice provisions other than, in respect of the Dutch Code, the following for reasons explained below:

> **Best practice provision II.2.5:** Executive directors are required to build up a minimum shareholding and Reed Elsevier uses long term incentive arrangements in the form of awards of shares which may vest after three years. The intent of this shareholding policy is to align the interests of senior executives and shareholders. This intent is in compliance with the Dutch Code. Shares received on joining Reed Elsevier in compensation for benefits forfeited under incentive schemes from a previous employer are not to be considered as part of the minimum shareholding in this context.

> **Best practice provision II.2.8:** Reed Elsevier has arrangements that are commensurate with local and legal requirements to ensure a competitive employment offer to its board members. Executive directors have employment agreements under English or New York law that provide for notice periods not exceeding one year. There are currently no executive directors with employment agreements under Dutch law. In the event of dismissal, notice is given in accordance with the agreed notice period. The payment during the notice period may be mitigated if the director finds other employment within this period. The application of this arrangement may fall within the best practice provision that remuneration in the event of dismissal may not exceed the fixed component of one year's salary. There are no other severance arrangements in place for the executive directors and none of the employment agreements contain severance pay arrangements. Although the principle that severance pay should not exceed the fixed component of one year's salary is supported, there may be exceptional circumstances where this maximum would be manifestly unreasonable that could justify additional compensation on termination for loss of variable remuneration components. Full disclosure on remuneration in event of dismissal is provided in the Director's Remuneration Report in the Reed Elsevier Annual Reports and Financial Statements 2010.

> **Best practice provisions II.2.13 and II.2.14:** In view of their detailed specificity and complexity and because of the confidential or potentially commercially sensitive nature of the information concerned, individual performance targets and achievements relevant for variable executive remuneration will only be disclosed in general terms.

> **Best practice provision II.3.4 and III.6.3:** The disclosure of transactions where directors have a conflict of interest, as required by these provisions, shall be qualified to the extent required under applicable rules and laws pertaining to the disclosure of price sensitive information, confidentiality and justified aspects of competition.

Report of the Supervisory Board and the Executive Board continued

> **Principle III.7:** The remuneration of Supervisory Board members is determined by the Combined Board in the context of the board harmonisation with Reed Elsevier PLC and Reed Elsevier Group plc, having regard for the maximum approved by the general meeting of shareholders.

> **Best practice provision IV.1.1:** Appointments, suspensions and removal procedures for members of the Executive Board and the Supervisory Board are set out in the Corporate Governance Statement 2010. In order to safeguard the agreed board harmonisation with the Board of 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 Executive or Supervisory Board other than in accordance with the proposal of the Combined Board shall require a majority of at least two-thirds of the votes cast if less than one-half of the company's issued capital is represented at the meeting. Given the still generally low attendance rate at shareholders' meetings in the Netherlands, the Boards believe that this qualified majority requirement is appropriate for this purpose.

> **Best practice provision IV.3.1:** It is considered impractical and unnecessary to provide access for shareholders to all meetings with analysts and all presentations to investors in real time. Price sensitive and other information relevant to shareholders is disclosed as required or as appropriate and made available on the website.

For further information on the application of the Dutch Code, see the Corporate Governance Statement of Reed Elsevier NV published on the Reed Elsevier website, www.reedelsevier.com.

Significant agreements – change of control
The governing agreement between Reed Elsevier NV and Reed Elsevier PLC states that upon a change of control of Reed Elsevier NV (for these purposes, the acquisition by a third party of 50% or more of the issued share capital having voting rights), should there not be a comparable offer from the offeror for Reed Elsevier PLC, Reed Elsevier PLC may serve notice upon Reed Elsevier NV varying certain provisions of the governing agreement, including the governance and the standstill provisions.

There are a number of borrowing agreements including credit facilities that in the event of a change of control of both Reed Elsevier NV and Reed Elsevier PLC and, in some cases, a consequential credit rating downgrade to sub-investment grade may, at the option of the lenders, require repayment and/or cancellation as appropriate.

Directors
The following individuals served as members of the Supervisory and Executive Boards during the year:

The Supervisory Board
A Habgood (Chairman)
G de Boer-Kruyt
(retired 20 April 2010)
M Elliott
L Hook
M van Lier Lels
(appointed 13 January 2010)
R Polet
D Reid
Lord Sharman of Redlynch OBE
B van der Veer

The Executive Board
E Engstrom (Chairman and Chief Executive Officer)
M Armour
(Chief Financial Officer)
A Prozes
(retired 31 December 2010)

Lord Sharman will retire as a member of the Supervisory Board at the conclusion of the Annual General Meeting in April 2011.

In view of the retirement of Lord Sharman, a search has been conducted in conjunction with external recruitment consultants for a suitable candidate to join the Supervisory Board. This has resulted in the Nominations Committee recommending to the Combined Board the appointment of Adrian Hennah as a member of the Supervisory Board of Reed Elsevier NV and as a non-executive director of Reed Elsevier PLC. This will be proposed at the Annual General Meetings in April 2011. Subject to shareholder approval of his appointment, he will become a member of the Audit Committees and of the Corporate Governance Committee.

Biographical details of the directors at the date of this report are given on pages 54 and 55. Details of the remuneration of the members of the Executive Board and of the Supervisory Board and their interests in the share capital of the company are provided in the Directors' Remuneration Report on pages 62 to 80.

Financial statements and accounting records
The financial statements provide a true and fair view of the state of affairs of the company and the group as of 31 December 2010 and of the profit or loss in 2010. In preparing the financial statements, the Supervisory Board and the Executive Board ensure that suitable accounting policies, consistently applied and supported by reasonable judgements and estimates, have been used and applicable accounting standards have been followed. The Boards are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the law. The Boards have general responsibility for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the Supervisory Board and the Executive Board continued

Internal control

As required under sections II.1.4. and II.1.5. of the Dutch Code, the Audit Committee and the Combined Board have reviewed the effectiveness of the systems of internal control and risk management during the last financial year. The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss. The outcome of this review has been discussed with the external auditors. The Combined Board confirmed that as regards financial reporting, the risk management and control systems provide reasonable assurance against material inaccuracies or loss and have functioned properly during the financial year.

Directors' responsibility statement

The Combined Board confirms, to the best of its knowledge, that:

> the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union, give a true and fair view of the financial position and profit or loss of the group; and

> the Report of the Supervisory Board and the Executive Board includes a fair review of the development and performance of the business during the financial year and the position of the group as at 31 December 2010 together with a description of the principal risks and uncertainties that it faces.

Neither the company nor the directors accept any liability to any person in relation to the Annual Report except to the extent that such liability arises under Dutch law.

Disclosure of information to auditors

As part of the process of approving the company's 2010 financial statements, the Supervisory and the Executive Boards and their members have taken steps to ensure that all relevant information was provided to the company's auditors and, so far as the boards are aware, there is no relevant audit information of which the company's auditors are unaware.

Going concern

The Combined Board, having made appropriate enquiries, considers that adequate resources exist for the combined businesses to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the 2010 financial statements. In reaching this conclusion, the Combined Board has had due regard to the combined businesses' financial position as at 31 December 2010, the strong free cash flow of the combined businesses, Reed Elsevier's ability to access capital markets and the principal risks facing Reed Elsevier.

A commentary on the Reed Elsevier combined businesses' cash flows, financial position and liquidity for the year ended 31 December 2010 is set out in the Chief Financial Officer's Report on pages 44 and 45. This shows that, after taking account of available cash resources and committed bank facilities that back up short term borrowings, none of Reed Elsevier's borrowings fall due within the next two years. Reed Elsevier's policies on liquidity, capital management and management of risks relating to interest rate, foreign exchange and credit exposures are set out on pages 48 and 49. Further information on liquidity of the combined businesses can be found in note 18 of the combined financial statements. The principal risks facing Reed Elsevier are set out on pages 50 to 52.

Auditors

Resolutions for the re-appointment of Deloitte Accountants BV as auditors of the company and authorising the Supervisory Board to determine their remuneration will be submitted to the forthcoming Annual General Meeting on 19 April 2011.

Signed by:

The Supervisory Board
A Habgood (Chairman)
M Elliott
L Hook
M van Lier Lels
R Polet
D Reid
Lord Sharman of Redlynch OBE
B van der Veer

The Executive Board
E Engstrom (Chairman
and Chief Executive Officer)
M Armour
(Chief Financial Officer)

Registered office
Radarweg 29
1043 NX The Netherlands

Chamber of Commerce Amsterdam
Register file No: 33155037
16 February 2011

Consolidated income statement

For the year ended 31 December	Note	2010 €m	2009 €m
Administrative expenses	2	**(2)**	(2)
Share of results of joint ventures	11	**367**	197
Operating profit		**365**	195
Finance income	5	**14**	22
Profit before tax		**379**	217
Taxation	6	**(3)**	2
Profit attributable to ordinary shareholders		**376**	219

Consolidated statement of comprehensive income

For the year ended 31 December	2010 €m	2009 €m
Profit attributable to ordinary shareholders	**376**	219
Share of joint ventures' other comprehensive income for the year	**71**	42
Total comprehensive income for the year	**447**	261

Earnings per ordinary share

For the year ended 31 December	Note	2010 €	2009 €
Basic earnings per share	8	**€0.51**	€0.32
Diluted earnings per share	8	**€0.51**	€0.31

Consolidated statement of cash flows

For the year ended 31 December	Note	2010 €m	2009 €m
Cash flows from operating activities			
Cash used by operations	10	**(1)**	(2)
Interest received		**14**	24
Tax paid		**(4)**	(8)
Net cash from operating activities		**9**	14
Cash flows from investing activities			
Dividends received from joint ventures	11	**1,093**	–
Increase in investment in joint ventures	11	**(719)**	(531)
Net cash from/(used in) investing activities		**374**	(531)
Cash flows from financing activities			
Equity dividends paid	7	**(281)**	(260)
Proceeds on issue of ordinary shares		**2**	470
(Increase)/decrease in net funding balances due from joint ventures	10	**(104)**	298
Net cash (used in)/from financing activities		**(383)**	508
Movement in cash and cash equivalents		**–**	(9)

Consolidated statement of financial position

As at 31 December	Note	2010 €m	2009 €m
Non-current assets			
Investments in joint ventures	11	**1,198**	1,031
Current assets			
Amounts due from joint ventures		**2**	2
Cash and cash equivalents		**3**	3
		5	5
Total assets		**1,203**	1,036
Current liabilities			
Payables	12	**11**	10
Taxation		**55**	56
Total liabilities		**66**	66
Net assets		**1,137**	970
Capital and reserves			
Share capital issued	13	**54**	53
Paid-in surplus	14	**2,169**	2,168
Shares held in treasury (including in joint ventures)	15	**(433)**	(434)
Translation reserve	16	**(51)**	(153)
Other reserves	17	**(602)**	(664)
Total equity		**1,137**	970

Consolidated statement of changes in equity

	Note	Share capital €m	Paid-in surplus €m	Shares held in treasury €m	Translation reserve €m	Other reserves €m	Total equity €m
Balance at 1 January 2010		**53**	**2,168**	**(434)**	**(153)**	**(664)**	**970**
Total comprehensive income for the year		**–**	**–**	**–**	**98**	**349**	**447**
Equity dividends paid	7	**–**	**–**	**–**	**–**	**(281)**	**(281)**
Issue of ordinary shares, net of expenses		**1**	**1**	**–**	**–**	**–**	**2**
Share of joint ventures' settlement of share awards by employee benefit trust		**–**	**–**	**5**	**–**	**(5)**	**–**
Share of joint ventures' decrease in share based remuneration reserve		**–**	**–**	**–**	**–**	**(4)**	**(4)**
Equalisation adjustments		**–**	**–**	**–**	**–**	**3**	**3**
Exchange translation differences		**–**	**–**	**(4)**	**4**	**–**	**–**
Balance at 31 December 2010		**54**	**2,169**	**(433)**	**(51)**	**(602)**	**1,137**
Balance at 1 January 2009		49	1,712	(477)	(138)	(655)	491
Total comprehensive income for the year		–	–	–	(25)	286	261
Equity dividends paid	7	–	–	–	–	(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 31 December 2009		53	2,168	(434)	(153)	(664)	970

Group accounting policies

These consolidated financial statements, which have been prepared under the historic cost convention, report the consolidated statements of income, cash flow and financial position of Reed Elsevier NV. Unless otherwise indicated, all amounts shown in the financial statements are in millions of euros.

As required by a regulation adopted by the European Parliament, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared on a going concern basis, as explained on page 169.

The Reed Elsevier combined financial statements presented in pounds sterling on pages 86 to 128 form an integral part of the notes to Reed Elsevier NV's statutory financial statements. The primary combined financial statements and selected notes are presented in euros on pages 129 to 141.

As a consequence of the merger of the company's businesses with those of Reed Elsevier PLC, described on page 56, 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.

The Reed Elsevier NV 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. Further detail is provided in note 1.

Because the dividend paid to shareholders by Reed Elsevier NV is equivalent to the Reed Elsevier PLC dividend plus, other than in special circumstances, 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.

Parent company financial statements
In accordance with 2:402 of the Dutch Civil Code, the parent company financial statements only contain an abridged profit and loss account.

Combined financial statements
The accounting policies adopted in the preparation of the combined financial statements are set out on pages 90 to 96.

These include policies in relation to intangible assets. Such assets are amortised over their estimated useful economic lives which, due to their longevity, may be for periods in excess of five years.

Basis of valuation of assets and liabilities
Reed Elsevier NV's 50% economic interest in the net assets of the combined businesses has been shown on the 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.

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.

Group accounting policies continued

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 and 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 judgements in the preparation of the combined financial statements are set out on pages 94 and 95.

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 96 of the combined financial statements and are not expected to have a significant impact on the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2010

1 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	**2010**	2009
Reed Elsevier combined businesses net profit attributable to parent company shareholders in pounds sterling	**£642m**	£391m
Reed Elsevier combined businesses net profit attributable to parent company shareholders in pounds sterling translated into euros at average exchange rates	**€751m**	€438m
Reed Elsevier combined businesses net profit attributable to parent company shareholders in euros	**€751m**	€438m
Reed Elsevier NV's 50% share of combined net profit attributable to ordinary shareholders	**€376m**	€219m

Reed Elsevier NV consolidated total equity	**2010**	2009
Reed Elsevier combined shareholders' equity in pounds sterling	**£1,943m**	£1,732m
Reed Elsevier combined shareholders' equity in pounds sterling translated into euros at year end exchange rates	**€2,273m**	€1,940m
Reed Elsevier NV's 50% share of combined equity	**€1,137m**	€970m

2 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 €0.3m (2009: €0.2m) 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 (2009: nil).

3 Auditors' remuneration

Audit fees payable by Reed Elsevier NV were €48,000 (2009: €48,000). 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 3 to the combined financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2010

4 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 33 to the combined financial statements.

5 Finance income

	2010 €m	2009 €m
Finance income from joint ventures	**14**	22

6 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.

	2010 €m	2009 €m
Profit before tax	**379**	217
Tax at applicable rate: 25.5% (2009: 25.5%)	**97**	55
Tax at applicable rate on share of results of joint ventures	**(94)**	(50)
Other	**–**	(7)
Tax expense/(credit)	**3**	(2)

7 Equity dividends

Ordinary dividends declared in the year	**2010 €**	2009 €	**2010 €m**	2009 €m
Ordinary shares				
Final for prior financial year	**€0.293**	€0.290	**205**	185
Interim for financial year	**€0.109**	€0.107	**76**	75
Total	**€0.402**	€0.397	**281**	260
R shares	**–**	–	**–**	–

The directors of Reed Elsevier NV have proposed a final dividend of €0.303 (2009: €0.293). The cost of funding the proposed final dividend is expected to be €212m. No liability has been recognised at the statement of financial position date.

Ordinary dividends paid and proposed relating to the financial year	**2010 €**	2009 €
Ordinary shares		
Interim (paid)	**€0.109**	€0.107
Final (proposed)	**€0.303**	€0.293
Total	**€0.412**	€0.400
R shares	**–**	–

Notes to the consolidated financial statements
for the year ended 31 December 2010

8 Earnings per ordinary share ("EPS")

	2010			2009		
	Weighted average number of shares (millions)	**Earnings €m**	**EPS €**	Weighted average number of shares (millions)	Earnings €m	EPS €
Basic earnings per share	**734.5**	**376**	**€0.51**	693.9	219	€0.32
Diluted earnings per share	**737.8**	**376**	**€0.51**	698.7	219	€0.31

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 reflects the equivalent ordinary shares amount taking into account the 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 31 December 2010 are shown below.

	Year ended 31 December			
Number of ordinary shares	**Shares in issue (millions)**	**Treasury shares (millions)**	**2010 Shares in issue net of treasury shares (millions)**	2009 Shares in issue net of treasury shares (millions)
At start of year	**723.7**	**(32.2)**	**691.5**	625.4
Issue of ordinary shares	**0.2**	**–**	**0.2**	63.1
Net release of shares by employee benefit trust	**–**	**0.5**	**0.5**	3.0
At end of year	**723.9**	**(31.7)**	**692.2**	691.5
Weighted average number of equivalent ordinary shares during the year			**734.5**	693.9

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.

Notes to the consolidated financial statements
for the year ended 31 December 2010

9 Adjusted figures

Adjusted profit and earnings per share figures are used by management as additional performance measures. The adjusted figures are derived as follows:

	Profit attributable to ordinary shares		Basic earnings ordinary shares	
Earnings per share	**2010 €m**	2009 €m	**2010 €**	2009 €
Reported figures	**376**	219	**€0.51**	€0.32
Share of adjustments in joint ventures:				
Amortisation of acquired intangible assets	**197**	230	**€0.27**	€0.33
Impairment of acquired intangible assets and goodwill	**–**	76	**–**	€0.11
Exceptional restructuring costs	**22**	75	**€0.03**	€0.10
Acquisition related costs	**18**	19	**€0.02**	€0.03
Disposals and other non operating items	**21**	(13)	**€0.03**	€(0.02)
Deferred tax adjustments	**(59)**	(56)	**€(0.08)**	€(0.08)
Adjusted figures	**575**	550	**€0.78**	€0.79

10 Statement of cash flows

Reconciliation of administrative expenses to cash used by operations	**2010 €m**	2009 €m
Administrative expenses	**(2)**	(2)
Net movement in payables	**1**	–
Cash used by operations	**(1)**	(2)

Reconciliation of net funding balances due from joint ventures	**2010 €m**	2009 €m
At start of year	**1,255**	1,553
Cash flow	**104**	(298)
At end of year	**1,359**	1,255

11 Investments in joint ventures

	2010 €m	2009 €m
Share of results of joint ventures	**367**	197
Share of joint ventures':		
Net income/(expense) recognised directly in equity	**44**	(6)
Cumulative fair value movements on disposal of available for sale investments	**–**	1
Transfer to net profit from hedge reserve	**27**	47
(Decrease)/increase in share based remuneration reserve	**(4)**	10
Settlement of share awards by employee benefit trust	**–**	(2)
Equalisation adjustments	**3**	–
Dividends received from joint ventures	**(1,093)**	–
Increase in investment in joint ventures	**719**	531
Decrease/(increase) in net funding balances due from joint ventures	**104**	(298)
Net movement in the year	**167**	480
At start of year	**1,031**	551
At end of year	**1,198**	1,031

During the year the company received a dividend of €1,093m from Elsevier Reed Finance BV. The company also subscribed for 3,751 new ordinary E shares in Reed Elsevier Group plc for €719m.

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 shareholders' share	
	2010 €m	2009 €m	2010 €m	2009 €m
Revenue	**7,084**	6,800	**3,542**	3,400
Net profit for the year	**758**	442	**367**	197

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 €9m (2009: €22m).

	Total joint ventures		Reed Elsevier NV shareholders' share	
	2010 €m	2009 €m	2010 €m	2009 €m
Total assets	**13,055**	12,694	**6,523**	6,342
Total liabilities	**(10,750)**	(10,724)	**(6,684)**	(6,566)
Net assets/(liabilities)	**2,305**	1,970	**(161)**	(224)
Attributable to:				
Joint ventures	**2,273**	1,940	**(161)**	(224)
Non-controlling interests	**32**	30	**–**	–
	2,305	1,970	**(161)**	(224)
Net funding balances due from joint ventures			**1,359**	1,255
Total			**1,198**	1,031

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 €431m (2009: €408m) and borrowings of €2,508m (2009: €2,625m) respectively.

12 Payables

Included within payables are employee convertible debenture loans of €9m (2009: €10m) with a weighted average interest rate of 3.30% (2009: 4.04%). Depending on the conversion terms, the surrender of €227 or €200 par value debenture loans qualifies for 50 Reed Elsevier NV ordinary shares.

Notes to the consolidated financial statements
for the year ended 31 December 2010

13 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**	**18**
Total		**144**

Issued and fully paid	R shares Number	Ordinary shares Number	R shares €m	Ordinary shares €m	Total €m
At 1 January 2009	4,050,720	660,629,462	3	46	49
Issue of ordinary shares	252,459	63,063,439	–	4	4
At 1 January 2010	4,303,179	723,692,901	3	50	53
Issue of ordinary shares	–	184,116	–	1	1
At 31 December 2010	**4,303,179**	**723,877,017**	**3**	**51**	**54**

The issue of shares relates to the exercise of share options and the 2009 share placing. Details of share option and conditional share schemes are set out in note 6 to the Reed Elsevier combined financial statements.

A share placing was announced on 30 July 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 €441m net of issue costs of €5m. 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 €18m.

Details of shares held in treasury are provided in note 15.

At 31 December 2010 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.

14 Paid-in surplus

	2010 €m	2009 €m
At start of year	**2,168**	1,712
Issue of ordinary shares	**1**	456
At end of year	**2,169**	2,168

Within paid-in surplus, an amount of €1,992m (2009: €1,991m) is free of tax.

15 Shares held in treasury

	2010 €m	2009 €m
At start of year	**434**	477
Release of R shares from treasury	**–**	(21)
Share of joint ventures' settlement of share awards by employee benefit trust	**(5)**	(32)
Exchange translation differences	**4**	10
At end of year	**433**	434

Further details of shares held in treasury are provided in note 30 to the Reed Elsevier combined financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2010

16 Translation reserve

	2010 €m	2009 €m
At start of year	**(153)**	(138)
Share of joint ventures' exchange differences on translation of foreign operations	**98**	(25)
Exchange translation differences on capital and reserves	**4**	10
At end of year	**(51)**	(153)

17 Other reserves

	2010 €m	2009 €m
At start of year	**(664)**	(655)
Profit attributable to ordinary shareholders	**376**	219
Issue of ordinary shares, net of expenses	**–**	(11)
Share of joint ventures':		
Actuarial (losses)/gains on defined benefit pension schemes	**(37)**	4
Cumulative fair value movements on disposal of available for sale investments	**–**	1
Fair value movements on cash flow hedges	**(34)**	29
Tax recognised directly in equity	**17**	(14)
(Decrease)/increase in share based remuneration reserve	**(4)**	10
Settlement of share awards by employee benefit trust	**(5)**	(34)
Transfer to net profit from hedge reserve	**27**	47
Equalisation adjustments	**3**	–
Equity dividends paid	**(281)**	(260)
At end of year	**(602)**	(664)

18 Contingent liabilities

There are contingent liabilities in respect of borrowings of joint ventures guaranteed by Reed Elsevier NV as follows:

	2010 €m	2009 €m
Guaranteed jointly and severally with Reed Elsevier PLC	**4,591**	4,913

Financial instruments disclosures in respect of the borrowings covered by the above guarantees are given in note 18 to the Reed Elsevier combined financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2010

19 Principal joint ventures

		% holding
Reed Elsevier Group plc		
Incorporated and operating in Great Britain	£18,385 ordinary R shares	–
1-3 Strand	£18,385 ordinary E shares	100%
London WC2N 5JR	£100,000 7.5% cumulative preference non-voting shares	–
Holding company for operating businesses involved in science & medical, risk management, legal and business publishing and organisation of trade exhibitions	Equivalent to a 50% equity interest	
Elsevier Reed Finance BV		
Incorporated in the Netherlands	133 ordinary R shares	–
Radarweg 29	205 ordinary E shares	100%
1043 NX Amsterdam, the Netherlands		
Holding company for financing businesses	Equivalent to a 61% equity interest	

The R shares in Reed Elsevier Group plc and Elsevier Reed Finance BV and the non-voting preference shares in Reed Elsevier Group plc are owned by Reed Elsevier PLC.

In addition, Reed Elsevier NV holds shares with special dividend rights in Reed Elsevier Overseas BV, a subsidiary of Reed Elsevier Group plc with registered offices in Amsterdam. These shares are included in the amount shown under investments in joint ventures and enable Reed Elsevier NV to receive dividends from companies within the same tax jurisdiction.

A list of companies within Reed Elsevier is filed with the Amsterdam Chamber of Commerce in the Netherlands.

20 Approval of financial statements

The consolidated financial statements were signed and authorised for issue by the Combined Board of directors on 16 February 2011.

A J Habgood
Chairman of the Supervisory Board
and the Combined Board

M H Armour
Chief Financial Officer

Independent auditors' report on the consolidated financial statements to the shareholders of Reed Elsevier NV

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements 2010 which are part of the financial statements of Reed Elsevier NV, Amsterdam, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information, as set out in pages 170 to 181.

Management's responsibility
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Supervisory Board and the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Reed Elsevier NV as at 31 December 2010, and of its results and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Supervisory Board and the Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under section 2:392 sub 1 at b-h has been annexed. Further we report, to the extent we can assess, that the report of the Supervisory Board and the Executive Board is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Dutch Civil Code.

Deloitte Accountants B.V.
A Sandler
Amsterdam
The Netherlands
16 February 2011

Parent company profit and loss account

For the year ended 31 December	**2010 €m**	2009 €m
Administrative expenses	**(2)**	(2)
Dividends received from joint ventures	**1,093**	–
Finance income from joint ventures	**14**	22
Taxation	**(3)**	2
Profit attributable to ordinary shareholders	**1,102**	22

Parent company balance sheet

As at 31 December	Note	**2010 €m**	2009 €m
Fixed assets			
Investments in joint ventures		**3,597**	2,871
Current assets			
Amounts due from joint ventures – funding		**1,359**	1,255
Amounts due from joint ventures – other		**2**	2
		1,361	1,257
Cash		**3**	3
		1,364	1,260
Creditors: amounts falling due within one year			
Taxation		**(55)**	(56)
Other creditors	1	**(22)**	(10)
		(77)	(66)
Net current assets		**1,287**	1,194
Net assets		**4,884**	4,065
Capital and reserves			
Share capital issued		**54**	53
Paid-in surplus		**2,169**	2,168
Shares held in treasury		**(336)**	(336)
Other reserves		**175**	179
Reserves		**2,822**	2,001
Shareholders' funds		**4,884**	4,065

The parent company financial statements were signed and authorised for issue by the Combined Board of directors on 16 February 2011.

A J Habgood
Chairman of the Supervisory Board

M H Armour
Chief Financial Officer

Parent company reconciliation of shareholders' funds

	Share capital issued €m	Paid-in surplus[i] €m	Shares held in treasury €m	Other reserves[iii] €m	Reserves €m	Total €m
At 1 January 2009	49	1,712	(357)	169	2,250	3,823
Profit attributable to ordinary shareholders	–	–	–	–	22	22
Equity dividends paid	–	–	–	–	(260)	(260)
Release of shares	–	–	21	–	–	21
Issue of shares, net of expenses	4	456	–	–	(11)	449
Equity instruments granted to employees of combined businesses	–	–	–	10	–	10
At 1 January 2010	**53**	**2,168**	**(336)**	**179**	**2,001**	**4,065**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**–**	**1,102**	**1,102**
Equity dividends paid	**–**	**–**	**–**	**–**	**(281)**	**(281)**
Issue of shares, net of expenses	**1**	**1**	**–**	**–**	**–**	**2**
Equity instruments granted to employees of combined businesses	**–**	**–**	**–**	**(4)**	**–**	**(4)**
At 31 December 2010	**54**	**2,169**	**(336)**	**175**	**2,822**	**4,884**

(i) Within paid-in surplus, an amount of €1,992m (2009: €1,991m) is free of tax.

(ii) Free reserves of the company at 31 December 2010 were €4,655m (2009: €3,833m), comprising reserves and paid-in surplus less shares held in treasury.

(iii) Other reserves relate to equity instruments granted to employees of the combined businesses under share based remuneration arrangements. Other reserves do not form part of free reserves.

Parent company accounting policies

Basis of preparation
The parent company financial statements have been prepared under the historical cost convention. As permitted by 2:362 subsection 1 of the Dutch Civil Code for companies with international operations, the parent company financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) ensuring consistency. The financial information relating to the company is recognised in the consolidated financial statements. In accordance with 2:402 of The Netherlands Civil Code, the parent company financial statements only contain an abridged profit and loss account.

The parent company financial statements are prepared on a going concern basis, as explained on page 169.

The Reed Elsevier NV accounting policies under UK GAAP are set out below.

Investments
Fixed asset investments in the combined businesses are stated at cost, less provision, if appropriate, for any impairment in value. The fair value of the award of share options and conditional shares over Reed Elsevier NV ordinary shares to employees of the Reed Elsevier combined businesses are treated as a capital contribution.

Principal joint ventures are set out in note 19 of the Reed Elsevier NV consolidated financial statements.

Short term investments are stated at the lower of cost and net realisable value. Other assets and liabilities are stated at historical cost, less provision, if appropriate, for any impairment in value.

Shares held in treasury
The amount of consideration paid, including directly attributable costs for shares repurchased, is recognised as shares held in treasury and presented as a deduction from total equity.

Foreign exchange translation
Transactions entered into in foreign currencies are recorded at the exchange rates applicable at the time of the transaction.

Taxation
Deferred taxation is provided in full for timing differences using the liability method. Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term. Deferred taxation balances are not discounted.

Notes to the parent company financial statements

1 Other creditors

Other creditors include €9m (2009: €10m) of employee convertible debenture loans with a weighted average interest rate of 3.30% (2009: 4.04%). Depending on the conversion terms, the surrender of €227 or €200 par value debenture loans qualifies for 50 Reed Elsevier NV ordinary shares.

2 Reconciliations to consolidated financial statements

A reconciliation of the parent company profit attributable to ordinary shareholders prepared under UK GAAP and the consolidated profit attributable to ordinary shareholders prepared under IFRS and presented under the equity method is provided below:

Year ended 31 December	**2010 €m**	2009 €m
Parent company profit attributable to ordinary shareholders	**1,102**	22
Share of results of joint ventures	**367**	197
Dividends received from joint ventures	**(1,093)**	–
Consolidated profit attributable to ordinary shareholders using the equity method	**376**	219

A reconciliation between the parent company shareholders' funds prepared under UK GAAP and the consolidated shareholders' funds prepared under IFRS and presented under the equity method is provided below:

As at 31 December	**2010 €m**	2009 €m
Parent company shareholders' funds	**4,884**	4,065
Cumulative share of results of joint ventures less cumulative dividends received from joint ventures	**(2,747)**	(2,021)
Cumulative currency translation adjustments	**(271)**	(373)
Cumulative equalisation and other adjustments	**145**	178
Share of treasury shares held by joint ventures' employee benefit trust	**(97)**	(98)
Share of IFRS adjustments in joint ventures	**(602)**	(602)
Equity instruments granted to employees of combined businesses	**(175)**	(179)
Consolidated shareholders' funds using the equity method	**1,137**	970

Additional information

R shares

Reed Elsevier NV has two types of shares: ordinary shares of €0.07 nominal value and R shares of €0.70 nominal value. Each R share is convertible into 10 ordinary shares and is entitled to cast ten (10) votes. Otherwise it has the same rights as an ordinary share, except that Reed Elsevier NV may pay a lower dividend on it, but not less than 1% of the nominal value of an R share.

Profit allocation

The Articles of Association provide that distributions of dividend may only be made insofar as the company's equity exceeds the amount of the paid in capital, increased by the reserves which must be kept by virtue of the law and may be made in cash or in shares, at the proposal of the Combined Board. Distribution of dividends on ordinary shares and on the class R shares shall be made in proportion to the nominal value of each share. The Combined Board may resolve that the dividend to be paid on each class R share shall be lower than the dividend to be paid on each ordinary share, resolving at the same time what amount of dividend shall be paid on each ordinary share and each class R share, respectively.

Proposal for allocation of profit	**2010 €m**	2009 €m
Final dividend on ordinary shares for prior financial year	**205**	185
Interim dividend on ordinary shares for financial year	**76**	75
Dividend on R shares	**–**	–
Retained profit/(loss)	**821**	(238)
	1,102	22

Independent auditors' report on the parent company financial statements to the shareholders of Reed Elsevier NV

Report on the company financial statements
We have audited the accompanying parent company financial statements 2010 which are part of the financial statements of Reed Elsevier NV, Amsterdam, which comprise the parent company balance sheet as at 31 December 2010, the parent company profit and loss account for the year then ended, the parent company reconciliation of shareholders' funds and the notes, comprising a summary of the accounting policies and the additional information, as set out in pages 183 to 186.

Management's responsibility
Management is responsible for the preparation and fair presentation of the parent company financial statements both in accordance with accounting principles generally accepted in the United Kingdom and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Supervisory Board and the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is also responsible for such internal control as it determines necessary to enable the preparation of the parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the parent company financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the parent company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the parent company financial statements
In our opinion, the parent company financial statements give a true and fair view of the financial position of Reed Elsevier NV as at 31 December 2010 and of its result for the year then ended in accordance with accounting principles generally accepted in the United Kingdom and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Supervisory Board and the Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under section 2:392 sub 1 at b-h has been annexed. Further we report that the report of the Supervisory Board and the Executive Board, to the extent we can assess, is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Dutch Civil Code.

Deloitte Accountants B.V.
A Sandler
Amsterdam
The Netherlands
16 February 2011

5 year summary

	Note	**2010 €m**	2009 €m	2008 €m	2007 €m	2006 €m
Combined financial information						
Revenue – continuing operations	2	**7,084**	6,800	6,721	6,693	6,628
Reported operating profit – continuing operations	2	**1,275**	881	1,135	1,296	1,231
Adjusted operating profit – continuing operations	2	**1,819**	1,758	1,737	1,660	1,589
Reported profit attributable to shareholders – total operations		**751**	438	587	1,709	916
Adjusted profit attributable to shareholders – total operations		**1,150**	1,099	1,159	1,244	1,170
Reed Elsevier NV consolidated financial information						
Reported profit attributable to shareholders		**376**	219	294	855	458
Adjusted profit attributable to shareholders		**575**	550	580	622	585
Reported earnings per ordinary share (€)		**€0.51**	€0.32	€0.44	€1.10	€0.59
Adjusted earnings per ordinary share (€)		**€0.78**	€0.79	€0.87	€0.80	€0.76
Dividend per ordinary share (€)	3	**€0.412**	€0.400	€0.404	€0.425	€0.406

(1) Adjusted figures are presented as additional performance measures used by management and are stated before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, and in respect of attributable profit, reflect a tax rate that excludes the effect of movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets. Acquisition related costs and profit and loss from disposal gains and losses and other non operating items are also excluded from the adjusted figures.

(2) Revenue, reported operating profit and adjusted operating profit are presented for continuing operations. Net profit from discontinued operations is included in profit attributable to shareholders.

(3) Dividend per ordinary share is based on the interim dividend and proposed final dividend for the relevant year, and does not include the €1.767 per share special distribution in 2008.

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Reed Elsevier combined businesses

Summary financial information in US dollars

Basis of preparation

The summary financial information is a simple translation of the Reed Elsevier combined financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under IFRS as used in the preparation of the Reed Elsevier combined financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

	Income statement		Statement of financial position	
Exchange rates for translation	**2010**	2009	**2010**	2009
US dollars to sterling	**1.55**	1.57	**1.56**	1.62

Combined income statement

For the year ended 31 December	**2010 US$m**	2009 US$m
Revenue	**9,385**	9,531
Operating profit	**1,690**	1,236
Profit before tax	**1,190**	683
Profit attributable to parent companies' shareholders	**995**	614
Adjusted operating profit	**2,410**	2,465
Adjusted profit before tax	**1,982**	2,008
Adjusted profit attributable to parent companies' shareholders	**1,524**	1,542

Reed Elsevier combined businesses

Combined statement of cash flows

For the year ended 31 December	2010 US$m	2009 US$m
Net cash from operating activities	**2,097**	1,870
Net cash used in investing activities	**(510)**	(493)
Net cash used in financing activities	**(1,587)**	(904)
Increase in cash and cash equivalents	**–**	473
Movement in cash and cash equivalents		
At start of year	**1,189**	544
Increase in cash and cash equivalents	**–**	473
Exchange translation differences	**(31)**	172
At end of year	**1,158**	1,189
Adjusted operating cash flow	**2,354**	2,446

Combined statement of financial position

As at 31 December	2010 US$m	2009 US$m
Non-current assets	**13,383**	14,186
Current assets	**4,023**	4,167
Assets held for sale	**–**	8
Total assets	**17,406**	18,361
Current liabilities	**6,079**	6,259
Non-current liabilities	**8,254**	9,244
Liabilities associated with assets held for sale	**–**	8
Total liabilities	**14,333**	15,511
Net assets	**3,073**	2,850

Reed Elsevier PLC

Summary financial information in US dollars

Basis of preparation
The summary financial information is a simple translation of Reed Elsevier PLC's consolidated financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under IFRS as used in the preparation of the Reed Elsevier PLC consolidated financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Exchange rates for translation of sterling ($:£1)	**2010 US$:£**	2009 US$:£
Income statement	**1.55**	1.57
Statement of financial position	**1.56**	1.62

Consolidated income statement

For the year ended 31 December	**2010 US$m**	2009 US$m
Profit attributable to ordinary shareholders	**507**	306
Adjusted profit attributable to 52.9% interest in Reed Elsevier combined businesses	**806**	815
Share of joint ventures':		
Amortisation of acquired intangible assets	**(276)**	(341)
Impairment of acquired intangible assets and goodwill	**–**	(113)
Exceptional restructuring costs	**(31)**	(110)
Acquisition related costs	**(23)**	(28)
Disposals and other non operating items	**(31)**	19
Deferred tax adjustments	**82**	83
Profit attributable to 52.9% interest in Reed Elsevier combined businesses	**527**	325

Data per American Depositary Share (ADS)	**2010 US$**	2009 US$
Earnings per ADS based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	**$2.69**	$2.88
Basic	**$1.69**	$1.08
Net dividend per ADS declared in the year	**$1.26**	$1.28
Net dividend per ADS paid and proposed in relation to the financial year	**$1.26**	$1.28

Consolidated statement of financial position

As at 31 December	**2010 US$m**	2009 US$m
Shareholders' equity	**1,604**	1,484

Adjusted earnings per American Depositary Share is based on Reed Elsevier PLC shareholders' 52.9% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses 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 and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets. Adjusted figures are additional performance measures used by management and are described in note 9 to the Reed Elsevier PLC consolidated financial statements.

Reed Elsevier PLC shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs), representing four Reed Elsevier PLC ordinary shares. (CUSIP No. 758205207; trading symbol, RUK; Bank of New York is the ADR Depositary.)

Reed Elsevier NV

Summary financial information in US dollars

Basis of preparation
The summary financial information is a simple translation of the Reed Elsevier NV consolidated financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under IFRS as used in the preparation of the Reed Elsevier NV consolidated financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Exchange rates for translation of euros ($:€1)	2010 US$:€	2009 US$:€
Income statement	**1.32**	1.40
Statement of financial position	**1.33**	1.44

Consolidated income statement

For the year ended 31 December	2010 US$m	2009 US$m
Adjusted profit attributable to ordinary shareholders	**762**	770
Share of joint ventures':		
Amortisation of acquired intangible assets	**(261)**	(322)
Impairment of acquired intangible assets and goodwill	**–**	(106)
Exceptional restructuring costs	**(29)**	(105)
Acquisition related costs	**(24)**	(27)
Disposals and other non operating items	**(28)**	18
Deferred tax adjustments	**78**	79
Profit attributable to ordinary shareholders	**498**	307

Data per American Depositary Share (ADS)	2010 US$	2009 US$
Earnings per ADS based on 50% interest in Reed Elsevier combined businesses		
Adjusted	**$2.07**	$2.21
Basic	**$1.35**	$0.90
Net dividend per ADS declared in the year	**$1.07**	$1.11
Net dividend per ADS paid and proposed in relation to the financial year	**$1.09**	$1.12

Consolidated statement of financial position

As at 31 December	2010 US$m	2009 US$m
Shareholders' equity	**1,516**	1,403

Adjusted earnings per American Depositary Share is based on Reed Elsevier NV shareholders' 50% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition related costs, disposal gains and losses 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 and includes the benefit of tax amortisation where available on acquired goodwill and intangible assets. Adjusted figures are additional performance measures used by management and are described in note 9 to the Reed Elsevier NV consolidated financial statements.

Reed Elsevier NV shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs), representing two Reed Elsevier NV ordinary shares. (CUSIP No. 758204200; trading symbol, ENL; Bank of New York is the ADR Depositary.)

Shareholder information

Annual Reports and Financial Statements 2010
The Annual Reports and Financial Statements for the Reed Elsevier combined businesses, Reed Elsevier PLC and Reed Elsevier NV for the year ended 31 December 2010, and the Corporate Governance Statement of Reed Elsevier NV are available on the Reed Elsevier website, and from the registered offices of the respective parent companies shown on page 196. Additional financial information, including the Interim and Full Year Results announcements, Interim Management Statements and presentations is also available on the Reed Elsevier website www.reedelsevier.com.

The Reed Elsevier combined financial statements set out in the Annual Reports and Financial Statements are expressed in sterling, with summary combined financial information expressed in euros. The financial statements of Reed Elsevier PLC and Reed Elsevier NV are expressed in sterling and euros respectively. Reed Elsevier NV no longer publishes on the website a full convenience translation in euros of the Reed Elsevier Annual Reports and Financial Statements.

Interim results
Reed Elsevier PLC and Reed Elsevier NV no longer publish interim results in hard copy. The interim results are available on the Reed Elsevier website.

Share price information
Reed Elsevier PLC's ordinary shares are quoted on the London Stock Exchange.

Reed Elsevier NV's ordinary shares are quoted on the Euronext Amsterdam Stock Exchange.

The Reed Elsevier PLC and Reed Elsevier NV ordinary shares are quoted on the New York Stock Exchange in the form of American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs). Each Reed Elsevier PLC ADR represents four Reed Elsevier PLC ordinary shares. Each Reed Elsevier NV ADR represents two Reed Elsevier NV ordinary shares.

The Reed Elsevier PLC and Reed Elsevier NV ordinary share prices and the ADR prices may be obtained from the Reed Elsevier website, other online sources and the financial pages of some newspapers.

For further information visit
www.reedelsevier.com

Information for Reed Elsevier PLC ordinary shareholders

Shareholder services
The Reed Elsevier PLC ordinary share register is administered by Equiniti Limited. Equiniti provides a free online portal for shareholders at www.shareview.co.uk. Shareview provides shareholders with instant access to details of their shareholding and dividend payments, with the ability to update personal details and to register a bank mandate. Equiniti's contact details appear on page 196.

Electronic communications
While hard copy shareholder communications continue to be available to those shareholders actively requesting them, in accordance with the Companies Act 2006 and its Articles of Association, Reed Elsevier PLC uses the Reed Elsevier website as the main method of communicating with shareholders. By registering their details online at Shareview, shareholders can be notified by email when shareholder communications are published on the website. Shareholders can also use the Shareview website to appoint a proxy to vote on their behalf at shareholder meetings.

Shareholders who hold their Reed Elsevier PLC shares through CREST may appoint proxies for shareholder meetings through the CREST electronic proxy appointment service by using the procedures described in the CREST manual.

Dividend mandates
Shareholders are encouraged to have their dividends paid directly into a UK bank or building society account. This method of payment reduces the risk of delay or loss of dividend cheques in the post and ensures the account is credited on the dividend payment date. A dividend mandate form can be obtained online at www.shareview.co.uk, or by contacting Equiniti at the address shown on page 196.

Equiniti has established a service for overseas shareholders in over 30 countries, which enables shareholders to have their dividends automatically converted from sterling and paid directly into their nominated bank account. Further details of this service, and the fees applicable, are available at www.shareview.co.uk or by contacting Equiniti at the address shown on page 196.

Dividend Reinvestment Plan
Shareholders can choose to reinvest their Reed Elsevier PLC dividends by purchasing further shares through the Dividend Reinvestment Plan ("DRIP") provided by Equiniti. Further information concerning the DRIP facility, together with the terms and conditions and an application form can be obtained online at www.shareview.co.uk/dividends or by contacting Equiniti at the address shown on page 196.

Share dealing service
A telephone and internet dealing service is available through Reed Elsevier PLC's Registrar, which provides a simple way for UK-resident shareholders to buy or sell Reed Elsevier PLC shares. For telephone dealing call 08456 037 037 between 8.00am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your shareholder account number shown on your dividend tax voucher.

Shareholder information continued

Individual savings accounts (ISA)
A single company ISA for Reed Elsevier PLC shares is available through Equiniti. Details may be obtained from www.shareview.co.uk/ISA, by writing to Equiniti at the address shown on page 196, or by calling their ISA helpline on 0845 300 0430.

ShareGift
The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme can be obtained from the ShareGift website at www.sharegift.org, or by telephoning ShareGift on 020 7930 3737.

Sub-division of ordinary shares and share consolidation
On 28 July 1986 each Reed Elsevier PLC ordinary share of £1 nominal value was sub-divided into four ordinary shares of 25p each. On 2 May 1997 each 25p ordinary share was sub-divided into two ordinary shares of 12.5p each. On 7 January 2008 the ordinary shares of 12.5p each were consolidated on the basis of 58 new ordinary shares of $14^{51}/_{116}$p nominal value for every 67 ordinary shares of 12.5p each held.

Capital gains tax
The mid-market price of Reed Elsevier PLC's £1 ordinary shares on 31 March 1982 was 282p. Adjusting for the sub-divisions and share consolidation referred to above, results in an equivalent mid-market price of 40.72p for each existing ordinary share of $14^{51}/_{116}$p nominal value.

Information for Reed Elsevier NV ordinary shareholders

Shareholder enquiries
Enquiries from holders of Reed Elsevier NV registered ordinary shares in relation to share transfers, dividends, change of address and bank accounts should be directed to the Company Secretary of Reed Elsevier NV, at the registered office address shown on page 196.

Dividends
Dividends on Reed Elsevier NV ordinary shares are declared and paid in euros. Registered shareholders in Reed Elsevier NV will receive dividends from the company by transmission to the bank account which they have notified to the company. Dividends on shares in bearer form are paid through the intermediary of a bank or broker.

Dividend Reinvestment Plan
By instructing their bank or intermediary, shareholders can choose to reinvest their Reed Elsevier NV dividends by purchasing further shares through the Dividend Reinvestment Plan ("DRIP") provided by Royal Bank of Scotland N.V. Further information concerning the DRIP facility can be obtained online at www.securitiesinfo.nl.

Consolidation of ordinary shares
On 7 January 2008 each Reed Elsevier NV ordinary share of €0.06 each were consolidated on the basis of 58 new ordinary shares of €0.07 each for every 67 ordinary shares of €0.06 held.

Shareholder Communications Channel for Reed Elsevier NV shareholders
Reed Elsevier NV has entered into arrangements with Stichting Communicatiekanaal Aandeelhouders (Shareholder Communication Channel Trustee) in the Netherlands, facilitating the communication with and between shareholders, particularly in connection with general shareholders' meetings. Under these arrangements, holders of Reed Elsevier NV bearer shares whose shares are held in the custody of a Dutch bank, and who have notified the intermediary authority appointed for these purposes of their interest, will receive written information from the company with a proxy form for their representation at general shareholder meetings. Reed Elsevier NV also uses the e-voting system of RBS, that allows its shareholders to vote electronically at general meetings of shareholders and provides the shareholder that uses the system confirmation that the vote was cast.

Information for Reed Elsevier PLC and Reed Elsevier NV ADR holders

The Reed Elsevier PLC and Reed Elsevier NV ADR Depositary is BNY Mellon. Reed Elsevier PLC's CUSIP number is 758205207 and its trading symbol is RUK. Each Reed Elsevier PLC ADR represents four Reed Elsevier PLC ordinary shares. Reed Elsevier NV's CUSIP number is 758204200 and its trading symbol is ENL. Each Reed Elsevier NV ADR represents two Reed Elsevier NV ordinary shares.

ADR shareholder services
Enquiries concerning Reed Elsevier PLC or Reed Elsevier NV ADRs should be addressed to the ADR Depositary at the address shown on page 196.

Dividends
Dividend payments on Reed Elsevier PLC and Reed Elsevier NV ADRs are converted into US dollars by the ADR Depositary.

Annual Report on Form 20-F
The Annual Report on Form 20-F for the Reed Elsevier combined businesses, Reed Elsevier PLC and Reed Elsevier NV will be filed electronically with the United States Securities and Exchange Commission. A copy of Form 20-F for the year ended 31 December 2010 will be available on the Reed Elsevier website, or from the ADR Depositary at the address shown on page 196.

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2011 financial calendar

17 February	**PLC** **NV**	Announcement of Results for the year ended 31 December 2010
19 April	**PLC** **NV**	Interim Management Statement issued in relation to the 2011 financial year
19 April	**NV**	Annual General Meeting – Reed Elsevier NV, Hilton Hotel, Apollolaan 138, 1077 BG Amsterdam
20 April	**PLC**	Annual General Meeting – Reed Elsevier PLC, Millennium Hotel, Grosvenor Square, London W1K 2HP
20 April	**PLC**	Ex-dividend date – 2010 final dividend, Reed Elsevier PLC ordinary shares and ADRs
21 April	**NV**	Ex-dividend date – 2010 final dividend, Reed Elsevier NV ordinary shares and ADRs
26 April	**PLC**	Record date – 2010 final dividend, Reed Elsevier PLC ordinary shares and ADRs
27 April	**NV**	Record date – 2010 final dividend, Reed Elsevier NV ordinary shares and ADRs
17 May	**PLC** **NV**	Payment date – 2010 final dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares
24 May	**PLC** **NV**	Payment date – 2010 final dividend, Reed Elsevier PLC and Reed Elsevier NV ADRs
28 July	**PLC** **NV**	Announcement of Interim Results for the six months to 30 June 2011
3 August	**PLC** **NV**	Ex-dividend date – 2011 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares and ADRs
5 August	**PLC** **NV**	Record date – 2011 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares and ADRs
26 August	**PLC** **NV**	Payment date – 2011 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares
2 September	**PLC** **NV**	Payment date – 2011 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ADRs
17 November	**PLC** **NV**	Interim Management Statement issued in relation to the 2011 financial year

The following tables set out dividends paid (or proposed) in relation to the three financial years 2008–2010.

	per PLC ordinary share	**per NV ordinary share**	**Payment date**
Final dividend for 2010*	15.0p	€0.303	17 May 2011
Interim dividend for 2010	5.4p	€0.109	27 August 2010
Final dividend for 2009	15.0p	€0.293	21 May 2010
Interim dividend for 2009	5.4p	€0.107	28 August 2009
Final dividend for 2008	15.0p	€0.290	22 May 2009
Interim dividend for 2008	5.3p	€0.114	29 August 2008

*Proposed dividend, to be submitted for approval at the respective Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV in April 2011.

	per PLC ADR	**per NV ADR**	**Payment date**
Final dividend for 2010	**	**	24 May 2011
Interim dividend for 2010	$0.33480	$0.23512	3 September 2010
Final dividend for 2009	$0.86010	$0.62137	28 May 2010
Interim dividend for 2009	$0.35164	$0.26060	4 September 2009
Final dividend for 2008	$0.94782	$0.68679	1 June 2009
Interim dividend for 2008	$0.38743	$0.28473	5 September 2008

**Payment will be determined using the appropriate £/US$ and €/US$ exchange rate on 17 May 2011.

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