Annual Reports and Financial Statements 2011

Reed Elsevier

Reed Elsevier is a world leading provider of professional information solutions.

We leverage deep customer understanding to deliver demonstrably improved outcomes to our professional customers.

We do this by combining content and data with analytics and technology in global platforms, sharing institutional skills, assets and resources across Reed Elsevier.

Contents

Full report online

THE REED ELSEVIER ANNUAL REPORTS AND FINANCIAL STATEMENTS 2011 ARE AVAILABLE TO VIEW ONLINE:
REPORTING.REEDELSEVIER.COM/AR11

Forward-looking statements
The Reed Elsevier Annual Reports and Financial Statements 2011 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 competitive factors in the industries in which Reed Elsevier operates; demand for Reed Elsevier's products and services; exchange rate fluctuations; general economic and business conditions; legislative, fiscal, tax and regulatory developments and political risks; the availability of third party content and data; breaches of our data security systems and interruptions in our information technology systems; changes in law and legal interpretations affecting Reed Elsevier's intellectual property rights and other risks referenced from time to time in the filings of Reed Elsevier with the US Securities and Exchange Commission.

Chairman's statement

Reed Elsevier continued its positive momentum in 2011. All five business areas contributed to underlying revenue growth with underlying operating profits growing well.

We delivered a good increase in earnings per share. Our cash flow generation has allowed us to invest in our businesses, while maintaining a strong balance sheet and we are recommending a 6% increase in the full year dividend. I am confident that our actions will continue to strengthen our long term growth prospects.

Underlying revenues, which exclude the effects of currency translation and acquisitions and disposals, were up 2%, or 3% excluding the cycling effect of biennial exhibitions, reflecting a consistent performance from our subscription and online data businesses. Our reported revenues were down 1% at £6,002m expressed in sterling and down by 3% to €6,902m expressed in euros, or flat in constant currencies.

Adjusted operating profits were up 5% at £1,626m in sterling and up 3% at €1,870m in euros, or up 4% at constant currencies. Adjusted earnings per share were up 8% for Reed Elsevier PLC at 46.7p and 6% higher for Reed Elsevier NV at €0.83, up 6% at constant currencies. Reported earnings per share for Reed Elsevier PLC were up 19% at 32.4p and for Reed Elsevier NV up 16% at €0.59.

Dividends
The Boards are recommending equalised final dividends of 15.90p for Reed Elsevier PLC and €0.326 for Reed Elsevier NV, up respectively 6% and 8% against the prior year. This brings the total for the year to 21.55p for Reed Elsevier PLC and €0.436 for Reed Elsevier NV, both showing an increase of 6%. The differing growth rates of the interim and final dividends for the two parent companies reflect movements in the sterling-euro exchange rate between dividend announcement dates.

Balance Sheet
We achieved strong cash generation in the year and paid out approximately half of our free cash flow to shareholders as dividends. The remaining free cash flow was used to fund acquisitions made during the year, principally *Accuity, CBI China* and *Ascend,* with year end net debt of $5.3 billion, compared to $5.4 billion in the prior year.

Management and Boards
Following the reshaping of management in the business areas, Erik Engstrom (Chief Executive Officer) has focused in the past 12 months on refreshing the central functions with the appointment of Group General Counsel, dedicated heads of Investor Relations and Corporate M&A and new heads of Group Strategy, Business Analytics and Corporate Communications, as he continues to build his team to take the business forward.

In October, we announced that Mark Armour, Chief Financial Officer, has decided to retire from the Boards of Reed Elsevier at the end of 2012. The Nominations Committee has begun the process of identifying his successor and has appointed an executive search firm to review both internal and external candidates. In the meantime Mark remains a key member of the executive team.

In April, Adrian Hennah was appointed as a non-executive member of our Boards following the approval by shareholders. Adrian succeeded Lord Sharman, who stepped down at the Annual General Meetings after nine years of valuable board service.

I am pleased to say that David Brennan will join our Boards as a non-executive director with effect from 1 November 2012, subject to shareholder approval at the Annual General Meetings in April. David is currently Chief Executive Officer of AstraZeneca plc, a global pharmaceutical company, which develops, manufactures and markets prescription medicines and medical devices. As a truly international executive with deep knowledge both of medical research and of the world's healthcare markets, he will bring highly relevant experience to our board discussions.

Morris Tabaksblat
Sadly in October, our former Chairman, Morris Tabaksblat passed away. Morris was Chairman of the Boards of Reed Elsevier from 1999-2005. He was much respected by all who knew and worked with him and was a hugely influential figure in the successful development of Reed Elsevier.

Corporate Responsibility
Our unique corporate social responsibility programmes are a source of strength for Reed Elsevier. I fully support all our efforts to ensure we achieve the highest levels of corporate responsibility and ethical management. In the year, we pledged to increase the percentage of women on the Reed Elsevier Boards by 2015 and will make every effort to do so.

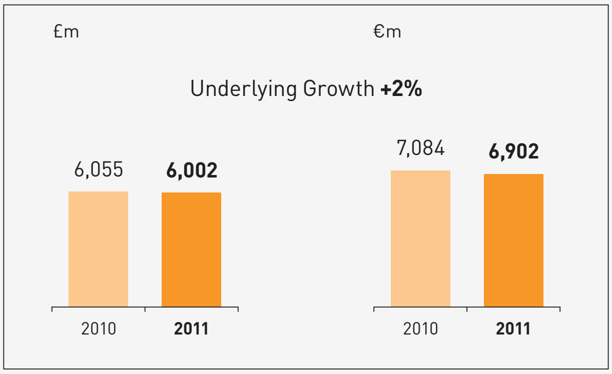
Anthony Habgood
Chairman

2011 highlights

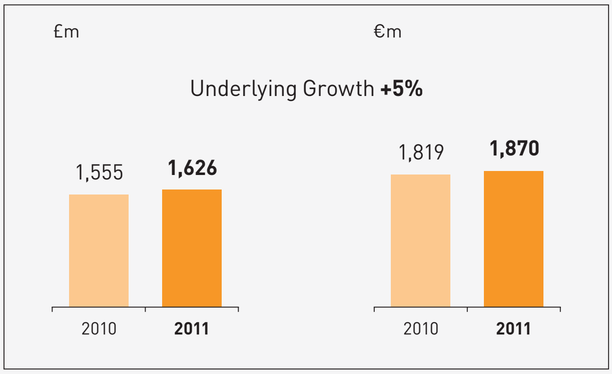
- Underlying revenue up 2% (3% excluding biennial exhibition cycling)
- Underlying adjusted operating profit up 5%; up 4% at constant currencies
- Adjusted EPS up 8% to 46.7p for Reed Elsevier PLC; up 6% to €0.83 for Reed Elsevier NV
- Reported EPS up 19% to 32.4p for Reed Elsevier PLC; up 16% to €0.59 for Reed Elsevier NV
- Full year dividend up 6% to 21.55p for Reed Elsevier PLC and €0.436 for Reed Elsevier NV
- Net debt of £3.4bn; 2.3 times adjusted EBITDA (pensions and lease adjusted)

Reed Elsevier combined businesses

REVENUE

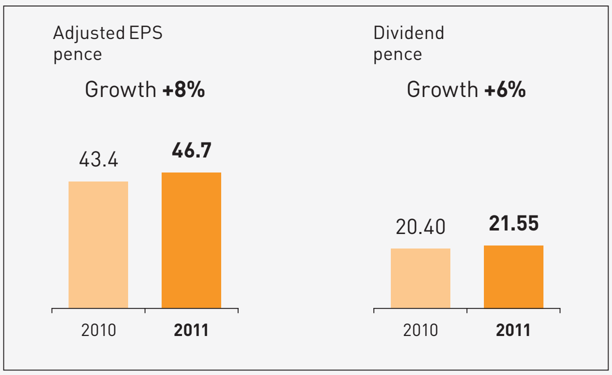


ADJUSTED OPERATING PROFIT

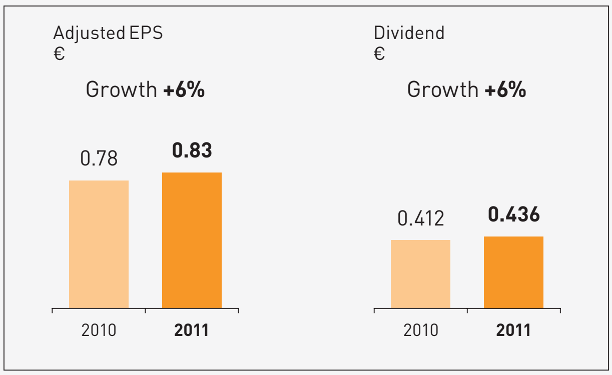


Parent companies

REED ELSEVIER PLC



REED ELSEVIER NV



Reed Elsevier combined businesses

REPORTED FIGURES	£			€				
For the year ended 31 December	**2011 £m**	2010 £m	Change	**2011 €m**	2010 €m	Change	Change at constant currencies	Change underlying
Revenue	**6,002**	6,055	–1%	**6,902**	7,084	-3%	0%	+2%
Operating profit	**1,205**	1,090	+11%	**1,386**	1,275	+9%	+8%	
Profit before tax	**948**	768	+23%	**1,090**	898	+21%	+20%	
Net profit	**760**	642	+18%	**874**	751	+16%	+15%	
Net borrowings	**3,433**	3,455		**4,119**	4,043			

ADJUSTED FIGURES	£			€				
For the year ended 31 December	**2011 £m**	2010 £m	Change	**2011 €m**	2010 €m	Change	Change at constant currencies	Change underlying
Operating profit	**1,626**	1,555	+5%	**1,870**	1,819	+3%	+4%	+5%
Operating margin	**27.1%**	25.7%	+1.4% pts	**27.1%**	25.7%	+1.4% pts		
Profit before tax	**1,391**	1,279	+9%	**1,600**	1,496	+7%	+7%	
Net profit	**1,060**	983	+8%	**1,219**	1,150	+6%	+6%	
Operating cash flow	**1,515**	1,519	0%	**1,742**	1,777	-2%	-1%	
Operating cash flow conversion	**93%**	98%		**93%**	98%			
Return on invested capital	**11.2%**	10.6%	+0.6% pts	**11.2%**	10.6%	+0.6% pts		

Parent companies

	Reed Elsevier PLC			**Reed Elsevier NV**			
	2011	2010	Change	**2011**	2010	Change	Change at constant currencies
Adjusted earnings per share	**46.7p**	43.4p	+8%	**€0.83**	€0.78	+6%	+6%
Reported earnings per share	**32.4p**	27.3p	+19%	**€0.59**	€0.51	+16%	
Ordinary dividend per share	**21.55p**	20.40p	+6%	**€0.436**	€0.412	+6%	

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 and underlying 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. Underlying growth rates are calculated at constant currencies, and exclude the results of all acquisitions and disposals made both in the year and prior year and assets held for sale. Constant currency growth rates are based on 2010 full year average and hedge exchange rates.

Chief Executive Officer's report

Erik Engstrom, Chief Executive Officer

2011 was a year of good progress both strategically and financially. Our large subscription and data businesses performed well and uncertainty in the macro economic environment in the latter part of the year had only a limited impact on some of our more cyclical businesses.

Organic development remains at the core of our strategy, and in 2011 we increased our investment and accelerated new product launches, focusing on the provision of information solutions that demonstrably improve the economics of our professional and business customers. The increasing profitability of our business reflects a combination of our global operating approach, aiming to keep cost growth below revenue growth, and portfolio development.

We operate in an environment where global professional employment will grow across industries, information sources and data volumes are multiplying, and the use of technology is evolving. Our aim is to be a business that sells improved outcomes for our professional customers in information intensive industries, both as individuals and for the institutions or businesses that they work for.

We want to deliver demonstrably improved outcomes to those customers, helping them to make better decisions, achieve better results, and be more productive.

We want to do this with tools that leverage deep customer understanding, combining high quality content and data with analytics and technology to build solutions that typically cost less than 1% of our customers' total cost base but can have a significant positive impact on the remaining 99%.

We want to move towards this business type across all of Reed Elsevier, building leading positions in long term global growth markets, primarily through organic investment.

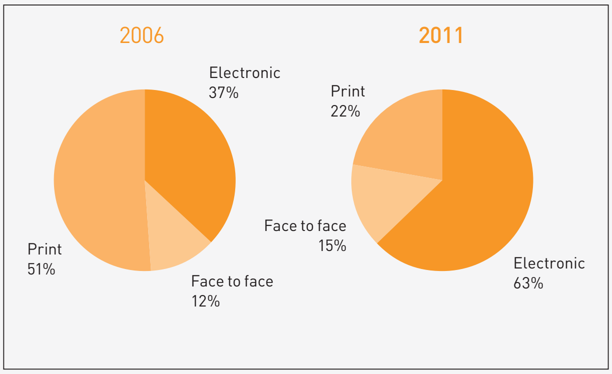
We will do this by leveraging our institutional skills, assets and resources across the business to build solutions for our customers and pursue cost efficiencies within our own business.

During the course of 2011, we have made significant progress against our strategic priorities. We have continued to migrate the business towards online solutions, with just over 20% of revenues now still in print, down from over 50% five years ago.

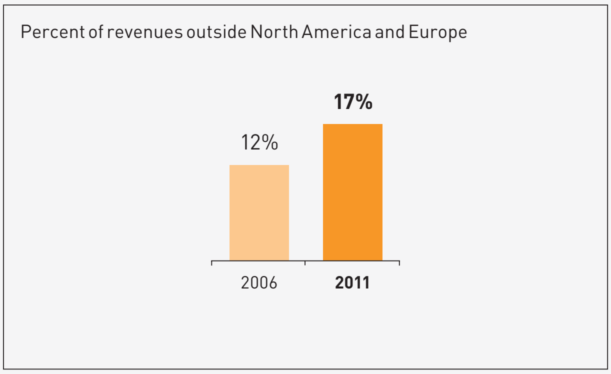
Our geographic footprint is also evolving, with 17% of revenues now generated outside North America and Europe, up from 12% five years ago.

We have actively developed the portfolio in the year with expansion of online data services and the exit from small businesses that are no longer aligned with our strategic direction in all five business areas.

FORMAT TRANSITION



GEOGRAPHIC EVOLUTION



Financial results
On an underlying basis revenues grew 2% in 2011, but excluding the negative impact of biennial event cycling in Reed Exhibitions, underlying revenues grew 3%, compared to 1% in 2010, with all five business areas returning to growth for the first time since 2007.

Underlying adjusted operating profit grew 5% reflecting the improved revenue growth in the businesses, a continued focus on operational efficiency, and the disposal of lower margin businesses.

Despite increasing organic investment in our business and the completion of a number of acquisitions, we improved our return on invested capital by 60 basis points to 11.2% for the year.

We have also taken our net debt to EBITDA ratio back down into a range that we are very comfortable with, ending the year at 2.3x on a pension and lease adjusted basis.

Business area priorities
In **Elsevier**, our priorities are to improve research outcomes and productivity for researchers and their managers through expanded content and integrated analytics & technology platforms, to drive remaining print to electronic migration in health sciences leveraging global platforms, and to relentlessly pursue process innovation and efficiency through global shared services.

We made good progress on these priorities in 2011, with our author, editor and reviewer satisfaction and loyalty scores reaching all time highs, double digit growth in article submissions, and continued growth in citation share. We also expanded our global platforms for both science and health content. Science & Technology reported underlying revenue growth of 4% in 2011, with good growth in research and databases. In Health Sciences revenues were flat, with double digit growth in electronic revenues across all segments offset by declines in print book sales to individuals and pharma promotion.

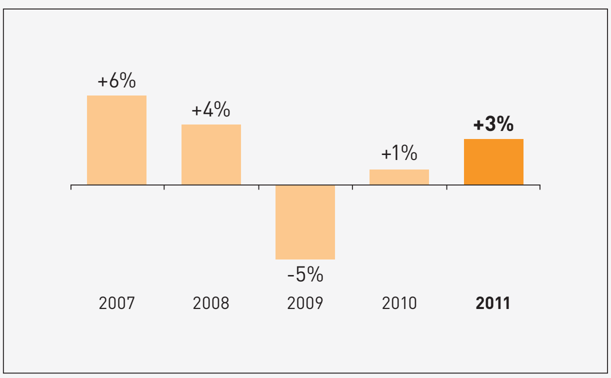
In **LexisNexis Risk Solutions**, our priorities are to drive growth in insurance through an active new product pipeline that improves carrier economics across their workflows and to leverage our leading database and technology platform to expand into adjacent risk markets and new geographies.

In 2011 we achieved good growth in insurance data & analytics and business services reflecting solid demand for our core products and increasing adoption of new products, and we have just brought on our first commercial UK insurance customer. Screening revenues slowed in the second half reflecting US hiring trends, and federal government markets remained under pressure. Underlying revenues were up 4% and adjusted operating profits up 12% reflecting cost savings, notably in technology, and from the successful completion of the ChoicePoint integration.

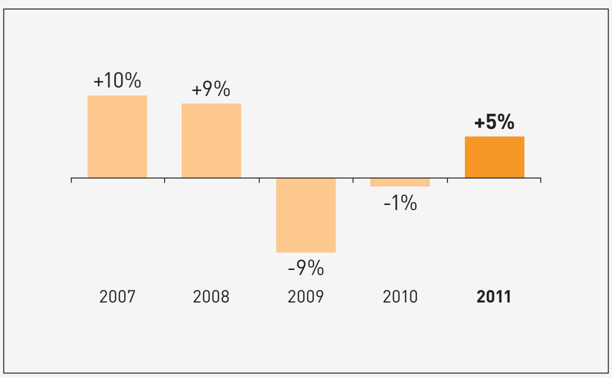
In **LexisNexis Legal & Professional** our priorities are to progressively introduce the next generation legal products, to leverage the new platform globally in order to drive print to electronic migration and long term international growth, and to upgrade our operational infrastructure and gradually rebuild margins.

In 2011 we launched the second release of *Lexis Advance* in the US and expanded our international solutions. Revenues returned to slight underlying growth in both the US and internationally, with growth in research and litigation tools and in practice management, and moderating declines in news & business to corporate customers and in electronic listings. Margins were broadly flat, as expected.

UNDERLYING REVENUE GROWTH EXCLUDING BIENNIAL CYCLING



UNDERLYING ADJUSTED OPERATING PROFIT GROWTH



At **Reed Exhibitions** our priorities are to drive organic growth by leveraging global sector groups and technology platforms and to prioritise faster growing geographies and sectors through launches and small acquisitions.

In 2011 we rolled out our Nova web platform to the vast majority of our shows. During the year we launched 43 new shows, and completed a number of small acquisitions. Underlying revenue growth was 10% excluding biennial cycling, with good growth across all geographies in 2011. The net cycling out of biennial shows held back overall growth in 2011 with underlying revenues and adjusted operating profits flat and up 2% respectively.

In **Reed Business Information** our priorities are to drive expansion in global data services organically and through acquisition, to reshape the portfolio through organic transformation and selective disposals, and to continue to realign the cost base.

In 2011 we built out data services organically and acquired *Accuity* and *CBI China*, we transformed one of our leading brands with the combination of *Flight* with *Ascend*, and we divested a number of magazines and service operations. We returned to underlying revenue growth of 1% for the year, and adjusted operating profits were up 15%, with the majority of the margin increase reflecting organic development, supported by our exits from low margin businesses.

The business and financial reviews, set out in pages 7 to 28 describe in more detail our markets, businesses and the performance and outlook by business.

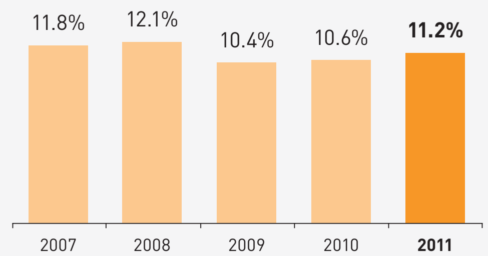
Corporate responsibility
We continue to prioritise and make progress against our corporate responsibility objectives, beginning with the unique contributions we make as a business, including sustainable access to information. We are also focused on good management of the material issues affecting all companies in areas ranging from governance and community to supply chain and the environment.

Outlook
The macro economic outlook remains uncertain, but by delivering highly valued products and services to our professional customers, and a relentless focus on process efficiency, we expect to deliver another year of underlying revenue and profit growth in 2012.

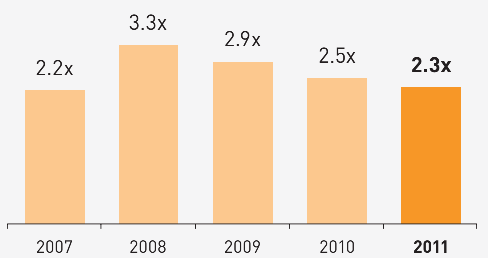
I am confident that we have both the management team and institutional skills to address the opportunities that our professional end markets offer us and to face the challenges that today's macro economic environment present. We have extensive insight into our customers' needs and are focused on delivering the content and solutions that create value for them and significantly improve their outcomes and economics. Our employees show unrivalled commitment to achieving these goals and I would like to thank them for their continued enthusiasm and dedication to our customers and to creating increasing value for Reed Elsevier and our shareholders.

Erik Engstrom
Chief Executive Officer

RETURN ON INVESTED CAPITAL



NET DEBT/EBITDA



Pension and lease adjusted; calculated in US dollars; 2007 pro forma for special distribution; 2008 pro forma for ChoicePoint acquisition

Business review

In this section

Reed Elsevier

Reed Elsevier is a world leading provider of professional information solutions. We leverage deep customer understanding to deliver demonstrably improved outcomes to our professional customers.

We do this by combining content and data with analytics and technology in global platforms, sharing institutional skills, assets and resources across Reed Elsevier.

We aim to build leading positions in long term global growth markets.

Our customer facing activities are grouped into five business areas:

ELSEVIER

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

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.

LexisNexis® | Legal & Professional

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 largest events business, with over 475 events in 34 countries.

Reed Business Information

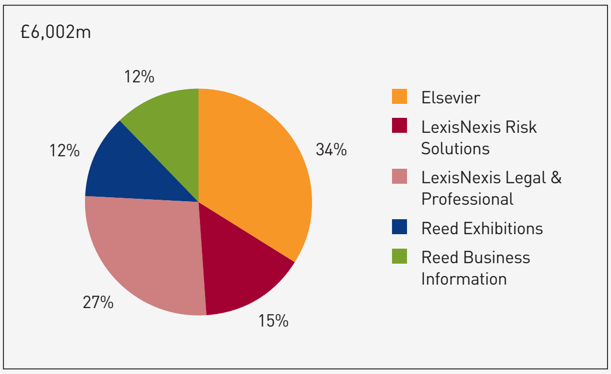
Reed Business Information is a provider of data services, business information and marketing solutions to business professionals.

FINANCIAL SUMMARY

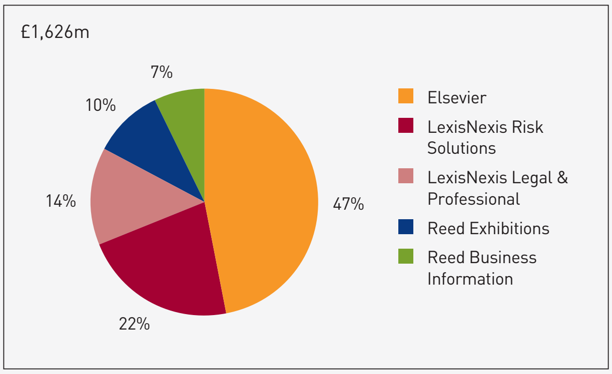
	2011 £m	2010 £m	Change	Change at constant currencies	Change underlying
Revenue					
Elsevier	**2,058**	2,026	+2%	+1%	+2%
LexisNexis Risk Solutions	**908**	927	–2%	+1%	+4%
LexisNexis Legal & Professional	**1,634**	1,691	–3%	–2%	+1%
Reed Exhibitions	**707**	693	+2%	+1%	0%
Reed Business Information	**695**	718	–3%	–4%	+1%
	6,002	6,055	–1%	0%	+2%
Adjusted operating profit					
Elsevier	**768**	724	+6%	+3%	+4%
LexisNexis Risk Solutions	**362**	354	+2%	+6%	+12%
LexisNexis Legal & Professional	**229**	238	–4%	–4%	–2%
Reed Exhibitions	**167**	158	+6%	+4%	+2%
Reed Business Information	**110**	89	+23%	+22%	+15%
Unallocated items	**(10)**	(8)			
	1,626	1,555	+5%	+4%	+5%

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 (none in 2011) 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 include the benefit of tax amortisation where available on acquired goodwill and intangibles assets. Adjusted operating profit is also 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. Underlying growth rates are calculated at constant currencies and exclude the results of all acquisitions and disposals made both in the year and prior year and assets held for sale. Constant currency growth rates are based on 2010 full year exchange and hedge exchange rates.

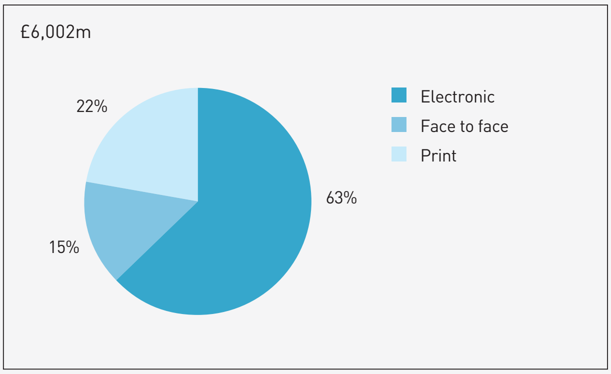
REVENUE



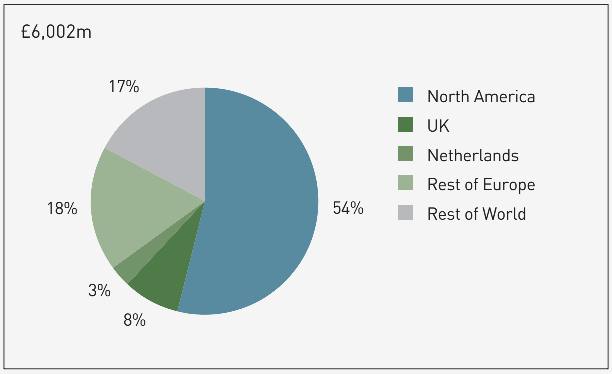
ADJUSTED OPERATING PROFIT



REVENUE BY FORMAT



REVENUE BY GEOGRAPHIC MARKET



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 2011 were £2,058m. 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 6,900 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 240,000 new science & technology research articles each year through some 1,250 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 7 million researchers each year.

Elsevier also publishes over 700 new English language science & technology book titles annually, supporting bibliographic data, indexes and abstracts, and review and reference works. 15,000 online books are available on *ScienceDirect*, with over 1,000 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 45 million scientific research articles from 19,000 peer reviewed journals and 5,000 international publishers. *Scopus* also has data on more than 24 million patents. *Reaxys* is a leading solution for synthetic chemists that integrates chemical reaction and compound data searching with synthesis planning.

In December 2011, Elsevier acquired *Ariadne Genomics* a provider of pathway analysis tools and semantic technologies for life science researchers which will complement Elsevier's efforts to serve the needs of researchers in the pharma biotech sector.

A major challenge facing researchers and institutions is the ever growing amount of research and related information with 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. *SciVerse Hub* provides a

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

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

One of the world's leading medical journals since 1823

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

Leading web-based chemical reaction workflow solution for industrial chemists

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

SciVal provides research performance tools for academic institutions and funding intelligence

Premier life sciences journal with the highest impact factor in biochemistry and molecular biology

Clinical decision support tool to identify areas for improvement in medical practice single search interface for accessing *ScienceDirect*, *Scopus* and scientific web content. In addition, *SciVerse Application Marketplace & Developer Network* enables researchers and third party developers to build customised applications on top of Elsevier's information and other data and analytics enhancing the utility of the underlying content.

Following a successful collaboration since 2007, Elsevier acquired QUOSA in January 2012. QUOSA's technological capabilities will raise the efficiency of the search and discovery process and will also allow researchers to manage information more efficiently.

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. *SciVal Experts* enables researchers to establish a directory of experts in their area of interest, while *SciVal Strata* facilitates performance benchmarking by research teams.

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.

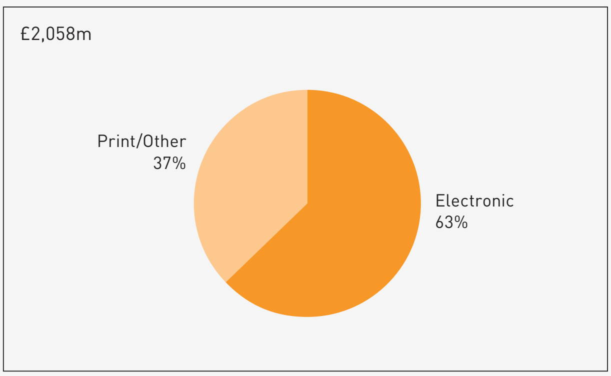
Elsevier publishes over 700 health sciences journals, including on behalf of learned societies, and, in 2011, 1,500 new health sciences book titles and clinical reference works were published both in print and through *ScienceDirect* and other electronic platforms such as *MD Consult*. *MD Consult* is a leading online clinical information service with more than 2,400 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. In November 2011, *ClinicalKey* was launched in beta allowing physicians to access the leading reference and evidence-based medicine in a single, fully-integrated site built to accommodate their clinical information workflows.

Elsevier is a leader in medical education and training resources, particularly to the nursing and allied health professions. From print and electronic books 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 3 million registered users; *Evolve Reach (Health Education Systems Inc.)* provides online review and testing tools for nursing and the allied health professions; *Evolve Teach* provides online resources and solutions to support faculty.

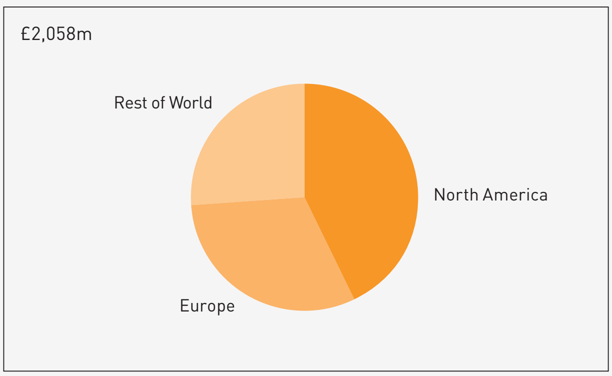
A growing area of focus is clinical decision support, providing online information and analytics to deliver patient-specific solutions at the point of care to improve patient outcomes. *Gold Standard* provides critical information on drug interactions to assist effective treatment; *CPM Resource Center* 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. In February 2011, Elsevier entered the emerging clinical decision support market in China through the acquisition of *Datong*, a leading online provider of drug information that helps Chinese hospitals to improve quality of care through better drug usage.

Elsevier also provides services to the pharmaceutical industry through advertising and sponsored communications to the specialist community it serves. In 2011, Elsevier continued the restructuring of this business focusing more on the services which leverage Health Sciences' core information and distribution platform.

REVENUE BY FORMAT



REVENUE BY GEOGRAPHIC MARKET



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 significant proportion of scientific research and healthcare is funded directly or indirectly by governments, spending is influenced by governmental budgetary considerations. The commitment to research and health provision does, however, 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 *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 to continue to enhance the quality and relevance of its content and actively manage the ongoing format shift from print to electronic information consumption by developing improved electronic solutions that add more value to its users and customers. 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.

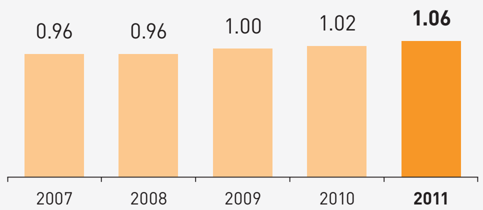
Business model, distribution channels and competition

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 *MD Consult*, 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.

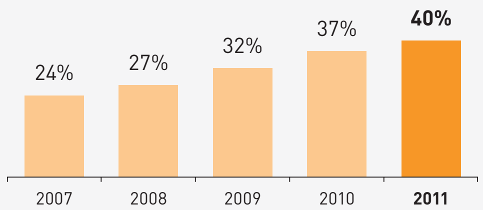
RELATIVE IMPACT FACTOR



Improvement in relative journal quality of Elsevier's journal portfolio through attracting the highest quality research.

Relative impact factor is the average citation impact of Elsevier journal content compared to other publishers (industry average = 1). Based on citation data from Thomson Reuters.

HEALTH SCIENCES ELECTRONIC REVENUE



Growing demand for online information and analytics driven by increasing focus on improving medical outcomes and efficiency.

	2011 £m	2010 £m	Change	Change at constant currencies	Change underlying
Revenue					
Science & Technology	**1,076**	1,015	+6%	+4%	+4%
Health Sciences	**982**	1,011	-3%	-2%	0%
	2,058	2,026	+2%	+1%	+2%
Adjusted operating profit	**768**	724	+6%	+3%	+4%

2011 financial performance

Increasing global scientific and medical research activity supported good growth in research information and online tools. Health Sciences saw continued pressure on print book sales to individuals and European pharma promotion, but achieved good growth in global medical research and clinical decision support.

Underlying revenues and adjusted operating profits were up 2% and 4% respectively.

Science & Technology generated underlying revenue growth of 4%. Global research activity has continued to grow broadly in line with long term historical trends, and Elsevier generated good growth in the volume of articles submitted and published in the year, and improved the quality of articles relative to other publishers as measured by citation share. As academic research becomes increasingly interdisciplinary and collaborative across geographies, Elsevier is providing information and analytical tools that help academic institutions to achieve better research outcomes. Sales of databases and tools grew strongly.

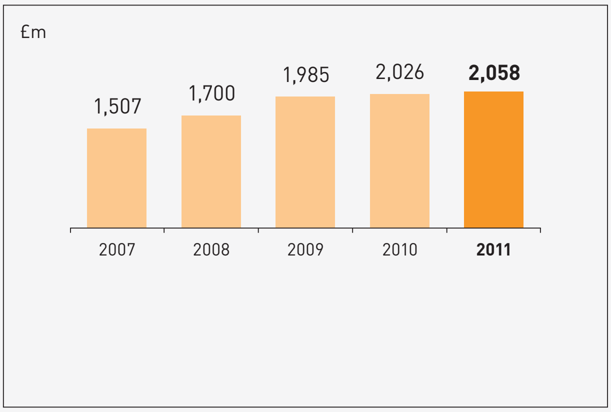
Health Sciences underlying revenues were flat. Our global medical research business benefited from similar drivers to those in the Science & Technology research business, and online clinical decision support achieved double digit growth as healthcare customers look to achieve improved medical outcomes and increased efficiency. Across Health Sciences, online solutions and electronic products grew well and now account for nearly 40% of revenues. European pharma promotion declines have continued, and print book sales to individuals came under increasing pressure, reflecting the format shift to online, and lower enrolment in US nursing and health profession career schools. Our business in emerging markets, most notably India, China and in Latin America performed well.

Underlying cost growth was 1%, reflecting ongoing emphasis on process efficiencies and procurement savings offsetting business growth and spending on new product development and sales & marketing initiatives.

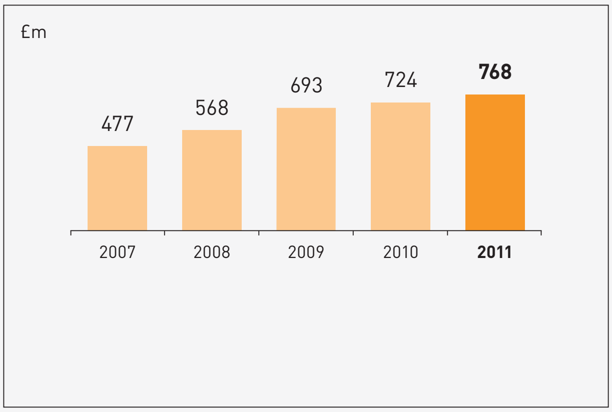
Outlook

The customer budgetary environment remains broadly similar to that seen last year with variations by both geography and customer. In research, we expect volume growth to continue, and the subscription renewal process for 2012 is well progressed. In health, we expect the transition from print to electronic to continue, with strong demand for electronic solutions offset by print declines. Overall, modest underlying revenue growth is expected in 2012 for Elsevier.

REVENUE



ADJUSTED OPERATING PROFIT



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 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 2011 were £908m. LexisNexis Risk Solutions is headquartered in Alpharetta, Georgia and has principal operations in Georgia, Florida, and Ohio, and has 4,000 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 and analytics 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 and claims handling. 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 Prefill*, 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.

Business 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 business provides risk and identity management solutions for corporate customers in retail, telecommunications and utilities sectors. Receivables management solutions help debt recovery professionals in the segmentation, management and collection of consumer and business debt. The Risk Solutions business also provides identity verification and risk related information to the legal industry.

C.L.U.E.®

Most comprehensive US personal insurance claims database

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

Accurint® for Collections

The leading online US solution to help locate debtors quickly and accurately

Accurint® LE Plus

Integrated suite of tools for US law enforcement investigators

LexisNexis® Identity Management

Range of solutions to help clients verify that an identity exists and authenticate individuals

Government Solutions provides investigative solutions to US federal, state and local law enforcement and government agencies to help solve criminal and intelligence cases and to identify 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.

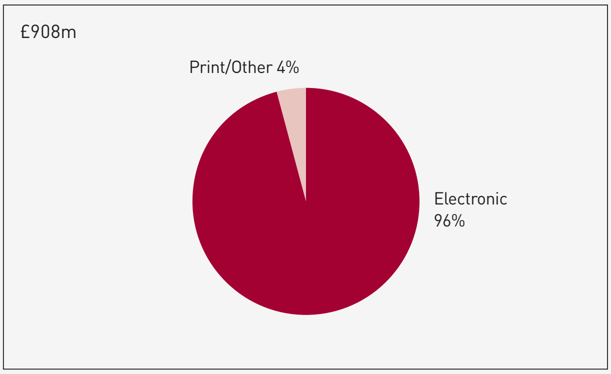
During 2011, Risk Solutions sharpened its focus on its data and analytics activities with the sale of the insurance software business, while Reed Elsevier's acquisition of *Accuity* complements and enhances Risk Solutions' offerings in anti-money laundering. There has also been a continued focus on developing a pipeline of new solutions for selected 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 risk assessment product, powered by the 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. In 2011, Risk Solutions launched an open-source initiative called HPCC Systems to broaden usage, tap the innovation of the development community and to more fully compete in the "big data" market. Response to date has been very positive, with press articles, website traffic, speaking invitations, and source code downloads all significantly ahead of expectations.

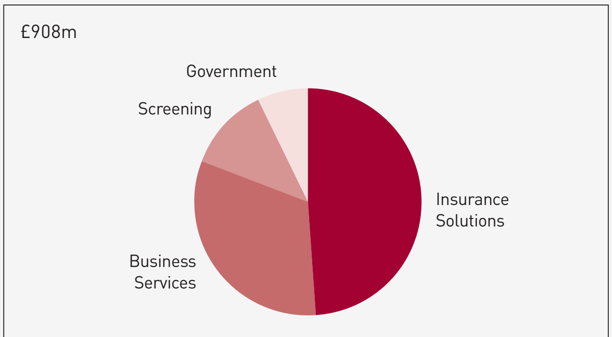
Market opportunities

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.

REVENUE BY FORMAT



REVENUE BY SEGMENT*



*100% revenue in North America.

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 insurance quoting and switching as consumers seek better policy terms, stimulated by increasing competition between insurance companies, high levels of carrier advertising, 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 and the prospects of recovering those debts. Both of these markets are linked to employment conditions in the US. A number of factors support growth for risk solutions in the financial services market, including new credit originations, continued high fraud losses, stringent regulatory compliance requirements, and increasing anti-money laundering fines. In corporate markets, demand is supported by growth in online retail sales and continued high levels of credit card fraud. 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

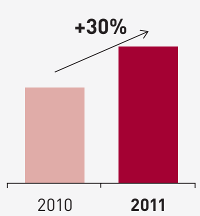
Risk Solutions' strategic goal is to make businesses and government more effective, through a better understanding of the risks associated with individuals, other businesses and transactions and by providing the tools to help manage those risks. To achieve this, Risk Solutions is focused on: expanding the range of products across customer workflows; leveraging our advanced technology capabilities; delivering innovative new products and expanding the range of risk management solutions across adjacent markets; and addressing international opportunities in selected markets to meet local risk management needs.

Business model, distribution channels and competition

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

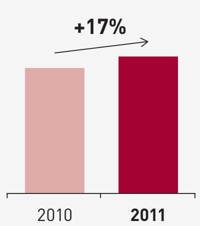
Risk Solutions and Verisk sell data and analytics solutions to insurance carriers but largely address different activities. Risk Solutions' principal competitors in commercial and government sectors include Thomson Reuters and major credit bureaus. Major competitors in pre-employment screening are Altegrity and First Advantage.

GROWTH IN IDENTITY VERIFICATION TRANSACTIONS



Growth in identity verification transactions driven by customers across our markets looking to verify individuals and businesses to comply with regulations and prevent identity theft and fraud.

GROWTH IN INSURANCE CLAIMS TRANSACTIONS



Increasing penetration of the insurance carrier workflow with uptake of products to investigate claims, adjudicate them quickly and identify fraud and subrogation opportunities.

	2011 £m	2010 £m	Change	Change at constant currencies	Change underlying
Revenue	**908**	927	-2%	+1%	+4%
Adjusted operating profit	**362**	354	+2%	+6%	+12%

LexisNexis Risk Solutions and LexisNexis Legal & Professional, previously combined as one LexisNexis business, have operated as two distinct businesses from 1 January 2011. Comparative profit figures and growth rates are presented on a pro forma basis.

2011 financial performance

Continued good growth in insurance data & analytics and business services reflects solid demand for our core products and the successful extension of the range of services that we provide. Screening revenues slowed in the second half reflecting hiring trends, and US federal government markets remained under pressure.

Underlying revenues and adjusted operating profits were up 4% and 12% respectively.

The insurance data & analytics business generated revenue growth of 7%, driven by the increasing adoption of solutions across the insurance workflow from marketing through to claims handling that improve underwriting economics and operational efficiency. In November, LexisNexis Risk Solutions completed the sale of its infrastructure software business, focusing the insurance business on high value data and analytics.

Business services achieved growth of 4%, reflecting good growth in credit scoring and anti-money laundering for the financial services industry and e-commerce for corporate markets, moderated by the effect of a softening in the US real estate market on the mortgage-related business.

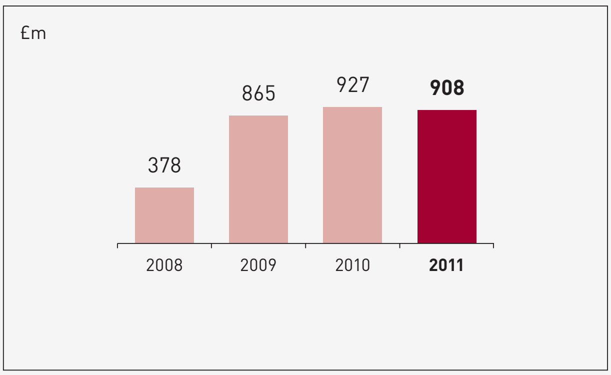
Screening solutions grew 3%, with growth slowing over the course of the year as operational improvements in sales force effectiveness and increased penetration of the mid-size corporate market were offset by a US hiring environment that weakened as the year progressed. Government solutions revenues declined as the wind down of some lower margin one-off federal sales were only partly offset by growth in state and local revenues, driven by increased focus on fraud, waste and abuse.

Underlying costs declined 1% despite the business growth and new product investment, reflecting cost savings, notably in technology, and from the successful ChoicePoint integration. The adjusted operating margin increased by 1.7 percentage points to 39.9%.

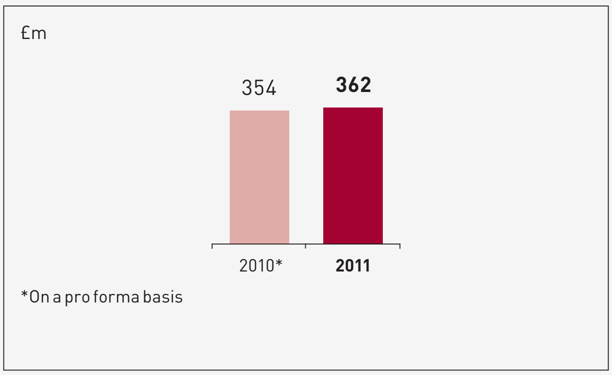
Outlook

In 2012, we expect good growth in insurance data and analytics to continue, driven by sustained demand for core underwriting products and growth from new products. We expect business services to continue to perform well, supported by new product growth in financial services and corporate markets. The screening solutions outlook is more uncertain given the US employment environment, and in government solutions, while federal budgets remain under pressure, growth is expected from state and local government.

REVENUE



ADJUSTED OPERATING PROFIT



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, increase productivity and drive new business.

Total revenues for the year ended 31 December 2011 were £1,634m. 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 Business Solutions in the US and LexisNexis Europe, Africa & Australasia and LexisNexis Asia 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 products for legal research are *Lexis.com* and *Lexis Advance*, which provide 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 December 2011, LexisNexis released in the US the next iteration of *Lexis Advance*, an innovative web application designed to transform how legal professionals conduct research. Built on an advanced technology platform, *Lexis Advance* allows primary researchers within legal and professional organisations to find highly relevant information more easily and efficiently, helping them to drive better outcomes. The release is the next step in a series of *Lexis Advance* launches with future releases continuing to expand available content and add new innovative tools. LexisNexis employs lawyers and trained editors with professional legal backgrounds who review, annotate and update the legal content to help ensure each document in its collection is current and linked to other related documents. This domain expertise combined with

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 analysis, checklists, forms, and practice guides authored by industry experts covering over 50 major practice areas

Shepard's®
Premier citation service

Lexis® PSL
LexisNexis® UK legal practical guidance service

Lexis Advance™
New online legal research tool that transforms the way legal professionals conduct research

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

JurisClasseur
Largest, most authoritative online legal resource in France

the application of Reed Elsevier's "big data" HPCC technology means LexisNexis is able to update its entire legal collection faster and more efficiently, while also identifying and linking content, thereby uncovering previously undiscovered relationships between documents.

In the US in 2011, LexisNexis launched *LexisNexis Firm Manager*, an online legal practice management application for solo practitioners and small law practices. Among other product releases, LexisNexis also released *Early Data Analyzer* which provides lawyers with early insight into the size and scope of discovery and an updated version of *Lexis for Microsoft Office* which enables lawyers to conduct their Lexis searches within Microsoft applications such as Word and Outlook.

In 2011, LexisNexis rationalised its electronic discovery offerings and divested the Applied Discovery business.

LexisNexis **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.

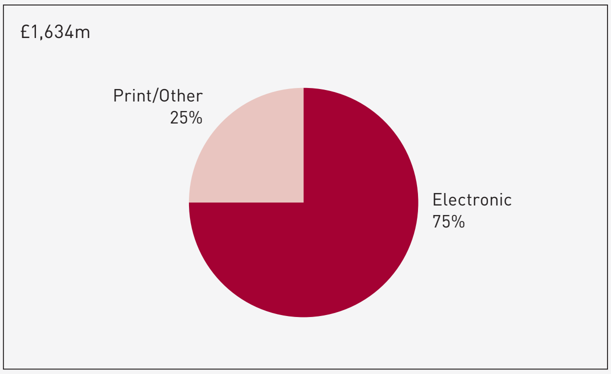
LexisNexis also provides its legal and information services to US government, corporate and academic customers, including news and business information and public records. In addition to research and litigation services, capabilities for these customers include specialist products for corporate counsel 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.

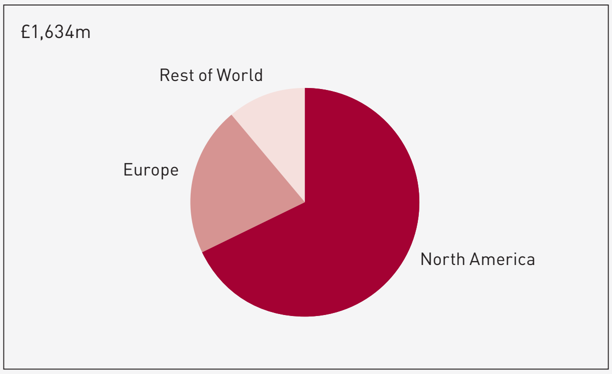
LexisNexis is focused across all its geographies on leveraging best in class content and its market leading international online product platform to deliver innovative electronic information services and workflow tools to help legal and business professionals make better informed decisions more efficiently. Penetration of online information services is growing and print based products now account for less than 40% of LexisNexis total revenues outside the US.

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.

REVENUE BY FORMAT



REVENUE BY GEOGRAPHIC MARKET



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.

In international markets in 2011, LexisNexis continued to roll out *Legal Intelligence*. Designed to match the way lawyers work, *Lexis Legal Intelligence* provides primary law, practical guidance, learning and productivity tools in one place. It reduces the time it takes to get the answers and documents lawyers need, helping to make practice more effective. In the UK, the practical guidance service *LexisPSL* now has 13 practice areas including company, commercial, corporate, banking and finance, and will expand again in 2012. A similar service has been launched in Australia, with five practice areas in 2011. In France, LexisNexis is completing the development of *Lexis360*, an innovative solution for legal professionals that combines semantic and federated search capabilities with practical guidance, legal concept navigation and brand-leading *JurisClasseur* content.

In 2011, LexisNexis Legal & Professional strengthened its position in key emerging markets including India. LexisNexis released an initial version of *Lexis India*, an online legal research platform created specifically for the legal professionals and practitioners, corporate counsels, legal researchers, academics and government institutions in India.

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 with the dampening impact on demand of the recent global recession and the somewhat subdued environment that 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 as well as 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, often based on the *Lexis Advance* platform, over the next few years will combine advanced technology with enriched content, sophisticated analytics and applications to enable LexisNexis' customers to make better legal decisions and drive better outcomes for their organisations and clients.

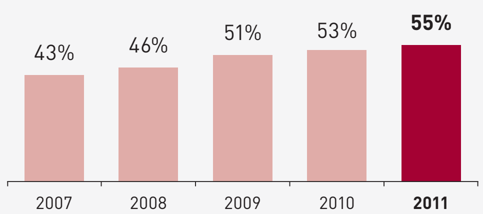
Outside the US, LexisNexis is focused on growing online services and developing further high quality actionable content and workflow tools, including the development of practical guidance and practice management applications. Additionally, LexisNexis is focusing on the expansion of its activities in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

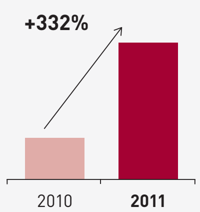
Principal competitors for LexisNexis in US legal markets are West (Thomson Reuters), CCH (Wolters Kluwer) and Bloomberg, and Bloomberg and Factiva (News Corporation) in news and business information. Competitors in litigation solutions also include software companies. Major international competitors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

INTERNATIONAL LEGAL ELECTRONIC REVENUE



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

MOBILE APP DOWNLOADS



Strong growth in the adoption and number of mobile apps.

	2011 £m	2010 £m	Change	Change at constant currencies	Change underlying
Revenue	**1,634**	1,691	-3%	-2%	+1%
Adjusted operating profit	**229**	238	-4%	-4%	-2%

LexisNexis Risk Solutions and LexisNexis Legal & Professional, previously combined as one LexisNexis business, have operated as two distinct businesses from 1 January 2011. Comparative profit figures and growth rates are presented on a pro forma basis.

2011 financial performance

LexisNexis Legal & Professional revenues returned to underlying revenue growth in 2011, and margins were broadly flat as expected. Most of our legal markets have stabilised, and we stepped up new product launch activity.

Underlying revenues and adjusted operating profits were up 1% and down 2% respectively.

Our US research & litigation revenues returned to slight growth, benefiting from a stabilisation in legal industry activity. We achieved good growth in lexis.com searches and in new sales of research and litigation tools and services to law firms, government and corporate legal customers. Growth in practice management tools was offset by continued but moderating declines in news & business information to corporate customers, and in web based listings.

International markets outside the US also returned to growth. Electronic revenues grew 7% reflecting strong demand for legal tools and solutions, although this was largely offset by further print declines as format transition continued. Print based products now account for less than 40% of revenue.

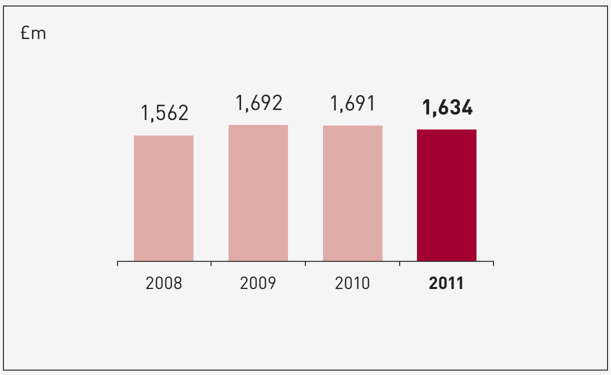
Significant progress has been made in the development of next generation legal offerings with a number of new product releases during the course of the year including the latest release of *Lexis Advance* in December, targeting research intensive lawyers. Initial feedback from the legal community has been very positive, positioning us well for future product releases.

Underlying cost growth was 1% reflecting continued investment in next generation legal offerings and sales & marketing, offset by continued cost initiatives. The adjusted operating margin was broadly flat at 14.0%.

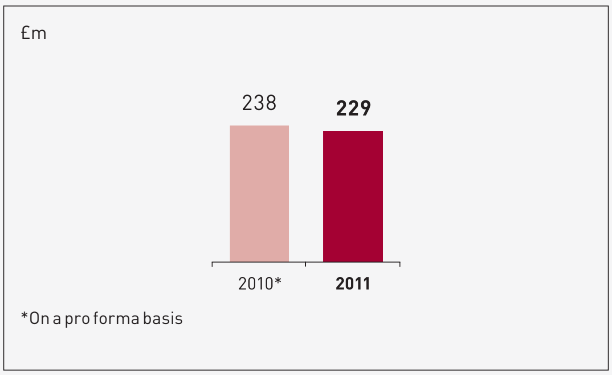
Outlook

In 2012 we intend to continue to introduce new products that will better serve our legal and corporate customer base. However, legal markets remain stable but subdued, limiting revenue and margin growth potential in the short term.

REVENUE



ADJUSTED OPERATING PROFIT



Reed Exhibitions

Reed Exhibitions is the world's leading events business, with over 475 events in 34 countries.

Reed Exhibitions' portfolio of exhibitions and conferences serves 44 industry sectors across the Americas, Europe, the Middle East and Asia Pacific. In 2011 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 2011 were £707m. 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 2,800 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.

In January 2012 Reed Exhibitions took full ownership of our joint venture, Alcantara Machado, Brazil's leading exhibition organiser.

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.

mipcom deals get done
The world's entertainment content market

MECANICA
International machinery trade fair

EQUIP'HOTEL PARIS
Event for the restaurant, hotel, café and catering industries

world travel market
Premier global event for the travel industry

JCK LAS VEGAS
The North American jewellery industry's premier trade event

in-cosmetics personal care ingredients
Leading international exhibition for personal care ingredients

mipim The world's property market
The world's property market

WORLD FUTURE ENERGY SUMMIT
World platform for sustainable future energy solutions

One of the largest business gifts & home fairs in China

Strategic priorities

Reed Exhibitions' strategic goal is to provide market leading events in growth sectors, especially in higher growth geographies, 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: driving organic growth by leveraging global sector groups and technology platforms, 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.

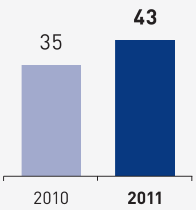
In 2011, at a portfolio level, this strategy delivered 43 new events in high growth sectors such as the Gift and Home industry in China, Incentive Travel in the USA, and Smart Grids in Japan and Singapore, as well as further acquisitions to build out our leading position in Brazil, enter Mexico and Morocco, and increase our exposure to the Renewable Energy industry in the UK. In terms of systems and customer experience, Reed Exhibitions has continued to invest in developing its event web platform which is now used by more than 70% of events.

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.

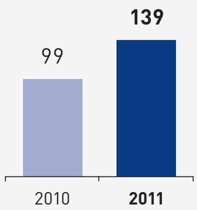
Reed Exhibitions is the market leader in a fragmented industry, holding less than a 10% global market share. Other international exhibition organisers include UBM, Informa IIR and some of the larger German Messe, including Messe Frankfurt, Messe Düsseldorf and Messe Munich. Competition also comes from industry trade associations and convention centre and exhibition hall owners.

NUMBER OF EVENT LAUNCHES



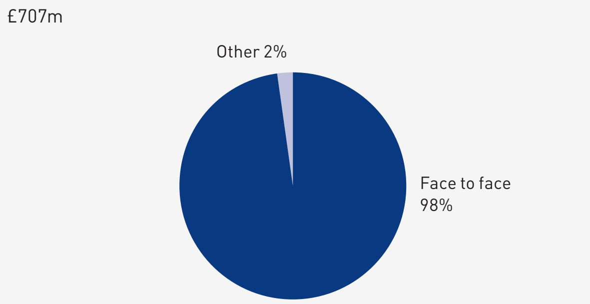
New event launches focusing on high growth sectors and geographies.

EVENTS IN EMERGING MARKETS

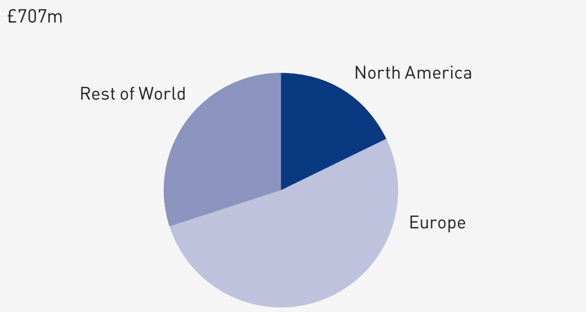


Significant increase in events taking place in high growth geographies through new launches and acquisitions.

REVENUE BY FORMAT



REVENUE BY GEOGRAPHIC MARKET*



*On an event location basis.

	2011 £m	2010 £m	Change	Change at constant currencies	Change underlying
Revenue	**707**	693	+2%	+1%	0%
Adjusted operating profit	**167**	158	+6%	+4%	+2%

2011 financial performance

The net cycling out of biennial shows held back growth in 2011. Excluding biennial cycling, underlying revenue growth was 10%, with good growth across all geographies. New launch activity was accelerated, and we have made a number of selective acquisitions which have increased our presence in high growth markets.

Underlying revenues and adjusted operating profits were flat and up 2% respectively.

In Europe, underlying revenue grew 6% excluding biennial cycling, with *Mipcom* and *Mapic* performing particularly well. *Mipim,* Reed Exhibitions' largest individual show, returned to good growth after experiencing a decline in 2010. In North America underlying revenues grew 16% excluding cycling, with strong performances across a wide range of events. Outside Europe and North America underlying revenue growth was 13% excluding biennial events, including particularly strong growth in China, Brazil, Russia and the Middle East.

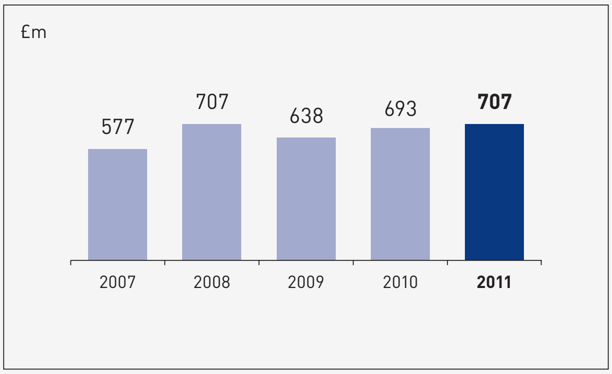
New launch activity was accelerated in 2011, leveraging our global sector groups and technology platform, with 43 new events, the vast majority of which were in faster growing markets and sectors. In addition to new launches, Reed Exhibitions made a number of small complementary acquisitions during the year including *Multiplus,* serving the biofuels industry, and *Expo Seguridad,* extending our security sector portfolio into Latin America. In January 2012 Reed Exhibitions took full ownership of our joint venture, Alcantara Machado, Brazil's leading exhibition organiser. In addition to expanding our presence in this high growth market, this will help to reduce the revenue impact of biennial cycling in future years.

Underlying costs were down 1%, reflecting tight cost control, while funding the significantly increased launch programme and build out of global industry groups and information technology capabilities. The adjusted operating margin was 0.8 percentage points higher than in 2010 at 23.6%.

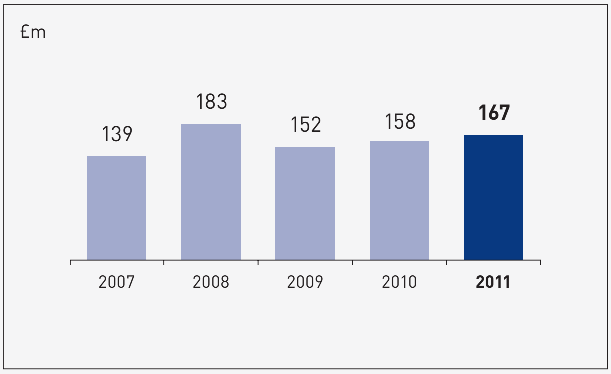
Outlook

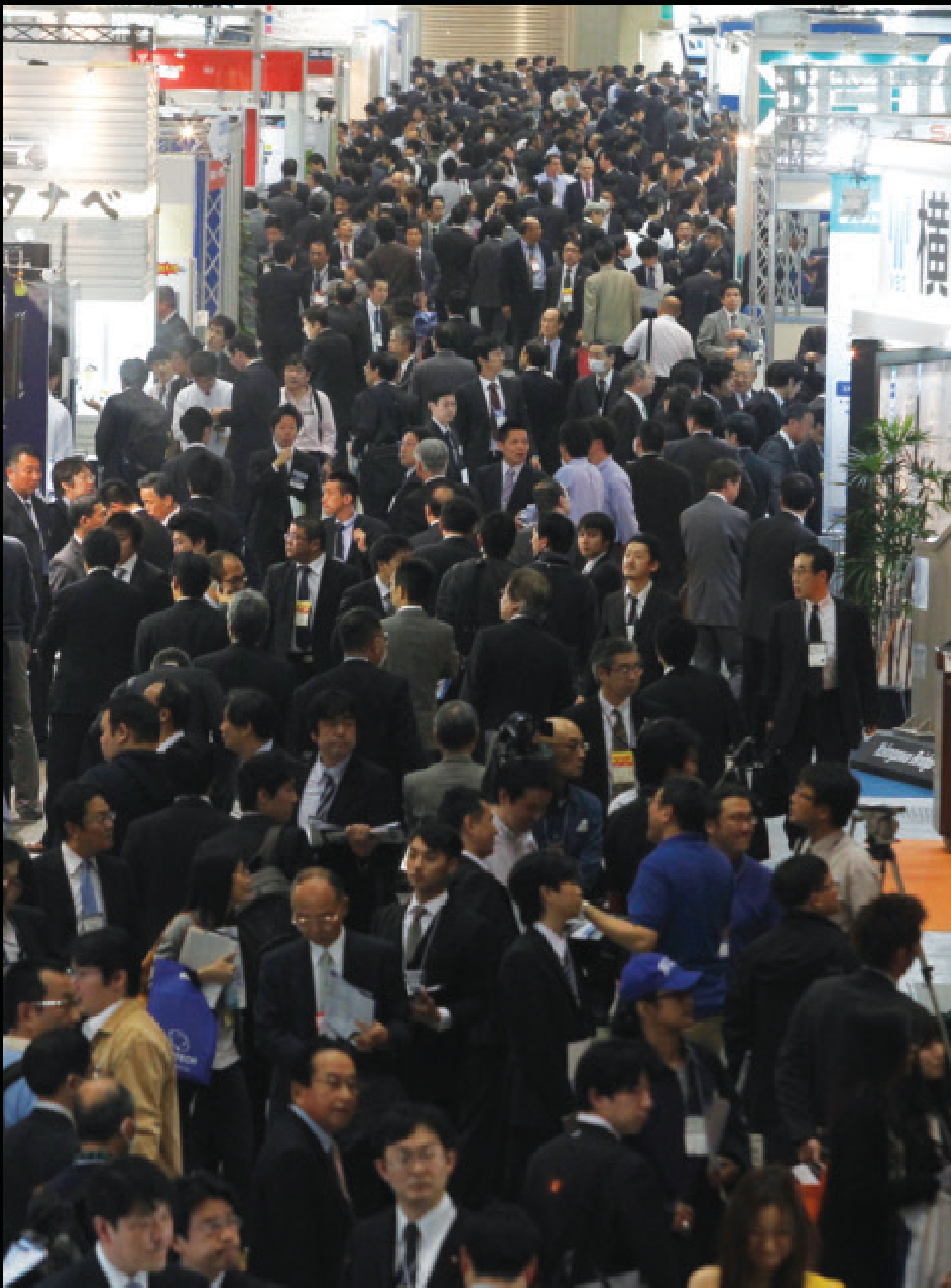
2012 revenues will benefit from the net cycling in of biennial events. 2012 has started well, with good performances from annual shows, albeit with some signs of softness in European markets. We remain alert to how changes in the macro economic environment may impact customer sentiment as the year progresses, particularly in Europe.

REVENUE



ADJUSTED OPERATING PROFIT





Finetech Japan

Reed Exhibitions Japan hosted a packed Finetech just one month after the devastating earthquake that hit the country in March 2011. Finetech Japan is the world's largest tradeshow in the field of liquid crystal and plasma display manufacturing, and is held in Tokyo each April.

Reed Business Information

Reed Business Information is a provider of data services, business information and marketing solutions to business professionals.

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, online community and job sites as well as business magazines with market leading positions in many sectors.

Total revenues for the year ended 31 December 2011 were £695m. RBI is a global business headquartered in Sutton in the UK and has principal operations in Amsterdam in the Netherlands, Boston, Los Angeles, Skokie (Illinois) and Norcross (Georgia) in the US as well as Paris, Milan, Madrid, Bilbao, Sydney and Shanghai. RBI has 5,600 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.

RBI's market leading data services include: *ICIS*, a global information and pricing service for the petrochemicals and energy sector; *BankersAccuity* (previously *Bankers' Almanac* and *Accuity*), a leading provider of reference data on the banking industry; *XpertHR*, an online service providing human resources 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.

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.

In 2011, RBI continued to significantly reshape its portfolio, addressing continued growth opportunities in data services and the accelerated migration of customer marketing spend to web media while managing value from the remaining print businesses.

During the year RBI expanded the data services businesses with three significant acquisitions. In January 2011, RBI completed the transaction to take majority ownership of *CBI China*, the market leading petrochemical and energy information service in China,

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

Flightglobal | ASCEND Aviation Insight
Online aircraft and engine data used by airline industry to inform decisions and identify opportunities

BANKERSAccuity
A leading supplier of banking intelligence to the global financial industry

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

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

VARIETY
Premier source of entertainment business news and analysis since 1905

NewScientist
World's leading science and technology media brand

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

bringing unrivalled coverage of the important and growing Chinese and Asian chemicals and energy markets, strengthening *ICIS's* global position. In June 2011, RBI acquired *Ascend*, a leading provider of online fleet data and valuations to the aviation industry, complementing RBI's existing data and content services and the aerospace platform, *Flightglobal*. In November 2011, RBI completed the acquisition of Accuity Inc. for a total cost of £343m. *Accuity* is a leading US provider of online subscription-based data solutions for the financial services industry which enable customers to maximise the accuracy of their banking and payment transactions, and to minimise the risk of non-compliance with government regulations in these transactions. *Accuity* is being integrated with RBI's *Bankers' Almanac*, to form *BankersAccuity*, establishing a global standard for payment efficiency and compliance solutions.

RBI continued to create value from its existing magazine brands, whilst exiting a number of titles including those in the computing, social care and road transport markets in the UK and the construction market in the Netherlands. RBI also sold the UK *QSS* magazine subscription fulfilment business during the course of the year.

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; 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.

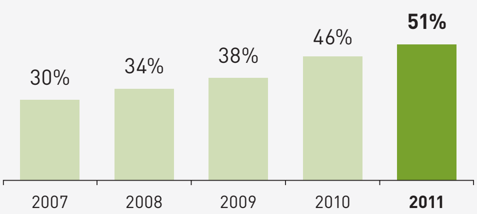
Business model, distribution channels and competition

Across the RBI portfolio, user and subscription revenues now account for 62% of the total business with the remaining 38% derived from print and online advertising and lead generation. RBI electronic revenue streams now account for 51% 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.

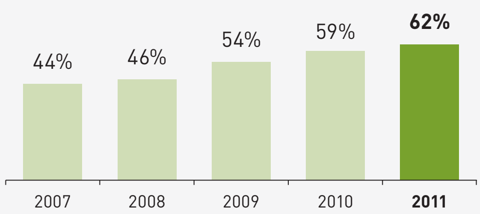
RBI's data services and titles compete with a number of publishers on a service and title by title basis including: UBM, McGraw Hill and Wolters Kluwer as well as many niche and privately-owned competitors. RBI competes for online advertising with other business to business websites as well as Monster,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

ELECTRONIC REVENUE



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

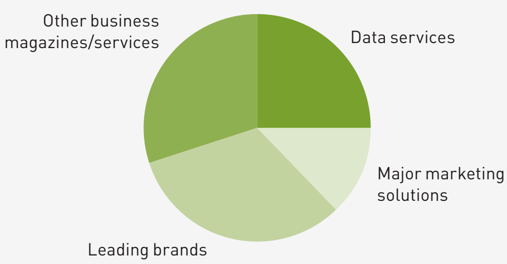
USER AND SUBSCRIPTION REVENUE



Increasing proportion of user and subscription revenues driven by organic growth in subscription businesses and portfolio change.

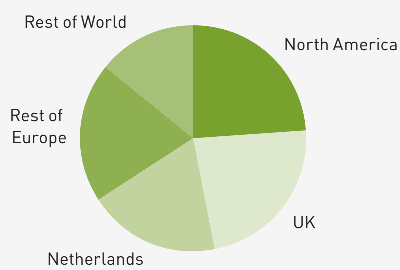
REVENUE BY SEGMENT

£695m



REVENUE BY GEOGRAPHIC MARKET

£695m



	2011 £m	2010 £m	Change	Change at constant currencies	Change underlying
Revenue	**695**	718	-3%	-4%	+1%
Adjusted operating profit	**110**	89	+23%	+22%	+15%

2011 financial performance

RBI returned to underlying revenue growth, with strong growth in data services mostly offset by continued weakness in print advertising. We made significant further progress on portfolio realignment with acquisitions in data services and disposals of print magazine titles. The majority of the margin increase reflects organic development, supported by our exits from low margin businesses.

Underlying revenues and adjusted operating profits were up 1% and 15% respectively.

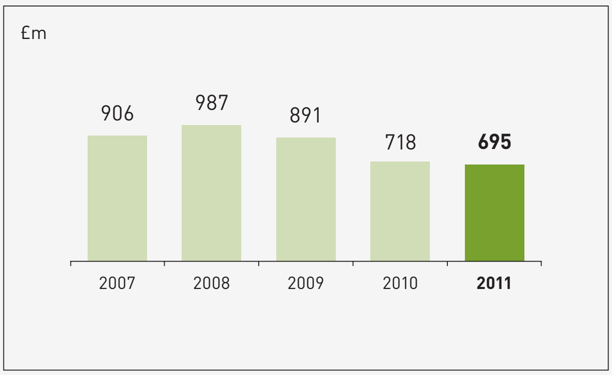
The major data services businesses, which accounted for 25% of RBI revenues in 2011, delivered underlying revenue growth of 9%, with strong growth in *ICIS, Bankers' Almanac* and *XpertHR,* partially offset by *Reed Construction Data* serving the challenged US construction industry. Online marketing solutions grew 2%, driven largely by *Totaljobs* in the UK online recruitment market, offset by weakness in lead generation businesses, *BuyerZone* and *Hotfrog*. Leading brands saw stable revenues, with online growth compensating for print advertising declines. Other business magazines and communities saw an underlying revenue decline of 5% reflecting continued print advertising market weakness.

Underlying costs were down 2%, reflecting continuing measures taken to realign the cost base. Adjusted operating margins increased 3.4 percentage points to 15.8%.

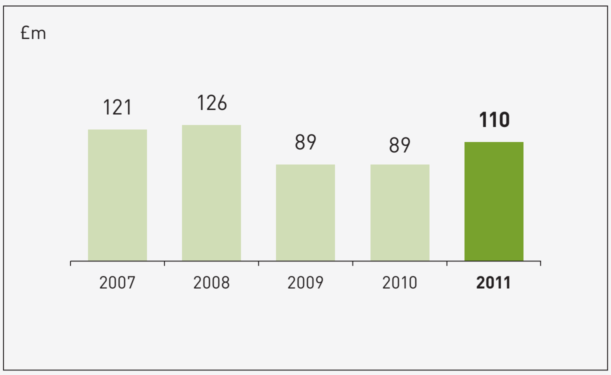
RBI built on its existing data services offerings with three acquisitions made in the year. The acquisition of a majority stake in *CBI China* brings a market leading petrochemical and energy information business to complement *ICIS*. The combination of *Accuity,* acquired in November, with *Bankers' Almanac* creates leading positions in payment efficiency, transaction compliance and bank counterparty assessment for the financial services industry. *Ascend,* a leading provider of online aircraft and valuation data to the aviation industry, complements the *Flightglobal* aerospace business. A number of disposals were also made during the course of the year, including UK road transport and computing titles and the *QSS* magazine subscription fulfilment business.

Outlook
Good growth in data services is expected to continue in 2012 offset by softness in print advertising. RBI will have a full year contribution from the recent acquisitions of *CBI China, Ascend* and *Accuity*, partially offset by the effects of small disposals. In the current economic environment, we remain cautious on the near term outlook for advertising and marketing based revenues.

REVENUE



ADJUSTED OPERATING PROFIT



Corporate responsibility

The Corporate Responsibility Report is an integral part of our Annual Reports and Financial Statements. This section highlights key achievements relative to our 2011 corporate responsibility objectives. You can read the full 2011 Corporate Responsibility Report at reporting.reedelsevier.com/cr11

Corporate responsibility

Corporate responsibility ensures good management of risks 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 Boards, senior management, and the Corporate Responsibility Forum oversee corresponding objectives and monitor performance against them.

We concentrate on the unique contributions we make as a business and on good management of the material areas that affect all companies encompassing:

1. **Our unique contributions**
2. **Governance**
3. **People**
4. **Customers**
5. **Community**
6. **Supply chain**
7. **Environment**

1. Our unique contributions

We focus on areas where we can make a positive impact on society through our knowledge, resources and skills. This includes 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, plays an important role in advancing human welfare and economic progress through its science and health information which spurs knowledge and enables critical decision making. To ensure access to this information, Elsevier supports key programmes in places where resources are often scarce. Among them 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 2011, we made available all content on *ScienceDirect* encompassing around 2,000 peer-reviewed journals and 15,000 books and made another 950 health science books available. In the year, there were over three million Research4Life article downloads from *ScienceDirect*. In addition to support for ongoing projects, the Elsevier Foundation committed $650,000 through its Innovative Libraries in Developing Countries programme to support infrastructure-building and access to primary source material through grants to libraries like Tanzania's Sokoine National Agricultural Library and the National University of Laos. Other Foundation grants focused on supporting nurse faculties and helping early- to mid-career women scientists balance family responsibilities with their academic careers. During the year, at the request of the US Secretary of State, Elsevier chaired a State Department session on promoting women in science in the developing world and participated in meetings of the UN Commission on the Status of Women.

LexisNexis Risk Solutions tools and resources help protect society. It supports non-profit organisations such as the National Center for Missing & Exploited Children (NCMEC) and the Cal Ripken Sr. Foundation, in addition to a number of large youth development organisations. Since 2007, LexisNexis has completed more than 5.4 million volunteer background checks for such organisations, identifying over 475,000 individuals with at least one criminal conviction attempting to gain employment or to volunteer with a non-profit organisation, including over 1,021 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, 126 children have been located. Through the year, LexisNexis Risk Solutions helped spread information on the importance of volunteer background screening.

Image UNI82296: © UNICEF/NYHQ2010-0452/Cullen

Case study

Reed Elsevier supported the 2011 UNICEF report, Children's Vulnerability to Climate Change and Disaster Impacts in East Asia and the Pacific, with access to product, experts, editorial assistance, and funding.

Millions of children across East Asia and the Pacific already suffer from a lack of access to clean water and proper sanitation, and are vulnerable to food shocks and risks of disease. The report showed that climate change will likely worsen this situation.

The UNICEF report presents an analysis of the climate change trends and potential impacts on children in East Asia and the Pacific, based on findings from country studies in Indonesia, Mongolia, the Philippines and Kiribati and Vanuatu in the Pacific, as well as children's perspectives on climate change and other research.

While the report suggests that the impacts of climate change vary from country to country, children in all countries were aware that changes in their environment were already present. Many stated that climate change has affected their families' livelihoods and, in some cases, caused parents to take them out of school to help collect water and fuel and supplement household income. In Mongolia, children noted harsher winters and declining water resources and in the Philippines children spoke of heavier rainy periods.

The report cites evidence showing that when children are educated, informed and involved, they share information with others in their communities and are better able to prepare and protect themselves. According to Anupama Rao Singh, UNICEF Regional Director for East Asia and the Pacific, "Now is the time to put in place adaptation strategies that ensure that the risks specific to children are addressed. By doing this, we will go some way in helping to build a climate-resilient world for children."

LexisNexis Legal & Professional promotes justice through its products and services. Its Rule of Law Resource Center is a free online community covering topics like human rights, protecting minority communities, and anti-human trafficking. During the year, as lead sponsor of the World Justice Project, LexisNexis contributed to the Project's Rule of Law Index, a quantitative assessment tool ranking 66 countries, and supported the Asia Pacific Rule of Law Conference in Kuala Lumpur. LexisNexis chaired the human trafficking panel at the International Bar Association International Conference, helped advance the Business Coalition Against Human Trafficking, and was primary sponsor of the UK film premiere *Not My Life*, a documentary filmed on five continents highlighting the wide-scale nature of the problem; in conjunction with the premier, LexisNexis introduced a handbook on human trafficking. During the year, LexisNexis South Africa provided pro bono assistance to governments across Africa by updating and publishing the laws/law reports of Kenya, Nigeria, Malawi, Ghana, Mauritius and Swaziland, to facilitate transparency in the administration of justice and law enforcement.

Reed Exhibitions' trade shows provide platforms for supporting our corporate responsibility focus areas. At the 2011 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 eight years, Reed Exhibitions has given free space at the London Book Fair to Book Aid International, which annually provides over 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 $1 million to aid children; in 2011 beneficiaries included St. Jude Children's Research Hospital, Share Our Strength, and Alex's Lemonade Stand, a charity which fights childhood cancer, begun by the child of a former Elsevier employee who lost her battle with the disease in 2004. In conjunction with the Power of Youth, *Variety* released its annual Youth Impact Report demonstrating the impact young people make in the industry and in their communities. *Variety* has built on the Power of Youth model with the Power of Women and the Power of Comedy, highlighting how celebrity can be used to beneficial effect.

Drawing on expertise across Reed Elsevier, in 2011 we awarded prizes in the first Reed Elsevier Environmental Challenge to projects that improve sustainable access to water where it is presently at risk. We made relevant products available from our businesses to over 100 registrants from more than 50 countries. The winner of the $50,000 first prize was the Tagore-SenGupta Foundation for a project to install 12 community-level arsenic removal units in remote villages and schools in Cambodia where arsenic groundwater contamination is rife. The arsenic removal units use regenerable adsorbents and do not require electricity or costly maintenance; the technology will provide local employment in the construction and installation of units and in the caretaking phase of the project. Second prize of $25,000 was awarded to Jenna Forsyth, whose project focuses on low-resource chlorine generation to address unsafe drinking water and poor sanitation in the Nyanza province of western Kenya, one of the poorest regions in the country. In partnership with the Program for Appropriate Technology in Health, the school-based pilot involves a prototype chlorine generator using salt, water and battery power to generate chlorine for water disinfection. On a single battery charge, the device can run for 200 cycles, generating 40,000 litres of clean water. Both projects were featured in the Elsevier journal Water Research. The 2012 Environmental Challenge was launched in November 2011.

2011 OBJECTIVES	Progress
Complete RE Environmental Challenge; launch plans for 2012	Winners announced and highlighted at World Water Week reception in Stockholm; 2012 Environmental Challenge launched in November
Undertake UNICEF project on the impact of climate change on children	Supported publication of Children's Vulnerability to Climate Change; profiled in key publications including *The Lancet* and LexisNexis Environment and Climate Change Center
Further expansion of Research4Life	Enabled access to all *ScienceDirect* content, encompassing 9.5 million articles/chapters; addition of relevant legal material from LexisNexis

2012 OBJECTIVES

- Expand alternative energy product portfolio
- Facilitate deeper country analysis of UNICEF climate change and children report
- Broaden reach of Reed Elsevier Environmental Challenge
- Increase pro bono partnerships

2. Governance

The Reed Elsevier Code of Ethics and Business Conduct (Code) is disseminated to every employee setting the standard for our corporate and individual conduct. Encompassing topics such as fair competition, anti-bribery, and human rights, it encourages open and principled behaviour. Over 99% of current employees completed online Code training by the close of 2011. In addition, 99% of employees in English speaking countries completed a data privacy and security course and 5,000 employees completed online training on fair competition with more employees scheduled for both courses in 2012. In the year, all US managers completed anti-harassment training. We are committed to ensuring full compliance with the provisions of the UK Bribery Act, and 99% of all employees completed anti-bribery training in 2011.

As a signatory of the United Nations Global Compact (UNGC) – businesses must align their governance and operations with ten principles related to human rights, labour, environment and anti-corruption – we demonstrated leadership in 2011 by serving on the Advisory Group for the United Kingdom, the UNGC Supply Chain Advisory Group, and CEO Water Mandate Steering Committee. In the year, we shared best practice in a European local networks guide, provided video content on the UNGC for lawyers, and held webinars on the UNGC for our suppliers and for members of the UK network.

2011 OBJECTIVES	Progress
Code of Ethics and Business Conduct course completion by 95% of all employees	99% completion achieved
Full alignment with Adequate Procedures Guidance under the UK Bribery Act; 95% completion of anti-bribery training by relevant employees in higher risk roles and geographies	Alignment activities included risk assessments, intermediary due diligence, and internal reviews by internal audit; training completed by 99% of all employees globally
Implementation of updated records management policy	US policy and retention schedule issued, along with online policy review and certification process for employees

2012 OBJECTIVES

- Completion of Code training by 100% of employees within 90 days of their employment start date
- Continue bribery law compliance activities, with particular reference to the UK Bribery Act and US Foreign Corrupt Practices Act
- Records Management Policy roll out to the UK and other countries

3. People

Our 30,500 people are our strength. Our workforce is 54% female and 46% male, with an average length of service of 8 years.

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 2011, we made progress on our D&I strategy, including by identifying one senior champion from each of our business units to serve on a D&I Advisory Group. They are supported by our wider D&I Working Group, which met throughout the year to share internal best practice and hear from experts on topics like unconscious bias and creating a D&I culture. We encourage affinity groups, like women's forums, which provide support and mentoring and encourage community involvement.

The Reed Elsevier Nominations Committee considers the knowledge, experience and background of individual Board directors. In the year, in line with the recommendations of the UK Davies Review, the Committee announced a 2013 target of 30% women on the Reed Elsevier NV Combined Board and 22% women on the Reed Elsevier PLC Board.

Our employees have the right to a healthy and safe workplace as outlined in the Reed Elsevier Health and Safety Policy. We concentrate on areas of greatest risk, for example, warehouses, events and exhibitions. However, as a primarily office based company, our key impact areas are stress, slips/trips and falls. To reduce our severity rate (lost days per 200,000 hours worked), we conduct risk assessments, and work with a third party in the US to assign a nurse case manager to each complex or severe claim. We achieved a 35% reduction in the severity rate since 2008.

In the year, Ernst & Young benchmarked our health and safety performance against organisations in our sector and others. We are seen as a strong performer in 13 of 19 criteria, however there were a number of areas where we can strengthen activities, including by advancing our reporting on wellbeing performance and its benefits to the business which we will address in the year ahead.

Through a new US (where we have our largest concentration of employees) programme, REACH, we promoted workplace wellbeing through health screenings, online assessments, stress awareness training, and weight loss and smoking cessation programmes. We also introduced financial incentives for participation in such activities.

We expanded our annual re:fit2win global competition in 2011, adding swimming to the existing categories of walking, cycling and running. Winning teams received $1,000 for the charity of their choice. 84 teams took part across Reed Elsevier and ran, walked, cycled and swam a total of 60,016 miles/96,586 kilometres.

2011 OBJECTIVES	Progress
Begin implementation of diversity and inclusion (D&I) strategy in key locations	D&I Advisory Group formed; review of providers for manager training pilot and online course for all employees; review of group recruitment policies; communicated with senior leaders to share D&I strategy
New and improved people sections of external and internal websites	New people section on www.reedelsevier.com and revamp of content for new global intranet launching in 2012
Benchmark health and safety performance	Sector review by Ernst & Young completed by year end
Extend preventive care programmes	New REACH programme launched with 50 wellbeing coordinators across US; expanded workstation assessments in UK through Complywise

2012 OBJECTIVES

- Undertake global employee opinion survey
- Initiate diversity and inclusion training pilot
- Capture and report on wellbeing performance and its benefits

4. Customers

In 2011, we surveyed more than 250,000 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. To aid colleagues who work with customers, we launched a webinar series, CR as a Sales Tool, to help them articulate our commitment to CR and the benefits it provides to our business such as reducing our risk and strengthening our corporate reputation. We aim to expand this with an online resource, the CR Sales Academy, in 2012.

In the year, the Reed Elsevier Editorial Policy was updated to indicate the importance of making a clear distinction between fact and opinion and user-generated or other content. It also states that we encourage dialogue on our content, including through social media.

We are committed to improving access to our products and services for all users, regardless of physical ability. In 2011, we reviewed key products including *ScienceDirect, SciVal Experts, SciVerse Hub*, and *MC Strategies Learning Management Software*. To review accessibility issues around Elsevier's Article of the Future, we set up a multi-university working group which met regularly in the year to ensure new and advanced article pages would be accessible to all, including disabled users who rely on assistive technologies like screen readers. The Accessibility Working Group held educational webinars with disabled users and accessibility experts, and helped develop a new Elsevier-wide Accessibility Policy. The Working Group also produced RE Accessibility Matters to share accessibility information with staff across the group. In the year, Elsevier's Global Books Digital Archive fulfilled 3,726 disability requests, about 40% through AccessText.org, a service we helped establish.

2011 OBJECTIVES	Progress
Launch CR webinars on non-financial performance to support customer-facing staff	Introduced CR as Sales Tool webinars covering the full range of Reed Elsevier's non-financial performance
Consult on Reed Elsevier Editorial Policy	Policy updated following review by editorial staff and sector benchmarking
Assess accessibility of key product websites	Reviews of *ScienceDirect*, *SciVal Experts*, *SciVerse Hub*, *MC Strategies LMS platform*

2012 OBJECTIVES

- Roll out updated Editorial Policy
- Develop CR Sales Academy
- Develop Reed Elsevier accessibility policy

Case study

In 2010, Reed Elsevier launched a global fundraising drive to raise funds for Plan International's *Because I'm a Girl* campaign, helping disadvantaged girls in India gain educational opportunities and awareness of their legal and employment rights. By the close of 2011, nearly $70,000 had been raised through staff fundraising and company matching.

The *Because I'm a Girl* project in the urban slums of Delhi addresses critical issues impeding education for children, particularly girls. A key goal has been to create child friendly schools that are inclusive, healthy, and protective for all children, and where children, families, and communities are involved. The project has focused on building the capacity of teachers, headmasters, and other government officials and creating a supportive environment that will help to achieve better school retention rates and improve academic performance. To date, the project has covered three schools and seven child development centres.

Plan and its local partners have also helped the communities and parents support children's school attendance and monitor the quality of the education they receive. The results so far include over 600 girls and boys enrolled in early child care and development centres, and 95% of children eligible for primary school enrolled. More than 750 women and adolescent girls are now aware of the government-sponsored centres available to them and 409 community leaders have received training on the importance of educating girls. Plan estimates nearly 5,000 more girls will benefit in 2012, helping address issues that continue to affect their attendance at school, such as poor sanitation facilities and sexual harassment.

"An educated girl can take her decision appropriately. She can handle family in a better way. She can also become economically independent and oppose violence."
Comment from Neetu, a women's group member.

5. Community

Reed Elsevier Cares, our global community programme, promotes education for disadvantaged young people aligned with our unique contributions as a business, and allows staff up to two days off per year for their own community work. We donated £2.4 million in cash (including through matching gifts) and the equivalent of £7.9 million in products, services, and staff time in 2011.

An international network of more than 150 RE Cares Champions engage colleagues throughout the year in activities such as the RE Cares Challenge, which rewards business sponsored community engagement.

Each September we hold RE Cares Month to celebrate our community activities and in 2011 launched a global RE Cares Day which involved nearly 4,000 staff in local community projects. Among these was a science publishing day which Elsevier Chennai hosted for children in their final year of study at the St. Louis School for the Deaf and Blind.

During the month we held our annual global book drive yielding nearly 2,500 books for local and developing world readers, and announced the winners of the first ever Recognising Those Who Care Awards to highlight the contributions to RE Cares of eight individuals and four teams. Individual winners from each of Reed Elsevier's business units took part in a Habitat for Humanity project in Honduras, led by Y.S. Chi, Reed Elsevier's head of Corporate Affairs. The winning teams were from Elsevier San Diego, LexisNexis Australia, Reed Exhibitions Norwalk, and RBI UK who won cash prizes to donate to their chosen charities.

After the devastating earthquake and tsunami in Japan on 11 March 2011, we acted quickly to ensure the safety and well-being of our staff in the country. Employees across Reed Elsevier also responded, contributing more than $200,000 in employee fundraising and matching gifts across the company to support relief efforts. We also provided access to our expertise. For example, Elsevier provided medical professionals responding to the crisis with free access to *MD Consult* and *First Consult*, allowing them to search Elsevier content at the point of care, with online access via the *First Consult* iPhone/iPad app. In addition, Reed Business Information's *Bankers' Almanac* helped banking clients publish alternative contact details for staff that relocated in the aftermath of the earthquake.

2011 OBJECTIVES	Progress
Launch RE Cares recognition awards	Launched Recognising Those Who Care Awards programme with senior management participation

2012 OBJECTIVES

- 25% of employees volunteering through RE Cares
- Reach 10,000 disadvantaged young people through volunteering, in-kind and cash donations

6. Supply chain

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 457 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. The tracking list changes year on year based on the number of suppliers we do business with who meet the required criteria. We started 2011 with 37% of suppliers on the SRS tracking list as signatories to the Supplier Code and reached 64% by year end. We have embedded signing the Supplier Code into our e-sourcing tool as one of the criteria for doing business with us and have an additional 1,700 signed codes.

Specialist supply chain auditors, Intertek, undertook 41 external audits of high risk suppliers, with four deferred and completed in January 2012. Any incidence of Supplier Code non-compliance identified in the audit process triggers a corrective action plan with supplier remediation required on all issues.

To engage suppliers on key issues, we introduced a Socially Responsible Supplier Academy covering the audit process, environmental management, diversity and inclusion, community engagement, and the UN Global Compact, among other topics.

2011 OBJECTIVES	Progress
75% of key suppliers as Supplier Code of Conduct signatories	Reached 292 or 64%; 1,701 other Code signatories
45 external audits of high risk suppliers	41 external audits completed; four deferred to and completed in January 2012
Introduce Socially Responsible Supplier Academy	Held 24 classes on 11 topics

2012 OBJECTIVES

- 75% of key suppliers as Supplier Code of Conduct signatories
- 50 external audits of high risk suppliers
- Broaden Socially Responsible Supplier Academy

7. Environment

In 2011, we held extensive consultations with stakeholders to review our environmental targets. Our updated targets reflect our performance and key issues and can be found along with full environmental performance details in the 2011 Corporate Responsibility Report at reporting.reedelsevier.com/cr11

We worked with IBM on a data centre efficiency study at one of our major US data centres in Ohio to identify opportunities for environmental and financial improvements. We have developed an implementation plan and are rolling out findings to other data centres across the business.

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 2011, 40 sites (31% of key locations) achieved five or more standards attaining green status. Reed Elsevier's Chief Financial Officer sent an email to all staff recognising these locations on World Environment Day and also identified Green Heroes across the company who were nominated by their peers for their environmental efforts. In the year, we invited children of/known to staff to submit their ideas for solving environmental challenges which resulted in an online publication, Our Children's Environment.

We have a positive environmental impact through our environmental publications and services which spread good practice, encourage debate, and aid researchers and decision makers. The most recent results from independent Market Analysis System show our share of citations in environmental science represented 33% of the total market, and 67% in energy and fuels.

2011 OBJECTIVES	Progress
Undertake data centre efficiency study	Conducted study at major US data centre
20% of electricity from renewables or offsets	Achieved 23%
Establish Green Team Environmental Training Academy	First module, Why it Matters, introduced

2012 OBJECTIVES

- Launch updated environmental targets
- 25% of electricity from renewable energy or offsets
- 50% of key locations to achieve five or more RE Environmental Standards

KEY PERFORMANCE INDICATORS

	Target	Intensity achievement to date[1]	Absolute achievement to date	2011 Absolute figure	2011 Intensity figure (Absolute/revenue £m)
CO_2 emissions (2006-2015)[2]	-10%	-19%	8%	182,186 tCO_2e	30.36
Total energy (2008-2015)	-5%	1%	13%	269,626 MWh	44.93
Travel emissions (2008-2015)	-5%	-23%	-13%	35,451 tCO_2e	5.91
Water (2008-2015)	-10%	-8%	3%	456,795 m^3	76.11
Waste recycled (2015)	70%	n/a	66%	7,559 t	1.26

[1] The percentage variance between absolute performance divided by revenue in 2011 compared with absolute performance divided by revenue in start year.
[2] Gross CO_2e emissions (Scopes 1, 2 and Scope 3 business travel).

We achieved the following recognition in 2011:

Business in the Community Corporate Responsibility Index: Gold	ECPI Sense in sustainability: Ethical Funds recognition	Carbon Disclosure Project: Included in Leadership Index
Dow Jones Sustainability Indexes Member 2011/12: Scored in top 15% of companies	Ethibel Pioneer and Ethibel Excellence	FTSE4Good: Included
Sector leader	National Business Awards UK 2011 Finalist: Sustainability Awards finalist	VBDO Supply Chain Award
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	

THE FULL 2011 CORPORATE RESPONSIBILITY REPORT IS AVAILABLE AT **REPORTING.REEDELSEVIER.COM/CR11**

Financial review

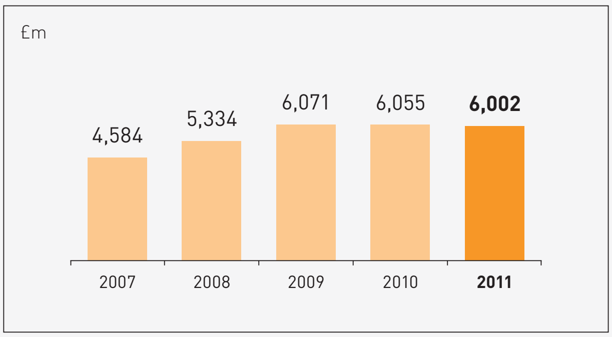
In this section

Chief Financial Officer's report

Mark Armour, Chief Financial Officer

2011 saw good financial progress reflecting the improved trading performance, strong cash flow and capital discipline. Earnings grew well and post-tax returns on invested capital increased to 11.2%. Reed Elsevier's balance sheet remains strong with acquisition activity funded by free cash flow and disposals and net debt 2.3 times adjusted EBITDA.

REVENUE



Reported figures

Total revenue was £6,002m (2010: £6,055m). At constant currencies, revenue was flat compared with the prior year, but down 1% at reported exchange rates. Underlying revenue growth was 2%, or 3% excluding the net cycling out of biennial exhibitions. This compares with underlying revenue growth in the prior year of 2%, or 1% excluding the biennial exhibition cycling. The underlying revenue performance reflects the continued portfolio development, new product introduction, expanded sales & marketing, and other actions taken to improve the business. Revenue performance across the business is described in the Business Review.

RECONCILIATION OF REPORTED REVENUES YEAR-ON-YEAR

YEAR TO 31 DECEMBER	£m	Change
2010 revenue	**6,055**	
Underlying growth	**88**	+2%
Acquisitions	**46**	+1%
Disposals	**(156)**	-3%
Currency effects	**(31)**	-1%
2011 revenue	**6,002**	-1%

Reported operating profit, after amortisation of acquired intangible assets, acquisition related costs and, in 2010, exceptional restructuring costs was £1,205m (2010: £1,090m). The increase reflects the improved trading performance described in the Business Review and no exceptional restructuring costs.

The amortisation charge in respect of acquired intangible assets, including the share of amortisation in joint ventures, amounted to £359m (2010: £349m).

Exceptional restructuring costs were nil (2010: £57m, in respect of the restructuring of RBI). Acquisition related costs amounted to £52m (2010: £50m), most significantly in respect of technology integration within LexisNexis Risk Solutions. Disposals and other non operating losses were £21m (2010: £46m), including the share of disposal profits in joint ventures.

Net finance costs were lower at £235m (2010: £276m), reflecting the strong free cash flow, term debt redemptions and the expiry of interest rate swaps.

The reported profit before tax was £948m (2010: £768m). The reported tax charge was £181m (2010: £120m). The reported net profit attributable to the parent companies' shareholders was £760m (2010: £642m).

	2011 £m	2010 £m	Change	Change at constant currencies	Change underlying
Reported figures					
Revenue	**6,002**	6,055	-1%	0%	+2%
Operating profit	**1,205**	1,090	+11%	+8%	
Profit before tax	**948**	768	+23%	+20%	
Net profit	**760**	642	+18%	+15%	
Net borrowings	**3,433**	3,455			
Adjusted figures					
Operating profit	**1,626**	1,555	+5%	+4%	+5%
Operating margin	**27.1%**	25.7%	+1.4%pts		
Profit before tax	**1,391**	1,279	+9%	+7%	
Net profit	**1,060**	983	+8%	+6%	
Operating cash flow	**1,515**	1,519	0%	-1%	
Operating cash flow conversion	**93%**	98%			
Return on invested capital	**11.2%**	10.6%	+0.6%pts		

Reed Elsevier uses adjusted and underlying figures as additional performance measures. Adjusted figures are stated before the amortisation of acquired intangible assets, exceptional restructuring (none in 2011) 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 include 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 related to the restructuring of the Reed Business Information business. Acquisition related costs relate to acquisition integration and professional and other transaction related fees and adjustments to deferred and contingent consideration. Reconciliations between the reported and adjusted figures are set out in note 10 to the combined financial statements. Underlying growth rates are calculated at constant currencies, and exclude the results of all acquisitions and disposals made both in the year and prior year and assets held for sale. Constant currency growth rates are based on 2010 full year average and hedge exchange rates.

Adjusted figures

Adjusted operating profit was £1,626m (2010: £1,555m), up 5%. At constant currencies, adjusted operating profits were up 4%. Underlying growth in adjusted operating profits was 5%. Profit performance across the business is described in the Business Review.

RECONCILIATION OF ADJUSTED OPERATING PROFIT YEAR-ON-YEAR

YEAR TO 31 DECEMBER	£m	Change
2010 adjusted operating profit	**1,555**	
Underlying growth	**73**	+5%
Acquisitions	**8**	+1%
Disposals	**(25)**	-2%
Currency effects	**15**	+1%
2011 adjusted operating profit	**1,626**	+5%

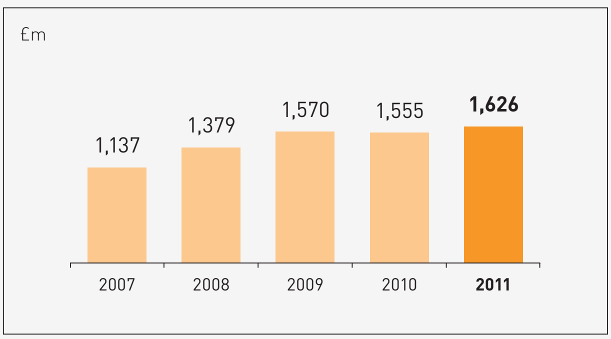
Underlying costs were flat against the prior year, despite business growth and additional spending on new product development and sales & marketing, reflecting the continued focus on process efficiency and procurement savings, and the benefit of prior year restructuring. Total costs fell by 2% at constant currencies, including acquisitions and disposals.

The overall adjusted operating margin at 27.1% was 1.4 percentage points higher than last year. This included a 0.4 percentage point benefit to margin of the multi-year subscription currency hedging programme and other currency translation effects.

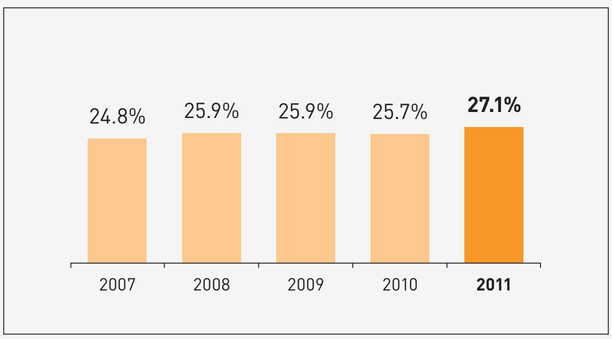
CHANGES IN UNDERLYING REVENUE, COST AND PROFIT

YEAR TO 31 DECEMBER 2011	Revenue	Adjusted operating cost	Adjusted operating profit
Elsevier	+2%	+1%	+4%
LexisNexis Risk Solutions	+4%	-1%	+12%
LexisNexis Legal & Professional	+1%	+1%	-2%
Reed Exhibitions	0%	-1%	+2%
Reed Business Information	+1%	-2%	+15%
Reed Elsevier – *underlying*	+2%	0%	+5%

ADJUSTED OPERATING PROFIT



ADJUSTED OPERATING PROFIT MARGIN



The net pension expense, before the net pension financing credit, was £96m (2010: £80m), the increase reflecting the effect of lower discount rates on the service cost and lower curtailment credits of £9m (2010: £17m) from changes to plan design. The net pension financing credit was £34m (2010: £26m) reflecting the higher market value of scheme assets at the beginning of the year compared with a year before. The share based and related remuneration charge was £27m (2010: £11m).

Adjusted profit before tax was £1,391m (2010: £1,279m), up 9%, and up 7% at constant currencies, reflecting the increase in adjusted operating profits and the lower net interest expense.

RECONCILIATION OF ADJUSTED AND REPORTED PROFIT BEFORE TAX

YEAR TO 31 DECEMBER	2011 £m	2010 £m
Adjusted profit before tax	**1,391**	1,279
Amortisation of acquired intangible assets	**(359)**	(349)
Exceptional restructuring costs	**–**	(57)
Acquisition related costs	**(52)**	(50)
Reclassification of tax in joint ventures	**(11)**	(9)
Disposals and other non operating items	**(21)**	(46)
Reported profit before tax	**948**	768

The effective tax rate on adjusted profit before tax at 23.3% was 0.6 percentage points higher than in the prior year, reflecting the geographic mix of the net increase in pre-tax profits. 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 amounts are provided 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 £1,060m (2010: £983m) was up 8% and up 6% at constant currencies.

Cash flows

Adjusted operating cash flow was £1,515m (2010: £1,519m), flat compared with the prior year or down 1% at constant currencies. The rate of conversion of adjusted operating profits into cash flow was 93% (2010: 98%). The lower level of cash flow conversion reflects higher capital expenditure in 2011 and lower depreciation due to disposals and accelerated depreciation in 2010.

CONVERSION OF ADJUSTED OPERATING PROFIT INTO CASH

YEAR TO 31 DECEMBER	2011 £m	2010 £m
Adjusted operating profit	**1,626**	1,555
Capital expenditure	**(350)**	(311)
Depreciation and amortisation of internally developed intangible assets	**207**	237
Working capital and other items	**32**	38
Adjusted operating cash flow	**1,515**	1,519
Cash flow conversion	**93%**	98%

Capital expenditure included within adjusted operating cash flow was £350m (2010: £311m), including £265m (2010: £228m) 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 & Professional business.

Free cash flow – after interest and taxation – was £1,062m (2010: £1,131m) before acquisition related spend and cash flows relating to prior year exceptional restructuring programmes. The decrease reflects higher taxes paid at £218m (2010: £101m) before taking account of tax relief in respect of acquisition related and exceptional restructuring spend, with 2010 benefiting from tax repayments from prior years.

Payments made in respect of acquisition related costs amounted to £38m (2010: £51m), principally in respect of the ChoicePoint integration. Payments in respect of the prior year exceptional restructuring programmes were £52m (2010: £99m), principally relating to severance and vacant property costs. Net tax paid was reduced by £5m (2010: £42m) in respect of acquisition related and exceptional restructuring spend.

Free cash flow before dividends was £977m (2010: £1,023m). Ordinary dividends paid to shareholders in the year, being the 2010 final and 2011 interim dividends, amounted to £497m (2010: £483m). Free cash flow after dividends was £480m (2010: £540m).

FREE CASH FLOW

YEAR TO 31 DECEMBER	2011 £m	2010 £m
Adjusted operating cash flow	**1,515**	1,519
Interest paid	**(235)**	(287)
Tax paid	**(218)**	(101)
Free cash flow before exceptional spend	**1,062**	1,131
Restructuring/acquisition related costs*	**(85)**	(108)
Free cash flow before dividends	**977**	1,023
Ordinary dividends	**(497)**	(483)
Free cash flow post dividends	**480**	540

* Including cash tax relief/repayments.

RECONCILIATION OF NET DEBT YEAR-ON-YEAR

YEAR TO 31 DECEMBER	2011 £m	2010 £m
Net debt at 1 January	**(3,455)**	(3,931)
Free cash flow post dividends	**480**	540
Acquisitions/disposals:		
Disposals*	**73**	40
Acquisitions*	**(555)**	(39)
Net proceeds from share options exercised	**9**	11
Other	**(9)**	1
Currency translation	**24**	(77)
Net debt at 31 December	**(3,433)**	(3,455)

* Including cash tax relief/payment.

Funding

Debt

Net borrowings at 31 December 2011 were £3,433m, a decrease of £22m since 31 December 2010. Excluding currency translation effects, net debt increased by £2m, with acquisitions funded from free cash flow and disposals. Expressed in US dollars, net borrowings at 31 December 2011 were $5,325m, a decrease of $62m since 31 December 2010.

Gross borrowings after fair value adjustments at 31 December 2011 amounted to £4,282m (2010: £4,302m). The fair value of related derivative assets was £123m (2010: £105m). Cash balances totalled £726m (2010: £742m).

As at 31 December 2011, after taking into account interest rate and currency derivatives, a total of 69% of Reed Elsevier's gross borrowings were at fixed rates with a weighted average remaining life of 4.7 years and interest rate of 5.8%. Taking into account the cash balances and the fair value of derivatives, as at 31 December 2011, 86% of Reed Elsevier's net borrowings were at fixed rates.

Cash spend on acquisitions, investments and the buy out of non-controlling interests was £557m, including debt acquired of £18m and deferred consideration of £25m payable on past acquisitions. Net cash proceeds from disposals was £80m. Net tax paid was increased by £5m (2010: £50m repayment) in respect of acquisitions and disposals. Net proceeds from the exercise of share options were £9m (2010: £11m). No share repurchases were made by the parent companies in the year (2010: nil) and no shares of the parent companies were purchased by the employee benefit trust (2010: nil).

The ratio of net debt to adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) at 31 December 2011 was 1.8x (2010: 1.9x), and 2.3x (2010: 2.5x) on a pensions and lease adjusted basis.

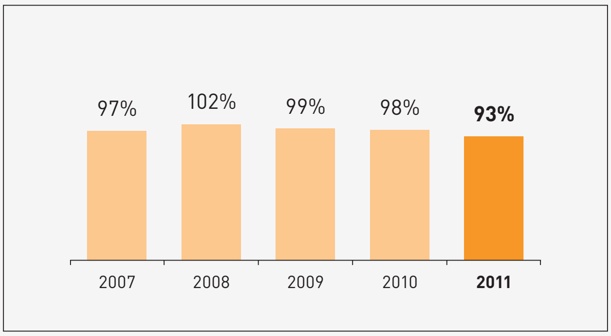
Liquidity

In May 2011, the first of two one year extension options was exercised on the US$2.0bn committed bank facility taking the maturity to June 2014. This back up facility provides security of funding for US$2.0bn of short term debt to June 2014. In January 2012, $450m of US term debt maturing in June 2012 was redeemed early, taking advantage of the make-whole election.

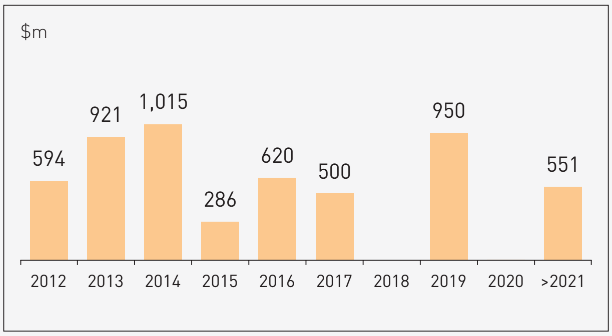
After taking account of committed bank facilities and available cash resources, no borrowings mature until 2014. The strong free cash flow of the business, the available resources and back up facilities, and Reed Elsevier's ability to access debt capital markets are expected to provide sufficient liquidity to repay or refinance borrowings as they mature.

Details on the treasury policies of the Combined Businesses are on pages 46 and 47 and in note 18 to the Combined Financial Statements.

ADJUSTED OPERATING CASH FLOW CONVERSION



TERM DEBT MATURITY PROFILE



Capital employed and returns

SUMMARY BALANCE SHEET

AS AT 31 DECEMBER	2011 £m	2010 £m
Goodwill and acquired intangible assets	**7,628**	7,429
Internally developed intangible assets	**595**	469
Investments and net assets held for sale	**215**	184
Property, plant and equipment	**288**	291
Net pension deficit	**(242)**	(170)
Working capital	**(1,060)**	(1,000)
Capital employed	**7,424**	7,203

Net capital employed was £7,424m (2010: £7,203m) at 31 December 2011, an increase of £221m.

The carrying value of goodwill and acquired intangible assets increased by £199m, reflecting acquisitions in 2011 less the annual amortisation charge. An amount of £311m was capitalised in the year as acquired intangible assets and £300m as goodwill.

Development costs of £270m (2010: £228m) were capitalised within internally developed intangible assets most notably investment in new products and related infrastructure in the LexisNexis Legal & Professional business.

Net pension obligations, i.e. pension obligations less pension assets, at 31 December 2011 were £242m (31 December 2010: £170m). This included a net deficit of £87m (31 December 2010: £24m) in respect of funded schemes, which were on average 98% funded at the end of the year. The increase in the overall net deficit reflects a reduction in average discount rates at the end of the year compared with the end of the prior year.

Negative working capital increased by £60m, reflecting an increase in deferred revenue on subscription growth and lower physical inventory.

Gross capital employed at 31 December 2011 was £11,968m (2010: £11,661m) after adding back cumulative accumulated amortisation and impairment of acquired intangible assets and goodwill. The increase of £307m principally reflects acquisition activity and investments in new products and infrastructure.

The return on average capital employed in the year was 11.2% (2010: 10.6%). 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 improved trading performance, strong cash flow and capital efficiency.

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 2011 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.

Major developments

In 2011, EFSA was active in arranging the financing and foreign currency contracts for Reed Elsevier Group plc companies related to cross border dividends and acquisitions. It negotiated and advised Reed Elsevier Group plc companies on a number of banking and cash management arrangements in Continental Europe and Asia and continued to advise on treasury matters, including interest rate, foreign currency and certain other financial exposures.

The average balance of cash under management by EFSA in 2011, on behalf of Reed Elsevier Group plc and its parent companies, was approximately US$0.8bn (2010: US$0.8bn).

Liabilities and assets

At 31 December 2011, 91% (2010: 84%) of ERF's gross assets were held in US dollars and 9% (2010: 15%) in euros, including US$8.6bn (2010: US$8.7bn) and €0.6bn (2010: €0.6bn) in loans to Reed Elsevier Group plc subsidiaries. Loans made to Reed Elsevier Group plc businesses are funded from equity, long term debt of US$2bn and short term debt of US$0.5bn 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.

Parent companies

Reed Elsevier PLC	2011 £m	2010 £m	Change	Change at constant currencies
Reported net profit	**389**	327	+19%	
Adjusted net profit	**561**	520	+8%	+6%
Reported earnings per share	**32.4p**	27.3p	+19%	
Adjusted earnings per share	**46.7p**	43.4p	+8%	+6%
Ordinary dividend per share	**21.55p**	20.40p	+6%	
Reed Elsevier NV	**€m**	€m		
Reported net profit	**437**	376	+16%	
Adjusted net profit	**610**	575	+6%	+6%
Reported earnings per share	**€0.59**	€0.51	+16%	
Adjusted earnings per share	**€0.83**	€0.78	+6%	+6%
Ordinary dividend per share	**€0.436**	€0.412	+6%	

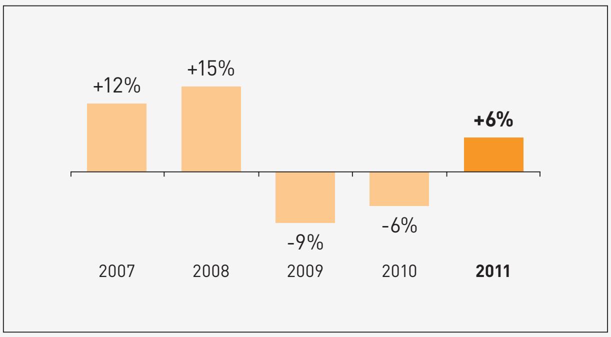
For the parent companies, Reed Elsevier PLC and Reed Elsevier NV, adjusted earnings per share were up 8% at 46.7p (2010: 43.4p) and 6% at €0.83 (2010: €0.78) respectively. At constant rates of exchange, the adjusted earnings per share of both companies increased by 6%.

The reported earnings per share for Reed Elsevier PLC shareholders was 32.4p (2010: 27.3p) and for Reed Elsevier NV shareholders was €0.59 (2010: €0.51). The increase reflects the improved trading performance, no exceptional restructuring costs and lower net interest expense.

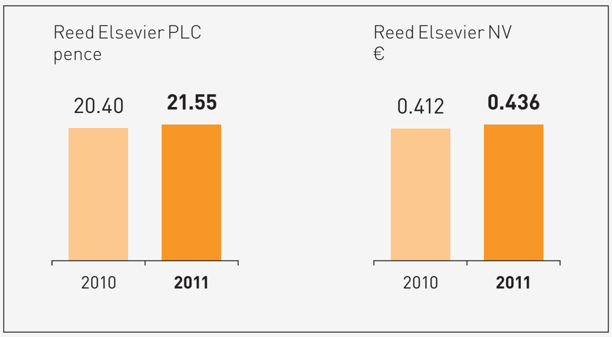
The equalised final dividends proposed by the respective Boards are 15.9p per share for Reed Elsevier PLC and €0.326 per share for Reed Elsevier NV, 6% and 8% higher respectively compared with the prior year final dividends. This gives total dividends for the year of 21.55p (2010: 20.40p) and €0.436 (2010: €0.412), both up 6%. (The difference in growth rates in the equalised final dividends, and in the earlier interim dividends, reflects changes in the euro: sterling exchange rate since the respective 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 2.2 times (2010: 2.1x) for Reed Elsevier PLC and 1.9 times (2010: 1.9x) 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.

ADJUSTED EPS GROWTH AT CONSTANT CURRENCIES



DIVIDENDS



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 88 to 93. 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 91 to 93.

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 is consistent with the rating target. The cash flow conversion in 2011 was 93% and as at 31 December 2011 net debt to adjusted EBITDA was 2.3x (2010: 2.5x) 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.

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 facilities and debt programmes from a variety of sources to fund its requirements at short notice and at competitive rates. The significance of Reed Elsevier Group plc's US operations means that the majority of debt is denominated in US dollars. Policy requires that no more than US$1.5bn of term debt issues should mature in any 12-month period and no more than US$3.0bn in any 36-month period. In addition, minimum levels of borrowings with maturities over three and five years are specified, depending on the level of net debt and free cash flow. 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 2011 interest expense was fixed on an average of £2.4bn of forecast debt for the next 24 months. This fixed rate debt reduces to £2.0bn by the end of 2013 and reduces further thereafter with all but £0.4bn of fixed rate term debt (not swapped to floating rate) having matured by the end of 2019.

At 31 December 2011, fixed rate term debt (not swapped to floating rate) amounted to £2.4bn (2010: £2.5bn) and had a weighted average life remaining of 5.7 years (2010: 6.4 years) and a weighted average interest rate of 6.5% (2010: 6.4%). Interest rate derivatives in place at 31 December 2011, which fix the interest cost on an additional £0.6bn (2010: £0.6bn) of variable rate debt, have a weighted average maturity of 0.8 years (2010: 1.1 years) and a weighted average interest rate of 3.2% (2010: 4.2%).

Foreign currency exposure management
Translation exposures arise on the earnings and net assets of business operations in countries other than those of each parent company. These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars. Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts. In addition, recurring transactions and future investment exposures may be hedged, 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 24 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 2011, the amount of outstanding foreign exchange cover against future transactions was £1.3bn (2010: £1.1bn).

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 & Poor's, Moody's or Fitch. At 31 December 2011, cash and cash equivalents totalled £726m, of which 98% was held with banks rated A/A2 or better.

Mark Armour
Chief Financial Officer

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 Chief Executive Officer's report and Business Review. Financial risks are discussed in the Chief Financial Officer's report and in note 18 to the combined financial statements. Our approach to managing environmental and other non financial risks is set out in the Business Review and the separate Corporate Responsibility Report. Important specific risks identified include:

EXTERNAL RISKS

Risk	Description and impact	Mitigation
Economy and market conditions	Demand for our products and services may be impacted by factors such as the economic environment in the US, Europe 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.
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 which may impact demand for and pricing of our products and services.	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.
Data resources	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, because of changes in the law or because data suppliers decide not to supply them, could adversely affect our products and services 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 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 is 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.

STRATEGIC RISKS

Risk	Description and impact	Mitigation
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. Failure to meet evolving customer needs could impact demand for our products and consequently adversely affect our revenue.	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. Failure to anticipate market trends could impact the competitiveness of our products and services and consequently adversely affect our revenue.	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.
Acquisitions	We 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 return on invested capital 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, financial and ethical acquisition criteria. We closely monitor the performance of acquisitions.

OPERATIONAL RISKS

Risk	Description and impact	Mitigation
Technology failure	Our businesses are increasingly dependent on electronic platforms and networks, primarily the internet, for delivery of products and services. They could be adversely affected if our 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. Breaches of our data security or failure to comply with applicable legislation or regulatory or contractual requirements could damage our reputation and expose us to risk of loss or litigation and increased regulation.	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.
Supply chain dependencies	Our organisational and operational structures have increased dependency on outsourced and offshored functions. Poor performance or 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 and targeted supplier audits. We have also developed business continuity plans to reduce disruption in the event of a major failure by a vendor.

FINANCIAL RISKS

Risk	Description and impact	Mitigation
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. Adverse changes to *inter alia* asset values, discount rates or inflation could increase future pension costs and funding requirements.	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.
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.
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. Macro economic, 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.	Reed Elsevier's approach to funding and management of interest rate and foreign currency exposures is described on pages 46 and 47. The approach to the management of financial risks is described in note 18 to the combined financial statements.

REPUTATIONAL RISKS

Risk	Description and impact	Mitigation
Ethics	As a world leading provider of professional information solutions to the Science, Medical, Risk, Legal and Business sectors we are expected to adhere to high standards of independence and ethical conduct. A breach of generally accepted ethical business standards could adversely affect our business performance, reputation and financial condition.	The 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 major suppliers are required to adopt our Supplier Code of Conduct.
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. Failure to manage our environmental impact could adversely affect our reputation.	We are committed to reducing these impacts by limiting resource use and by efficiently employing sustainable materials and technologies. We require our major suppliers and contractors to meet the same objectives. We seek to ensure that Reed Elsevier's businesses are compliant with all relevant environmental regulation.

Governance

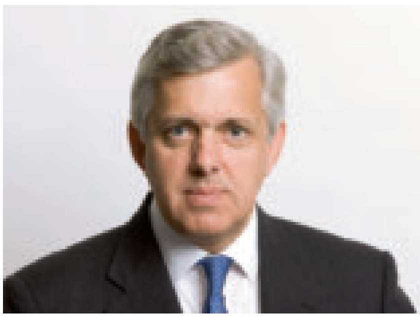
In this section

Board Directors

Executive Directors

Erik Engstrom (48)
Chief Executive Officer

Appointed: Chief Executive Officer since 2009. Joined Reed Elsevier as Chief Executive Officer of Elsevier in 2004
Nationality: Swedish
Past appointments: 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.
Education: 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.



Mark Armour (57)
Chief Financial Officer

Appointed: 1996
Nationality: British
Other appointments: Non-executive director of SABMiller plc.
Past appointments: Prior to joining Reed Elsevier as Deputy Chief Financial Officer in 1995, was a partner in Price Waterhouse.
Education: Holds an MA in Engineering from Cambridge University and qualified as a Chartered Accountant.

Non-Executive Directors

Anthony Habgood (65) ■●◆
Chairman

Appointed: 2009
Nationality: British
Other appointments: Chairman of Whitbread plc and of Preqin Holding Limited.
Past appointments: 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. Formerly non-executive director of Geest plc; Marks and Spencer plc; National Westminster Bank plc; Powergen plc; and SVG Capital plc.
Education: 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.

Mark Elliott (62) ■●◆
Chairman of the Remuneration Committee

Appointed: 2003
Nationality: American
Other appointments: Chairman of QinetiQ Group plc and a non-executive director of G4S plc.
Past appointments: Until his retirement in 2008, was general manager of IBM Global Solutions, having held a number of positions with IBM, including managing director of IBM Europe, Middle East and Africa.

Robert Polet (56) ■◆
Non-Executive Director

Appointed: 2007
Nationality: Dutch
Other appointments: Chairman of Safilo Group S.p.A. and a non-executive director of: Philip Morris International Inc; Wilderness Holdings Limited; and William Grant & Sons Limited. Member of the supervisory board of Nyenrode Foundation.
Past appointments: President and Chief Executive Officer of Gucci Group from 2004 to 2011, having previously 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.

Sir David Reid (65) ▲■●◆
Senior Independent Director

Appointed: 2003
Nationality: British
Other appointments: Chairman of Intertek Group plc.
Past appointments: Was Chairman of Tesco PLC from 2004 to 2011, having previously been Executive Deputy Chairman until December 2003, and Finance Director from 1985 to 1997. Formerly Chairman of Kwik-Fit and a non-executive director of De Vere PLC, Legal & General Group plc and Westbury PLC.

Adrian Hennah (54) ▲◆
Non-Executive Director

Appointed: April 2011
Nationality: British
Other appointments: Chief Financial Officer of Smith & Nephew plc.
Past appointments: Chief Financial Officer of Invensys plc, having previously held various senior finance and management positions with GlaxoSmithKline for 18 years.

Lisa Hook (53) ▲●◆
Non-Executive Director

Appointed: 2006
Nationality: American
Other appointments: President and Chief Executive Officer of Neustar Inc and a director of The Ocean Foundation.
Past appointments: President and Chief Executive Officer at Sun Rocket Inc. Before that she was President of AOL Broadband, Premium and Developer Services. Prior to joining AOL, she was a founding partner at Brera Capital Partners LLC. Previously Chief Operating Officer of Time Warner Telecommunications and has served as senior advisor to the Federal Communications Commission Chairman and a senior counsel to Viacom Cable.

Marike van Lier Lels (52) ◆
Member of the Supervisory Board of Reed Elsevier NV

Appointed: 2010
Nationality: Dutch
Other appointments: Member of the supervisory boards of KPN NV, USG People NV, TKH Group NV and Maersk BV. A member of various Dutch governmental advisory boards.
Past appointments: 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.

Ben van der Veer (60) ▲●◆
Chairman of the Audit Committees

Appointed: 2009
Nationality: Dutch
Other appointments: Member of the supervisory boards of AEGON NV, TomTom NV, Siemens Nederland NV and Koninklijke FrieslandCampina NV.
Past appointments: 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.

Chairman's introduction to corporate governance

Reed Elsevier is committed to applying the highest standards of corporate governance in whichever jurisdiction it operates.

The Board of Reed Elsevier Group plc, Reed Elsevier PLC and the Combined Board of Reed Elsevier NV (the Boards) are responsible for the governance of Reed Elsevier and have put in place procedures which provide accountability, transparency, probity and a focus on the sustainable success of Reed Elsevier over the longer term.

I believe that the Boards and their committees have a good combination of skills and experience and we continue to review the balance of the Boards in our succession planning to ensure there is an appropriate balance of skills, experience, independence, knowledge and diversity on the Board.

The reports of the committees on the following pages in this section explain the systems in place to ensure compliance with applicable corporate governance policies in the areas of board composition (including diversity) and assessment of board effectiveness, remuneration policy, systems of internal control and risk management and relations with shareholders.

The main areas of focus concerning corporate governance during 2011 were:

- The Boards considered the changes introduced by the UK Corporate Governance Code published in May 2010, and I am pleased to report that Reed Elsevier fully complied with the new Code during the year.
- The Boards considered their policy on board diversity, including female representation on the Boards, and in September 2011 announced their aspirational goals regarding the percentage of women they aim to have on the Boards.
- The Nominations Committee has continued to plan for the orderly succession of non-executive directors to the Boards, ensuring that there is progressive refreshing of the Boards whilst maintaining the right balance of skills, experience, independence and knowledge.
- Following the announcement that Mark Armour, Chief Financial Officer, would be retiring at the end of 2012, the Boards have put in place a process for the recruitment of a successor.
- An external independent evaluation of the performance of the Boards, their committees and directors was undertaken.
- A talent review of key executive positions was conducted during 2011.
- The Audit Committees conducted a formal review during 2011 of the performance of the external auditors and the effectiveness of the external audit process and reviewed the resources, budget and effectiveness of the internal audit function.
- The Audit Committees received presentations from divisional CFOs within Reed Elsevier on the finance organisation, finance priorities and risk management of their respective divisions, updates from the Reed Elsevier Group plc group treasurer on pension arrangements and funding, compliance with treasury policies and risk management and a presentation from the head of group taxation on tax policies and related matters.

The following reports describe in more detail how Reed Elsevier has applied the principles of good governance in the activities of the Boards.

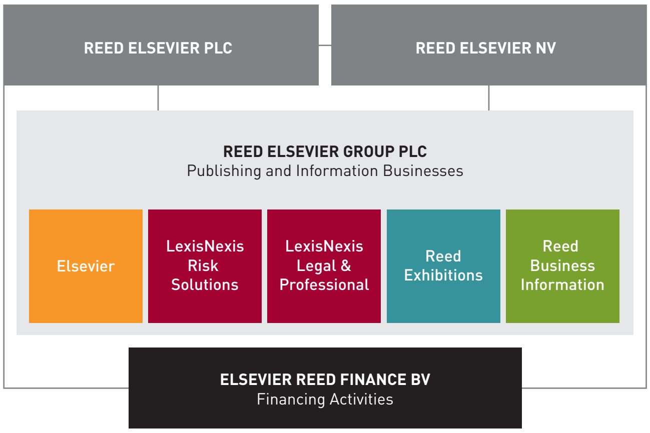
Anthony Habgood
Chairman
15 February 2012

The following chart outlines areas of significant skills and expertise of the non-executive directors on the Boards.

	Percentage of the non-executive directors
Executive board experience in a large international listed company	56
Knowledge of corporate governance issues for listed companies	89
Operational experience in Reed Elsevier's product markets	33
Operational experience in Reed Elsevier's main geographical markets	89
Marketing, customer relations	78
Operational experience with telecommunication/computer technology, electronic publishing	56
Management of human resources, selection and remuneration of executives	89
Corporate social responsibility	89
Legal matters	78
Banking, tax and corporate finance	44
Financial and organisational audit	67
Corporate strategy and organisation	89

Structure and corporate governance

Corporate structure



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

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.

Corporate governance

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 UK Corporate Governance Code issued by the Financial Reporting Council in May 2010 (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 2011. 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 162 to 165, 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.

Business model

As required by C.1.2 of the UK Code, pages 4 to 28 describe the business and the progress made in 2011 against Reed Elsevier's long term business priorities, aimed to deliver better outcomes for our customers and create value for Reed Elsevier and shareholders.

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. A conference call with investors was also held following the third quarter Interim Management Statement. Two investor seminars on specific areas of the business were held in 2011 which were also webcast and currently for 2012 two investor seminars are planned 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 presented 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
In 2011 the Corporate Governance Committee appointed an external evaluator (Consilium Board Review), who had no other connection with Reed Elsevier, to carry out an independent evaluation of the Boards' effectiveness. The external evaluator used questionnaires completed by all directors, had meetings with each of the directors and attended a meeting of the Boards. The Chairman also held interviews with each member of the Boards to individually discuss board effectiveness and the review of the Chairman was led by the senior independent director. The operation and constitution of the Boards and their Committees were also evaluated and the findings reported to the Boards.

The Committee and the Boards have fully reviewed and discussed the findings of the independent evaluation of the performance of the Boards and their Committees and the individual directors. The senior independent director also led the Committee's review of the assessment as it related to the Chairman during which he absented himself from the meeting. Based on the assessments of each director 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 also believes, based on the review, that the Boards function effectively and collaboratively and with an appropriate level of engagement with management. In seeking to further its effectiveness, the Boards will work to ensure they achieve an appropriate balance of focus among financial, operational and strategic matters at each board meeting, in line with the recommendations of the review.

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 up to two directors who are not appointed to the Boards of either Reed Elsevier PLC or Reed Elsevier Group plc. Currently, one such director has been appointed to the Supervisory Board. The names, nationality and biographical details of each director at the date of this report appear on pages 52 and 53.

There is a schedule of matters reserved to the Boards and approved delegated authorities to the Chief Executive Officer and other senior executives. There is a clear separation of the roles of the Chairman and the Chief Executive Officer which is set out in writing.

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.

Notwithstanding that Mark Elliott and Sir David Reid will at the time of the forthcoming Annual General Meeting have served on the Boards for nine years, they will both stand for re-appointment to allow for an orderly transition to newly appointed directors. The Boards have determined that they remain independent in character and judgement despite having served on the Boards for more than nine years and there are also no relationships or circumstances which are likely to affect their independent judgement.

The Boards of Reed Elsevier PLC and of Reed Elsevier NV have appointed Sir 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.

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 comply with the recommendations contained in the UK Code, and all directors seek re-election by shareholders annually.

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 board attendance table below.

Following a recommendation from the Nominations Committee, Adrian Hennah was appointed a non-executive director of Reed Elsevier PLC and a member of the Reed Elsevier NV Supervisory Board at the respective Annual General Meetings in April 2011, and was also appointed a non-executive director of Reed Elsevier Group plc. Lord Sharman retired from the Boards at the conclusion of the Reed Elsevier NV and Reed Elsevier PLC Annual General Meetings in April 2011. In accordance with the recommendation in the UK Code, all 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.

BOARD ATTENDANCE

		Reed Elsevier PLC		Reed Elsevier NV		Reed Elsevier Group plc	
Members	Date of appointment (cessation) during the year	Number of meetings held whilst a director	Number of meetings attended	Number of meetings held whilst a director	Number of meetings attended	Number of meetings held whilst a director	Number of meetings attended
Mark Armour		6	6	6	6	7	7
Mark Elliott		6	6	6	6	7	7
Erik Engstrom		6	6	6	6	7	7
Anthony Habgood		6	6	6	6	7	7
Adrian Hennah	April 2011	4	4	4	4	5	5
Lisa Hook		6	6	6	6	7	6
Marike van Lier Lels		n/a	n/a	6	6	n/a	n/a
Robert Polet		6	6	6	6	7	7
Sir David Reid		6	5	6	5	7	6
Lord Sharman	(April 2011)	2	1	2	1	2	1
Ben van der Veer		6	6	6	6	7	7

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.

ELSEVIER REED FINANCE BV

Members	Number of meetings held whilst a director	Number of meetings attended
Mark Armour	3	3
Jacques Billy	3	2
Rudolf van den Brink	3	3
Gerben de Jong	3	3
Marike van Lier Lels	3	3
Ben van der Veer	3	3
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 below.

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 are chaired by Ben van der Veer. A report of the Audit Committees, setting out their role and main activities during the year, appears on pages 80 to 82.

AUDIT COMMITTEES

Members	Date of appointment (cessation) during the year	Number of meetings held whilst a Committee member	Number of meetings attended
Adrian Hennah	April 2011	3	2
Lisa Hook		5	4
Sir David Reid		5	3
Lord Sharman	(April 2011)	2	2
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 considering the remuneration for the executive directors and the Chairman. 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 63 to 79. 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.

REMUNERATION COMMITTEE

Members	Number of meetings held whilst a Committee member	Number of meetings attended
Mark Elliott	5	5
Anthony Habgood	5	5
Robert Polet	5	5
Sir David Reid	5	3

Nominations Committee: Reed Elsevier PLC and Reed Elsevier NV have established a joint Nominations Committee. The Committee comprises only non-executive directors, and is chaired by Anthony Habgood. A report of the Nominations Committee, setting out its role and main activities during the year, appears on page 62.

NOMINATIONS COMMITTEE

Members	Date of appointment (cessation) during the year	Number of meetings held whilst a Committee member	Number of meetings attended
Mark Elliott		5	5
Anthony Habgood		5	5
Lisa Hook	April 2011	4	3
Sir David Reid		5	3
Lord Sharman	(April 2011)	2	1
Ben van der Veer	January 2011	5	5

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.

CORPORATE GOVERNANCE COMMITTEE

Members	Date of appointment (cessation) during the year	Number of meetings held whilst a Committee member	Number of meetings attended
Mark Elliott		4	4
Anthony Habgood		4	4
Adrian Hennah	April 2011	3	3
Lisa Hook		4	4
Marike van Lier Lels		4	4
Robert Polet		4	4
Sir David Reid		4	4
Lord Sharman	(April 2011)	1	1
Ben van der Veer		4	4

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.

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 2011 and up to the date of the approvals of the Annual Reports and Financial Statements 2011.

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 48 to 50.

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.

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 2011 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 2011, 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 2011 is set out in the Chief Financial Officer's Report on pages 42 to 44. 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 46 and 47. 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 48 to 50.

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 2011 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 2011 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 2011 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 2011 on Form 20-F.

Report of the Nominations Committee

This report has been prepared by the joint Nominations Committee of Reed Elsevier PLC and Reed Elsevier NV and has been approved by the respective Boards.

Role of the Committee

The principal role of the Committee is to provide assistance to the Boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc by identifying individuals qualified to become directors and recommending to the Boards the appointment of such individuals.

The main responsibilities of the Committee are set out in written terms of reference (available at www.reedelsevier.com) and include:

(i) to develop and agree the desired profile for potential candidates for board membership;

(ii) in consultation with external search consultants, agree the specification for the recruitment of new directors which provides a formal and transparent procedure for the selection and appointment of new directors to the Boards;

(iii) to recommend to the Boards the appointment of candidates subject, where appropriate, to the approval of shareholders of Reed Elsevier PLC and Reed Elsevier NV;

(iv) to recommend to the Boards directors to serve on Board Committees, having regard to the criteria for service on each committee as set out in the terms of reference for such committees, and to recommend members to serve as the Chair of those committees;

(v) in consultation with the Chairman of the Remuneration Committee and appropriate external consultants, to develop proposals for the remuneration or fees for new directors;

(vi) to make recommendations to the Boards in relation to the possible re-appointment of directors at the Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV.

Committee membership

The Committee comprises only non-executive directors, and is chaired by Anthony Habgood. The other members are Mark Elliott, Lisa Hook (appointed to the Committee in April 2011), Sir David Reid and Ben van der Veer. Lord Sharman ceased to be a member of the Committee upon his retirement from the Boards in April 2011. The Committee met five times during the year.

Composition of the Boards

During the year the main focus of the Committee has been succession planning in relation to the appointment of non-executive directors to refresh the Boards arising from the impending retirement of long serving non-executive directors. Also, following the announcement in October 2011 that Mark Armour, the Chief Financial Officer, had decided to retire at the end of 2012, the Committee has begun the process to identify his successor.

There is a formal, rigorous and transparent procedure for the recruitment of candidates to the Boards, and such recommendations are made solely on the basis of a candidate's merit, against objective criteria. In this recruitment process, the Committee seeks to ensure that the Boards and where appropriate, their committees, comprise an appropriate balance of skills, experience, independence and knowledge of Reed Elsevier's businesses.

In recommending appointments to the Boards, the Committee considers the knowledge, experience and background of individual directors and has regard to the benefits of diversity, including gender. The Committee has reviewed the recommendations of the Davies Review "Women on boards" issued in February 2011, which sets an aspirational target of 25% female representation on FTSE 100 boards by 2015. By 2013 we anticipate the Reed Elsevier NV Combined Board will be comprised of 30% women and the Reed Elsevier PLC Board will be comprised of 22% women. In addition, a diversity and inclusion strategy was adopted in 2010 with support of senior leadership throughout Reed Elsevier, with each business unit asked to incorporate diversity and inclusion into its strategic plans. Further details are provided in the Corporate Responsibility report on pages 29 to 38.

Directors' remuneration report

The Directors' Remuneration Report (the Report) describes how Reed Elsevier applies the principles of good governance relating to directors' remuneration. This Report has been prepared by the Remuneration Committee of Reed Elsevier Group plc (the Committee) in accordance with regulations made under the Companies Act 2006 and the Dutch Corporate Governance Code (the Dutch Code).

The 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.

The audited parts of the 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 pages 75 and 76; 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 77 and 78.

Introduction from Remuneration Committee Chairman

During 2011, awards granted under the 2008-10 cycle of the Executive Share Option Scheme (ESOS) and the Long-Term Incentive Plan (LTIP) lapsed for executive directors as a result of performance conditions not being met. ESOS and LTIP awards granted under the 2009-11 cycle of these plans also lapsed for executive directors prior to the date of this Report for the same reasons.

During the year, the executive directors were eligible to participate in the Bonus Investment Plan (BIP) and took full advantage of the investment opportunity available to them. In addition, grants of market value options with a face value of 150% of base salary (half of the permitted maximum) were made during 2011 under ESOS to the executive directors.

No new multi-year incentives were introduced for executive directors in 2011. The executive directors were not eligible for further awards under the Reed Elsevier Growth Plan (REGP) and did not receive any other multi-year incentive awards.

The Committee decided to award the executive directors a salary increase of 2.5% each effective 1 January 2012. This level of increase is in line with 2012 increases applicable to the wider employee population and other senior executives.

Annual bonuses payable for 2011 to the executive directors were close to target reflecting good progress in the business during the year.

We previously indicated to shareholders that we intend to come back in due course with proposals for the implementation of a more regular, annual, LTIP for executive directors from 2013 onwards in relation to which initial discussions and work commenced in the second part of 2011. This work will continue in 2012 with a view to drawing up proposals for discussion with shareholders ahead of the 2013 AGMs.

During the year, Reed Elsevier announced that Mark Armour will retire on 31 December 2012. The terms and conditions which will apply in relation to the retirement are summarised on page 74 of this Report.

Our approach to preparing this Report has been to meet the highest standards of disclosure, balancing in a thoughtful and responsible manner the UK legislative requirements with best practice guidelines on disclosure in the Netherlands. In preparing this Report, 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

Remuneration Committee

Constitution
Throughout 2011, 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' on page 58 of the Annual Reports. The Company Secretary 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. The CEO of Reed Elsevier Group plc is not in attendance during discussions pertaining to his remuneration.

The Global Human Resources Director provided material advice to the Committee during the year.

Advisers
Towers Watson acted as external advisers to the Committee throughout 2011 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
The Committee reviewed its terms of reference prior to the date of this Report in the context of the UK Corporate Governance Code, applicable legislation and current practice and guidance which resulted in a number of minor amendments. The revised terms of reference describe the Committee's responsibilities as follows:

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 Reed Elsevier PLC and on the advice of the Chairman the remuneration terms of the CEO (with respect to Reed Elsevier NV, the Committee recommends to the Supervisory Board the remuneration policy and the remuneration in all its forms for the CEO and other executive directors); and
- approve any compensation or termination payments made to executive directors of Reed Elsevier Group plc and Reed Elsevier PLC.

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 (with respect to Reed Elsevier NV, to recommend, on advice of the Senior Independent Director, to the Combined Board the Chairman's remuneration in respect of his Chairmanship of Reed Elsevier NV).

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 review and recommend amendments to 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 global business with business areas that operate 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.

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

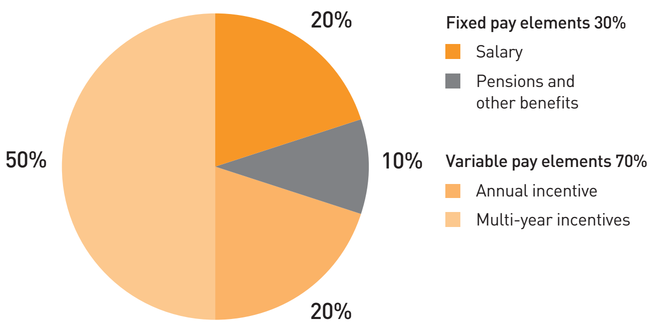
- Reed Elsevier aims to provide a total remuneration package that is able to attract and retain the best executive talent from anywhere in the world, at an appropriate level of cost.

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

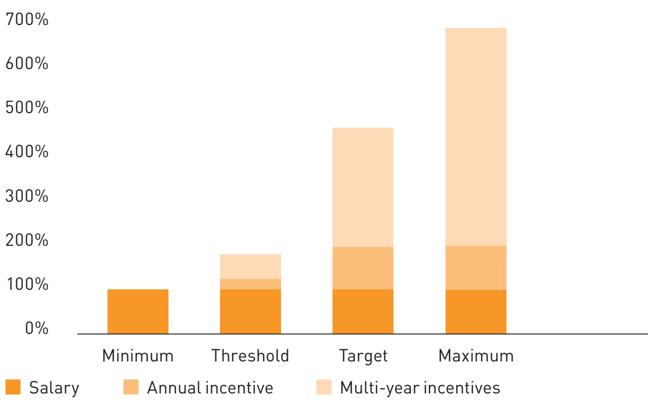
How the performance measures in the incentives link to our business strategy
Our annual incentive plan is focused on operational excellence as measured by the financial measures of revenue, profit and cash generation. In addition, a significant portion of the annual bonus is dependent upon the achievement 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 earnings per share and targeted return on invested capital 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 total remuneration package as shown in the pie chart. The core components of the total remuneration package are described in detail in the remainder of this Report.



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 (i.e. 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.

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 both against the market and taking account of remuneration levels within Reed Elsevier more widely. 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 is 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. Through the use of a range of performance metrics such as earnings per share, return on invested capital, profit after tax, revenue, cash flow conversion rate and total shareholder return and the assessment of performance over multiple time-horizons, 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 2011. This includes the bonuses earned for performance during 2011, payouts received from and awards granted under the multi-year incentives during the year.

Component		Erik Engstrom	Mark Armour
Base salary (page 67)		£1,025,000	£628,776
Retirement benefits (page 72)		UK defined benefit plan	UK defined benefit plan
Other benefits		Includes company car or cash allowance and private medical benefit	Includes company car or cash allowance and private medical benefit
Annual incentive (page 67) (earned for 2011 and payable in March 2012)		£1,021,925	£611,799
Multi-year incentives granted (page 68)	ESOS	Market value options over 139,146 PLC and 92,953 NV ordinary shares	Market value options over 85,358 PLC and 57,021 NV ordinary shares
	BIP	61,176 NV ADRs	56,876 PLC and 37,687 NV ordinary shares
Multi-year incentives vested (2008–10 cycle)	LTIP	Lapsed	Lapsed
	ESOS	Lapsed	Lapsed
Shareholding requirement (page 72)		300% of salary	200% of salary

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

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.

The Committee decided to award a salary increase of 2.5% to each executive director which increased base salaries with effect from 1 January 2012 to £1,050,625 for Erik Engstrom and £644,495 for Mark Armour. In determining the salary recommendation for executive directors, the Committee considered, among other inputs, 2012 salary guidance for Reed Elsevier's most significant employee locations globally. The salary recommendations for the executive directors are within the guidelines agreed for those employees in respect of 2012 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: i.e. relevant pay market, skills, experience and contribution. Reed Elsevier operates across many diverse countries in terms of their remuneration structures and practices. Any increases awarded to different employee groups in different geographies reflect this diversity and range of practices. An increase of approximately 2.5% on average will be awarded across the senior management population globally for 2012. 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 2012, executive directors have a target bonus opportunity of 100% of salary that is weighted as follows across four elements (unchanged from 2011):

Measure	Weighting
Revenue	30%
Adjusted Profit After Tax	30%
Cash Flow Conversion Rate	10%
Key Performance Objectives (KPOs)	30%

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 2012, the minimum threshold on the financial elements of the AIP at which a bonus starts to accrue is 94% of target achievement and the maximum bonus is 150% of target (unchanged from 2011), although the Committee decided to slightly adjust the payout slope for financials between threshold and maximum to align executive directors with other executives and employees. This means that part of the bonus will accrue for achieving threshold whilst a higher level of out-performance will be required to achieve the maximum bonus.

The KPOs are individual to each executive director. Each executive director is set up to six KPOs to reflect critical business priorities for which he is 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 2011

In assessing the level of bonus payments for 2011, the Committee noted the following performances:

	% change over 2010 at constant exchange rates	
	Underlying revenue growth	Total adjusted PAT
Reed Elsevier	+2%	+6%

Reed Elsevier continued its positive momentum in 2011. All five business areas contributed to underlying revenue growth, excluding biennial cycling, with underlying operating profits showing good growth. Underlying revenues, which exclude the effects of currency translations and acquisitions and disposals, were up 2%, or 3% excluding the cycling effect of biennial exhibitions, reflecting a consistent performance from our subscription and online data businesses. Adjusted operating profits were up 4% at constant currencies. Total costs, including acquisitions and disposals, fell by 2% at constant exchange rates and adjusted operating margins at 27.1% were 1.4 percentage points higher than last year. Adjusted operating cash flow was flat compared with the prior year or down 1% at constant currencies. The lower level of cash flow conversion reflects among other things higher capital expenditure through increased investment in new products and related infrastructure in 2011. Returns on invested capital increased to 11.2%, 0.6 percentage points higher than in 2010, reflecting improvements in trading performance, strong cash flow and capital efficiency.

Overall, the sum of the individual scores achieved against the four AIP components was close to target for both executive directors, resulting in the following bonuses for 2011:

	2011 annual bonus (to be paid in March 2012)	% of 2011 base salary earnings
Erik Engstrom	£1,021,925	99.7%
Mark Armour	£611,799	97.3%

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 market value options which typically vest over a period of three years except for the REGP under which awards vest over three and 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)

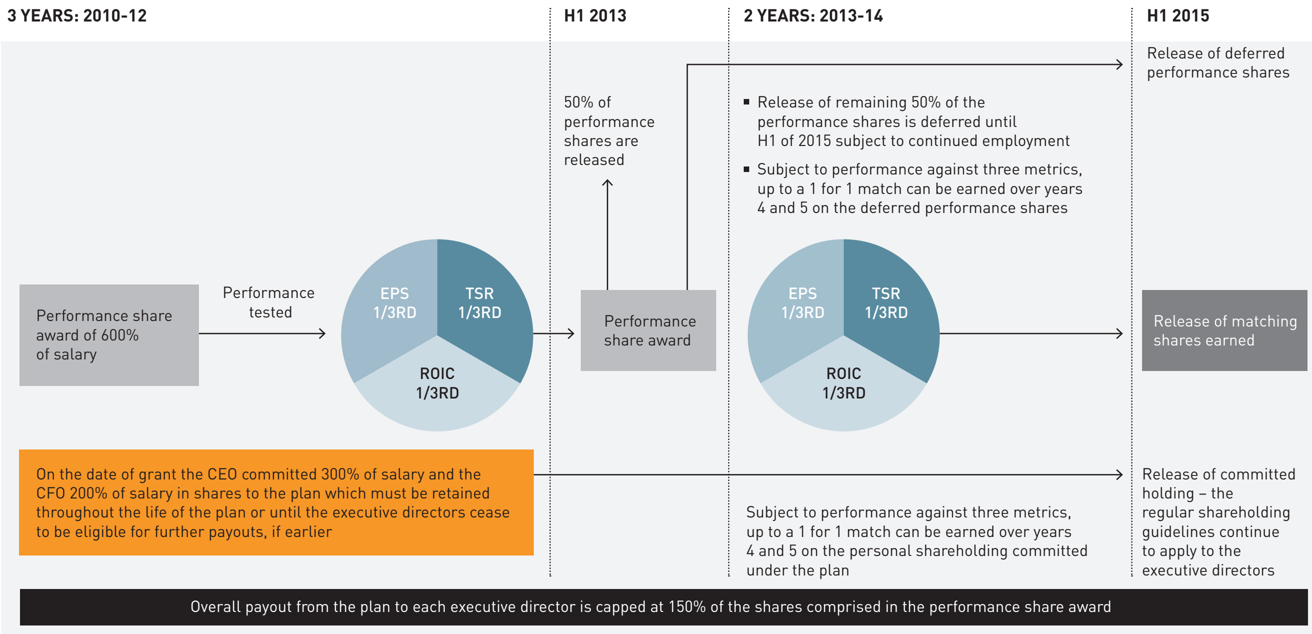
The key features of the REGP are summarised below.

REED ELSEVIER GROWTH PLAN (REGP)

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 (i.e. for five years) or until such time as they cease to be eligible for further payouts under the plan, if earlier
Performance period	▪ Five years split into an initial period of three financial years followed by a further two financial 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')* ▪ The performance metrics have equal weighting, with one third 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 capable of 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.

	3 year period: 2010-12	5 year period: 2010-14
TSR ranking within the relevant TSR comparator group	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.

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) FTSE 100 for the Sterling Comparator Group; (2) Euronext100 and the DAX 30 for the Euro Comparator Group; and (3) the S&P 500 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 overleaf 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: 2010-12	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.

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: 2010-12	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.

A multi-year incentive award was granted to senior leaders below the Board in 2011. Grants are made on a rolling three year basis and awards are in the form of performance shares that vest subject to the same performance metrics and vesting scales applicable to the REGP and the targets set for each metric are aligned to the five-year performance scale applicable to the executive directors under the REGP.

Executive Share Option Scheme (ESOS)

The key features of the ESOS are summarised below.

Feature	Detail
Frequency of award	▪ Annual grant of market value options
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 (for defined categories of approved leavers), if earlier
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 average compound adjusted EPS measured in constant currencies (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 2011 was less than 6% p.a. which means that the available grant pool for ESOS awards in 2012 is 50% of the 2003 pool.

During 2011, the executive directors received each a grant of 150% of base salary of market value options (50% of the permitted maximum). The vesting of the award is subject to an Adjusted EPS growth hurdle of 6% p.a.

During the year the 2008-10 cycle of ESOS lapsed for executive directors as a result of EPS performance being below the threshold required for vesting. Prior to the date of this Report, the Committee determined that the 2009-11 cycle of ESOS also lapsed for executive directors as the Adjusted EPS growth hurdle of 8% p.a. on vesting was not achieved.

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. The current bonus investment plan was approved by shareholders at the 2010 Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV and replaced the bonus investment plan implemented in 2003.

Under the 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 a matching award which vests 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 overleaf summarises the key features of the BIP.

Feature	Detail
Frequency of award	▪ Annual grants of matching awards ▪ Ten-year life of the plan ▪ Implemented in 2010 with first matching awards granted in May 2010
Eligibility	▪ Approximately 150 senior executives including executive directors ▪ Participation is voluntary
Performance period	▪ Three financial years
Performance conditions	▪ Average adjusted EPS growth measured in constant currencies and ROIC (see below) ▪ 50% of the award is subject to adjusted EPS growth and 50% subject to ROIC
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 (i.e. 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 awards granted under the BIP in 2011:

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

The same EPS targets as set out in the table above will apply to awards of matching shares to be granted in 2012 under the 2012-14 cycle of the plan. The targets applicable to the ROIC proportion will be increased to 11.0% at threshold and 12.0% at maximum with straight-line vesting for performance between the points. The executive directors will be eligible to participate in BIP in 2012.

The vesting scale and performance metrics applicable to awards granted in 2010 under the BIP are the same as above, except that the EPS proportion is measured over years two and three of the performance period (i.e. 2011 and 2012) with vesting of the EPS component being subject to average EPS growth over the whole three year vesting period being positive. The targets applicable to the ROIC proportion under the 2010-12 cycle were 0.2% lower than the targets applicable to the 2011-13 cycle, with a threshold of 10.2% and maximum vesting for achieving ROIC of 11.2% or above in the third year of the performance period. Straight-line vesting applies for performance between the points.

Long Term Incentive Plan (LTIP)

No awards under the LTIP were given to executive directors in 2011 and no awards will be made in 2012.

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 growth in average compound adjusted EPS growth measured at constant currencies and Reed Elsevier's TSR performance compared to a group of industry peers. The 2008-10 cycle of LTIP lapsed during 2011 as a result of performance conditions not being met. At the date of this Report, it had also been determined that the 2009-11 cycle of LTIP had also lapsed as the minimum performance hurdle of 10% adjusted EPS growth was not met.

No further award cycles remain outstanding under this plan at the date of this Report.

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 68, were pre-requisites to participate in the REGP. Shareholding requirements also apply to selected senior executives below the Board.

Meeting the relevant shareholding requirement is both a condition of the vesting of awards as well as a pre-requisite to maintain eligibility to receive future awards under the multi-year incentives.

On 31 December 2011, the executive directors' shareholdings were as follows (valued at the mid-market closing prices of Reed Elsevier securities):

	Shareholding requirement (in % of 31 December 2011 annualised base salary)	Actual shareholding as at 31 December 2011 (in % of 31 December 2011 annualised base salary)
Erik Engstrom	300%	396%
Mark Armour	200%	376%

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).

Retirement benefits

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

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

- the main UK Reed Elsevier Pension Scheme for salary restricted to a cap, determined annually on the same basis as the pre-April 2006 Inland Revenue earnings cap, and
- Reed Elsevier's 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.

The pension arrangements for the directors 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 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 2011 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 2011	Director's contributions	Transfer value of accrued pension at 31 December 2010	Transfer value of accrued pension at 31 December 2011	Increase in transfer value during the year (net of director's contributions)	Accrued annual pension at 31 December 2011	Increase in accrued annual pension during the year	Increase in accrued annual pension during the year (net of inflation)	Transfer value at 31 December 2011 of increase in accrued pension during the year (net of inflation and director's contributions)
Erik Engstrom	48	£7,377	£1,366,389	£2,099,132	£725,366	£142,375	£36,799	£31,732	£460,465
Mark Armour	57	£7,377	£5,643,891	£6,758,053	£1,106,785	£354,522	£29,097	£13,495	£249,862

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 executive directors should, subject to any legal constraints within their base country, be required to mitigate their losses 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 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 executive director has a service contract with Reed Elsevier Group plc, as summarised in the table below.

	Current contract date	Date employment commenced	Expiry date (subject to notice period)	Notice period	Subject to
Erik Engstrom	14 March 2011	23 August 2004	14 June 2028	12 months	English law
Mark Armour	7 October 1996	1 February 1995	Retires 31 December 2012	12 months	English law

Mark Armour's retirement terms

The following terms will apply to Mark Armour in connection with his retirement on 31 December 2012:

- his participation in the REGP will cease once the performance share award has been performance-tested in 2013. All of the performance shares earned will be released at that time and dividend equivalents relating to the earned shares will be paid in cash at the same time. The vesting of the performance shares will be subject to the cap applicable to the REGP, with the cap being pro-rated by 3/5th to reflect his years of actual service during the performance period of 1 January 2010 through to 31 December 2014. He will not be eligible for a grant of matching shares in 2013 and there will be no further entitlement for payments under this plan;
- his shareholding requirement under the REGP of two times salary will cease in 2013, once the extent of any vesting of the performance share award under the REGP has been determined;
- no ESOS award will be made to him in 2012;
- existing covenants relating to non-competition, non-solicitation and confidentiality will remain in place for 12 months post-retirement;
- all unvested share-based awards will be treated in accordance with the rules of the plans, and outstanding ESOS options remain exercisable for up to three and a half years from retirement;
- he will be eligible to draw his pension under the UK Reed Elsevier Pension Scheme and the unapproved pension arrangement in accordance with the terms of those schemes from 1 January 2013; and
- no further payments will be due.

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.

Mark Armour is a non-executive director of SABMiller plc and received remuneration of £100,694 during 2011 (£59,610 during 2010 reflecting pro-rata payments since appointment).

Non-executive directors

Policy on non-executive directors' fees

The policy on non-executive directors' fees is a matter for the Boards, subject to applicable law, and does not fall within the Committee's remit.

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 Marike van Lier Lels who serves only on the Supervisory Board of Reed Elsevier NV, non-executive directors, including the Chairman, are appointed to the Boards of Reed Elsevier Group plc, Reed Elsevier PLC and the Supervisory Board of Reed Elsevier NV. Non-executive directors' 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 Marike van Lier Lels, who serves only on the Supervisory Board of Reed Elsevier NV, reflects her time commitment to that company and to other companies within the Reed Elsevier combined businesses. Non-executive directors are reimbursed for expenses incurred in attending meetings. They do not receive any performance-related bonuses, pension provision, share options or other forms of benefit, except for the following: the Chairman is in receipt of private medical benefit and non-executive directors and the Chairman are provided with tax filing support to meet any tax filing obligations arising from their directorships with Reed Elsevier in countries other than their home country.

Fees may be reviewed annually, although in practice they have changed on a less frequent basis. During 2011, fees were reviewed for non-executive directors, Supervisory Board members and the Chairman, taking account of market practice and general governance trends. Prior to that, fees for non-executive directors and Supervisory Board members had last been reviewed in 2007 and increased with effect from 1 January 2008 although a separate fee for the senior independent director was introduced with effect from 1 January 2011.

The changes in fees resulting from the 2011 review, which took effect on 1 January 2012, are set out in the table below.

	Annual fee 2012	Annual fee 2011
Chairman	**£550,000**	£500,000
Non-executive directors	**£65,000/€80,000**	£55,000/€75,000
Senior Independent Director	**£20,000**	£20,000
Chairman of:		
– Audit Committee	**£25,000/€30,000**	£15,000/€20,000
– Remuneration Committee	**£20,000**	£15,000

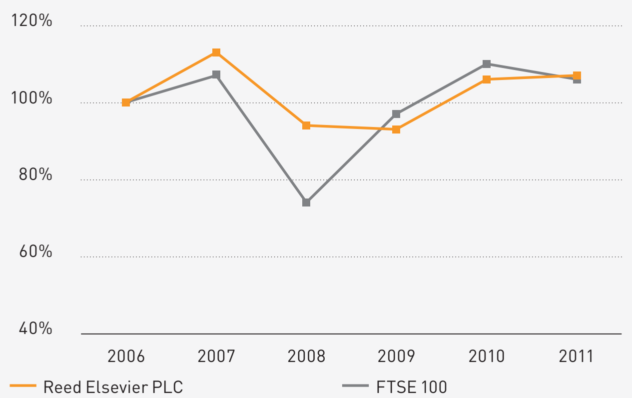
The total annual fee payable to Marike van Lier Lels is €65,000 (€48,000 in 2011). The Chairman of Reed Elsevier does not receive committee chairman fees.

Total Shareholder Return graphs

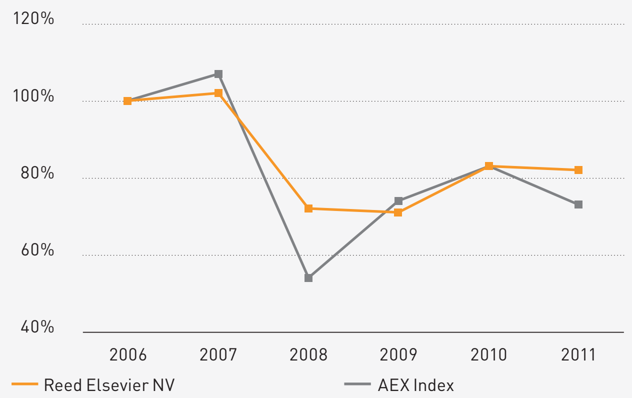
As required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the graphs in this section show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested. They compare the Reed Elsevier PLC performance with 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 2006 to 31 December 2011.

For the five-year period from 31 December 2006, the TSR for Reed Elsevier PLC was 7.1%, against a FTSE 100 return of 5.9%. For Reed Elsevier NV during the same period, TSR was minus 18.3% against an AEX Index return of minus 27%. Reed Elsevier PLC is a member of the FTSE 100 index and Reed Elsevier NV is a member of the AEX Index. Therefore, 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 end 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:

	2011 £'000	2010 £'000
Salaries and fees	**2,590**	3,324
Benefits	**56**	97
Annual performance-related bonuses	**1,634**	2,351
Payments for loss of office	**–**	499
Pension contributions	**42**	43
Total	**4,322**	6,314

Individual fees of non-executive directors

	2011 £**	2010 £**
Mark Elliott	**70,000**	70,000
Anthony Habgood	**500,000***	500,000*
Adrian Hennah (from 20 April 2011)	**38,475**	–
Lisa Hook	**55,000**	55,000
Marike van Lier Lels (from 13 January 2010)	**41,739*****	39,744
Robert Polet	**55,000**	55,000
Sir David Reid	**75,000**	55,000
Lord Sharman (until 20 April 2011)	**18,333**	63,750
Ben van der Veer	**82,609*****	71,225
Total	**936,156**	909,719

*Excludes private medical insurance benefit of £1,329 in respect of 2011 (£1,244 in 2010).
**The above figures exclude an imputed notional benefit in respect of tax filing support provided to non-executive directors for tax filings in countries other than their home country resulting from their directorship with Reed Elsevier. The incremental assessable benefit charge per relevant tax return has been agreed by PwC to amount to £300.
***The fees for Marike van Lier Lels and Ben van der Veer are paid in euro and were €48,000 and €95,000 respectively for 2011. For reporting purposes these were converted into pounds sterling at the average exchange rate for the year of reporting.

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

The 2008-10 cycle of awards made under ESOS 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 2011 on any multi-year incentives (also none in 2010).

Individual emoluments of executive directors

	Salary £	Benefits £	Bonus £	Total 2011 £	Total 2010 £
Erik Engstrom	**1,025,000**	**28,492**	**1,021,925**	**2,075,417**	2,028,108
Mark Armour	**628,776**	**22,988**	**611,799**	**1,263,563**	1,248,742
Total	**1,653,776**	**51,480**	**1,633,724**	**3,338,980**	3,276,850

Market value options awarded under ESOS and restricted shares awarded in the year of reporting under the BIP are set out by executive director on pages 77-78. Vesting is subject to performance conditions relating to growth in adjusted EPS and ROIC as described in the front section of this Report. The maximum number of options that can vest under the ESOS and the maximum number of restricted shares that can vest under the BIP is equivalent to the awards granted. Erik Engstrom was the highest paid director in 2011.

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 2011 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 2011*	31 December 2011	1 January 2011*	31 December 2011
Mark Armour	248,742	248,742	136,889	136,889
Mark Elliott	–	–	–	7,600
Erik Engstrom	107,040	107,040	383,450	447,356
Anthony Habgood	50,000	50,000	25,000	25,000
Adrian Hennah	–	5,163	–	–
Lisa Hook	–	–	–	–
Marike van Lier Lels	–	–	–	–
Robert Polet	–	1,000	–	–
Sir David Reid	–	–	–	–
Ben van der Veer	–	–	1,298	5,000

*On date of appointment if subsequent to 1 January 2011.

There have been no changes in the interests of the directors in 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 (shown in orange) and unvested options and restricted shares held by executive directors in Reed Elsevier PLC (PLC) and Reed Elsevier NV (NV) as at 31 December 2011 are shown in the tables below. 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 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 2011 other than those relating to the 2009-11 cycles of ESOS and LTIP as disclosed on pages 71 and 72. The market price at the date of award of grants made under the multi-year incentives are based on the middle market price of the respective security.

Erik Engstrom

OPTIONS	Year of grant	Option over:	No. of options held on 1 Jan 2011	No. of options granted during 2011	Option price	No. of options exercised during 2011	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on 31 Dec 2011	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
	2008	PLC ord	143,000		£6.275				–		Lapsed
		NV ord	94,000		€12.21				–		Lapsed
	2009	PLC ord	146,923		£5.420				146,923		Lapsed*
		NV ord	95,399		€9.415				95,399		Lapsed*
	2011	PLC ord	–	**139,146**	£5.390				139,146	5 May 2014	5 May 2021
		NV ord	–	**92,953**	€8.969				92,953	5 May 2014	5 May 2021
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			1,011,958	**139,146**					1,008,104		
Total NV ords			683,641	**92,953**					682,594		

*Lapsed prior to the date of this Report.

SHARES	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2011	No. of shares awarded during 2011	Market price per share at award	No. of shares vested during 2011	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on 31 Dec 2011	Date of vesting
BIP	2010	NV ord	140,378		€8.310				140,378	H1 2013
	2011	NV ord		**122,352**	€8.969				122,352	H1 2014
LTIP	2008	PLC ord	68,500		£6.275				–	Lapsed
		NV ord	45,000		€12.21				–	Lapsed
	2009	PLC ord	103,902		£5.420				103,902	Lapsed*
		NV ord	67,465		€9.415				67,465	Lapsed*
REGP	2010	PLC ord	643,086		£4.665				643,086	50% H1 2013 50% H1 2015
		NV ord	422,310		€8.310				422,310	50% H1 2013 50% H1 2015
Total PLC ords			815,488						746,988	
Total NV ords			675,153	**122,352**					752,505	

*Lapsed prior to the date of this Report.

Mark Armour

OPTIONS	Year of grant	Option over:	No. of options held on 1 Jan 2011	No. of options granted during 2011	Option price	No. of options exercised during 2011	Market price per share at exercise	Gross gains made on exercise £/€	No. of options held on 31 Dec 2011	Unvested options vesting on:	Options exercisable until:
ESOS	2001	PLC ord	62,974		£6.590				–		Expired*
		NV ord	44,882		€14.75				–		Expired*
	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
	2008	PLC ord	144,000		£6.275				–		Lapsed
		NV ord	94,000		€12.21				–		Lapsed
	2009	PLC ord	147,692		£5.420				147,692		Lapsed**
		NV ord	95,899		€9.415				95,899		Lapsed**
	2011	PLC ord	–	**85,358**	£5.390				85,358	5 May 2014	5 May 2021
		NV ord	–	**57,021**	€8.969				57,021	5 May 2014	5 May 2021
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			1,030,578	**85,358**					908,962		
Total NV ords			695,512	**57,021**					613,651		

*Expired unexercised on 23 February 2011.
**Lapsed prior to the date of this Report.

SHARES	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2011	No. of shares awarded during 2011	Market price per share at award	No. of shares vested during 2011	Market price per share at vesting	Notional gross gains at vesting £/€	No. of unvested shares held on 31 Dec 2011	Date of vesting
BIP	2010	PLC ord	65,054		£4.665				65,054	H1 2013
		NV ord	42,512		€8.310				42,512	H1 2013
	2011	PLC ord	–	**56,876**	£5.390				56,876	H1 2014
		NV ord	–	**37,687**	€8.969				37,687	H1 2014
LTIP	2008	PLC ord	67,000		£6.275				–	Lapsed
		NV ord	44,000		€12.21				–	Lapsed
	2009	PLC ord	76,397		£5.420				76,397	Lapsed**
		NV ord	49,605		€9.415				49,605	Lapsed**
REGP	2010	PLC ord	394,495		£4.665				394,495	H1 2013
		NV ord	259,062		€8.310				259,062	H1 2013
Total PLC ords			602,946	**56,876**					592,822	
Total NV ords			395,179	**37,687**					388,866	

**Lapsed prior to the date of this Report.

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.

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 in 2011 under the BIP was £5.39. The middle market price of a Reed Elsevier NV ordinary share at the date of award of grants in 2011 under the BIP was €8.969.

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range of £4.613 to £5.905 and at 31 December 2011 was £5.19. The middle market price of a Reed Elsevier NV ordinary share during the year was in the range of €7.588 to €10.27 and at 31 December 2011 was €9.007.

Dilution
At 31 December 2011, the estimated potential dilution over a ten-year period from awards over Reed Elsevier PLC shares under all share-based plans was 5.1% of the Reed Elsevier PLC share capital. The estimated potential dilution over the same period in respect of awards over Reed Elsevier NV shares was 5.3% of the Reed Elsevier NV share capital at 31 December 2011. The estimated potential dilution in relation to executive share-based plans was 4.6% of the Reed Elsevier PLC and 5% of the Reed Elsevier NV share capital at 31 December 2011.

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 2011, amounted to 14,051,025 Reed Elsevier PLC ordinary shares (1.12% of issued share capital) and 7,380,906 Reed Elsevier NV ordinary shares (0.96% 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 15 February 2012.

Mark Elliott
Chairman of the Remuneration Committee

Approved by the Board of Reed Elsevier PLC on 15 February 2012.

Mark Elliott
Non-Executive Director

Approved by the Combined Board of Reed Elsevier NV on 15 February 2012.

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. It provides an overview of the membership, responsibilities and activities of the committees.

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), Lisa Hook, Sir David Reid, Lord Sharman (until his retirement in April 2011) and Adrian Hennah (from appointment in April 2011). Sir David Reid and Adrian Hennah, 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. Biographies of the members of each of the Committees are set out on pages 52 and 53 and details of the number of meetings attended by each of the members are provided on page 58.

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 2011 are set out in the Directors' Remuneration Report on pages 63 to 79.

Responsibilities

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 therein;

(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 in relation to the appointment 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 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 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.

Principal 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; review of information technology security;

– February: review of external audit findings; 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 treasury policy compliance;

– 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 of external audit findings; review and recommending for approval to the Boards of the interim financial statements, results announcement and related formal statements; 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. 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. At least once annually, the Chairman of the Audit Committee meets separately with the Reed Elsevier Group plc chief risk officer and director of internal audit.

In discharging their principal responsibilities in respect of the 2011 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, review of tax reserves and provisions for lease obligations, and the use of the going concern basis in the preparation of the financial statements.

(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.

(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 2011 included: project management of development spend, particularly in relation to the significant product and infrastructure investment in the US legal business; acquisition integration activities; regulatory compliance and review of information security including the management of data privacy; 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 2011 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 Group plc vice president compliance on the compliance programmes, including the operation of Reed Elsevier's codes of conduct, training programmes, whistleblowing arrangements and procedures in respect of the UK Bribery Act requirements; from the Reed Elsevier Inc. general counsel on the management of data privacy, security and compliance; and from the Reed Elsevier Group plc IT security officer on information technology security.

(vii) received updates from the Reed Elsevier Group plc group treasurer on pension arrangements and funding, compliance with treasury policies and risk management, and on global insurance arrangements.

(viii) received a presentation from the Reed Elsevier Group plc head of group taxation on tax policies and related matters.

(ix) received regular updates from the chief financial officer on developments within the finance function.

(x) received presentations on a rotational basis from the chief financial officers of major businesses on the priorities for the finance functions of those businesses and the risk management and internal control activities.

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 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 each Audit Committee in the selection of auditors to be proposed for appointment or reappointment at the respective 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 Committees. The policy is available on the Reed Elsevier website, www.reedelsevier.com.

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, however, provide non audit services which do not conflict with their independence, and where their skills and experience make them a logical supplier of the services, subject to pre-approval by the Audit Committee. The Committees have, each quarter, reviewed and agreed the non audit services provided in 2011, 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 tax compliance, due diligence and other transaction related services.

The external auditors are required to rotate the lead audit partners responsible for the audit engagements every five years. The lead engagement partner for Reed Elsevier PLC has now completed his third year of auditing Reed Elsevier's financial statements and the lead engagement partner for Reed Elsevier NV has completed two years. 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.

The Committees conducted an annual review during 2011 of the performance of the external auditors and the effectiveness of the external audit process for the year ended 31 December 2010. 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 June 2011. Based on these reviews, and on their subsequent observations on the planning and execution of the external audit for the year ended 31 December 2011, 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 February 2012.

Ben van der Veer
Chairman of the Audit Committees

15 February 2012

Financial statements and other information

In this section

Combined income statement

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 £m	2010 £m
Revenue	1	**6,002**	6,055
Cost of sales		**(2,126)**	(2,209)
Gross profit		**3,876**	3,846
Selling and distribution costs		**(1,075)**	(1,091)
Administration and other expenses		**(1,626)**	(1,687)
Operating profit before joint ventures		**1,175**	1,068
Share of results of joint ventures		**30**	22
Operating profit	2	**1,205**	1,090
Finance income	7	**17**	8
Finance costs	7	**(252)**	(284)
Net finance costs		**(235)**	(276)
Disposals and other non operating items	8	**(22)**	(46)
Profit before tax		**948**	768
Taxation	9	**(181)**	(120)
Net profit for the year		**767**	648
Attributable to:			
Parent companies' shareholders		**760**	642
Non-controlling interests		**7**	6
Net profit for the year		**767**	648

Combined statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 £m	2010 £m
Net profit for the year		**767**	648
Exchange differences on translation of foreign operations		**32**	94
Actuarial losses on defined benefit pension schemes	5	**(113)**	(63)
Fair value movements on available for sale investments		**(1)**	–
Fair value movements on cash flow hedges		**(24)**	(58)
Transfer to net profit from hedge reserve (net of tax)	18	**37**	46
Tax recognised directly in equity	9	**42**	29
Other comprehensive (expense)/income for the year		**(27)**	48
Total comprehensive income for the year		**740**	696
Attributable to:			
Parent companies' shareholders		**733**	690
Non-controlling interests		**7**	6
Total comprehensive income for the year		**740**	696

Combined statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated from operations	11	**1,735**	1,649
Interest paid		**(247)**	(295)
Interest received		**12**	8
Tax paid (net)		**(218)**	(9)
Net cash from operating activities		**1,282**	1,353
Cash flows from investing activities			
Acquisitions	11	**(481)**	(50)
Purchases of property, plant and equipment		**(85)**	(83)
Expenditure on internally developed intangible assets		**(265)**	(228)
Purchase of investments		**(10)**	(5)
Proceeds from disposals of property, plant and equipment		**7**	7
Net proceeds from other disposals		**80**	6
Dividends received from joint ventures		**33**	24
Net cash used in investing activities		**(721)**	(329)
Cash flows from financing activities			
Dividends paid to shareholders of the parent companies		**(497)**	(483)
Distributions to non-controlling interests		**(9)**	(8)
Increase/(decrease) in short term bank loans, overdrafts and commercial paper		**210**	(143)
Repayment of other loans		**(248)**	(394)
Repayment of finance leases		**(22)**	(7)
Acquisition of non-controlling interests		**(48)**	–
Proceeds on issue of ordinary shares		**9**	11
Net cash used in financing activities		**(605)**	(1,024)
Decrease in cash and cash equivalents	11	**(44)**	–
Movement in cash and cash equivalents			
At start of year		**742**	734
Decrease in cash and cash equivalents		**(44)**	–
Exchange translation differences		**28**	8
At end of year		**726**	742

Combined statement of financial position

AS AT 31 DECEMBER	Note	2011 £m	2010 £m
Non-current assets			
Goodwill	14	**4,729**	4,441
Intangible assets	15	**3,494**	3,457
Investments in joint ventures	16	**124**	136
Other investments	16	**64**	48
Property, plant and equipment	17	**288**	291
Net pension assets	5	**–**	55
Deferred tax assets	19	**212**	151
		8,911	8,579
Current assets			
Inventories and pre-publication costs	20	**190**	228
Trade and other receivables	21	**1,483**	1,475
Derivative financial instruments		**149**	134
Cash and cash equivalents	11	**726**	742
		2,548	2,579
Assets held for sale	22	**44**	–
Total assets		**11,503**	11,158
Current liabilities			
Trade and other payables	23	**2,657**	2,584
Derivative financial instruments		**69**	80
Borrowings	24	**982**	516
Taxation		**677**	646
Provisions	26	**39**	71
		4,424	3,897
Non-current liabilities			
Borrowings	24	**3,300**	3,786
Deferred tax liabilities	19	**1,236**	1,192
Net pension obligations	5	**242**	225
Provisions	26	**87**	88
		4,865	5,291
Liabilities associated with assets held for sale	22	**17**	–
Total liabilities		**9,306**	9,188
Net assets		**2,197**	1,970
Capital and reserves			
Combined share capitals	28	**223**	224
Combined share premiums	28	**2,723**	2,754
Combined shares held in treasury	28	**(663)**	(677)
Translation reserve		**88**	29
Other combined reserves	29	**(199)**	(387)
Combined shareholders' equity		**2,172**	1,943
Non-controlling interests		**25**	27
Total equity		**2,197**	1,970

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 1 January 2011		**224**	**2,754**	**(677)**	**29**	**(387)**	**1,943**	**27**	**1,970**
Total comprehensive income for the year		**–**	**–**	**–**	**32**	**701**	**733**	**7**	**740**
Dividends paid	13	**–**	**–**	**–**	**–**	**(497)**	**(497)**	**(9)**	**(506)**
Issue of ordinary shares, net of expenses		**–**	**9**	**–**	**–**	**–**	**9**	**–**	**9**
Increase in share based remuneration reserve		**–**	**–**	**–**	**–**	**27**	**27**	**–**	**27**
Acquisitions		**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**(43)**	**(43)**	**(5)**	**(48)**
Settlement of share awards		**–**	**–**	**7**	**–**	**(7)**	**–**	**–**	**–**
Exchange differences on translation of capital and reserves		**(1)**	**(40)**	**7**	**27**	**7**	**–**	**–**	**–**
Balance at 31 December 2011		**223**	**2,723**	**(663)**	**88**	**(199)**	**2,172**	**25**	**2,197**

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 pages 60 and 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 137 to 184. A list of principal businesses is set out on page 194.

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 of acquired intangible assets, 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 include 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 123 to 136.

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

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

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

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

Revenues are recognised for the various categories of turnover as follows: subscriptions – on periodic despatch of subscribed product or rateably over the period of the subscription where performance is not measurable by despatch; circulation and transactional – on despatch or occurrence of the transaction; advertising – on publication or over the period of online display; and exhibitions – on occurrence of the exhibition.

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

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 date of the statement of financial position.

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 have been substantively enacted at the date of the statement of financial position. Full provision is made for deferred tax which would become payable on the distribution of retained profits from foreign subsidiaries, associates or joint ventures.

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

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

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

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

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

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trademarks, imprints, brands); customer related assets (e.g. subscription bases, customer lists, customer relationships); editorial content; software and systems (e.g. application infrastructure, product delivery platforms, in-process research and development); contract based assets (e.g. publishing rights, exhibition rights, supply contracts); and other intangible assets. Internally generated intangible assets typically comprise software and systems development where an identifiable asset is created that is probable to generate future economic benefits.

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

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.

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, the obligation is reasonably estimable and it is probable that settlement will be required. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the statement of financial position date.

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

Critical judgements and key sources of estimation uncertainty
The most significant accounting policies in determining the financial condition and results of the Reed Elsevier combined businesses, and those requiring the most subjective or complex judgement, relate to the valuation of goodwill and intangible assets, share based remuneration, pensions, 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 11.5% for Elsevier, 12.0% for LexisNexis Risk Solutions, 12.0% for LexisNexis Legal & Professional, 12.0-12.5% for Reed Exhibitions and 11.5-13.0% for Reed Business Information. The nominal long term growth rates, which are based on historical 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 2011 (2010: nil).

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 no impairment charges would result under any of the sensitivity scenarios. 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 29%, of expected share option life of four years, and of expected lapse rate of 2-5% 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 £27m in 2011 (2010: £11m). 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.

The principal assumptions as at 31 December 2011, expressed as a weighted average of the various defined benefit pension schemes, were a discount rate of 5.2% (2010: 5.6%; 2009: 5.8%), an expected return on scheme assets of 6.2% (2010: 6.8%; 2009: 7.0%), an expected rate of salary increases of 3.5% (2010: 4.1%; 2009: 4.0%) and inflation of 2.9% (2010: 3.2%; 2009: 3.1%). Future pension increases are assumed at 2.9% (2010: 3.2%; 2009: 3.1%) and average life expectancy of 87-90 years (2010: 87-89 years) for scheme members currently aged 45 and 60 years. The net defined benefit pension expense was £23m (2010: £22m). Excluding the net pension financing credit, the service cost was £57m (2010: £48m) after pension curtailment credits of £9m (2010: £17m) 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 £34m (2010: £26m) 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 probable 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 amounts are provided 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 £16m (2010: £36m) relating to surplus property arising on the restructuring, sale and closure of RBI businesses and includes expected losses on sub leases entered into during 2011 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
The interpretations and amendments to IFRS effective for 2011 have not had a significant impact on Reed Elsevier's accounting policies or reporting.

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.

IAS19 – Employee Benefits (Revised) (effective for the 2013 financial year). The revised standard *inter alia* changes the methodology to be used in the calculation of the net pension financing credit or charge in relation to defined benefit pension schemes. Under the revised standard, pension asset returns included within the net pension financing credit or charge are to be calculated by reference to the discount rate of a high quality corporate bond (being also the discount rate applied in the calculation of pension obligations) and no longer based on the expected returns on scheme assets. Typically the effect will be to reduce the asset returns recognised in the income statement. Comparative figures will be restated. The revised standard also prohibits the use of certain accounting alternatives, previously permitted, that enabled the smoothing of volatility in the income statement and balance sheet in relation to pensions. This will not affect Reed Elsevier's pension accounting as such alternatives were not applied. There is no change to the measurement of pension scheme assets and obligations under the revised standard for Reed Elsevier.

IFRS9 – Financial Instruments (effective for the 2015 financial year). 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 the 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.

IFRS10 – Consolidated Financial Statements (effective for the 2013 financial year). The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS10 replaces IAS27 – Separate Financial Statements. Adoption of the standard is not expected to significantly impact the measurement, presentation or disclosure of the consolidation of entities in the combined financial statements.

IFRS11 – Joint Arrangements (effective for the 2013 financial year). This standard classifies joint arrangements as either joint ventures or a joint operation and removes the option to proportionately consolidate joint ventures. IFRS11 replaces IAS28 – Investments in Associates and Joint Ventures. Adoption of the standard is not expected to significantly impact the measurement, presentation or disclosure of the joint ventures in the combined financial statements.

IFRS12 – Disclosure of Interests in Other Entities (effective for the 2013 financial year). The standard combines the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities into one standard. Adoption of the standard may result in additional disclosures in the combined financial statements but is not expected to have a significant impact on Reed Elsevier's reporting.

IFRS13 – Fair Value Measurement (effective for the 2013 financial year). The standard consolidates the guidance and disclosure requirements of fair value measurement contained throughout IFRS and also requires new disclosures related to valuation techniques and inputs into fair value measurements. Adoption of the standard is not expected to significantly impact the measurement, presentation or disclosure of financial assets and liabilities in the combined financial statements.

IAS1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS1 (effective for the 2012 financial year). The standard amends the grouping of items presented in the statement of comprehensive income into items that may be reclassified (or recycled) to the profit or loss in a future period and items that will never be reclassified. Adoption of the standard will lead to some re-presentation of the items in the statement of comprehensive income 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 2011

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 world leading provider of professional information solutions organised in 2011 as five business segments: Elsevier, providing scientific, technical and medical information solutions; LexisNexis Risk Solutions, providing risk information and analytics to business and government customers; LexisNexis Legal & Professional, providing legal, tax, regulatory and business information solutions to professionals, business and government customers; Reed Exhibitions, organising trade exhibitions and conferences; and Reed Business Information, providing information and marketing solutions to business professionals.

With effect from 1 January 2011 LexisNexis was reorganised as two separate businesses, LexisNexis Risk Solutions and LexisNexis Legal & Professional, which are accordingly now presented separately. Comparative figures have been restated on a proforma basis as if the businesses had operated separately in the prior year.

Adjusted operating profit is one of the key financial measures used by management to evaluate performance and allocate resources. It is stated before amortisation of acquired intangible assets, exceptional restructuring (none in 2011), the share of profit on disposals in joint ventures, acquisition related costs, and is grossed up to exclude the equity share of taxes in joint ventures. Adjusted operating profit is reconciled to operating profit in note 10.

ANALYSIS BY BUSINESS SEGMENT	Revenue		Operating profit		Adjusted operating profit	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Elsevier	**2,058**	2,026	**695**	647	**768**	724
LexisNexis Risk Solutions	**908**	927	**181**	165	**362**	354
LexisNexis Legal & Professional	**1,634**	1,691	**144**	159	**229**	238
Reed Exhibitions	**707**	693	**132**	127	**167**	158
Reed Business Information	**695**	718	**68**	–	**110**	89
Sub-total	**6,002**	6,055	**1,220**	1,098	**1,636**	1,563
Corporate costs	**–**	–	**(49)**	(34)	**(44)**	(34)
Unallocated net pension financing credit	**–**	–	**34**	26	**34**	26
Total	**6,002**	6,055	**1,205**	1,090	**1,626**	1,555

Revenue is analysed before the £128m (2010: £116m) share of joint ventures' revenue, of which £23m (2010: £24m) relates to LexisNexis Legal & Professional, principally to Giuffrè, £103m (2010: £89m) relates to Reed Exhibitions and £2m (2010: £3m) relates to Reed Business Information.

Share of post-tax results of joint ventures of £30m (2010: £22m) included in operating profit comprises £4m (2010: £4m) relating to LexisNexis Legal & Professional, £25m (2010: £17m) relating to Reed Exhibitions and £1m (2010: £1m) relating to Reed Business Information. The unallocated net pension credit of £34m (2010: £26m) comprises the expected return on pension scheme assets of £235m (2010: £217m) less interest on pension scheme liabilities of £201m (2010: £191m).

ANALYSIS OF REVENUE BY GEOGRAPHICAL ORIGIN	**2011 £m**	2010 £m
North America	**3,103**	3,213
United Kingdom	**947**	907
The Netherlands	**616**	620
Rest of Europe	**783**	825
Rest of world	**553**	490
Total	**6,002**	6,055

1 Segment analysis continued

ANALYSIS OF REVENUE BY GEOGRAPHICAL MARKET	2011 £m	2010 £m
North America	**3,219**	3,303
United Kingdom	**485**	490
The Netherlands	**189**	204
Rest of Europe	**1,095**	1,131
Rest of world	**1,014**	927
Total	**6,002**	6,055

ANALYSIS OF REVENUE BY TYPE	2011 £m	2010 £m
Subscriptions	**2,819**	2,709
Circulation/transactions	**1,649**	1,760
Advertising	**437**	491
Exhibitions	**700**	675
Other	**397**	420
Total	**6,002**	6,055

ANALYSIS BY BUSINESS SEGMENT	Expenditure on acquired goodwill and intangible assets		Capital expenditure additions		Amortisation of acquired intangible assets		Depreciation and other amortisation	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Elsevier	**43**	13	**94**	81	**72**	75	**69**	74
LexisNexis Risk Solutions	**–**	–	**23**	31	**156**	149	**26**	29
LexisNexis Legal & Professional	**–**	34	**203**	179	**78**	72	**87**	94
Reed Exhibitions	**36**	6	**22**	12	**24**	23	**10**	14
Reed Business Information	**532**	1	**18**	12	**29**	30	**15**	26
Total	**611**	54	**360**	315	**359**	349	**207**	237

Capital expenditure comprises additions to property, plant and equipment and internally developed intangible assets. Amortisation of acquired intangible assets includes amounts in respect of joint ventures of £4m (2010: £4m) in Reed Exhibitions. Other than the depreciation and amortisation above, non cash items include a £27m charge (2010: £7m credit) relating to the recognition of share based remuneration, comprising £5m (2010: £2m credit) in Elsevier, £3m (2010: £2m) in LexisNexis Risk Solutions, £6m (2010: £1m credit) in LexisNexis Legal & Professional; £3m (2010: £1m credit) in Reed Exhibitions, £2m (2010: £3m credit) in Reed Business Information and £8m (2010: £2m credit) in Corporate.

ANALYSIS OF NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION	2011 £m	2010 £m
North America	**6,984**	6,716
United Kingdom	**517**	456
The Netherlands	**123**	140
Rest of Europe	**783**	851
Rest of world	**292**	210
Total	**8,699**	8,373

Non-current assets by geographical location exclude amounts relating to deferred tax and net pension assets.

Notes to the combined financial statements

for the year ended 31 December 2011

2 Operating profit

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

	Note	2011 £m	2010 £m
Staff costs			
Wages and salaries		**1,535**	1,594
Social security costs		**173**	179
Pensions	5	**62**	54
Share based and related remuneration		**27**	11
Total staff costs		**1,797**	1,838
Depreciation and amortisation			
Amortisation of acquired intangible assets	15	**355**	345
Share of joint ventures' amortisation of acquired intangible assets		**4**	4
Amortisation of internally developed intangible assets	15	**132**	158
Depreciation of property, plant and equipment	17	**75**	79
Total depreciation and amortisation		**566**	586
Other expenses and income			
Pre-publication costs, inventory expenses and other cost of sales		**2,126**	2,209
Operating lease rentals expense		**116**	123
Operating lease rentals income		**(11)**	(11)

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

3 Auditors' remuneration

	2011 £m	2010 £m
Auditors' remuneration		
For audit services	**4.7**	4.5
For non audit services	**1.1**	1.2
Total auditors' remuneration	**5.8**	5.7

Auditors' remuneration for audit services comprises £0.5m (2010: £0.4m) payable to the auditors of the parent companies and £4.2m (2010: £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: £0.7m (2010: £0.9m) for taxation services, £0.2m (2010: £0.3m) for other audit related services and £0.2m (2010: nil) for due diligence and other transaction related services. Reed Elsevier's policy on auditor independence is set out on pages 81 and 82.

4 Personnel

NUMBER OF PEOPLE EMPLOYED	At 31 December		Average during the year	
	2011	2010	**2011**	2010
Business segment				
Elsevier	**6,900**	6,700	**6,900**	6,800
LexisNexis Risk Solutions	**4,000**	4,400	**4,300**	4,500
LexisNexis Legal & Professional	**10,300**	10,300	**10,400**	10,400
Reed Exhibitions	**2,800**	2,600	**2,700**	2,600
Reed Business Information	**5,600**	5,300	**5,400**	5,800
Sub-total	**29,600**	29,300	**29,700**	30,100
Corporate/shared functions	**900**	900	**900**	900
Total	**30,500**	30,200	**30,600**	31,000
Geographical location				
North America	**16,000**	16,500	**16,300**	16,900
United Kingdom	**4,600**	4,600	**4,600**	4,700
The Netherlands	**1,600**	1,700	**1,600**	1,800
Rest of Europe	**3,700**	3,800	**3,800**	4,000
Rest of world	**4,600**	3,600	**4,300**	3,600
Total	**30,500**	30,200	**30,600**	31,000

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		
	2011	2010	2009
Discount rate	**5.2%**	5.6%	5.8%
Expected rate of return on scheme assets	**6.2%**	6.8%	7.0%
Expected rate of salary increases	**3.5%**	4.1%	4.0%
Inflation	**2.9%**	3.2%	3.1%
Future pension increases	**2.9%**	3.2%	3.1%

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)	2011		2010	
	Male (years)	**Female (years)**	Male (years)	Female (years)
Member currently aged 60	**88**	**87**	88	87
Member currently aged 45	**89**	**88**	89	88

Notes to the combined financial statements

for the year ended 31 December 2011

5 Pension schemes continued

The pension expense recognised within the income statement comprises:

	2011 £m	2010 £m
Service cost (including curtailment credits of £9m (2010: £17m))	**57**	48
Interest on pension scheme liabilities	**201**	191
Expected return on scheme assets	**(235)**	(217)
Net defined benefit pension expense	**23**	22
Defined contribution pension expense	**39**	32
Total pension expense	**62**	54

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:

	2011			2010		
	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	**(3,677)**	**3,507**	**(170)**	(3,302)	3,067	(235)
Service cost	**(57)**	**–**	**(57)**	(48)	–	(48)
Interest on pension scheme liabilities	**(201)**	**–**	**(201)**	(191)	–	(191)
Expected return on scheme assets	**–**	**235**	**235**	–	217	217
Actuarial (loss)/gain	**(78)**	**(35)**	**(113)**	(261)	198	(63)
Contributions by employer	**–**	**66**	**66**	–	154	154
Contributions by employees	**(11)**	**11**	**–**	(11)	11	–
Benefits paid	**141**	**(141)**	**–**	139	(139)	–
Exchange translation differences	**7**	**(9)**	**(2)**	(3)	(1)	(4)
At end of year	**(3,876)**	**3,634**	**(242)**	(3,677)	3,507	(170)

The net pension obligations of £242m (2010: £170m) at 31 December 2011 comprise schemes in deficit with net pension obligations of £242m (2010: £225m) and schemes in surplus with net pension assets of nil (2010: £55m).

As at 31 December 2011 the defined benefit obligations comprise £3,721m (2010: £3,531m) in relation to funded schemes and £155m (2010: £146m) in relation to unfunded schemes. The weighted average duration of defined benefit scheme liabilities is 19 years (2010: 19 years). Deferred tax liabilities of nil (2010: £15m) and deferred tax assets of £86m (2010: £78m) 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:

	2011			2010		
	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%**	**1,699**	**47%**	8.7%	1,963	56%
Bonds	**3.7%**	**1,722**	**47%**	4.4%	1,318	38%
Other	**4.3%**	**213**	**6%**	5.1%	226	6%
Total	**6.2%**	**3,634**	**100%**	6.8%	3,507	100%

The actual return on scheme assets for the year ended 31 December 2011 was a £200m gain (2010: £415m gain).

5 Pension schemes continued

A summary of pension balances in respect of funded and unfunded schemes for the five years ended 31 December 2011 is set out below:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	**3,634**	3,507	3,067	2,682	3,018
Defined benefit obligations	**(3,876)**	(3,677)	(3,302)	(3,051)	(2,968)
Net pension (obligations)/surplus	**(242)**	(170)	(235)	(369)	50

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:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Gains and losses arising during the year:					
Experience (losses)/gains on scheme liabilities	**(27)**	(43)	18	(9)	(28)
Experience (losses)/gains on scheme assets	**(35)**	198	301	(765)	34
Actuarial (losses)/gains arising on the present value of scheme liabilities due to changes in:					
– discount rates	**(238)**	(162)	(249)	202	367
– inflation	**182**	(50)	(124)	198	(152)
– life expectancy and other actuarial assumptions	**5**	(6)	60	27	3
	(113)	(63)	6	(347)	224
Net cumulative (losses)/gains at start of year	**(152)**	(89)	(95)	252	28
Net cumulative (losses)/gains at end of year	**(265)**	(152)	(89)	(95)	252

Regular contributions to defined benefit pension schemes in respect of 2012 are expected to be approximately £60m.

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	3
Decrease/increase in defined benefit pension obligations	168
Increase/decrease of one year in assumed life expectancy:	
Increase/decrease in annual net pension expense	5
Increase/decrease in defined benefit pension obligations	94
Increase/decrease of 0.25% in the expected inflation rate:	
Increase/decrease in annual net pension expense	7
Increase/decrease in defined benefit pension obligations	144

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 £7m and would decrease/increase the amount of the net pension obligations by £85m.

Notes to the combined financial statements
for the year ended 31 December 2011

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 upon retirement or 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 and 2011 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 targeted percentage return on invested capital of Reed Elsevier PLC and Reed Elsevier NV. LTIP grants in 2010 and 2011 and REGP grants are also variable subject to the achievement of a total shareholder return performance target.

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 63 to 79.

2011 GRANTS	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	Number of shares '000	Weighted average fair value per award £	Number of shares '000	Weighted average fair value per award £
Share options				
– ESOS	**2,053**	**0.98**	**1,372**	**1.41**
– Other	**633**	**1.03**	**381**	**0.97**
Total share options	**2,686**	**0.99**	**1,753**	**1.32**
Conditional shares				
– ESOS	**755**	**4.85**	**504**	**6.91**
– LTIP	**1,822**	**4.56**	**1,217**	**6.65**
– RSP	**322**	**4.73**	**5**	**7.15**
– BIP	**1,339**	**5.43**	**607**	**8.00**
Total conditional shares	**4,238**	**4.90**	**2,333**	**7.06**

2010 GRANTS	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	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

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		In respect of Reed Elsevier NV ordinary shares	
	2011	2010	**2011**	2010
Weighted average share price at date of grant				
– ESOS	**£5.39**	£4.69	**€8.97**	€8.36
– LTIP	**£5.31**	£4.67	**€8.89**	€8.31
– REGP		£4.67		€8.31
– RSP	**£5.26**	£4.67	**€9.27**	€8.33
– BIP	**£5.43**	£4.64	**€9.21**	€8.11
– Other	**£5.13**	£5.22	**€9.03**	€8.86
Expected share price volatility	**29%**	26%	**29%**	26%
Expected option life	**4 years**	4 years	**4 years**	4 years
Expected dividend yield	**3.6%**	3.5%	**4.1%**	3.9%
Risk free interest rate	**1.9%**	1.8%	**2.5%**	1.2%
Expected lapse rate	**2-5%**	3-5%	**2-4%**	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 2011, in respect of both Reed Elsevier PLC and Reed Elsevier NV ordinary shares, are set out below.

SHARE OPTIONS	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	Number of shares '000	Weighted average exercise price (pence)	Number of shares '000	Weighted average exercise price (€)
Outstanding at 1 January 2010	35,685	547	25,917	11.74
Granted	3,050	455	1,829	8.45
Exercised	(2,008)	470	(184)	8.63
Forfeited	(1,355)	496	(1,008)	8.75
Expired	(1,661)	554	(1,721)	6.71
Outstanding at 1 January 2011	**33,711**	**544**	**24,833**	**11.45**
Granted	**2,686**	**509**	**1,753**	**8.99**
Exercised	**(1,626)**	**493**	**(201)**	**8.84**
Forfeited	**(2,001)**	**479**	**(1,941)**	**10.94**
Expired	**(3,230)**	**640**	**(2,803)**	**8.68**
Outstanding at 31 December 2011	**29,540**	**534**	**21,641**	**10.99**
Exercisable at 31 December 2010	22,048	552	18,735	11.88
Exercisable at 31 December 2011	**20,061**	**552**	**16,876**	**11.56**

Notes to the combined financial statements

for the year ended 31 December 2011

6 Share based remuneration continued

CONDITIONAL SHARES	In respect of Reed Elsevier PLC ordinary shares	In respect of Reed Elsevier NV ordinary shares
	Number of shares '000s	Number of shares '000s
Outstanding at 1 January 2010	8,148	4,921
Granted	5,416	3,250
Vested	(678)	(425)
Forfeited	(849)	(453)
Outstanding at 1 January 2011	**12,037**	**7,293**
Granted	**4,238**	**2,332**
Vested	**(580)**	**(383)**
Forfeited	**(1,799)**	**(975)**
Outstanding at 31 December 2011	**13,896**	**8,267**

The weighted average share price at the date of exercise of share options and vesting of conditional shares during 2011 was 554p (2010: 522p) for Reed Elsevier PLC ordinary shares and €9.71 (2010: €8.82) for Reed Elsevier NV ordinary shares.

RANGE OF EXERCISE PRICES FOR OUTSTANDING SHARE OPTIONS	2011		2010	
	Number of shares under option '000	Weighted average remaining period until expiry (years)	Number of shares under option '000	Weighted average remaining period until expiry (years)
Reed Elsevier PLC ordinary shares (pence)				
401-450	**2,148**	**2.9**	2,017	3.3
451-500	**7,793**	**3.6**	8,919	4.5
501-550	**11,662**	**5.5**	11,299	5.6
551-600	**2,726**	**0.8**	3,153	1.6
601-650	**5,176**	**5.7**	6,053	6.6
651-700	**35**	**0.3**	2,270	0.2
Total	**29,540**	**4.4**	33,711	4.6
Reed Elsevier NV ordinary shares (euro)				
7.01-8.00	**120**	**7.2**	137	8.2
8.01-9.00	**3,233**	**8.6**	2,062	9.0
9.01-10.00	**3,686**	**5.3**	3,915	6.0
10.01-11.00	**3,921**	**2.3**	4,385	3.3
11.01-12.00	**4,865**	**3.5**	5,670	4.4
12.01-13.00	**2,339**	**6.0**	2,653	6.8
13.01-14.00	**2,025**	**0.5**	2,502	1.4
14.01-15.00	**1,426**	**5.1**	3,414	3.2
15.01-16.00	**26**	**0.3**	95	0.8
Total	**21,641**	**4.5**	24,833	3.9

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

7 Net finance costs

	2011 £m	2010 £m
Interest on short term bank loans, overdrafts and commercial paper	**(28)**	(33)
Interest on other loans	**(212)**	(236)
Interest on obligations under finance leases	**(1)**	(1)
Total borrowing costs	**(241)**	(270)
Losses on loans and derivatives not designated as hedges	**(11)**	(14)
Finance costs	**(252)**	(284)
Interest on bank deposits	**12**	7
Gains on loans and derivatives not designated as hedges	**5**	1
Finance income	**17**	8
Net finance costs	**(235)**	(276)

Finance costs include £15m (2010: £26m) transferred from the hedge reserve. A net loss of £3m (2010: £15m) 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

	2011 £m	2010 £m
Revaluation of held for trading investments	**6**	8
Loss on disposal of businesses	**(28)**	(54)
Net loss on disposals and other non operating items	**(22)**	(46)

9 Taxation

	2011 £m	2010 £m
Current tax		
United Kingdom	**64**	44
The Netherlands	**87**	58
Rest of world	**107**	64
Total current tax charge	**258**	166
Deferred tax	**(77)**	(46)
Total taxation charge	**181**	120

The current tax charge includes a tax credit of nil (2010: £7m) in respect of prior year disposals.

Notes to the combined financial statements

for the year ended 31 December 2011

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.

	2011 £m	2010 £m
Profit before tax	**948**	768
Tax at average applicable rates	**180**	118
Tax on share of results of joint ventures	**(9)**	(7)
Prior year credits on disposals	**–**	(7)
Non deductible loss on disposals	**4**	10
Net tax on share based remuneration	**3**	2
Non deductible amounts and other items	**3**	4
Tax expense	**181**	120
Tax expense as a percentage of profit before tax	**19%**	16%

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

	2011 £m	2010 £m
Tax on actuarial movements on defined benefit pension schemes	**36**	16
Tax on fair value movements on cash flow hedges	**5**	12
Deferred tax credit on share based remuneration	**1**	1
Net tax credit recognised directly in equity	**42**	29

10 Adjusted figures

Reed Elsevier uses adjusted figures as additional performance measures. Adjusted figures are stated before amortisation of acquired intangible assets, exceptional restructuring (none in 2011) 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 include 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 related to the restructuring of the Reed Business Information business. Acquisition related costs relate to acquisition integration, 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:

	2011 £m	2010 £m
Operating profit	**1,205**	1,090
Adjustments:		
Amortisation of acquired intangible assets	**359**	349
Exceptional restructuring costs	**–**	57
Acquisition related costs	**52**	50
Share of profit on disposals in joint ventures	**(1)**	–
Reclassification of tax in joint ventures	**11**	9
Adjusted operating profit	**1,626**	1,555
Profit before tax	**948**	768
Adjustments:		
Amortisation of acquired intangible assets	**359**	349
Exceptional restructuring costs	**–**	57
Acquisition related costs	**52**	50
Reclassification of tax in joint ventures	**11**	9
Disposals and other non operating items	**21**	46
Adjusted profit before tax	**1,391**	1,279

10 Adjusted figures continued

	2011 £m	2010 £m
Profit attributable to parent companies' shareholders	**760**	642
Adjustments (post tax):		
Amortisation of acquired intangible assets	**355**	337
Exceptional restructuring costs	**–**	37
Acquisition related costs	**33**	30
Disposals and other non operating items	**16**	37
Deferred tax credits on acquired intangible assets not expected to crystallise in the near term	**(104)**	(100)
Adjusted profit attributable to parent companies' shareholders	**1,060**	983

	2011 £m	2010 £m
Cash generated from operations	**1,735**	1,649
Dividends received from joint ventures	**33**	24
Purchases of property, plant and equipment	**(85)**	(83)
Proceeds from disposals of property, plant and equipment	**7**	7
Expenditure on internally developed intangible assets	**(265)**	(228)
Payments in relation to exceptional restructuring costs	**52**	99
Payments in relation to acquisition related costs	**38**	51
Adjusted operating cash flow	**1,515**	1,519

11 Statement of cash flows

RECONCILIATION OF OPERATING PROFIT BEFORE JOINT VENTURES TO CASH GENERATED FROM OPERATIONS	2011 £m	2010 £m
Operating profit before joint ventures	**1,175**	1,068
Amortisation of acquired intangible assets	**355**	345
Amortisation of internally developed intangible assets	**132**	158
Depreciation of property, plant and equipment	**75**	79
Share based remuneration	**27**	(7)
Total non cash items	**589**	575
Decrease in inventories and pre-publication costs	**32**	35
(Increase)/decrease in receivables	**(37)**	24
Decrease in payables	**(24)**	(53)
(Increase)/decrease in working capital	**(29)**	6
Cash generated from operations	**1,735**	1,649

CASH FLOW ON ACQUISITIONS	Note	2011 £m	2010 £m
Purchase of businesses	12	**(455)**	(38)
Investment in joint ventures		**(1)**	–
Deferred payments relating to prior year acquisitions		**(25)**	(12)
Total		**(481)**	(50)

Notes to the combined financial statements

for the year ended 31 December 2011

11 Statement of cash flows continued

RECONCILIATION OF NET BORROWINGS

	Cash & cash equivalents £m	Borrowings £m	Related derivative financial instruments £m	2011 £m	2010 £m
At start of year	**742**	**(4,302)**	**105**	**(3,455)**	(3,931)
Decrease in cash and cash equivalents	**(44)**	**–**	**–**	**(44)**	–
Net movement in short term bank loans, overdrafts and commercial paper	**–**	**(210)**	**–**	**(210)**	143
Repayment of other loans	**–**	**248**	**–**	**248**	394
Repayment of finance leases	**–**	**22**	**–**	**22**	7
Change in net borrowings resulting from cash flows	**(44)**	**60**	**–**	**16**	544
Borrowings in acquired businesses	**–**	**(18)**	**–**	**(18)**	–
Inception of finance leases	**–**	**(8)**	**–**	**(8)**	(2)
Fair value adjustments to borrowings and related derivatives	**–**	**(9)**	**17**	**8**	11
Exchange translation differences	**28**	**(5)**	**1**	**24**	(77)
At end of year	**726**	**(4,282)**	**123**	**(3,433)**	(3,455)

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 (2010: £4m) 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 acquisitions were made for a total consideration of £492m (2010: £43m), after taking account of net cash acquired of £24m, the most significant of which was the acquisition of Accuity Inc. for £331m, net of cash acquired, which completed on 1 November 2011. 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 2011 £m	Fair value 2010 £m
Goodwill	**300**	27
Intangible assets	**311**	27
Property, plant & equipment	**1**	–
Current assets	**23**	–
Current liabilities	**(46)**	(2)
Borrowings	**(18)**	–
Current tax	**(1)**	–
Deferred tax	**(78)**	(9)
Net assets acquired	**492**	43
Consideration (after taking account of £24m net cash acquired)	**492**	43
Less: consideration deferred to future years	**(27)**	(5)
Less: acquisition date fair value of equity interest	**(10)**	–
Net cash flow	**455**	38

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 2012 combined financial statements. There were no significant adjustments to the provisional fair values of prior year acquisitions established in 2010.

The businesses acquired in 2011 contributed £34m to revenue, increased adjusted operating profit by £8m, increased adjusted profit attributable by £8m, decreased profit attributable by £10m, and contributed £7m to net cash inflow from operating activities for the part year under Reed Elsevier ownership and before taking account of acquisition financing costs. Had the businesses been acquired at the beginning of the year, on a pro forma basis the Reed Elsevier revenues, adjusted operating profit, adjusted profit attributable and profit attributable for the year would have been £6,065m, £1,643m, £1,071m and £771m respectively before taking account of acquisition financing costs.

13 Equity dividends

ORDINARY DIVIDENDS DECLARED IN THE YEAR	2011 £m	2010 £m
Reed Elsevier PLC	**248**	245
Reed Elsevier NV	**251**	240
Total	**499**	485

Ordinary dividends declared in the year, in amounts per ordinary share, comprise: a 2010 final dividend of 15.0p and a 2011 interim dividend of 5.65p giving a total of 20.65p (2010: 20.4p) for Reed Elsevier PLC; and a 2010 final dividend of €0.303 and a 2011 interim dividend of €0.110 giving a total of €0.413 (2010: €0.402) for Reed Elsevier NV.

The directors of Reed Elsevier PLC have proposed a final dividend of 15.9p (2010: 15.0p). The directors of Reed Elsevier NV have proposed a final dividend of €0.326 (2010: €0.303). The total cost of funding the proposed final dividends is expected to be £390m, for which no liability has been recognised at the statement of financial position date.

ORDINARY DIVIDENDS PAID AND PROPOSED RELATING TO THE FINANCIAL YEAR	2011 £m	2010 £m
Reed Elsevier PLC	**259**	245
Reed Elsevier NV	**265**	246
Total	**524**	491

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

	2011 £m	2010 £m
At start of year	**4,441**	4,339
Acquisitions	**300**	27
Disposals/reclassified as held for sale	**(26)**	(38)
Exchange translation differences	**14**	113
At end of year	**4,729**	4,441

The carrying amount of goodwill is after cumulative amortisation of £1,332m (2010: £1,407m) which was charged prior to the adoption of IFRS and £49m (2010: £58m) of subsequent impairment charges.

Notes to the combined financial statements

for the year ended 31 December 2011

14 Goodwill continued

Impairment review

Impairment testing of goodwill and indefinite lived intangible assets is performed at least annually based on cash generating units (CGUs). A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Goodwill impairment testing is performed on the basis of 24 CGUs. 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	2011 £m	2010 £m
Elsevier	**991**	994
LexisNexis Risk Solutions	**1,733**	1,720
LexisNexis Legal & Professional US	**1,070**	1,064
LexisNexis Legal & Professional International	**113**	115
LexisNexis Legal & Professional	**1,183**	1,179
Reed Exhibitions Continental Europe	**289**	293
Reed Exhibitions other	**76**	66
Reed Exhibitions	**365**	359
Reed Business Information US	**52**	63
Reed Business Information UK	**352**	71
Reed Business Information NL	**23**	24
Reed Business Information International	**30**	31
Reed Business Information	**457**	189
Total	**4,729**	4,441

Reed Elsevier's goodwill impairment testing methodology, assumptions and sensitivity analysis are disclosed within critical judgements and key sources of estimation uncertainty on pages 91 to 93.

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 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 1 January 2011	**2,631**	**3,351**	**5,982**	**1,204**	**7,186**
Acquisitions	**196**	**115**	**311**	**–**	**311**
Additions	**–**	**–**	**–**	**270**	**270**
Disposals/reclassified as held for sale	**(38)**	**(189)**	**(227)**	**(51)**	**(278)**
Exchange translation differences	**13**	**(14)**	**(1)**	**(1)**	**(2)**
At 31 December 2011	**2,802**	**3,263**	**6,065**	**1,422**	**7,487**
Amortisation					
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 1 January 2011	**610**	**2,384**	**2,994**	**735**	**3,729**
Charge for the year	**160**	**195**	**355**	**132**	**487**
Disposals/reclassified as held for sale	**(30)**	**(149)**	**(179)**	**(36)**	**(215)**
Exchange translation differences	**4**	**(8)**	**(4)**	**(4)**	**(8)**
At 31 December 2011	**744**	**2,422**	**3,166**	**827**	**3,993**
Net book amount					
At 31 December 2010	2,021	967	2,988	469	3,457
At 31 December 2011	**2,058**	**841**	**2,899**	**595**	**3,494**

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trademarks, imprints, brands); customer related assets (e.g. subscription bases, customer lists, customer relationships); and content, software and other intangible assets (e.g. editorial content, software and product delivery systems, other publishing rights, exhibition rights and supply contracts). Included in content, software and other acquired intangible assets are assets with a net book value of £531m (2010: £619m) 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 £370m (2010: £368m) 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 critical judgements and key sources of estimation uncertainty on pages 91 to 93.

Notes to the combined financial statements

for the year ended 31 December 2011

16 Investments

	2011 £m	2010 £m
Investments in joint ventures	**124**	136
Available for sale investments	**8**	10
Venture capital investments held for trading	**56**	38
Total	**188**	184

The value of venture capital investments held for trading, determined by reference to quoted market prices, amounted to £17m (2010: £12m). 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.

	2011 £m	2010 £m
At start of year	**136**	135
Share of results of joint ventures	**30**	22
Dividends received from joint ventures	**(33)**	(24)
Disposals	**(6)**	(1)
Additions	**1**	–
Exchange translation differences	**(4)**	4
At end of year	**124**	136

The principal joint ventures at 31 December 2011 are exhibition joint ventures within Reed Exhibitions and Giuffrè (an Italian legal publisher in which Reed Elsevier has a 40% shareholding) within LexisNexis Legal & Professional.

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

	Total joint ventures		Reed Elsevier share	
	2011 £m	2010 £m	2011 £m	2010 £m
Revenue	**254**	235	**128**	116
Net profit for the year	**62**	46	**30**	22
Total assets	**255**	264	**122**	122
Total liabilities	**(137)**	(132)	**(66)**	(62)
Net assets	**118**	132	**56**	60
Goodwill			**68**	76
Total			**124**	136

17 Property, plant and equipment

	2011			2010		
	Land and buildings	**Fixtures and equipment**	**Total £m**	Land and buildings	Fixtures and equipment	Total £m
Cost						
At start of year	**246**	**578**	**824**	238	626	864
Acquisitions	**–**	**1**	**1**	–	–	–
Capital expenditure	**8**	**82**	**90**	7	78	85
Disposals/reclassified as held for sale	**(16)**	**(78)**	**(94)**	(5)	(141)	(146)
Exchange translation differences	**–**	**(1)**	**(1)**	6	15	21
At end of year	**238**	**582**	**820**	246	578	824
Accumulated depreciation						
At start of year	**115**	**418**	**533**	106	466	572
Disposals/reclassified as held for sale	**(6)**	**(69)**	**(75)**	(5)	(127)	(132)
Charge for the year	**9**	**66**	**75**	12	67	79
Exchange translation differences	**–**	**(1)**	**(1)**	2	12	14
At end of year	**118**	**414**	**532**	115	418	533
Net book amount	**120**	**168**	**288**	131	160	291

No depreciation is provided on freehold land of £46m (2010: £48m). The net book amount of property, plant and equipment at 31 December 2011 includes £4m (2010: £2m) in respect of assets held under finance leases relating to fixtures and equipment.

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 46 and 47 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 2011	**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	**(3,568)**	**(553)**	**(814)**	**(863)**	**(248)**	**(524)**	**(1,694)**	**(4,696)**
Floating rate borrowings	**(714)**	**(646)**	**(2)**	**(2)**	**(65)**	**(1)**	**(5)**	**(721)**
Derivative financial liabilities								
Interest rate derivatives	**(10)**	**(9)**	**(3)**	**–**	**–**	**–**	**–**	**(12)**
Cross currency interest rate swaps	**–**	**(6)**	**(173)**	**(189)**	**–**	**–**	**–**	**(368)**
Forward foreign exchange contracts	**(59)**	**(1,019)**	**(421)**	**(256)**	**–**	**–**	**–**	**(1,696)**
Derivative financial assets								
Interest rate derivatives	**39**	**13**	**27**	**6**	**5**	**5**	**3**	**59**
Cross currency interest rate swaps	**99**	**14**	**208**	**248**	**–**	**–**	**–**	**470**
Forward foreign exchange contracts	**11**	**987**	**414**	**252**	**–**	**–**	**–**	**1,653**
Total	**(4,202)**	**(1,219)**	**(764)**	**(804)**	**(308)**	**(520)**	**(1,696)**	**(5,311)**

Notes to the combined financial statements

for the year ended 31 December 2011

18 Financial instruments continued

		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)

The carrying amount of derivative financial liabilities comprises £64m (2010: £68m) in relation to cash flow hedges and £5m (2010: £12m) not designated as hedging instruments. The carrying amount of derivative financial assets comprises £123m (2010: £105m) in relation to fair value hedges, £10m (2010: £12m) in relation to cash flow hedges and £16m (2010: £17m) not designated as hedging instruments.

At 31 December 2011, Reed Elsevier had access to a $2,000m committed bank facility maturing in June 2014, which was undrawn. The bank facility, together with certain of Reed Elsevier's private placements, are subject to financial covenants. Reed Elsevier was in compliance with these covenants for the year ended 31 December 2011.

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2011, and after utilising available cash resources, no borrowings mature within two years (2010: nil), 44% of borrowings mature in the third year (2010: 23%), 18% in the fourth and fifth years (2010: 27%), 27% in the sixth to tenth years (2010: 39%), and 11% beyond the tenth year (2010: 11%).

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 2011, 69% 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 £5m (2010: £3m), based on the composition of financial instruments including cash, cash equivalents, bank loans and commercial paper borrowings at 31 December 2011. A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £5m (2010: £3m).

The impact on net equity of a theoretical change in interest rates as at 31 December 2011 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 £3m (2010: £8m) and a 100 basis point increase in interest rates would increase net equity by an estimated £4m (2010: £9m). 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.

18 Financial instruments continued

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 2011 would decrease the carrying value of net assets, excluding net borrowings, by £472m (2010: £457m). This would be offset to a large degree by a decrease in net borrowings of £270m (2010: £270m). A strengthening of all currencies by 10% against sterling at 31 December 2011 would increase the carrying value of net assets, excluding net borrowings, by £590m (2010: £570m) and increase net borrowings by £330m (2010: £329m).

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 £54m (2010: £51m). A 10% strengthening of all foreign currencies against sterling on this basis would increase net profit for the year by £65m (2010: £62m).

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 & 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 £212m (2010: £241m); past due two to three months £54m (2010: £58m); past due four to six months £20m (2010: £16m); and past due greater than six months £5m (2010: £5m). 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 £1,081m (2010: £1,093m) were in place at 31 December 2011 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.

Notes to the combined financial statements

for the year ended 31 December 2011

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 2011 were as follows:

GAINS/(LOSSES) ON BORROWINGS AND RELATED DERIVATIVES	1 January 2010 £m	Fair value movement gain/(loss) £m	Exchange gain/(loss) £m	**1 January 2011 £m**	**Fair value movement gain/(loss) £m**	**Exchange gain/(loss) £m**	**31 December 2011 £m**
GBP debt	9	(16)	–	**(7)**	**(23)**	**–**	**(30)**
Related interest rate swaps	(9)	16	–	**7**	**23**	**–**	**30**
	–	–	–	**–**	**–**	**–**	**–**
EUR debt	(2)	(10)	–	**(12)**	**3**	**–**	**(9)**
Related interest rate swaps	2	10	–	**12**	**(3)**	**–**	**9**
	–	–	–	**–**	**–**	**–**	**–**
CHF debt	(48)	(37)	(1)	**(86)**	**3**	**(1)**	**(84)**
Related CHF to USD cross currency interest rate swaps	48	37	1	**86**	**(3)**	**1**	**84**
	–	–	–	**–**	**–**	**–**	**–**
Total GBP, EUR and CHF debt	(41)	(63)	(1)	**(105)**	**(17)**	**(1)**	**(123)**
Total related interest rate derivatives	41	63	1	**105**	**17**	**1**	**123**
Net gain	–	–	–	**–**	**–**	**–**	**–**

All fair value hedges were highly effective throughout the two years ended 31 December 2011.

Gross borrowings as at 31 December 2011 included £43m (2010: £51m) 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. £8m (2010: £10m) 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 2010 and 2011, 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 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 1 January 2011: losses deferred	**(29)**	**(59)**	**(88)**
Losses arising in 2011	**(3)**	**(21)**	**(24)**
Amounts recognised in income statement	**15**	**33**	**48**
Exchange translation differences	**–**	**1**	**1**
Hedge reserve at 31 December 2011: losses deferred	**(17)**	**(46)**	**(63)**

All cash flow hedges were highly effective throughout the two years ended 31 December 2011.

A tax credit of £15m (2010: £21m) in respect of the above gains and losses at 31 December 2011 was also deferred in the hedge reserve.

18 Financial instruments continued

Of the amounts recognised in the income statement in the year, losses of £33m (2010: £35m) were recognised in revenue, and losses of £15m (2010: £26m) were recognised in finance costs. A tax credit of £11m (2010: £15m) was recognised in relation to these items.

The deferred losses on cash flow hedges at 31 December 2011 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
2012	**(13)**	**(14)**	**(27)**
2013	**(4)**	**(19)**	**(23)**
2014	**–**	**(10)**	**(10)**
2015	**–**	**(3)**	**(3)**
2016	**–**	**–**	**–**
Losses deferred in hedge reserve at end of year	**(17)**	**(46)**	**(63)**

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.

19 Deferred tax

	2011 £m	2010 £m
Deferred tax assets	**212**	151
Deferred tax liabilities	**(1,236)**	(1,192)
Total	**(1,024)**	(1,041)

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 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 1 January 2011	**(223)**	**(944)**	**(15)**	**(10)**	**13**	**13**	**78**	**47**	**(1,041)**
(Charge)/credit to profit	**(6)**	**131**	**(10)**	**(94)**	**3**	**32**	**(3)**	**24**	**77**
Credit to equity	**–**	**–**	**25**	**–**	**–**	**–**	**11**	**6**	**42**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17)**	**(17)**
Acquisitions	**–**	**(85)**	**–**	**–**	**–**	**2**	**–**	**5**	**(78)**
Disposals/reclassified as held for sale	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**(1)**	**–**
Exchange translation differences	**(2)**	**(2)**	**–**	**(2)**	**–**	**1**	**–**	**(2)**	**(7)**
Deferred tax (liability)/asset at 31 December 2011	**(231)**	**(900)**	**–**	**(105)**	**16**	**48**	**86**	**62**	**(1,024)**

Notes to the combined financial statements

for the year ended 31 December 2011

20 Inventories and pre-publication costs

	2011 £m	2010 £m
Raw materials	**6**	6
Pre-publication costs	**115**	130
Finished goods	**69**	92
Total	**190**	228

21 Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**1,361**	1,361
Allowance for doubtful debts	**(63)**	(73)
	1,298	1,288
Prepayments and accrued income	**185**	187
Total	**1,483**	1,475

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:

	2011 £m	2010 £m
At start of year	**73**	80
Charge for the year	**15**	15
Trade receivables written off	**(23)**	(22)
Disposals	**(1)**	–
Exchange translation differences	**(1)**	–
At end of year	**63**	73

22 Assets and liabilities held for sale

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

	2011 £m	2010 £m
Goodwill	**19**	–
Intangible assets	**7**	–
Inventories	**1**	–
Deferred tax assets	**1**	–
Trade and other receivables	**16**	–
Total assets held for sale	**44**	–
Trade and other payables	**17**	–
Total liabilities associated with assets held for sale	**17**	–

23 Trade and other payables

	2011 £m	2010 £m
Payables and accruals	**1,245**	1,276
Deferred income	**1,412**	1,308
Total	**2,657**	2,584

24 Borrowings

	2011			2010		
	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	**596**	**–**	**596**	379	–	379
Finance leases	**2**	**6**	**8**	7	15	22
Other loans	**384**	**1,466**	**1,850**	130	1,944	2,074
Other loans in fair value hedging relationships	**–**	**1,204**	**1,204**	–	1,198	1,198
Other loans previously in fair value hedging relationships	**–**	**624**	**624**	–	629	629
Total	**982**	**3,300**	**4,282**	516	3,786	4,302

The total fair value of financial liabilities measured at amortised cost is £2,745m (2010: £2,796m). The total fair value of other loans in fair value hedging relationships is £1,237m (2010: £1,279m). The total fair value of other loans previously in fair value hedging relationships is £707m (2010: £685m).

Analysis by year of repayment

	2011				2010			
	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	**596**	**384**	**2**	**982**	379	130	7	516
Within 1 to 2 years	**–**	**618**	**3**	**621**	–	382	7	389
Within 2 to 3 years	**–**	**725**	**2**	**727**	–	636	8	644
Within 3 to 4 years	**–**	**188**	**1**	**189**	–	825	–	825
Within 4 to 5 years	**–**	**401**	**–**	**401**	–	188	–	188
After 5 years	**–**	**1,362**	**–**	**1,362**	–	1,740	–	1,740
	–	**3,294**	**6**	**3,300**	–	3,771	15	3,786
Total	**596**	**3,678**	**8**	**4,282**	379	3,901	22	4,302

Short term bank loans, overdrafts and commercial paper were backed up at 31 December 2011 by a $2,000m (£1,290m) committed bank facility maturing in June 2014, which was undrawn.

Notes to the combined financial statements

for the year ended 31 December 2011

24 Borrowings continued

Analysis by currency

	2011				2010			
	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	**485**	**2,431**	**8**	**2,924**	225	2,566	22	2,813
£ sterling	**–**	**730**	**–**	**730**	–	707	–	707
Euro	**91**	**517**	**–**	**608**	123	628	–	751
Other currencies	**20**	**–**	**–**	**20**	31	–	–	31
Total	**596**	**3,678**	**8**	**4,282**	379	3,901	22	4,302

Included in the US dollar amounts for other loans above is £363m (2010: £364m) of debt denominated in Swiss francs (CHF 500m; 2010: CHF 500m) that was swapped into US dollars on issuance and against which there are related derivative financial instruments, which, as at 31 December 2011, had a fair value of £84m (2010: £86m).

25 Lease arrangements

Finance leases

At 31 December 2011 future finance lease obligations fall due as follows:

	2011 £m	2010 £m
Within one year	**2**	8
In the second to fifth years inclusive	**6**	17
	8	25
Less future finance charges	**–**	(3)
Total	**8**	22

Present value of future finance lease obligations payable:		
Within one year	**2**	7
In the second to fifth years inclusive	**6**	15
Total	**8**	22

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 2011 outstanding commitments under non-cancellable operating leases fall due as follows:

	2011 £m	2010 £m
Within one year	**129**	128
In the second to fifth years inclusive	**305**	306
After five years	**206**	208
Total	**640**	642

Of the above outstanding commitments, £605m (2010: £609m) relate to land and buildings.

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:

	2011 £m	2010 £m
Within one year	**21**	17
In the second to fifth years inclusive	**38**	25
After five years	**19**	5
Total	**78**	47

26 Provisions

	2011			2010		
	Property £m	**Restructuring £m**	**Total £m**	Property £m	Restructuring £m	Total £m
At start of year	**105**	**54**	**159**	89	106	195
Charged	**16**	**–**	**16**	36	31	67
Utilised	**(12)**	**(37)**	**(49)**	(22)	(82)	(104)
Exchange translation differences	**–**	**–**	**–**	2	(1)	1
At end of year	**109**	**17**	**126**	105	54	159

Property provisions relate to estimated sub-lease shortfalls and guarantees given in respect of certain property leases for various periods up to 2024.

At 31 December 2011 provisions are included within current and non-current liabilities as follows:

	2011 £m	2010 £m
Current liabilities	**39**	71
Non-current liabilities	**87**	88
Total	**126**	159

27 Contingent liabilities and capital commitments

There are contingent liabilities amounting to £15m (2010: £18m) in respect of property lease guarantees.

Notes to the combined financial statements

for the year ended 31 December 2011

28 Combined share capitals, share premiums and shares held in treasury

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.

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

At 31 December 2011, shares held in treasury related to 14,051,025 (2010: 14,654,161) Reed Elsevier PLC ordinary shares and 7,380,906 (2010: 7,781,790) Reed Elsevier NV ordinary shares held by the Reed Elsevier Group plc Employee Benefit Trust (EBT); and 34,196,298 (2010: 34,196,298) Reed Elsevier PLC ordinary shares and 23,952,791 (2010: 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.

At 31 December 2011, shares held by the EBT were £159m (2010: £166m).

29 Other combined reserves

	Hedge reserve 2011 £m	**Other reserves 2011 £m**	**Total 2011 £m**	Total 2010 £m
At start of year	**(67)**	**(320)**	**(387)**	(502)
Profit attributable to parent companies' shareholders	**–**	**760**	**760**	642
Dividends paid	**–**	**(497)**	**(497)**	(483)
Actuarial losses on defined benefit pension schemes	**–**	**(113)**	**(113)**	(63)
Fair value movements on available for sale investments	**–**	**(1)**	**(1)**	–
Fair value movements on cash flow hedges	**(24)**	**–**	**(24)**	(58)
Tax recognised directly in equity	**5**	**37**	**42**	29
Increase/(decrease) in share based remuneration reserve	**–**	**27**	**27**	(7)
Settlement of share awards	**–**	**(7)**	**(7)**	(9)
Transfer from hedge reserve to net profit (net of tax)	**37**	**–**	**37**	46
Acquisition of non-controlling interests	**–**	**(43)**	**(43)**	–
Exchange translation differences	**1**	**6**	**7**	18
At end of year	**(48)**	**(151)**	**(199)**	(387)

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

30 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 (2010: £1m).

As at 31 December 2011, amounts owed by joint ventures were £3m (2010: £2m). 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.

	2011 £m	2010 £m
Salaries and other short term employee benefits	**3**	5
Post employment benefits	**–**	1
Share based remuneration	**4**	(1)
Total	**7**	5

31 Exchange rates

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

	Income statement		**Statement of financial position**	
	2011	2010	**2011**	2010
Euro to sterling	**1.15**	1.17	**1.20**	1.17
US dollars to sterling	**1.60**	1.55	**1.55**	1.56

32 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 15 February 2012.

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 2011 ("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 32 .

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 it determines 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 Auditing Practices Board's Ethical Standards for Auditors and the International Ethical Standards Board of Accountants Code of Ethics.

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited combined financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The procedures selected depend on the auditor's judgement, 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 2011 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 156 and 178.

Douglas King (Senior statutory auditor)
For and on behalf of
Deloitte LLP
Chartered Accountants
and Statutory Auditor
London, United Kingdom
15 February 2012

A Sandler
Deloitte Accountants B.V.
Amsterdam
The Netherlands
15 February 2012

Summary combined financial information in euros

In this section

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 31 to the combined financial statements.

Combined income statement

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 €m	2010 €m
Revenue	1	**6,902**	7,084
Cost of sales		**(2,445)**	(2,584)
Gross profit		**4,457**	4,500
Selling and distribution costs		**(1,236)**	(1,276)
Administration and other expenses		**(1,870)**	(1,974)
Operating profit before joint ventures	1	**1,351**	1,250
Share of results of joint ventures		**35**	25
Operating profit		**1,386**	1,275
Finance income		**20**	9
Finance costs		**(290)**	(332)
Net finance costs		**(270)**	(323)
Disposals and other non operating items		**(26)**	(54)
Profit before tax		**1,090**	898
Taxation		**(208)**	(140)
Net profit for the year		**882**	758
Attributable to:			
Parent companies' shareholders		**874**	751
Non-controlling interests		**8**	7
Net profit for the year		**882**	758

Combined statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER	2011 €m	2010 €m
Net profit for the year	**882**	758
Exchange differences on translation of foreign operations	**107**	196
Actuarial losses on defined benefit pension schemes	**(130)**	(74)
Fair value movements on available for sale investments	**(1)**	–
Fair value movements on cash flow hedges	**(28)**	(68)
Transfer to net profit from hedge reserve (net of tax)	**43**	54
Tax recognised directly in equity	**48**	34
Other comprehensive income for the year	**39**	142
Total comprehensive income for the year	**921**	900
Attributable to:		
Parent companies' shareholders	**913**	893
Non-controlling interests	**8**	7
Total comprehensive income for the year	**921**	900

Combined statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 €m	2010 €m
Cash flows from operating activities			
Cash generated from operations	4	**1,995**	1,929
Interest paid		**(284)**	(345)
Interest received		**14**	9
Tax paid (net)		**(251)**	(10)
Net cash from operating activities		**1,474**	1,583
Cash flows from investing activities			
Acquisitions	4	**(553)**	(58)
Purchases of property, plant and equipment		**(98)**	(97)
Expenditure on internally developed intangible assets		**(305)**	(267)
Purchase of investments		**(11)**	(6)
Proceeds from disposals of property, plant and equipment		**8**	8
Net proceeds from other disposals		**92**	7
Dividends received from joint ventures		**38**	28
Net cash used in investing activities		**(829)**	(385)
Cash flows from financing activities			
Dividends paid to shareholders of the parent companies		**(572)**	(565)
Distributions to non-controlling interests		**(10)**	(9)
Increase/(decrease) in short term bank loans, overdrafts and commercial paper		**241**	(168)
Repayment of other loans		**(285)**	(461)
Repayment of finance leases		**(25)**	(8)
Acquisition of non-controlling interests		**(55)**	–
Proceeds on issue of ordinary shares		**10**	13
Net cash used in financing activities		**(696)**	(1,198)
Decrease in cash and cash equivalents	4	**(51)**	–
Movement in cash and cash equivalents			
At start of year		**868**	822
Decrease in cash and cash equivalents		**(51)**	–
Exchange translation differences		**54**	46
At end of year		**871**	868

Combined statement of financial position

AS AT 31 DECEMBER	Note	2011 €m	2010 €m
Non-current assets			
Goodwill		**5,675**	5,196
Intangible assets		**4,192**	4,045
Investments in joint ventures		**149**	159
Other investments		**77**	56
Property, plant and equipment		**346**	341
Net pension assets	2	**–**	64
Deferred tax assets		**254**	177
		10,693	10,038
Current assets			
Inventories and pre-publication costs		**228**	267
Trade and other receivables		**1,780**	1,725
Derivative financial instruments		**179**	157
Cash and cash equivalents	4	**871**	868
		3,058	3,017
Assets held for sale		**53**	–
Total assets		**13,804**	13,055
Current liabilities			
Trade and other payables		**3,188**	3,023
Derivative financial instruments		**83**	94
Borrowings	5	**1,178**	604
Taxation		**813**	755
Provisions	6	**47**	83
		5,309	4,559
Non-current liabilities			
Borrowings	5	**3,960**	4,430
Deferred tax liabilities		**1,483**	1,395
Net pension obligations	2	**290**	263
Provisions	6	**105**	103
		5,838	6,191
Liabilities associated with assets held for sale		**21**	–
Total liabilities		**11,168**	10,750
Net assets		**2,636**	2,305
Capital and reserves			
Combined share capitals		**268**	262
Combined share premiums		**3,268**	3,222
Combined shares held in treasury		**(796)**	(792)
Translation reserve		**297**	229
Other combined reserves	7	**(431)**	(648)
Combined shareholders' equity		**2,606**	2,273
Non-controlling interests		**30**	32
Total equity		**2,636**	2,305

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 share-holders' 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 1 January 2011	**262**	**3,222**	**(792)**	**229**	**(648)**	**2,273**	**32**	**2,305**
Total comprehensive income for the year	**–**	**–**	**–**	**107**	**806**	**913**	**8**	**921**
Dividends paid	**–**	**–**	**–**	**–**	**(572)**	**(572)**	**(10)**	**(582)**
Issue of ordinary shares, net of expenses	**–**	**10**	**–**	**–**	**–**	**10**	**–**	**10**
Increase in share based remuneration reserve	**–**	**–**	**–**	**–**	**31**	**31**	**–**	**31**
Settlement of share awards	**–**	**–**	**8**	**–**	**(8)**	**–**	**–**	**–**
Acquisitions	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**(49)**	**(49)**	**(6)**	**(55)**
Exchange differences on translation of capital and reserves	**6**	**36**	**(12)**	**(39)**	**9**	**–**	**–**	**–**
Balance at 31 December 2011	**268**	**3,268**	**(796)**	**297**	**(431)**	**2,606**	**30**	**2,636**

Notes to the summary combined financial information in euros

1 Segment analysis

ANALYSIS BY BUSINESS SEGMENT	Revenue		Operating profit		Adjusted operating profit	
	2011 €m	2010 €m	**2011 €m**	2010 €m	**2011 €m**	2010 €m
Elsevier	**2,367**	2,370	**799**	757	**883**	847
LexisNexis Risk Solutions	**1,044**	1,085	**208**	193	**416**	414
LexisNexis Legal & Professional	**1,879**	1,978	**166**	186	**263**	279
Reed Exhibitions	**813**	811	**152**	149	**192**	185
Reed Business Information	**799**	840	**78**	–	**127**	104
Sub-total	**6,902**	7,084	**1,403**	1,285	**1,881**	1,829
Corporate costs	**–**	–	**(56)**	(40)	**(50)**	(40)
Unallocated net pension financing credit	**–**	–	**39**	30	**39**	30
Total	**6,902**	7,084	**1,386**	1,275	**1,870**	1,819

Revenue is analysed before the €147m (2010: €136m) share of joint ventures' revenue, of which €26m (2010: €28m) relates to LexisNexis Legal & Professional, principally to Giuffrè, €119m (2010: €104m) relates to Reed Exhibitions and €2m (2010: €4m) relates to Reed Business Information.

Share of post-tax results of joint ventures of €35m (2010: €25m) included in operating profit comprises €5m (2010: €5m) relating to LexisNexis Legal & Professional, €29m (2010: €19m) relating to Reed Exhibitions and €1m (2010: €1m) relating to Reed Business Information. The unallocated net pension credit of €39m (2010: €30m) comprises the expected return on pension scheme assets of €270m (2010: €254m) less interest on pension scheme liabilities of €231m (2010: €224m).

ANALYSIS OF REVENUE BY GEOGRAPHICAL ORIGIN	**2011 €m**	2010 €m
North America	**3,569**	3,759
United Kingdom	**1,089**	1,061
The Netherlands	**708**	726
Rest of Europe	**900**	965
Rest of world	**636**	573
Total	**6,902**	7,084

ANALYSIS OF REVENUE BY GEOGRAPHICAL MARKET	**2011 €m**	2010 €m
North America	**3,702**	3,864
United Kingdom	**558**	573
The Netherlands	**217**	239
Rest of Europe	**1,259**	1,323
Rest of world	**1,166**	1,085
Total	**6,902**	7,084

ANALYSIS OF REVENUE BY TYPE	**2011 €m**	2010 €m
Subscriptions	**3,242**	3,170
Circulation/transactions	**1,896**	2,059
Advertising	**503**	574
Exhibitions	**805**	790
Other	**456**	491
Total	**6,902**	7,084

1 Segment analysis continued

ANALYSIS BY BUSINESS SEGMENT	Expenditure on acquired goodwill and intangible assets		Capital expenditure additions		Amortisation of acquired intangible assets		Depreciation and other amortisation	
	2011 €m	2010 €m	**2011 €m**	2010 €m	**2011 €m**	2010 €m	**2011 €m**	2010 €m
Elsevier	**50**	15	**108**	95	**83**	88	**80**	87
LexisNexis Risk Solutions	**–**	–	**27**	36	**179**	174	**29**	34
LexisNexis Legal & Professional	**–**	41	**234**	210	**90**	84	**100**	110
Reed Exhibitions	**41**	7	**25**	14	**28**	27	**12**	16
Reed Business Information	**612**	1	**20**	14	**33**	35	**17**	30
Total	**703**	64	**414**	369	**413**	408	**238**	277

Capital expenditure comprises additions to property, plant and equipment and internally developed intangible assets. Amortisation of acquired intangible assets includes amounts in respect of joint ventures of €5m (2010: €4m) in Reed Exhibitions. Other than the depreciation and amortisation above, non cash items include €31m charge (2010: €8m credit) relating to the recognition of share based remuneration and comprise €6m charge (2010 €m: €2m credit) in Elsevier, €4m charge (2010: €2m charge) in LexisNexis Risk Solutions, €7m charge (2010: €1m credit) in LexisNexis Legal & Professional; €3m charge (2010: €1m credit) in Reed Exhibitions, €2m charge (2010: €4m credit) in Reed Business Information and €9m charge (2010: €2m credit) in Corporate.

ANALYSIS OF NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION	**2011 €m**	2010 €m
North America	**8,381**	7,858
United Kingdom	**620**	533
The Netherlands	**148**	164
Rest of Europe	**940**	996
Rest of world	**350**	246
Total	**10,439**	9,797

Non-current assets by geographical location exclude amounts relating to derivative financial instruments, deferred tax assets and net pension assets.

Notes to the summary combined financial information in euros

2 Pension schemes

The pension expense recognised within the income statement comprises:

	2011 €m	2010 €m
Service cost (including curtailment credits of €10m (2010: €20m))	**65**	56
Interest on pension scheme liabilities	**231**	224
Expected return on scheme assets	**(270)**	(254)
Net defined benefit pension expense	**26**	26
Defined contribution pension expense	**45**	37
Total pension expense	**71**	63

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:

	2011			2010		
	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	**(4,302)**	**4,103**	**(199)**	(3,698)	3,435	(263)
Service cost	**(65)**	**–**	**(65)**	(56)	–	(56)
Interest on pension scheme liabilities	**(231)**	**–**	**(231)**	(224)	–	(224)
Expected return on scheme assets	**–**	**270**	**270**	–	254	254
Actuarial (loss)/gain	**(90)**	**(40)**	**(130)**	(306)	232	(74)
Contributions by employer	**–**	**76**	**76**	–	180	180
Contributions by employees	**(13)**	**13**	**–**	(13)	13	–
Benefits paid	**162**	**(162)**	**–**	163	(163)	–
Exchange translation differences	**(112)**	**101**	**(11)**	(168)	152	(16)
At end of year	**(4,651)**	**4,361**	**(290)**	(4,302)	4,103	(199)

The net pension obligations of €290m (2010: €199m) at 31 December 2011 comprise schemes in deficit with net pension obligations of €290m (2010: €263m) and schemes in surplus with net pension assets of nil (2010: €64m).

As at 31 December 2011 the defined benefit obligations comprise €4,465m (2010: €4,131m) in relation to funded schemes and €186m (2010: €171m) in relation to unfunded schemes.

3 Adjusted figures

Reed Elsevier uses adjusted figures as additional performance measures. Adjusted figures are stated before amortisation of acquired intangible assets, 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. Acquisition related costs relate to acquisition integration and 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.

	2011 €m	2010 €m
Operating profit	**1,386**	1,275
Adjustments:		
Amortisation of acquired intangible assets	**413**	408
Exceptional restructuring costs	**–**	67
Acquisition related costs	**59**	58
Share of profit on disposals in joint ventures	**(1)**	–
Reclassification of tax in joint ventures	**13**	11
Adjusted operating profit	**1,870**	1,819
Profit before tax	**1,090**	898
Adjustments:		
Amortisation of acquired intangible assets	**413**	408
Exceptional restructuring costs	**–**	67
Acquisition related costs	**59**	58
Reclassification of tax in joint ventures	**13**	11
Disposals and other non operating items	**25**	54
Adjusted profit before tax	**1,600**	1,496
Profit attributable to parent companies' shareholders	**874**	751
Adjustments (post tax):		
Amortisation of acquired intangible assets	**408**	394
Exceptional restructuring costs	**–**	44
Acquisition related costs	**38**	35
Disposals and other non operating items	**19**	43
Deferred tax credits on acquired intangible assets not expected to crystallise in the near term	**(120)**	(117)
Adjusted profit attributable to parent companies' shareholders	**1,219**	1,150
Cash generated from operations	**1,995**	1,929
Dividends received from joint ventures	**38**	28
Purchases of property, plant and equipment	**(98)**	(97)
Proceeds from disposals of property, plant and equipment	**8**	8
Expenditure on internally developed intangible assets	**(305)**	(267)
Payments in relation to exceptional restructuring costs	**60**	116
Payments in relation to acquisition related costs	**44**	60
Adjusted operating cash flow	**1,742**	1,777

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	2011 €m	2010 €m
Operating profit before joint ventures	**1,351**	1,250
Amortisation of acquired intangible assets	**408**	404
Amortisation of internally developed intangible assets	**152**	185
Depreciation of property, plant and equipment	**86**	92
Share based remuneration	**31**	(8)
Total non cash items	**677**	673
Decrease in inventories and pre-publication costs	**37**	40
Decrease in receivables	**(42)**	28
Decrease in payables	**(28)**	(62)
Decrease in working capital	**(33)**	6
Cash generated from operations	**1,995**	1,929

CASH FLOW ON ACQUISITIONS	2011 €m	2010 €m
Purchase of businesses	**(523)**	(44)
Investment in joint ventures	**(1)**	–
Deferred payments relating to prior year acquisitions	**(29)**	(14)
Total	**(553)**	(58)

RECONCILIATION OF NET BORROWINGS	Cash & cash equivalents €m	Borrowings €m	Related derivative financial instruments €m	2011 €m	2010 €m
At start of year	**868**	**(5,034)**	**123**	**(4,043)**	(4,402)
Increase in cash and cash equivalents	**(51)**	**–**	**–**	**(51)**	–
Net movement in short term bank loans, overdrafts and commercial paper	**–**	**(241)**	**–**	**(241)**	168
Repayment of other loans	**–**	**285**	**–**	**285**	461
Repayment of finance leases	**–**	**25**	**–**	**25**	8
Change in net borrowings resulting from cash flows	**(51)**	**69**	**–**	**18**	637
Borrowings in acquired businesses	**–**	**(21)**	**–**	**(21)**	–
Inception of finance leases	**–**	**(9)**	**–**	**(9)**	(2)
Fair value adjustments to borrowings and related derivatives	**–**	**(11)**	**20**	**9**	13
Exchange translation differences	**54**	**(132)**	**5**	**(73)**	(289)
At end of year	**871**	**(5,138)**	**148**	**(4,119)**	(4,043)

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 (2010: €5m) held in trust to satisfy liabilities in respect of change of control obligations related to the acquisition of ChoicePoint.

5 Acquisitions

During the year a number of acquisitions were made for a total consideration of €566m (2010: €51m), after taking account of net cash acquired of €28m, the most significant of which was the acquisition of Accuity Inc. for €381m, net of cash acquired, which completed on 1 November 2011. 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 2011 €m	Fair value 2010 €m
Goodwill	**345**	32
Intangible assets	**358**	32
Property, plant & equipment	**1**	–
Current assets	**27**	–
Current liabilities	**(53)**	(2)
Borrowings	**(21)**	–
Current tax	**(1)**	–
Deferred tax	**(90)**	(11)
Net assets acquired	**566**	51
Consideration (after taking account of €28m net cash acquired)	**566**	51
Less: consideration deferred to future years	**(31)**	(6)
Less: acquisition date fair value of equity interest	**(12)**	–
Net cash flow	**523**	45

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.

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 2012 combined financial statements. There were no significant adjustments to the provisional fair values of prior year acquisitions established in 2010.

The businesses acquired in 2011 contributed €39m to revenue, increased adjusted operating profit by €9m, increased adjusted profit attributable by €9m, decreased profit attributable by €12m, and contributed €8m to net cash inflow from operating activities for the part year under Reed Elsevier ownership and before taking account of acquisition financing costs. Had the businesses been acquired at the beginning of the year, on a pro forma basis the Reed Elsevier revenues, adjusted operating profit, adjusted profit attributable and profit attributable for the year would have been €6,975m, €1,889m, €1,232m and €887m respectively before taking account of acquisition financing costs.

Notes to the summary combined financial information in euros

6 Borrowings

	2011			2010		
	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	**715**	**–**	**715**	444	–	444
Finance leases	**2**	**7**	**9**	8	18	26
Other loans	**461**	**1,759**	**2,220**	152	2,274	2,426
Other loans in fair value hedging relationships	**–**	**1,445**	**1,445**	–	1,402	1,402
Other loans previously in fair value hedging relationships	**–**	**749**	**749**	–	736	736
Total	**1,178**	**3,960**	**5,138**	604	4,430	5,034

The total fair value of financial liabilities measured at amortised cost is €3,294m (2010: €3,271m). The total fair value of other loans in fair value hedging relationships is €1,484m (2010: €1,496m). The total fair value of other loans previously in fair value hedging relationships is €848m (2010: €801m).

Analysis by year of repayment

	2011				2010			
	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	**715**	**461**	**2**	**1,178**	444	152	8	604
Within 1 to 2 years	**–**	**742**	**3**	**745**	–	447	8	455
Within 2 to 3 years	**–**	**870**	**3**	**873**	–	744	10	754
Within 3 to 4 years	**–**	**226**	**1**	**227**	–	965	–	965
Within 4 to 5 years	**–**	**481**	**–**	**481**	–	220	–	220
After 5 years	**–**	**1,634**	**–**	**1,634**	–	2,036	–	2,036
	–	**3,953**	**7**	**3,960**	–	4,412	18	4,430
Total	**715**	**4,414**	**9**	**5,138**	444	4,564	26	5,034

Short term bank loans, overdrafts and commercial paper were backed up at 31 December 2011 by a $2,000m (€1,548m) committed bank facility maturing in June 2014, which was undrawn.

6 Borrowings continued

Analysis by currency

	2011				2010			
	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	**582**	**2,918**	**9**	**3,509**	263	3,002	26	3,291
£ sterling	**–**	**876**	**–**	**876**	–	827	–	827
Euro	**109**	**620**	**–**	**729**	144	735	–	879
Other currencies	**24**	**–**	**–**	**24**	37	–	–	37
Total	**715**	**4,414**	**9**	**5,138**	444	4,564	26	5,034

Included in the US dollar amounts for other loans above is €435m (2010: €425m) of debt denominated in Swiss francs (CHF 500m; 2010: CHF 500m) that was swapped into US dollars on issuance and against which there are related derivative financial instruments which, as at 31 December 2011, had a fair value of €100m (2010: €100m).

7 Provisions

	2011			2010		
	Property €m	**Restructuring €m**	**Total €m**	Property €m	Restructuring €m	Total €m
At start of year	**123**	**63**	**186**	99	120	219
Charged	**18**	**–**	**18**	42	36	78
Utilised	**(14)**	**(42)**	**(56)**	(26)	(96)	(122)
Exchange translation differences	**4**	**–**	**4**	8	3	11
At end of year	**131**	**21**	**152**	123	63	186

Property provisions relate to estimated sub-lease shortfalls and guarantees given in respect of certain property leases for various periods up to 2024.

At 31 December 2011 provisions are included within current and non-current liabilities as follows:

	2011 €m	2010 €m
Current liabilities	**47**	83
Non-current liabilities	**105**	103
Total	**152**	186

Notes to the summary combined financial information in euros

8 Other combined reserves

	Hedge reserve 2011 €m	Other reserves 2011 €m	Total 2011 €m	Total 2010 €m
At start of year	**(79)**	**(569)**	**(648)**	(753)
Profit attributable to parent companies' shareholders	**–**	**874**	**874**	751
Dividends paid	**–**	**(572)**	**(572)**	(565)
Actuarial losses on defined benefit pension schemes	**–**	**(130)**	**(130)**	(74)
Fair value movements on cash flow hedges	**(28)**	**–**	**(28)**	(68)
Fair value movements on available for sale investments	**–**	**(1)**	**(1)**	–
Tax recognised directly in equity	**6**	**42**	**48**	34
Increase/(decrease) in share based remuneration reserve	**–**	**31**	**31**	(8)
Settlement of share awards	**–**	**(8)**	**(8)**	(11)
Transfer from hedge reserve to net profit (net of tax)	**43**	**–**	**43**	54
Acquisition of non-controlling interests	**–**	**(49)**	**(49)**	–
Exchange translation differences	**–**	**9**	**9**	(8)
At end of year	**(58)**	**(373)**	**(431)**	(648)

9 Exchange rates

	Income statement		Statement of financial position	
	2011	2010	**2011**	2010
Sterling to euro	**0.87**	0.85	**0.83**	0.85
US dollars to euro	**1.39**	1.32	**1.29**	1.33

Reed Elsevier PLC Annual Report and Financial Statements

In this section

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 2011.

As a consequence of the merger of the company's businesses with those of Reed Elsevier NV in 1993, described on page 55, 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 1 to 122. A review of the Reed Elsevier combined businesses and their performance in the year is set out on pages 8 to 28, a summary of the principal risks facing Reed Elsevier is set out on pages 48 to 50, and the Reed Elsevier statement on Corporate Responsibility is set out on pages 29 to 38.

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 (2010: £13m), 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 of acquired intangible assets, 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 include 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 £736m (2010: £677m). Reported profit before tax, including the Reed Elsevier PLC shareholders' share of amortisation charges, acquisition related costs and disposals and other non operating items, was £390m (2010: £328m). The increase reflects the improved trading performance, lower interest costs and no exceptional restructuring costs in 2011.

At Elsevier, Science & Technology reported good growth in research and databases. Health Sciences underlying revenues were flat, with double digit revenue growth in electronic revenue across all segments offset by declines in print book sales to individuals and in pharma promotion. LexisNexis Risk Solutions achieved good growth in insurance data & analytics and business services, although screening revenues slowed in the second half reflecting US hiring trends, and federal government markets remained under pressure. LexisNexis Legal & Professional revenues returned to slight underlying growth in both the US and internationally, with growth in research and litigation tools and in practice management, and moderating declines in news and business to corporate customers and in electronic listings. Reed Exhibitions saw good growth across all geographies, excluding biennial cycling. Reed Business Information returned to underlying revenue growth, with strong growth in data services mostly offset by continued weakness in print advertising. The overall adjusted operating margin was 1.4 percentage points higher despite additional spending on new product development and sales & marketing, reflecting the sale and closure of low returning assets and continued focus on process efficiency and procurement savings, and the benefit of prior year restructuring and currency effects.

Reed Elsevier PLC's shareholders' share of the adjusted profit attributable of the combined businesses was £561m (2010: £520m). After deducting the company's share of the post tax charge for amortisation of acquired intangible assets, 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 £389m (2010: £327m).

Adjusted earnings per share increased 8% to 46.7p (2010: 43.4p). At constant rates of exchange, the adjusted earnings per share were 6% higher. Including the effect of the tax credit equalisation as well as amortisation of acquired intangible assets, acquisition related costs, disposal gains and losses and other non operating items, and tax adjustments, the basic earnings per share were 32.4p (2010: 27.3p).

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 2011 was £1,149m (2010: £1,028m). The £121m increase in net assets reflects the company's share in the attributable profits of Reed Elsevier partially offset by dividends paid.

Dividends
The Board is recommending an equalised final dividend of 15.9p per ordinary share (2010: 15.0p). This gives total ordinary dividends for the year of 21.55p (2010: 20.4p). The final dividend will be paid on 21 May 2012 to shareholders on the Register on 27 April 2012.

Dividend cover, based on adjusted earnings per share and the total interim and proposed final dividends for the year, is 2.2 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 2.0 times over the longer term.

The total dividend paid on the ordinary shares in the financial year was £248m (2010: £245m).

Parent company financial statements
The individual parent company financial statements of Reed Elsevier PLC are presented on pages 157 to 159, and are prepared under UK Generally Accepted Accounting Practice (UK GAAP). Parent company shareholders' funds as at 31 December 2011 were £3,163m (2010: £2,791m).

Corporate Governance
The company has complied throughout the year with the provisions of the UK Corporate Governance Code issued in May 2010 (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 55 to 61.

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 80 to 82.

Directors' report

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
A N Hennah (appointed 20 April 2011)
L Hook
R B Polet
Sir David Reid (senior independent director)
Lord Sharman of Redlynch OBE (retired 20 April 2011)
B van der Veer

Biographical details of the directors at the date of this report are given on pages 52 and 53.

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 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 implemented this provision with effect from the Annual General Meeting 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.

At the Annual General Meeting held in April 2011, Adrian Hennah was appointed a non-executive director and Lord Sharman retired as a non-executive director.

In accordance with the provisions of the UK Code, all directors will retire from the Board at the Annual General Meeting in 2012 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 2012 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. David Brennan 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, with effect from 1 November 2012 at the Reed Elsevier PLC and Reed Elsevier NV Annual General Meetings in April 2012. Mr Brennan was appointed chief executive officer of AstraZeneca PLC in 2006. He has over 35 years experience in the biopharmaceutical industry and in the development, manufacturing and commercialisation of innovative medicines. Mr Brennan will bring highly relevant experience to our 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.

The notice period applicable to the service contracts of E Engstrom and M H Armour is 12 months. The remaining directors seeking re-election at the 2012 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 63 to 79.

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 2011 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 2011 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 2012 Annual General Meeting, and a resolution to further extend the authority will be submitted to the shareholders at the 2012 Annual General Meeting.

During the year, 1,627,341 ordinary shares in the company were issued in order to satisfy entitlements under employee share plans as follows:

- 337,841 under a UK SAYE share option scheme at prices between 401.6p and 504.0p per share.
- 1,286,962 under executive share option schemes at prices between 451.5p and 542.0p per share.
- 2,538 under LTIP scheme at 487.25p per share.

The issued share capital as at 31 December 2011 is shown in note 12 to the consolidated financial statements.

Authority to purchase shares
At the 2011 Annual General Meeting, shareholders passed a resolution authorising the purchase of up to 124.9 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 2011 there were 34,196,298 ordinary shares held in treasury, representing 2.73% of the issued ordinary shares. The authority to make market purchases will expire at the 2012 Annual General Meeting, and a resolution to further extend the authority will be submitted to the shareholders at the 2012 Annual General Meeting.

Substantial share interests
As at 15 February 2012, 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:

- Lloyds Banking Group plc 6.90%
- BlackRock Inc. 5.02%
- Silchester International Investment 3.99%
- Legal & General Group plc 3.40%

The percentage interests stated above are as disclosed at the date on which the interests were notified to the company.

Employee benefit trust
The Trustee of the Reed Elsevier Group plc Employee Benefit Trust held an interest in 14,051,025 ordinary shares in the company (representing 1.12% of the issued ordinary shares) as at 31 December 2011. 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

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 (2010: 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 £2.4m (2010: £2.3m) of which £0.5m (2010: £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 reporting.reedelsevier.com/cr11

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 £53,550 (2010: £53,000) 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.

Disclosure of information to auditors

As part of the process of approving the company's 2011 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 2011 financial statements. In reaching this conclusion, the directors have had due regard to the combined businesses' financial position as at 31 December 2011, 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 2011 is set out in the Chief Financial Officer's Report on pages 42 to 44. 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 46 and 47. 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 48 to 50.

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 2012 Annual General Meeting.

By order of the Board	Registered Office
Henry Udow Secretary 15 February 2012	1-3 Strand London WC2N 5JR

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 £m	2010 £m
Administrative expenses	1	**(2)**	(2)
Effect of tax credit equalisation on distributed earnings	2	**(13)**	(13)
Share of results of joint ventures	11	**404**	342
Operating profit		**389**	327
Finance income	5	**1**	1
Profit before tax		**390**	328
Taxation	6	**(1)**	(1)
Profit attributable to ordinary shareholders		**389**	327

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER	2011 £m	2010 £m
Profit attributable to ordinary shareholders	**389**	327
Share of joint ventures' other comprehensive (expense)/income for year	**(14)**	25
Total comprehensive income for the year	**375**	352

Earnings per ordinary share

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 pence	2010 pence
Basic earnings per share	8	**32.4**	27.3
Diluted earnings per share	8	**32.1**	27.1

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 £m	2010 £m
Cash flows from operating activities			
Cash used by operations	10	**(2)**	(2)
Interest received		**1**	1
Tax paid		**(1)**	(3)
Net cash used in operating activities		**(2)**	(4)
Cash flows from investing activities			
Dividends received from joint ventures	11	**600**	589
Increase in investment in joint ventures	11	**–**	(596)
Net cash received from/(used in) investing activities		**600**	(7)
Cash flows from financing activities			
Equity dividends paid	7	**(248)**	(245)
Proceeds on issue of ordinary shares		**8**	9
(Increase)/decrease in net funding balances due from joint ventures	10	**(358)**	247
Net cash (used in)/from financing activities		**(598)**	11
Movement in cash and cash equivalents		**–**	–

Consolidated statement of financial position

AS AT 31 DECEMBER	Note	2011 £m	2010 £m
Non-current assets			
Investments in joint ventures	11	**1,158**	1,037
Total assets		**1,158**	1,037
Current liabilities			
Taxation		**9**	9
Total liabilities		**9**	9
Net assets		**1,149**	1,028
Capital and reserves			
Called up share capital	12	**180**	180
Share premium account		**1,176**	1,168
Shares held in treasury (including in joint ventures)		**(308)**	(312)
Capital redemption reserve		**4**	4
Translation reserve		**159**	142
Other reserves	13	**(62)**	(154)
Total equity		**1,149**	1,028

The consolidated financial statements were approved by the Board of directors, 15 February 2012.

A J Habgood
Chairman

M H Armour
Chief Financial Officer

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER	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 expense		–	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 1 January 2011		**180**	**1,168**	**(312)**	**4**	**142**	**(154)**	**1,028**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**17**	**358**	**375**
Equity dividends paid	7	**–**	**–**	**–**	**–**	**–**	**(248)**	**(248)**
Issue of ordinary shares, net of expenses		**–**	**8**	**–**	**–**	**–**	**–**	**8**
Share of joint ventures' settlement of share awards by employee benefit trust		**–**	**–**	**4**	**–**	**–**	**(4)**	**–**
Share of joint ventures' increase in share based remuneration reserve		**–**	**–**	**–**	**–**	**–**	**14**	**14**
Share of joint ventures' acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(23)**	**(23)**
Equalisation adjustments		**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Balance at 31 December 2011		**180**	**1,176**	**(308)**	**4**	**159**	**(62)**	**1,149**

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 143.

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 55.

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 88 to 93.

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 date of the statement of financial position.

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 have been substantively enacted at the date of the statement of financial position. 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 91 to 93.

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 93 of the combined financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2011

1 Administrative expenses

Administrative expenses include £799,000 (2010: £742,000) 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 (2010: 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 148.

3 Auditor's remuneration

Audit fees payable by Reed Elsevier PLC were £28,000 (2010: £27,000). 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 30 to the combined financial statements.

5 Finance income

	2011 £m	2010 £m
Finance income from joint ventures	**1**	1

6 Taxation

	2011 £m	2010 £m
UK corporation tax	**1**	1

A reconciliation of the notional tax charge based on the applicable rate of tax to the actual total tax expense is set out below.

	2011 £m	2010 £m
Profit before tax	**390**	328
Tax at applicable rate 26.5% (2010: 28%)	**103**	92
Tax at applicable rate on share of results of joint ventures	**(107)**	(96)
Other	**5**	5
Tax expense	**1**	1

Notes to the consolidated financial statements

for the year ended 31 December 2011

7 Equity dividends

ORDINARY DIVIDENDS DECLARED IN THE YEAR	2011 pence	2010 pence	2011 £m	2010 £m
Ordinary shares				
Final for prior financial year	**15.0p**	15.0p	**180**	180
Interim for financial year	**5.65p**	5.4p	**68**	65
Total	**20.65p**	20.4p	**248**	245

The directors of Reed Elsevier PLC have proposed a final dividend of 15.9p (2010: 15.0p). The cost of funding the proposed final dividend is expected to be £191m. No liability has been recognised at the statement of financial position date.

ORDINARY DIVIDENDS PAID AND PROPOSED RELATING TO THE FINANCIAL YEAR	2011 pence	2010 pence
Ordinary shares		
Interim (paid)	**5.65p**	5.4p
Final (proposed)	**15.9p**	15.0p
Total	**21.55p**	20.4p

8 Earnings per ordinary share ("EPS")

	2011			2010		
	Weighted average number of shares (millions)	Earnings £m	EPS £m	Weighted average number of shares (millions)	Earnings £m	EPS £m
Basic earnings per share	**1,202.0**	**389**	**32.4**	1,199.1	327	27.3
Based on 52.9% interest in total operations of the combined businesses	**1,202.0**	**402**	**33.4**	1,199.1	340	28.4
Diluted earnings per share	**1,211.7**	**389**	**32.1**	1,205.1	327	27.1

The diluted EPS figures are calculated after taking account of the effect of potential additional ordinary shares arising from share options and conditional shares.

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 2011 are shown below.

NUMBER OF ORDINARY SHARES	Year ended 31 December			
	Shares in issue (millions)	**Treasury shares (millions)**	**2011 Shares in issue net of treasury shares (millions)**	2010 Shares in issue net of treasury shares (millions)
At start of year	**1,249.3**	**(48.9)**	**1,200.4**	1,197.7
Issue of ordinary shares	**1.6**	**–**	**1.6**	2.0
Net release of shares by employee benefit trust	**–**	**0.6**	**0.6**	0.7
At end of year	**1,250.9**	**(48.3)**	**1,202.6**	1,200.4
Weighted average number of equivalent ordinary shares during the year			**1,202.0**	1,199.1

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:

EARNINGS PER SHARE	Profit attributable to ordinary shareholders		Basic earnings per share	
	2011 £m	2010 £m	**2011 pence**	2010 pence
Reported figures	**389**	327	**32.4**	27.3
Effect of tax credit equalisation on distributed earnings	**13**	13	**1.0**	1.1
Profit attributable to ordinary shareholders based on 52.9% economic interest in the Reed Elsevier combined businesses	**402**	340	**33.4**	28.4
Share of adjustments in joint ventures:				
Amortisation of acquired intangible assets	**188**	178	**15.6**	14.8
Exceptional restructuring costs	**–**	20	**–**	1.7
Acquisition related costs	**17**	15	**1.5**	1.2
Disposals and other non operating items	**8**	20	**0.7**	1.7
Deferred tax adjustments	**(54)**	(53)	**(4.5)**	(4.4)
Adjusted figures	**561**	520	**46.7**	43.4

Notes to the consolidated financial statements

for the year ended 31 December 2011

10 Statement of cash flows

RECONCILIATION OF ADMINISTRATIVE EXPENSES TO CASH USED BY OPERATIONS	2011 £m	2010 £m
Administrative expenses	**(2)**	(2)
Cash used by operations	**(2)**	(2)

RECONCILIATION OF NET FUNDING BALANCES DUE FROM JOINT VENTURES	2011 £m	2010 £m
At start of year	**274**	521
Cash flow	**358**	(247)
At end of year	**632**	274

11 Investments in joint ventures

RECONCILIATION OF NET FUNDING BALANCES DUE FROM JOINT VENTURES	2011 £m	2010 £m
Share of results of joint ventures	**404**	342
Share of joint ventures' other comprehensive (expense) /income	**(14)**	25
Share of joint ventures' acquisition of non-controlling interests	**(23)**	–
Share of joint ventures' increase/(decrease) in share based remuneration reserve	**14**	(4)
Equalisation adjustments	**(18)**	(13)
Dividends received from joint ventures	**(600)**	(589)
Increase in investment in joint ventures	**–**	596
Increase/(decrease) in net funding balances due from joint ventures	**358**	(247)
Net movement in the year	**121**	110
At start of year	**1,037**	927
At end of year	**1,158**	1,037

During the year the company received a dividend of £600m from Reed Elsevier Group plc.

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	
	2011 £m	2010 £m	2011 £m	2010 £m
Revenue	**6,002**	6,055	**3,175**	3,203
Net profit for the year	**767**	648	**404**	342

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 (2010: £2m).

11 Investments in joint ventures continued

	Total joint ventures		Reed Elsevier PLC shareholders' share	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Total assets	**11,503**	11,158	**6,085**	5,903
Total liabilities	**(9,306)**	(9,188)	**(5,559)**	(5,140)
Net assets	**2,197**	1,970	**526**	763
Attributable to:				
Joint ventures	**2,172**	1,943	**526**	763
Non-controlling interests	**25**	27	**–**	–
	2,197	1,970	**526**	763
Funding balances due from joint ventures			**632**	274
Total			**1,158**	1,037

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 £384m (2010: £393m) and borrowings of £2,265m (2010: £2,276m) respectively.

12 Share capital and shares held in treasury

AUTHORISED	No. of shares	£m
Ordinary shares of $14^{51}/_{116}$p each	**1,250,913,565**	**180**
Unclassified shares of $14^{51}/_{116}$p each	**787,158,643**	**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**	**2011 £m**	No. of shares	2010 £m
At start of year	**1,249,286,224**	**180**	1,247,275,833	180
Issue of ordinary shares	**1,627,341**	**–**	2,010,391	–
At end of year	**1,250,913,565**	**180**	1,249,286,224	180

The issue of ordinary shares relates to the exercise of share options. Details of share option and conditional share schemes are set out in note 6 to the Reed Elsevier combined financial statements.

Details of shares held in treasury are provided in note 28 to the Reed Elsevier combined financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2011

13 Other reserves

	2011 £m	2010 £m
At start of year	**(154)**	(202)
Profit attributable to ordinary shareholders	**389**	327
Share of joint ventures':		
Actuarial losses on defined benefit pension schemes	**(60)**	(33)
Fair value movements on available for sale investments	**(1)**	–
Fair value movements on cash flow hedges	**(12)**	(31)
Tax recognised directly in equity	**22**	15
Increase/(decrease) in share based remuneration reserve	**14**	(4)
Settlement of share awards by employee benefit trust	**(4)**	(5)
Acquisition of non-controlling interests	**(23)**	–
Transfer to net profit from hedge reserve	**20**	24
Equalisation adjustments	**(5)**	–
Equity dividends paid	**(248)**	(245)
At end of year	**(62)**	(154)

14 Contingent liabilities

There are contingent liabilities in respect of borrowings of joint ventures guaranteed by Reed Elsevier PLC as follows:

	2011 £m	2010 £m
Guaranteed jointly and severally with Reed Elsevier NV	**3,920**	3,924

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.

15 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.

16 Principal subsidiary

		% holding
Reed Holding BV		
Incorporated in the Netherlands	191 ordinary shares	100%
Radarweg 29		
1043 NX Amsterdam, the Netherlands		

At 31 December 2011 Reed Holding BV owned 4,303,179 (2010: 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 2011 ("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 16. 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 report 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 parent company financial statements of Reed Elsevier PLC for the year ended 31 December 2011 and on the information in the parts of the Directors' Remuneration Report presented in the Reed Elsevier Annual Reports and Financial Statements 2011 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
15 February 2012

Parent company balance sheet

AS AT 31 DECEMBER	Note	2011 £m	2010 £m
Fixed assets			
Investments in subsidiary undertakings	1	**309**	309
Investments in joint ventures	1	**2,308**	2,304
		2,617	2,613
Current assets			
Debtors: amounts due from joint ventures		**632**	274
		632	274
Creditors: amounts falling due within one year			
Other creditors		**–**	(10)
Taxation		**(9)**	(9)
Amounts owed to subsidiary undertakings		**(77)**	(77)
		(86)	(96)
Net current assets		**546**	178
Net assets		**3,163**	2,791
Capital and reserves			
Called up share capital		**180**	180
Share premium account		**1,176**	1,168
Shares held in treasury		**(224)**	(224)
Capital redemption reserve		**4**	4
Other reserves		**148**	134
Profit and loss reserve		**1,879**	1,529
Shareholders' funds		**3,163**	2,791

The parent company financial statements were approved by the Board of directors, 15 February 2012.

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 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 1 January 2011	**180**	**1,168**	**(224)**	**4**	**134**	**1,529**	**2,791**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**598**	**598**
Equity dividends paid	**–**	**–**	**–**	**–**	**–**	**(248)**	**(248)**
Issue of ordinary shares, net of expenses	**–**	**8**	**–**	**–**	**–**	**–**	**8**
Equity instruments granted to employees of combined businesses	**–**	**–**	**–**	**–**	**14**	**–**	**14**
At 31 December 2011	**180**	**1,176**	**(224)**	**4**	**148**	**1,879**	**3,163**

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 143.

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 15 and 16 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 of the Reed Elsevier PLC consolidated financial statements and note 28 of the Reed Elsevier combined 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 2010	309	1,702	2,011
Increase in investments	–	596	596
Equity instruments granted to Reed Elsevier employees	–	6	6
At 1 January 2011	**309**	**2,304**	**2,613**
Equity instruments granted to Reed Elsevier employees	**–**	**4**	**4**
At 31 December 2011	**309**	**2,308**	**2,617**

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 2011 ("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 158. 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).

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 2011.

Douglas King (Senior statutory auditor)
For and on behalf of
Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom
15 February 2012

5 year summary

	Note	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Combined financial information						
Revenue – continuing operations	2	**6,002**	6,055	6,071	5,334	4,584
Reported operating profit – continuing operations	2	**1,205**	1,090	787	901	888
Adjusted operating profit – continuing operations	2	**1,626**	1,555	1,570	1,379	1,137
Reported profit attributable to shareholders – total operations		**760**	642	391	476	1,200
Adjusted profit attributable to shareholders – total operations		**1,060**	983	982	919	852
Reed Elsevier PLC consolidated financial information						
Reported profit attributable to shareholders	3	**389**	327	195	241	624
Adjusted profit attributable to shareholders	4	**561**	520	519	486	451
Reported earnings per ordinary share (pence)	3	**32.4p**	27.3p	17.2p	22.1p	49.7p
Adjusted earnings per ordinary share (pence)	4	**46.7p**	43.4p	45.9p	44.6p	35.9p
Dividend per ordinary share (pence)	5	**21.55p**	20.4p	20.4p	20.3p	18.1p

(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 include the benefit of tax amortisation where available on acquired goodwill 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

In this section

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 2011.

As a consequence of the merger of the company's businesses with those of Reed Elsevier PLC in 1993, described on page 55, 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 1 to 136, which are incorporated by reference herein. Summary combined financial information in euros is set out on pages 123 to 136. The combined financial statements on pages 84 to 122 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 162 to 165 and, incorporated by reference, pages 1 to 136. The Corporate Governance Statement of Reed Elsevier NV dated 15 February 2012 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 of acquired intangible assets, 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 include 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 €800m (2010: €748m). Reported profit before tax, including the Reed Elsevier NV shareholders' share of amortisation, acquisition related costs and disposals and non operating items, was €438m (2010: €379m). The increase reflects the improved trading performance, lower interest costs and no exceptional restructuring costs in 2011.

At Elsevier, Science & Technology reported good growth in research and databases. Health Sciences underlying revenues were flat, with double digit revenue growth in electronic revenue across all segments offset by declines in print book sales to individuals and in pharma promotion. LexisNexis Risk Solutions achieved good growth in insurance data & analytics and business services, although screening revenues slowed in the second half reflecting US hiring trends, and federal government markets remained under pressure. LexisNexis Legal & Professional revenues returned to slight underlying growth in both the US and internationally, with growth in research and litigation tools and in practice management, and moderating declines in news and business to corporate customers and in electronic listings. Reed Exhibitions saw good growth across all geographies, excluding biennial cycling. Reed Business Information returned to underlying revenue growth, with strong growth in data services mostly offset by continued weakness in print advertising. The overall adjusted operating margin was 1.4 percentage points higher despite additional spending on new product development and sales & marketing, reflecting the sale and closure of low returning assets and continued focus on process efficiency and procurement savings, and the benefit of prior year restructuring and currency effects.

Reed Elsevier NV 's shareholders' share of the adjusted profit attributable of the combined businesses was €610m (2010: €575m). After deducting the company's share of the post tax charge for amortisation of acquired intangible assets, 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 €437m (2010: €376m).

Adjusted earnings per share increased 6% to €0.83 (2010: €0.78). At constant rates of exchange, the adjusted earnings per share were 6% higher. Including amortisation of acquired intangible assets, acquisition related costs, disposal gains and losses and other non operating items, and tax adjustments, the basic earnings per share were €0.59 (2010: €0.51).

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 2011 was €1,303m (2010: €1,137m). The €166m 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 179 to 183) are prepared under UK generally accepted accounting practice (UK GAAP) The profit attributable to the shareholders of Reed Elsevier NV was €17m (2010: €1,102m) and net assets as at 31 December 2011, 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 €4,630m (2010: €4,884m). Free reserves as at 31 December 2011 were €4,385m (2010: €4,655m), comprising reserves and paid-in surplus less shares held in treasury.

Dividends
The Combined Board is recommending an equalised final dividend of €0.326 per ordinary share, up 8% compared with the prior year. This gives total ordinary dividends for the year of €0.436 (2010: €0.412), up 6% on 2010. The final dividend will be paid on 21 May 2012.

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 €289m (2010: €281m).

Share capital
During 2011, 200,738 ordinary shares in the company were issued as follows:

- 104,250 under convertible debentures at prices between €7.354 and €9.512
- 96,488 under executive share option schemes at prices between €7.301 and €9.415

Information regarding shares outstanding at 31 December 2011 is shown in note 13 to the consolidated financial statements.

As at 31 December 2011 31,333,697 of the ordinary shares were held in treasury including 7,380,906 held by the Reed Elsevier Group plc Employee Benefit Trust. No R shares were held in treasury.

As at 15 February 2012, 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 Corporate Governance Code issued in May 2010 (the UK Code). 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 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 Directors' Remuneration Report.
- **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.

- **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 per annum 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 2011. 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. Presentations made following the announcement of the interim and full year results are simultaneously webcast. Investor seminars are also webcast.

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)
M Elliott
A Hennah
(appointed 20 April 2011)
L Hook
M van Lier Lels
R Polet
Sir David Reid
Lord Sharman of Redlynch OBE
(retired 20 April 2011)
B van der Veer

The Executive Board

E Engstrom (Chairman and Chief Executive Officer)
M Armour
(Chief Financial Officer)

At the Annual General Meeting held in April 2011, Adrian Hennah was appointed as a member of the Supervisory Board and Lord Sharman retired as a member of the Supervisory Board.

All members of the Executive Board and the Supervisory Board will stand for re-appointment at the Annual General Meeting in April 2012, including Mark Elliott and Sir David Reid, who will at that time have served on the Supervisory Board for nine years. A search is being conducted in conjunction with external consultants for two suitable candidates to join the Supervisory Board. This has resulted in the Nominations Committee recommending to the Combined Board the appointment of David Brennan as member of the Supervisory Board of Reed Elsevier NV and as a non-executive director of Reed Elsevier PLC with effect from 1 November 2012. This will be proposed at the Annual General Meetings in April 2012. In order to allow for an orderly transition to new members of the Supervisory Board, it will be proposed at the Annual General Meeting to reappoint Mark Elliot and Sir David Reid for one additional year.

Biographical details of the directors at the date of this report are given on pages 52 and 53. 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 63 to 79.

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 2011 and of the profit or loss in 2011. 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.

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 2011 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 2011 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 2011 financial statements. In reaching this conclusion, the Combined Board has had due regard to the combined businesses' financial position as at 31 December 2011, 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 2011 is set out in the Chief Financial Officer's Report on pages 42 to 44. 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 46 and 47. 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 48 to 50.

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 24 April 2012.

Signed by:

The Supervisory Board	**The Executive Board**
A Habgood (Chairman)	E Engstrom (Chairman and Chief Executive Officer)
M Elliott	M Armour (Chief Financial Officer)
A Hennah	
L Hook	
M van Lier Lels	
R Polet	
Sir David Reid	
B van der Veer	

Registered office
Radarweg 29
1043 NX The Netherlands

Chamber of Commerce Amsterdam
Register file No: 33155037
15 February 2012

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 €m	2010 €m
Administrative expenses	2	**(2)**	(2)
Share of results of joint ventures	11	**420**	367
Operating profit		**418**	365
Finance income	5	**20**	14
Profit before tax		**438**	379
Taxation	6	**(1)**	(3)
Profit attributable to ordinary shareholders		**437**	376

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER	2011 €m	2010 €m
Profit attributable to ordinary shareholders	**437**	376
Share of joint ventures' other comprehensive income for the year	**20**	71
Total comprehensive income for the year	**457**	447

Earnings per ordinary share

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 €	2010 €
Basic earnings per share	8	**0.59**	0.51
Diluted earnings per share	8	**0.59**	0.51

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER	Note	2011 €m	2010 €m
Cash flows from operating activities			
Cash used by operations	10	**(3)**	(1)
Interest received		**20**	14
Tax paid		**(5)**	(4)
Net cash from operating activities		**12**	9
Cash flows from investing activities			
Dividends received from joint ventures	11	**–**	1,093
Increase in investment in joint ventures	11	**–**	(719)
Net cash from investing activities		**–**	374
Cash flows from financing activities			
Equity dividends paid	7	**(289)**	(281)
Proceeds on issue of ordinary shares		**2**	2
Decrease/(increase) in net funding balances due from joint ventures	10	**275**	(104)
Net cash used in financing activities		**(12)**	(383)
Movement in cash and cash equivalents		**–**	–

Consolidated statement of financial position

AS AT 31 DECEMBER	Note	2011 €m	2010 €m
Non-current assets			
Investments in joint ventures	11	**1,359**	1,198
Current assets			
Amounts due from joint ventures		**2**	2
Cash and cash equivalents		**3**	3
		5	5
Total assets		**1,364**	1,203
Current liabilities			
Payables	12	**10**	11
Taxation		**51**	55
Total liabilities		**61**	66
Net assets		**1,303**	1,137
Capital and reserves			
Share capital issued	13	**54**	54
Paid-in surplus		**2,171**	2,169
Shares held in treasury (including in joint ventures)		**(432)**	(433)
Translation reserve		**6**	(51)
Other reserves	14	**(496)**	(602)
Total equity		**1,303**	1,137

Consolidated statement of changes in equity

	Note	Share capital €m	Paid-in surplus €m	Shares held in treasury €m	Translation reserves €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 1 January 2011		**54**	**2,169**	**(433)**	**(51)**	**(602)**	**1,137**
Total comprehensive income for the year		**–**	**–**	**–**	**54**	**403**	**457**
Equity dividends paid	7	**–**	**–**	**–**	**–**	**(289)**	**(289)**
Issue of ordinary shares, net of expenses		**–**	**2**	**–**	**–**	**–**	**2**
Share of joint ventures' settlement of share awards by employee benefit trust		**–**	**–**	**4**	**–**	**(4)**	**–**
Share of joint ventures' increase in share based remuneration reserve		**–**	**–**	**–**	**–**	**16**	**16**
Share of joint ventures' acquisition of non-controlling interest		**–**	**–**	**–**	**–**	**(25)**	**(25)**
Equalisation adjustments		**–**	**–**	**–**	**–**	**5**	**5**
Exchange translation differences		**–**	**–**	**(3)**	**3**	**–**	**–**
Balance at 31 December 2011		**54**	**2,171**	**(432)**	**6**	**(496)**	**1,303**

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 165.

The Reed Elsevier combined financial statements presented in pounds sterling on pages 84 to 122 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 123 to 136.

As a consequence of the merger of the company's businesses with those of Reed Elsevier PLC, described on page 55, 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.

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.

Combined financial statements

The accounting policies adopted in the preparation of the combined financial statements are set out on pages 88 to 93.

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 date of statement of financial position.

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 have been substantively enacted at the date of the statement of financial position. 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 91 to 93.

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 93 of the combined financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2011

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	2011	2010
Reed Elsevier combined businesses net profit attributable to parent company shareholders in pounds sterling	**£760m**	£642m
Reed Elsevier combined businesses net profit attributable to parent company shareholders in pounds sterling translated into euros at average exchange rates	**€874m**	€751m
Reed Elsevier combined businesses net profit attributable to parent company shareholders in euros	**€874m**	€751m
Reed Elsevier NV's 50% share of combined net profit attributable to ordinary shareholders	**€437m**	€376m

REED ELSEVIER NV CONSOLIDATED TOTAL EQUITY	2011	2010
Reed Elsevier combined shareholders' equity in pounds sterling	**£2,172m**	£1,943m
Reed Elsevier combined shareholders' equity in pounds sterling translated into euros at year end exchange rates	**€2,606m**	€2,273m
Reed Elsevier NV's 50% share of combined equity	**€1,303m**	€1,137m

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 (2010: €0.3m) 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 (2010: nil).

3 Auditor's remuneration

Audit fees payable by Reed Elsevier NV were €50,000 (2010: €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.

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 30 to the combined financial statements.

5 Finance income

	2011 €m	2010 €m
Finance income from joint ventures	**20**	14

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.

	2011 €m	2010 €m
Profit before tax	**438**	379
Tax at applicable rate: 25.0% (2010: 25.5%)	**110**	97
Tax at applicable rate on share of results of joint ventures	**(105)**	(94)
Other	**(4)**	–
Tax expense	**1**	3

7 Equity dividends

ORDINARY DIVIDENDS DECLARED IN THE YEAR	**2011 €**	2010 €	**2011 €m**	2010 €m
Ordinary shares				
Final for prior financial year	**€0.303**	€0.293	**212**	205
Interim for financial year	**€0.110**	€0.109	**77**	76
Total	**€0.413**	€0.402	**289**	281
R shares	**–**	–	**–**	–

The directors of Reed Elsevier NV have proposed a final dividend of €0.326 (2010: €0.303). The cost of funding the proposed final dividend is expected to be €228m. No liability has been recognised at the statement of financial position date.

ORDINARY DIVIDENDS PAID AND PROPOSED RELATING TO THE FINANCIAL YEAR	**2011 €**	2010 €
Ordinary shares		
Interim (paid)	**€0.110**	€0.109
Final (proposed)	**€0.326**	€0.303
Total	**€0.436**	€0.412
R shares	**–**	–

Notes to the consolidated financial statements

for the year ended 31 December 2011

8 Earnings per ordinary share ("EPS")

	2011			2010		
	Weighted average number of shares (millions)	**Earnings €m**	**EPS €**	Weighted average number of shares (millions)	Earnings €m	EPS €
Basic earnings per share	**735.3**	**437**	**0.59**	734.5	376	0.51
Diluted earnings per share	**740.8**	**437**	**0.59**	737.8	376	0.51

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 2011 are shown below.

NUMBER OF ORDINARY SHARES	Year ended 31 December			
			2011	2010
	Shares in issue (millions)	**Treasury shares (millions)**	**Shares in issue net of treasury shares (millions)**	Shares in issue net of treasury shares (millions)
At start of year	**723.9**	**(31.7)**	**692.2**	691.5
Issue of ordinary shares	**0.2**	**–**	**0.2**	0.2
Net release of shares by employee benefit trust	**–**	**0.4**	**0.4**	0.5
At end of year	**724.1**	**(31.3)**	**692.8**	692.2
Weighted average number of equivalent ordinary shares during the year			**735.3**	734.5

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.

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:

EARNINGS PER SHARE	Profit attributable to ordinary shares		Basic earnings ordinary shares	
	2011 €m	2010 €m	**2011 €**	2010 €
Reported figures	**437**	376	**0.59**	0.51
Share of adjustments in joint ventures:				
Amortisation of acquired intangible assets	**204**	197	**0.28**	0.27
Exceptional restructuring costs	**–**	22	**–**	0.03
Acquisition related costs	**19**	18	**0.03**	0.02
Disposals and other non operating items	**10**	21	**0.01**	0.03
Deferred tax adjustments	**(60)**	(59)	**(0.08)**	(0.08)
Adjusted figures	**610**	575	**0.83**	0.78

10 Statement of cash flows

RECONCILIATION OF ADMINISTRATIVE EXPENSES TO CASH USED BY OPERATIONS	**2011 €m**	2010 €m
Administrative expenses	**(2)**	(2)
Net movement in payables	**(1)**	1
Cash used by operations	**(3)**	(1)

RECONCILIATION OF NET FUNDING BALANCES DUE FROM JOINT VENTURES	**2011 €m**	2010 €m
At start of year	**1,359**	1,255
Cash flow	**(275)**	104
At end of year	**1,084**	1,359

Notes to the consolidated financial statements

for the year ended 31 December 2011

11 Investments in joint ventures

	2011 €m	2010 €m
Share of results of joint ventures	**420**	367
Share of joint ventures' other comprehensive income	**20**	71
Share of joint ventures' increase/(decrease) in share based remuneration reserve	**16**	(4)
Share of joint ventures' acquisition of non-controlling interests	**(25)**	–
Equalisation adjustments	**5**	3
Dividends received from joint ventures	**–**	(1,093)
Increase in investment in joint ventures	**–**	719
(Increase)/decrease in net funding balances due from joint ventures	**(275)**	104
Net movement in the year	**161**	167
At start of year	**1,198**	1,031
At end of year	**1,359**	1,198

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	
	2011 €m	2010 €m	2011 €m	2010 €m
Revenue	**6,902**	7,084	**3,451**	3,542
Net profit for the year	**882**	758	**420**	367

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 €17m (2010: €9m).

	Total joint ventures		Reed Elsevier NV shareholders' share	
	2011 €m	2010 €m	2011 €m	2010 €m
Total assets	**13,804**	13,055	**6,897**	6,523
Total liabilities	**(11,168)**	(10,750)	**(6,622)**	(6,684)
Net assets/(liabilities)	**2,636**	2,305	**275**	(161)
Attributable to:				
Joint ventures	**2,606**	2,273	**275**	(161)
Non-controlling interests	**30**	32	**–**	–
	2,636	2,305	**275**	(161)
Net funding balances due from joint ventures			**1,084**	1,359
Total			**1,359**	1,198

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 €433m (2010: €431m) and borrowings of €2,561m (2010: €2,508m) respectively.

12 Payables

Included within payables are employee convertible debenture loans of €8m (2010: €9m) with a weighted average interest rate of 3.13% (2010: 3.30%). Depending on the conversion terms, the surrender of €200 par value debenture loans qualifies for 50 Reed Elsevier NV ordinary shares.

13 Share capital and shares held in treasury

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 2010	4,303,179	723,692,901	3	50	53
Issue of ordinary shares	–	184,116	–	1	1
At 1 January 2011	4,303,179	723,877,017	3	51	54
Issue of ordinary shares	–	200,738	–	–	–
At 31 December 2011	4,303,179	724,077,755	3	51	54

The issue of shares relates to the exercise of share options. Details of share option and conditional share schemes are set out in note 6 to the Reed Elsevier combined financial statements.

At 31 December 2011 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.

Details of shares held in treasury are provided in note 28 to the Reed Elsevier combined financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2011

14 Other reserves

	2011 €m	2010 €m
At start of year	**(602)**	(664)
Profit attributable to ordinary shareholders	**437**	376
Share of joint ventures':		
Actuarial losses on defined benefit pension schemes	**(65)**	(37)
Fair value movements on available for sale investments	**(1)**	–
Fair value movements on cash flow hedges	**(14)**	(34)
Tax recognised directly in equity	**24**	17
Increase/(decrease) in share based remuneration reserve	**16**	(4)
Acquisition of non-controlling interests	**(25)**	–
Settlement of share awards by employee benefit trust	**(4)**	(5)
Transfer to net profit from hedge reserve	**22**	27
Equalisation adjustments	**5**	3
Equity dividends paid	**(289)**	(281)
At end of year	**(496)**	(602)

15 Contingent liabilities

There are contingent liabilities in respect of borrowings of joint ventures guaranteed by Reed Elsevier NV as follows:

	2011 €m	2010 €m
Guaranteed jointly and severally with Reed Elsevier PLC	**4,704**	4,591

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.

16 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 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.

17 Approval of financial statements

The consolidated financial statements were signed and authorised for issue by the Combined Board of directors on 15 February 2012.

A J Habgood
Chairman of the Supervisory Board
and the Combined Board

M H Armour
Chief Financial Officer

Independent auditor's 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 2011 which are part of the financial statements of Reed Elsevier NV, Amsterdam, which comprise the consolidated statement of financial position as at 31 December 2011, 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 166 to 177.

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.

Auditor's 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 2011, 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 whether 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
15 February 2012

Parent company profit and loss account

FOR THE YEAR ENDED 31 DECEMBER	**2011 €m**	2010 €m
Administrative expenses	**(2)**	(2)
Dividends received from joint ventures	**–**	1,093
Finance income from joint ventures	**20**	14
Taxation	**(1)**	(3)
Profit attributable to ordinary shareholders	**17**	1,102

Parent company balance sheet

AS AT 31 DECEMBER	Note	**2011 €m**	2010 €m
Fixed assets			
Investments in joint ventures		**3,602**	3,597
Current assets			
Amounts due from joint ventures – funding		**1,084**	1,359
Amounts due from joint ventures – other		**2**	2
		1,086	1,361
Cash		**3**	3
		1,089	1,364
Creditors: amounts falling due within one year			
Taxation		**(51)**	(55)
Other creditors	1	**(10)**	(22)
		(61)	(77)
Net current assets		**1,028**	1,287
Net assets		**4,630**	4,884
Capital and reserves			
Share capital issued		**54**	54
Paid-in surplus		**2,171**	2,169
Shares held in treasury		**(336)**	(336)
Other reserves		**191**	175
Reserves		**2,550**	2,822
Shareholders' funds		**4,630**	4,884

The parent company financial statements were signed and authorised for issue by the Combined Board of directors on 15 February 2012.

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 (ii) €m	Reserves (iii) €m	Total €m
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 1 January 2011	**54**	**2,169**	**(336)**	**175**	**2,822**	**4,884**
Profit attributable to ordinary shareholders	**–**	**–**	**–**	**–**	**17**	**17**
Equity dividends paid	**–**	**–**	**–**	**–**	**(289)**	**(289)**
Issue of shares, net of expenses	**–**	**2**	**–**	**–**	**–**	**2**
Equity instruments granted to employees of combined businesses	**–**	**–**	**–**	**16**	**–**	**16**
At 31 December 2011	**54**	**2,171**	**(336)**	**191**	**2,550**	**4,630**

(i) Within paid-in surplus, an amount of €1,994m (2010: €1,992m) is free of tax.

(ii) 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.

(iii) Free reserves of the company at 31 December 2011 were €4,385m (2010: €4,655m), comprising reserves and paid-in surplus less shares held in treasury.

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.

The parent company financial statements are prepared on a going concern basis, as explained on page 165.

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 16 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 €8m (2010: €9m) of employee convertible debenture loans with a weighted average interest rate of 3.13% (2010: 3.30%). Depending on the conversion terms, the surrender of €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	**2011 €m**	2010 €m
Parent company profit attributable to ordinary shareholders	**17**	1,102
Share of results of joint ventures	**420**	367
Dividends received from joint ventures	**–**	(1,093)
Consolidated profit attributable to ordinary shareholders using the equity method	**437**	376

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	**2011 €m**	2010 €m
Parent company shareholders' funds	**4,630**	4,884
Cumulative share of results of joint ventures less cumulative dividends received from joint ventures	**(2,327)**	(2,747)
Cumulative currency translation adjustments	**(214)**	(271)
Cumulative equalisation and other adjustments	**103**	145
Share of treasury shares held by joint ventures' employee benefit trust	**(96)**	(97)
Share of IFRS adjustments in joint ventures	**(602)**	(602)
Equity instruments granted to employees of combined businesses	**(191)**	(175)
Consolidated shareholders' funds using the equity method	**1,303**	1,137

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	2011 €m	2010 €m
Final dividend on ordinary shares for prior financial year	**212**	205
Interim dividend on ordinary shares for financial year	**77**	76
Dividend on R shares	**–**	–
Retained (loss)/profit	**(272)**	821
	17	1,102

Independent auditor's 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 2011 which are part of the financial statements of Reed Elsevier NV, Amsterdam, which comprise the parent company balance sheet as at 31 December 2011, 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 179 to 182.

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 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.

Auditor's 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 2011, and of its results and its cash flows for the year then ended in accordance with accounting practices 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 whether 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 parent company financial statements as required by 2:391 sub 4 of the Dutch Civil Code.

Deloitte Accountants B.V.
A Sandler
Amsterdam
The Netherlands
15 February 2012

5 year summary

	Note	**2011 €m**	2010 €m	2009 €m	2008 €m	2007 €m
Combined financial information						
Revenue – continuing operations	2	**6,902**	7,084	6,800	6,721	6,693
Reported operating profit – continuing operations	2	**1,386**	1,275	881	1,135	1,296
Adjusted operating profit – continuing operations	2	**1,870**	1,819	1,758	1,737	1,660
Reported profit attributable to shareholders – total operations		**874**	751	438	587	1,709
Adjusted profit attributable to shareholders – total operations		**1,219**	1,150	1,099	1,159	1,244
Reed Elsevier NV consolidated financial information						
Reported profit attributable to shareholders		**437**	376	219	294	855
Adjusted profit attributable to shareholders		**610**	575	550	580	622
Reported earnings per ordinary share (€)		**€0.59**	€0.51	€0.32	€0.44	€1.10
Adjusted earnings per ordinary share (€)		**€0.83**	€0.78	€0.79	€0.87	€0.80
Dividend per ordinary share (€)	3	**€0.436**	€0.412	€0.400	€0.404	€0.425

(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.

Other information

In this section

Additional information for US Investors

Shareholder information

Principal operating locations

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.

EXCHANGE RATES FOR TRANSLATION	Income statement		Statement of financial position	
	2011	2010	**2011**	2010
US dollars to sterling	**1.60**	1.55	**1.55**	1.56

Combined income statement

FOR THE YEAR ENDED 31 DECEMBER	**2011 US$m**	2010 US$m
Revenue	**9,603**	9,385
Operating profit	**1,928**	1,690
Profit before tax	**1,517**	1,190
Profit attributable to parent companies' shareholders	**1,216**	995
Adjusted operating profit	**2,602**	2,410
Adjusted profit before tax	**2,226**	1,982
Adjusted profit attributable to parent companies' shareholders	**1,696**	1,524

Combined statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER	2011 US$m	2010 US$m
Net cash from operating activities	**2,052**	2,097
Net cash used in investing activities	**(1,154)**	(510)
Net cash used in financing activities	**(968)**	(1,587)
Decrease in cash and cash equivalents	**(70)**	–
Movement in cash and cash equivalents		
At start of year	**1,158**	1,189
Decrease in cash and cash equivalents	**(70)**	–
Exchange translation differences	**37**	(31)
At end of year	**1,125**	1,158
Adjusted operating cash flow	**2,424**	2,354

Combined statement of financial position

AS AT 31 DECEMBER	2011 US$m	2010 US$m
Non-current assets	**13,812**	13,383
Current assets	**3,949**	4,023
Assets held for sale	**68**	–
Total assets	**17,829**	17,406
Current liabilities	**6,857**	6,079
Non-current liabilities	**7,541**	8,254
Liabilities associated with assets held for sale	**26**	–
Total liabilities	**14,424**	14,333
Net assets	**3,405**	3,073

Reed Elsevier PLC

Summary financial information in US dollars

Basis of preparation
The summary financial information is a simple translation of the Reed Elsevier PLC 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 ($:£1)	2011 US$:£	2010 US$:£
Income statement	**1.60**	1.55
Statement of financial position	**1.55**	1.56

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER	2011 US$m	2010 US$m
Profit attributable to ordinary shareholders	**622**	507
Adjusted profit attributable to 52.9% interest in Reed Elsevier combined businesses	**898**	806
Share of joint ventures':		
Amortisation of acquired intangible assets	**(301)**	(276)
Exceptional restructuring costs	**–**	(31)
Acquisition related costs	**(27)**	(23)
Disposals and other non operating items	**(13)**	(31)
Deferred tax adjustments	**86**	82
Profit attributable to 52.9% interest in Reed Elsevier combined businesses	**643**	527

DATA PER AMERICAN DEPOSITARY SHARE (ADS)	2011 US$	2010 US$
Earnings per ADS based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	**$2.99**	$2.69
Basic	**$2.07**	$1.69
Net dividend per ADS declared in the year	**$1.32**	$1.26
Net dividend per ADS paid and proposed in relation to the financial year	**$1.38**	$1.26

Consolidated statement of financial position

AS AT 31 DECEMBER	2011 US$m	2010 US$m
Shareholders' equity	**1,781**	1,604

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 of acquired intangible assets, 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 include 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 EURO ($:€1)	2011 US$:€	2010 US$:€
Income statement	**1.39**	1.32
Statement of financial position	**1.29**	1.33

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER	2011 US$m	2010 US$m
Adjusted profit attributable to ordinary shareholders	**849**	762
Share of joint ventures':		
Amortisation of acquired intangible assets	**(284)**	(261)
Exceptional restructuring costs	**–**	(29)
Acquisition related costs	**(26)**	(24)
Disposals and other non operating items	**(14)**	(28)
Deferred tax adjustments	**83**	78
Profit attributable to ordinary businesses	**608**	498

DATA PER AMERICAN DEPOSITARY SHARE (ADS)	2011 US$	2010 US$
Earnings per ADS based on 50% interest in Reed Elsevier combined businesses		
Adjusted	**$2.31**	$2.07
Basic	**$1.64**	$1.35
Net dividend per ADS declared in the year	**$1.15**	$1.07
Net dividend per ADS paid and proposed in relation to the financial year	**$1.21**	$1.09

Consolidated statement of financial position

AS AT 31 DECEMBER	2011 US$m	2010 US$m
Shareholders' equity	**1,683**	1,516

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 of acquired intangible assets, 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 2011

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 2011, 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 192. 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.

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 192.

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 192.

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 192.

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 192.

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.

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 192, or by calling their ISA helpline on 0871 384 2244.

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.

Warning to shareholders – unsolicited investment advice
Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler room scams'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice, check that the person or organisation is properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register/ and contacting the firm using the details on the register. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Service Compensation Scheme.

The FSA can be contacted at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml.

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 192.

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.

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 192.

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 2011 will be available on the Reed Elsevier website, or from the ADR Depositary at the address shown on page 192.

Contacts

Reed Elsevier PLC
1-3 Strand
London WC2N 5JR
United Kingdom

Tel: +44 (0)20 7930 7077
Fax: +44 (0)20 7166 5799

Reed Elsevier NV
Radarweg 29
1043 NX Amsterdam
The Netherlands

Tel: +31 (0)20 485 2222
Fax: +31 (0)20 485 2032

Auditors
Deloitte LLP
2 New Street Square
London EC4A 3BZ
United Kingdom

Deloitte Accountants B.V.
Orlyplein 10
1043 DP Amsterdam
The Netherlands

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
United Kingdom

WWW.SHAREVIEW.CO.UK

Tel: 0871 384 2960
(calls charged at 8p per minute from a BT landline,
other telephony providers' costs may vary)

Tel: +44 121 415 7047 (non-UK callers)

Reed Elsevier PLC and Reed Elsevier NV ADR Depositary
BNY Mellon (ADRs)
PO Box 358516
Pittsburgh PA15252-8516
USA

WWW.ADRBNY.COM

email: shrrelations@bnymellon.com

Tel: +1 888 269 2377
+1 201 680 6825 (outside the US)

Listing/paying agent
Royal Bank of Scotland N.V.
Gustav Mahlerlaan 10
1082 PP Amsterdam
The Netherlands

WWW.SECURITIESINFO.NL

2012 financial calendar

16 February	**PLC NV**	Announcement of Results for the year ended 31 December 2011
24 April	**PLC NV**	Interim Management Statement issued in relation to the 2012 financial year
24 April	**NV**	Annual General Meeting – Reed Elsevier NV, Hotel Okura, Ferdinand Bolstraat 33, 1072 LH Amsterdam
25 April	**PLC**	Annual General Meeting – Reed Elsevier PLC, Millennium Hotel, Grosvenor Square, London W1K 2HP
25 April	**PLC**	Ex-dividend date – 2011 final dividend, Reed Elsevier PLC ordinary shares and ADRs
26 April	**NV**	Ex-dividend date – 2011 final dividend, Reed Elsevier NV ordinary shares and ADRs
27 April	**PLC**	Record date – 2011 final dividend, Reed Elsevier PLC ordinary shares and ADRs
30 April	**NV**	Record date – 2011 final dividend, Reed Elsevier NV ordinary shares and ADRs
21 May	**PLC NV**	Payment date – 2011 final dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares
29 May	**PLC NV**	Payment date – 2011 final dividend, Reed Elsevier PLC and Reed Elsevier NV ADRs
26 July	**PLC NV**	Announcement of Interim Results for the six months to 30 June 2012
8 August	**PLC NV**	Ex-dividend date – 2012 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares and ADRs
10 August	**PLC NV**	Record date – 2012 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares and ADRs
31 August	**PLC NV**	Payment date – 2012 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ordinary shares
7 September	**PLC NV**	Payment date – 2012 interim dividend, Reed Elsevier PLC and Reed Elsevier NV ADRs
8 November	**PLC NV**	Interim Management Statement issued in relation to the 2012 financial year

The following tables set out dividends paid (or proposed) in relation to the three financial years 2009–2011.

	per PLC ordinary share	**per NV ordinary share**	**Payment date**
Final dividend for 2011*	15.90p	€0.326	21 May 2012
Interim dividend for 2011	5.65p	€0.110	26 August 2011
Final dividend for 2010	15.00p	€0.303	17 May 2011
Interim dividend for 2010	5.40p	€0.109	27 August 2010
Final dividend for 2009	15.00p	€0.293	21 May 2010
Interim dividend for 2009	5.40p	€0.107	28 August 2009

*Proposed dividend, to be submitted for approval at the respective Annual General Meetings of Reed Elsevier PLC and Reed Elsevier NV in April 2012.

	per PLC ADR	**per NV ADR**	**Payment date**
Final dividend for 2011	**	**	29 May 2012
Interim dividend for 2011	$0.36860	$0.26875	2 September 2011
Final dividend for 2010	$0.97236	$0.73118	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

**Payment will be determined using the appropriate £/US$ and €/US$ exchange rate on 21 May 2012.

Principal operating locations

Reed Elsevier
1-3 Strand
London WC2N 5JR, UK
Tel: +44 (0)20 7930 7077
Fax: +44 (0)20 7166 5799

Radarweg 29
1043 NX Amsterdam
The Netherlands
Tel: +31 (0)20 485 2222
Fax: +31 (0)20 485 2032

125 Park Avenue, 23rd Floor
New York, NY 10017, USA
Tel: +1 212 309 8100
Fax: +1 212 309 8187

FOR FURTHER INFORMATION OR CONTACT DETAILS, PLEASE CONSULT OUR WEBSITE:
WWW.REEDELSEVIER.COM

Elsevier
Radarweg 29
1043 NX Amsterdam
The Netherlands
WWW.ELSEVIER.COM

The Boulevard, Langford Lane
Kidlington, Oxford OX5 1GB, UK

1600 John F. Kennedy Blvd
Suite 1800, Philadelphia
PA 19103, USA
WWW.US.ELSEVIERHEALTH.COM

3251 Riverport Lane
Maryland Heights, MO 63043, USA

LexisNexis Legal & Professional
125 Park Avenue, 23rd Floor
New York, NY 10017, USA
WWW.LEXISNEXIS.COM

9443 Springboro Pike
Miamisburg, OH 45342, USA

Halsbury House, 35 Chancery Lane
London WC2A 1EL, UK
WWW.LEXISNEXIS.CO.UK

LexisNexis Risk Solutions
1000 Alderman Drive
Alpharetta, GA 30005, USA
WWW.LEXISNEXIS.COM/RISK/

Reed Exhibitions
Gateway House, 28 The Quadrant
Richmond, Surrey TW9 1DN, UK
WWW.REEDEXPO.COM

Reed Business Information
Quadrant House, The Quadrant
Sutton, Surrey SM2 5AS, UK
WWW.REEDBUSINESS.CO.UK

Elsevier Reed Finance BV
Radarweg 29
1043 NX Amsterdam
The Netherlands
Tel: +31 (0)20 485 2222
Fax: +31 (0)20 485 2032

Notes

Notes

Credits

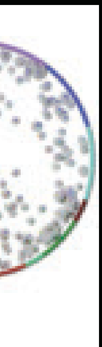
Designed and produced by
saslondon.com
Board photography by
Julian Calder
Printed by
Pureprint Group, ISO14001, FSC® certified and CarbonNeutral®

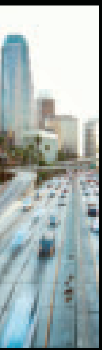
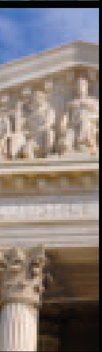
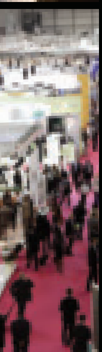
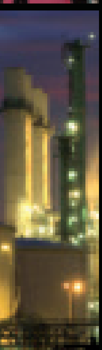
The paper used in the report contains 100% recycled content, of which 100% is de-inked post-consumer waste. All of the pulp is bleached using an elemental chlorine free process (ECF). Printed in the UK by Pureprint using their alcofree® and pureprint® environmental printing technology; vegetable inks were used throughout. Pureprint is a CarbonNeutral® company. Both manufacturing mill and printer are ISO14001 registered and are Forest Stewardship Council® (FSC) chain-of-custody certified.

FSC www.fsc.org RECYCLED Paper made from recycled material FSC® C022913

pureprint® Environmental Print Technology only from The Beacon Press

alcofree®



www.reedelsevier.com