Company Registration No. 2746616

Reed Elsevier Group plc

Annual Report and Financial Statements

For the year ended 31 December 2008

OFFICERS AND PROFESSIONAL ADVISERS

Directors

The following served as directors during the year:

J Hommen *	- Chairman
Sir Crispin Davis	- Chief Executive Officer
M H Armour	- Chief Financial Officer
G J A van de Aast	- resigned 15 December 2008
M W Elliott *	
E Engstrom	
L Hook *	
R B Polet *	
A Prozes	
D E Reid *	
Lord Sharman of Redlynch OBE*	
R W H Stomberg *	- retired 23 April 2008
P J Tierney	- retired 30 January 2008

*Indicates non-executive director

Subsequent to the year end, Mr I R Smith was appointed as a director and CEO-designate on 1 January 2009, and will become Chief Executive Officer upon the retirement of Sir Crispin Davis in March 2009. Mr J Hommen will retire as Chairman and as a director in April 2009.

Secretary

Stephen J Cowden

Registered Office

1-3 Strand
London
WC2N 5JR

Auditor

Deloitte LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The company is a holding company and through its subsidiary undertakings is primarily engaged in publishing and providing information, principally in North America and Europe.

The company is jointly owned and controlled by Reed Elsevier PLC and Reed Elsevier NV.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Results and dividends

Revenue from continuing operations for the year was £5,281 million (2007: £4,534 million) and adjusted operating profit (i.e. before amortisation of acquired intangible assets, goodwill impairment, exceptional restructuring and acquisition related costs, and the equity share of taxes in joint ventures) from continuing operations was £1,330 million (2007: £1,098 million). The adjusted operating margin was 25.2%, 1.0 percentage points higher than the prior year. Operating profit from continuing operations was £863 million (2007: £850 million). The movements reflect the strong underlying operating performance, the part year contribution from ChoicePoint (acquired in September 2008 for $4.1 billion) and currency translation effects.

The amortisation charge in respect of acquired intangible assets, including the share of amortisation in joint ventures, amounted to £270 million, up £50 million as a result of ChoicePoint and other recent acquisitions, and currency translation effects.

Exceptional restructuring costs incurred to date in the restructuring programme announced in February 2008 and in Reed Business Information amounted to £152 million principally in respect of severance, outsourcing migration and associated property costs.

Net finance costs were £500 million, up £82 million from the prior year. The increase principally reflects funding of ChoicePoint and other recent acquisitions, and currency translation effects.

The group profit before tax from continuing operations of £270 million (2007: £530 million) includes acquisition related costs of £27 million (2007: £20 million) and a loss on disposals and other non operating items amounting to £93 million (2007: £98 million gain) and charges for the amortisation of intangible assets and goodwill impairment of £279 million (2007: £220 million).

The effective tax rate on profits before exceptional restructuring and acquisition related costs, disposals and other non operating items, amortisation of intangible assets and goodwill impairment was 27.2% (2007: 26.0%). The reported tax charge of £99 million compares with a credit of £112 million in the prior year, which included a credit of £223 million in respect of previously unrecognised deferred tax assets and capital losses, arising in continuing operations that were realisable as a result of the sale of Harcourt Education.

The net profit from discontinued operations of £18 million (2007: £309m) includes post-tax gains on disposals of £18 million (2007: £228 million).

The profit attributable to shareholders for the year amounted to £185 million (2007: £948 million)

During the year the company paid dividends of £500 million (2007: £850 million) on the "R" ordinary shares, nil on the "E" ordinary shares (2007: nil), and preference dividends of £7,500 (2007: £7,500) and subsidiary undertakings paid a further £953 million (2007: £966 million) to Reed Elsevier NV in respect of its holding of shares with special dividend rights in Reed Elsevier Overseas BV.

At 31 December 2008 gross third party borrowings of £3,781 million (2007: £1,902 million) were partially offset by cash and cash equivalents of £244 million (2007: £2,345 million) and derivative financial instruments used to hedge the value of borrowings of nil (2007: £162 million asset). In addition, net borrowings from shareholders and from Elsevier Reed Finance BV group amounted to £10,183 million (2007: £7,870 million). The increase in net borrowings in the year from £7,265 million to £13,720 million reflects the payments of dividends to the parent companies, the funding of the acquisition of ChoicePoint and the impact of the strengthening of the US dollar against sterling on the largely US dollar denominated net debt.

Operating Business review

The results of the businesses are reported in four segments; Elsevier, LexisNexis, Reed Exhibitions and Reed Business Information, which comprise the continuing operations of the group. Discontinued operations comprise the results of the Harcourt Education division. The disposal of the Harcourt Education International businesses completed in May and August 2007; the disposal of the Harcourt US K-12 Schools Education business completed in December 2007; and the disposal of the Harcourt Assessment business completed in January 2008.

Adjusted figures and constant currency growth rates are used by Reed Elsevier Group plc as additional performance measures. Adjusted operating profit is stated before amortisation of acquired intangible assets and goodwill impairment, exceptional restructuring and acquisition related costs, and is grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs principally relate to the major restructuring programme announced in February 2008 and in Reed Business Information (RBI). Constant currency growth rates are based on 2007 full year average and hedge exchange rates.

Elsevier

Elsevier has had a successful year driven by new publishing and continued expansion of our online information and workflow solutions as well as increasing cost efficiency. The year saw good underlying revenue growth, significant margin improvement, and further major progress in the development of the business. Revenues were up 5% at constant currencies and adjusted operating profits up 10% before acquisitions and disposals. Underlying margin improvement was 160 basis points, driven by the good revenue growth and tight cost management. Including the effect of acquisitions and disposals, most notably the sale in 2007 of the MDL software business, revenues were 4% higher at constant currencies and adjusted operating profits up 11%. The overall adjusted operating margin was up 170 basis points at reported exchange rates to 33.4%.

The Science & Technology business saw underlying revenue growth of 6%. *ScienceDirect* and journal subscription renewals were at a record 98%. *ScienceDirect* saw a continued widening of distribution in small academic and emerging markets, and usage again increased by over 20% measured by article downloads. Good growth in online databases, including the *Scopus* scientific abstract and indexing database, and electronic book sales also contributed to the strong revenue growth. Taking the MDL disposal into account, revenues were up 2% at constant currencies.

The Health Sciences business saw underlying revenue growth of 4%, held back by the continued weakness in pharma promotion markets. The Clinical Solutions business performed well with new publishing and strong demand for online workflow solutions that combine content with predictive analytical algorithms. The Nursing and Health Professionals segment also saw strong growth with its successful publishing programme and online resources. In the pharma market, advertising and other promotional revenues declined 5% reflecting fewer drug launches and a contraction of marketing budgets. Excluding pharma, Health Sciences' underlying revenues were up 6%.

During the year Elsevier continued to invest in developing the solutions product pipeline focusing on content integration and interoperability to deliver contextualized answers instead of documents. A good example of this continuous innovation is *Illumin8*, an online workflow solution designed to help corporate researchers answer complex research and development questions with greater speed and efficiency. In Health, *Mosby's Nursing Skills* had a successful rollout; CPMRC, the provider of nursing care plans acquired in December 2007, was integrated within the clinical decision support business; and MEDai acquired in January 2008 was combined with the payer solutions business to provide data and analytics on healthcare outcomes.

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

For 2009, subscription renewals are mostly completed and are encouraging. We expect continued growth in scientific research and in demand for our online solutions that make researchers more productive, although increasing pressure on academic budgets is likely to affect discretionary purchases. The health professions continue to grow and our products are integral to their training, continuing education and practice. We expect however to see continued weakness in pharma promotion markets and lower growth in Asian markets particularly in imported US medical books given the strengthening of the US dollar. Whilst 2009 may not be quite as buoyant as 2008, we expect satisfactory revenue development and further underlying margin improvement driven by our cost efficiency programme.

DIRECTORS' REPORT

LexisNexis

LexisNexis has had a good year despite more challenging markets, with continued growth in online information solutions in the US large law firm market and internationally, and good growth in risk information and analytics markets. Good revenue growth and the cost actions taken to improve efficiency delivered significant margin improvement. Revenues were up 5% at constant currencies and adjusted operating profits up 10% before acquisitions and disposals. Underlying margin improvement was 130 basis points, driven by the good revenue growth and tight cost management.

Including the ChoicePoint business acquired in September 2008 and after other acquisitions and disposals, revenues were 13% higher at constant currencies and adjusted operating profits up 18%. The overall adjusted operating margin was up 95 basis points at reported exchange rates to 26.4%. LexisNexis US saw underlying revenue growth of 4%. In US legal markets, good growth in online information solutions in the large law firm market was tempered by slower growth in smaller law firms and marginal declines in corporate and government markets reflecting an increasingly challenging economic environment. The risk information and analytics group saw 8% underlying growth, ie before taking into account the ChoicePoint business, driven by the collections sector, government and growing demand from the insurance, healthcare and energy sectors, whilst revenues from the financial services sector were flat. Including acquisitions and disposals, revenues were up 16% at constant currencies.

ChoicePoint, acquired in September 2008, saw strong proforma 2008 underlying revenue growth of 10% in the insurance business, which contributes over 85% of ChoicePoint's adjusted operating profits. The insurance business, which helps insurance carriers evaluate underwriting risk, was driven by increased transaction activity, reflecting insurance policy churn in the auto and property insurance markets, and by the increasing adoption by carriers of more powerful analytics in the underwriting process. The remaining ChoicePoint businesses saw revenues 6% lower reflecting the effect of the weaker economic environment on demand for pre-employment screening and for identity verification products from the mortgage and financial services sector. The integration of ChoicePoint and the LexisNexis risk information and analytics group is progressing well, led by one management team drawn from both businesses headquartered in Atlanta, and is firmly on track to deliver the targeted annual cost savings of $150 million by the third year of ownership. Overall, the ChoicePoint acquisition is on track to hit our returns targets.

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

During the year, LexisNexis has continued to invest significantly in developing and enhancing its workflow solutions, adding content and functionality and improving usability. A particular focus has been in practice management, litigation services and in client development which has seen the acceleration of Martindale-Hubbell's evolution from a legal directory business to a web marketing services provider for law firms and online legal market place for consumers. A new investment programme now underway is aimed at transforming the productivity of US legal research with modernised technology and advanced algorithms and functionality to provide much more powerful contextual solutions for customers and at greater speed. Combined with this is a major upgrade in back office infrastructure and customer service and support platforms to provide an integrated and superior customer experience across our US legal research, client development and solutions products.

LexisNexis saw significant further improvement in adjusted operating margin through organisational consolidation and restructuring. The US Legal business and the Corporate and Public Markets business other than Risk were combined into one organisation early in the year and the US operations consolidated with significant streamlining of management and operational activities. In addition to cost savings, this realignment positions the organisation better to support the development and marketing of Total Solutions. Outsourcing of non-core activities has also accelerated with the outsourcing of systems engineering and maintenance, data fabrication, software development engineering and other activities. These ongoing programmes together with consolidation within Reed Elsevier Group plc of technology operations, procurement and real estate management are keeping costs under firm control and releasing funds for investment.

Looking ahead to 2009, legal and risk markets are more resilient than most but by no means immune from the deterioration in economic conditions. Law firm activity and corporate and government budgets are increasingly under pressure and this will reduce underlying revenue growth. LexisNexis has however a strong subscriber base, continuous releases of new publishing and workflow solutions to enhance customer productivity, a growing Risk business, and the benefit of a full year's contribution of ChoicePoint growth and synergies. The Risk business should see continued strong growth in the insurance business and collections sector and increasing demand from government. The gearing effects of lower underlying revenue growth and increased investment on adjusted operating margin should be offset by the benefits of the restructuring and other actions to improve cost efficiency and the growing profitability of the ChoicePoint business.

Reed Exhibitions

Reed Exhibitions had an exceptional year with successful major shows and the net cycling in of biennial exhibitions, demonstrating that, in an increasingly online world, "face to face" exhibitions continue to deliver significant value for exhibitors and visitors alike. Revenues were up 11% at constant currencies and adjusted operating profits up 20% before acquisitions and disposals. The strong growth was driven by good performances by annual shows and new events, together with the cycling in of non-annual shows. Excluding cycling effects, underlying revenue growth was 5%. The adjusted operating margin showed underlying improvement of 180 basis points reflecting the good revenue growth, tight cost control and the effect of the significant net cycling in at the show contribution level. Reported revenues and adjusted operating profits were up 9% and 14% respectively at constant rates including acquisitions and disposals, most notably the sale of the defence sector shows. Overall adjusted operating margin was up 180 basis points at 25.9%.

Good growth was seen across most of the show portfolio with particular successes at the *ISC West* security show and *National Hardware* in the US; the *Interclima Interconfort* heating/cooling systems show and the *Equip'Hotel* catering show in Paris, and the *Pollutec Lyon* environment event; the *Aluminium* show in Germany; the *Mipim* international property show and *Mipcom* in Cannes; and the *London International Book Fair* and *World Travel Market* in London. The severe downturn in the Spanish residential property sector did however significantly reduce the size of the *SIMA* residential property show in Madrid. In Japan, *M-Tech* and other shows performed strongly. The biennial shows cycling in contributed 6% to underlying revenue growth; the most significant show cycling in was the *Mostra Convegno Expocomfort* show in Milan and cycling out was the *Batimat* construction show in Paris.

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

Reed Exhibitions' strong performance in 2008 is in part reflective of the more resilient and late cycle nature of the exhibitions business, in comparison to other marketing channels. Exhibitors book hall space well in advance and in a downturn demand tends to concentrate on leading events. The second half saw continued good growth overall in annual shows and in cycling events, although some shows were cancelled and the outlook has become progressively tougher across geographies and most industries. Taking into account the budget pressures on exhibitors and visiting delegates, as well as the net cycling out of biennial shows and the sale of the defence shows, the 2009 outlook is for revenue decline and lower adjusted operating margin against an exceptional year in 2008. Whilst it is too early to judge the economic outlook and demand beyond, 2010 will see the cycling back in of major biennial shows with a positive boost to revenues and margin.

DIRECTORS' REPORT

Reed Business Information

On 21 February 2008 Reed Elsevier announced a plan to divest Reed Business Information (RBI). On 10 December 2008 Reed Elsevier announced the termination of discussions to sell RBI as it was judged not possible to structure a transaction on acceptable terms at that time. RBI has therefore been presented as a continuing operation in the financial statements.

Reed Business Information held up well despite the difficult economic conditions throughout most of the year due to the successful development over the last few years of significant online franchises. This was, however, not enough to counter the recent impact on advertising markets of the downturn in global economic conditions, which was particularly felt in the last quarter. Revenues and adjusted operating profits were 1% and 5% lower respectively at constant currencies before acquisitions and disposals, or 1% higher and 4% lower after portfolio effects. Adjusted operating margin was 60 basis points lower at 12.8% reflecting the underlying revenue decline partly mitigated by tight cost management.

In the UK, underlying revenues were up 1% reflecting strong growth in online sales, up 12%. For most of the year, overall revenue momentum was encouraging although weakness was seen in sectors such as property and technology. However, towards the end of the year, the deteriorating economic environment took its toll most particularly on recruitment advertising across most sectors, with overall underlying revenues year-on-year down 7% in the fourth quarter, compared with 3% growth in the third quarter. Online revenues continued to grow in the fourth quarter despite the weakness in advertising markets, with robust performances from online data products, such as *XpertHR* serving the HR community, *Bankersalmanac.com* providing information that facilitates interbank payments across the world, and *ICIS pricing* serving the petrochemicals industry. In addition to organic development of its online franchises, RBI UK made a number of small acquisitions to further develop its online services to the energy, aerospace and personnel verticals as well as horizontal lead generation services matching vendors and buyers. Online revenues now represent over 50% of RBI UK revenues.

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

In the Netherlands, underlying revenues were 1% lower, with online revenues up 11% against only a 3% decline in the print business which benefits from a higher proportion of subscription and circulation revenues than in other RBI geographies. Good growth was seen in the agriculture, construction and healthcare sectors and in tuition, although most other sectors saw revenue declines from weaker advertising markets. Fourth quarter revenues were down 6% against the prior year, with the third quarter down 1%. Online revenues now represent 17% of RBI NL revenues.

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

The outlook for 2009 for Reed Business Information is challenging. Advertising markets are significantly impacted by the global economic downturn, with slowing online revenue growth and accelerating print decline. Adjusted operating margins will be adversely impacted by the revenue decline, which can be mitigated only in part by the significant cost savings from restructuring and other cost actions. In this difficult environment, the focus in RBI is on right sizing the cost base to match reduced revenue expectations whilst maintaining investments, particularly against our online franchises, to be strongly competitively positioned as markets recover.

Future prospects

In the short term, 2009 is clearly going to be a more difficult year with most of the world's largest economies currently in recession. The key professional markets served by Elsevier and LexisNexis (which account for about 80% of Reed Elsevier Group plc's adjusted operating profits), while not immune to the impact of the economic downturn, are more resilient than most and these businesses benefit from a strong subscription base and the growing demand for online solutions. In our business-to-business markets (accounting for about 20% of Reed Elsevier Group plc's adjusted operating profits) the demand for advertising and marketing services has been much more affected by the tougher economic environment. We therefore expect to show a profit decline this year in these businesses, including the effect on our Exhibitions business of the net cycling out of biennial shows.

In the longer term, we believe Reed Elsevier Group plc is well placed to develop and grow strongly. We have leadership positions in large, global growth markets, strong and well established brand franchises and we are seeing increasing success from the focus on online products. These are fundamental strengths that, together with the actions we are taking outlined above, will stand Reed Elsevier Group plc in good stead for the future.

TREASURY POLICIES

Financial instruments are used to finance the Reed Elsevier Group plc's businesses and to hedge transactions. Reed Elsevier Group plc's businesses do not enter into speculative transactions. The main treasury risks faced by Reed Elsevier Group plc and its subsidiaries are liquidity risk, interest rate risk, foreign currency risk and credit risk. The board of Reed Elsevier Group plc agrees overall policy guidelines for managing each of these risks. These policies are summarised below.

Liquidity

Reed Elsevier Group plc maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates. The significance of Reed Elsevier Group plc's US operations means that the majority of debt is denominated in US dollars. A mixture of short term and long term debt is utilised and Reed Elsevier Group plc maintains a maturity profile to facilitate refinancing. Policy was amended in 2008 to provide more flexibility to respond to investor demand and fund at attractive rates and requires that no more than $1.5bn (formerly $1.0bn) of term debt issues should mature in any 12-month period. In addition, minimum levels of borrowings with maturities over three and five years are specified, depending on the level of net debt.

From time to time, Reed Elsevier Group plc may repurchase outstanding debt in the open market depending on market conditions. No such purchases were made in 2008.

In March 2008, Reed Elsevier Group plc signed a new $4,350m committed loan facility with a syndicate of banks to finance its acquisition of ChoicePoint, Inc., subsequently cancelled down to $4,207m in July 2008, comprising $2,032m maturing in March 2010 (Tranche A) and $2,175m maturing in March 2011 (Tranche B). The full $4,207m was drawn down on completion of the acquisition in September 2008. Following the successful issue of $1,500m of term debt in the US market in January 2009, Reed Elsevier Group plc used the proceeds to reduce Tranche A to $470m.

During October 2008, following the turbulence in the banking and credit markets, there was uncertainty in demand for commercial paper. Whilst Reed Elsevier Group plc continued to access the US commercial paper market throughout the period, the uncertainty in demand for euro commercial paper was mitigated by drawing down under existing bank back up facilities for one month in an amount of $52m in aggregate. These back up facility borrowings were repaid in November as investor demand for euro commercial paper returned.

At 31 December 2008 gross third party borrowings after fair value adjustments amounted to £3,781m. Cash and cash equivalents totaled £244m. At 31 December 2008, in addition to the fully drawn ChoicePoint facility, Reed Elsevier Group plc had access to $3.0bn (2007: $3.0bn) of committed bank facilities, of which $38m was drawn. These facilities principally provide back up for short term debt as well as security of funding for future acquisition spend. These committed facilities expire in May 2010. During February 2009, this $3.0bn facility was cancelled down to $2.5bn and, at the same time, a new $2.0bn committed bank facility, forward starting in May 2010 and maturing in May 2012, was put in place. Together these two back up facilities provide security of funding for $2.5bn of debt to May 2010 and $2.0bn of debt from May 2010 to May 2012.

DIRECTORS' REPORT

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2008, and after utilising available cash resources, no third party borrowings mature in the next twelve months (2007: nil); 17% of borrowings mature in the second year (2007: nil); 50% of borrowings mature in the third year (2007: 9%); 9% in the fourth and fifth years (2007: 38%); 13% in the sixth to tenth years (2007: 30%); and 11% beyond the tenth year (2007: 23%). Allowing for the £1,037m of term debt issued in January 2009 and the $2,000m (£1,382m) forward start facility, no borrowings mature in the next three years; 46% of borrowings mature in the fourth and fifth years; 22% in the sixth to tenth years; and 32% beyond the tenth year.

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totalling £8,040m (2007: £5,012m) of which 22% mature in the next year (2007: 20%); 17% mature in the second year (2007: 23%); 18% mature in the third year (2007: 12%); 31% mature in the forth and fifth years (2007: 28%); and 12% mature in the sixth to tenth years (2007: 17%).

Interest rate exposure management

Reed Elsevier Group plc's interest rate exposure management policy is aimed at reducing the exposure of the business 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 in Reed Elsevier Group plc, its subsidiaries and affiliates. Reed Elsevier Group plc uses fixed rate term debt, interest rate swaps, forward rate agreements and a range of interest rate options to manage the exposure. Interest rate derivatives are used only to hedge an underlying risk and no net market positions are held.

Foreign currency exposure management

Translation exposures arise on the earnings and net assets of business operations in countries other than those of Reed Elsevier Group plc. These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars. Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts. In addition, recurring transactions and future investment exposures may be hedged, within defined limits, in advance of becoming contractual. The precise policy differs according to the specific circumstances of the individual businesses. Expected future net cash flows may be covered for sales expected for up to the next 12 months (50 months for Elsevier science and medical subscription businesses up to limits staggered by duration). Cover takes the form of foreign exchange forward contracts. As at 31 December 2008, the amount of outstanding foreign exchange cover designated against future transactions was US$1.5bn (2007: US$1.4bn).

Credit risk

Reed Elsevier Group plc 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 Group plc 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 Group plc has treasury policies in place which do not allow concentrations of risk with individual counterparties and do not allow significant treasury exposures with counterparties which are rated lower than A by Standard and Poor's, Moody's or Fitch.

DIRECTORS' REPORT

Capital Management

Reed Elsevier Group plc actively manages its capital structure to support the objective of its parent companies, Reed Elsevier PLC and Reed Elsevier NV, to maximise long-term shareholder value through ready access to debt and capital markets, cost effective borrowing and flexibility to fund business and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

Over the long term Reed Elsevier Group plc targets cash flow conversion (the proportion of adjusted operating profits converted into cash) to reflect this aim and that is consistent with a solid investment grade credit rating. In addition, levels of net debt (when combined with net debt of the parent companies, their direct and indirect subsidiaries and jointly held affiliates) should not exceed those consistent with such a rating other than for relatively short periods of time, for instance following an acquisition. To achieve this aim, Reed Elsevier Group plc and its subsidiaries may obtain financing on appropriate arms length terms and conditions from their affiliate Elsevier Finance SA. Cash flow conversion of 90% or higher over the long term is consistent with the rating target.

Reed Elsevier Group plc's use of cash reflects its objectives through selective acquisitions and a dividend policy which ensures distributable reserves are maintained at an appropriately high level to meet the requirements for dividends by Reed Elsevier PLC and Reed Elsevier NV. This regular remittance of dividends also creates the opportunity to examine regularly the capital structure of each subsidiary and ensure that fiscal efficiency is achieved.

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.

Whilst the short term emphasis is on reducing leverage, there were no changes to Reed Elsevier Group plc's long term approach to capital management during the year.

DESCRIPTION OF BUSINESS

Reed Elsevier Group plc is a world leading provider of professional information and online workflow solutions in the science, medical, legal, risk information and analytics, and business sectors. Total revenue for the year ended 31 December 2008 was £5,281m.

Based in over 200 locations worldwide, Reed Elsevier Group plc creates authoritative content delivered through market leading brands, enabling our customers to find the essential data, analysis and commentary to support their decisions. Our content and solutions are increasingly embedded in the workflows of our customers making them more effective and Reed Elsevier Group plc a more valued partner.

Reed Elsevier Group plc is well positioned in markets with attractive long term growth prospects and has a clear investment led growth strategy focused on building revenue momentum across all businesses.

In 2008, 47% of revenue was derived from subscription fees and other annuity type revenue streams. An increasing proportion of revenue was also generated from online products. In 2008, over 50% of revenue was derived from online sources.

Long term growth in our markets is expected to be sustained by the continuing demand for professional information. In addition, professionals are looking for significant improvements in productivity through access to highly functional online services and workflow solutions.

Reed Elsevier Group plc has been implementing an important reshaping of the business, with the strategic goal of moving more assets away from slower growth, cyclical advertising/print based sectors, and more towards faster growth, less cyclical online based sectors. In 2007 and early 2008 we completed the sale of the Harcourt Education business and in September 2008 we completed the acquisition of ChoicePoint which transforms our position in the attractive risk information and analytics sector. The planned divestment of Reed Business Information announced in February 2008 was put on hold given the poor credit markets and macroeconomic environment; it however remains the intention to divest RBI in the medium term when market conditions are more favourable.

DIRECTORS' REPORT

Elsevier

Elsevier provides its customers with scientific, technical and medical content and tools that improve productivity in research, healthcare and health education. Total revenues for the year ended 31 December 2008 were £1,647m. Elsevier is a global business with principal operations located in Amsterdam, London, Oxford, New York, Philadelphia, St Louis, San Diego, Boston, Paris, Munich, Madrid, Singapore, Tokyo, Delhi and Chennai.

Elsevier serves a global network of 7,000 editors, 70,000 editorial board members, 300,000 reviewers, and more than 600,000 authors. Its products reach more than 12 million researchers in 4,500 institutions, 5 million students, and 15 million doctors, nurses and health professionals.

Growth in the scientific information market is driven by increases in research output, R&D spend, the number of researchers worldwide, and the need for improved research efficiency. In healthcare, growth is driven by advances in medical science and the shift from activity-based to outcomes-based models of patient care and associated demands for increased productivity.

The Science & Technology division of Elsevier is the world's leading global academic journal publisher. Its customers are the world's libraries, scientists, professionals, and corporations, who rely on Elsevier to provide high quality content; to review, publish, disseminate, and preserve research findings; and to create innovative workflow tools to improve their efficiency in using that information. Each year Science & Technology publishes over 200,000 new research articles in some 1,100 journals and over 1,000 new book titles, as well as secondary material in the form of supporting bibliographic data, indexes and abstracts, and tertiary information in the form of review and reference works.

Science & Technology has two flagship electronic solutions: *ScienceDirect* and *Scopus*. *ScienceDirect* is the world's largest database of scientific, technical and medical journal articles and is accessed by over 11 million users each year. *ScienceDirect* holds over nine million scientific articles and an expanding portfolio of books online. Currently *ScienceDirect* has just over 10,000 books titles, which includes 75 major reference works, over 70 book series, seven handbooks totalling over 190 volumes and more than 4,700 e-books, with some 500 e-books being added to *ScienceDirect* each year. Scopus is the largest abstract and citation database of research literature from over 4,000 different publishers. Scopus has more than 37 million records of scientific research articles from over 15,000 peer reviewed journals, more than 23 million patents, and references to over 434 million web pages.

Science & Technology's growing online offering also includes Illumin8, an online workflow solution for corporate scientists, engineers and R&D professionals.

In 2009 Science & Technology will launch specific workflow solutions for researchers and research administrators. The initial offering will include a funding intelligence tool and a research performance tool.

The Health Sciences division of Elsevier serves medical researchers, practising health professionals, payers, educators, students and pharma professionals globally. It publishes over 700 journals, including a number of journals for learned societies, and over 2,000 book titles and clinical reference works annually. Growth in electronic health information is accelerating and the business continues to expand its portfolio of online health information tools for education, practitioner reference, and point of care decision making. Elsevier's clinical reference and decision support products include *MDConsult*, which now has over nine million page views per month and more than 1,700 institutional customers. Health Sciences provides online and multimedia products for use by both medical faculties and students to support core textbooks, including Evolve, which now has 1.4 million registered users and, through Health Education Systems Inc, testing tools for nursing and allied health markets. Internationally, Elsevier leverages its print and online content into new markets through foreign language versions.

Elsevier aims to make valued contributions to the science and health communities by combining world class content with productivity enhancing solutions for scientific researchers and health professionals worldwide. Its key strategic areas of focus are: quality of content; customer service and customer relations; development of productivity enhancing online solutions; expanded penetration of high growth markets; and organisational efficiency.

Elsevier's print science journals are generally sold to libraries on a paid subscription basis, with subscription agents facilitating the administrative process. Medical and healthcare print journals are mostly sold to individuals through direct mail and learned societies. Electronic products are generally sold directly to institutional libraries, hospitals, corporations and end users. Books are sold through book stores, both traditional and online, wholesalers and, particularly in medical and healthcare markets, directly to end users. Competition within the science and technology and medical publishing fields is generally on a title by title and product by product basis. Competing journals, books and databases are typically published by learned societies and other professional publishers.

LexisNexis

LexisNexis provides legal, tax, regulatory, risk management, information analytics and business information solutions aligned to the workflow of legal, professional, business and government customers globally. Total revenues for the year ended 31 December 2008 were £1,940m.

Legal and regulatory markets worldwide are driven by the increasing level of legislation and litigation, as well as the number of lawyers. Opportunities are also developing through the delivery of value added solutions to meet demands for greater efficiency and productivity.

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

LexisNexis in the United States offers legal information products in electronic and print formats to law firms and practitioners, law schools, corporate and tax counsel and federal, state and local governments. Headquartered in New York, the principal operations are located in Ohio, Georgia, New York, Colorado, New Jersey and Florida.

US Legal Markets' Total Solutions help legal professionals achieve excellence in the business and practice of law with products and solutions in Client Development, Research, Practice Management and Litigation Services. Client Development solutions include the Martindale-Hubbell electronic network that showcases the qualifications and credentials of over one million lawyers and law firms worldwide, a suite of business intelligence tools that help lawyers find and target clients, and customer relationship management workflow tools. In Research, the division provides statutes and case law for all 50 US states as well as research, analysis and citation services from Matthew Bender, Michie and Shepard's. Practice Management solutions include time and billing, case management, cost recovery and document management. Litigation Services include a range of workflow solutions for litigators including electronic discovery, evidence management, case analysis, court docket tracking, e-filing, expert identification and legal document preparation.

In addition to law firms, these LexisNexis products and services are offered to corporations, federal government agencies and academic institutions together with news, business, financial and public records content.

Risk Information and Analytics Group offers applications that are designed to assist customers in managing risk through fraud detection and prevention, risk evaluation, identity verification, pre-employment screening and due diligence. On 19 September 2008, Reed Elsevier Group plc acquired ChoicePoint, Inc. ChoicePoint has merged with the LexisNexis Risk Information and Analytics Group, creating a risk management business with approximately $1.4bn revenues. ChoicePoint's principal operating groups are Insurance Services, Screening, Business Services and Government Services.

The Insurance Services group, ChoicePoint's largest core business, provides data, analytics, software and business information services to property and casualty ("P&C") personal and commercial insurance carriers in the US. Information solutions help insurers effectively assess risks in the underwriting process to ensure that their customers receive appropriate policy pricing. The Insurity business unit provides software, data and analytics to P&C commercial and personal lines carriers to improve risk acceptance and loss mitigation.

The Screening group focuses on employment screening, tenant screening, and customer enrollment businesses.

The Business Services and Government Services groups provide public information solutions primarily to financial and professional services, and government customers. These services help companies and government agencies with risk management, enhanced due diligence, verification and business credentialing, and allow companies and government agencies to better mitigate financial and reputational risk and improve their processes and productivity.

Outside the United States, LexisNexis International serves markets in Europe, Canada, Africa and Asia Pacific with a range of local and international legal, tax, regulatory and business information in electronic and print formats. The most significant businesses are in the UK and France.

LexisNexis Butterworths in the UK is a professional publisher, providing legal, tax and business information and solutions via online, print and CD media. Publications include *Halsbury's Laws of England, Simon's Taxes* and *Butterworths Company Law Service*. LexisNexis in France is a provider of information to lawyers, notaries and courts with *JurisClasseur* and *La Semaine Juridique* being the principal publications.

LexisNexis aims to be the leading provider of productivity enhancing information and information-based workflow solutions in its markets. The key strategic areas of focus are: to expand the business from research into Total Solutions; to continue to offer the best-in-class research tools for lawyers and professionals; to grow a significant business in risk management and information analytics; to expand internationally through innovative online products and solutions; and to continuously improve cost effectiveness.

LexisNexis's principal competitors in US legal markets are West (Thomson Reuters) and Factiva (Dow Jones). Major international competitors include Thomson Reuters, Wolters Kluwer and Factiva.

Reed Exhibitions

Reed Exhibitions is the world's leading events organiser, with over 470 events in 37 countries. Total revenues for the year ended 31 December 2008 were £707m. In 2008 Reed Exhibitions brought together over seven million event participants from around the world, generating billions of dollars in business. As some events are held other than annually, revenue in any one single year is affected by the cycle of non-annual exhibitions.

Reed Exhibitions creates brand-leading events, highly targeted and where participants from around the world come together to do business, network and learn. Its vision is "to deliver contacts, content and communities with the power to transform your business".

Reed Exhibitions' events are organised in the Americas, Europe, the Middle East and Asia Pacific by staff in 24 offices. The portfolio of exhibitions and conferences serves 44 industry sectors, including: aerospace & aviation, automobiles, broadcasting, building & construction, electronics, energy, oil & gas, engineering, manufacturing, environment, food service & hospitality, gifts, healthcare, interior design, IT & telecoms, jewellery, life sciences & pharmaceuticals, machinery, medical education, printing & graphics, property & real estate, security & safety, sports & recreation and travel.

Many of Reed Exhibitions' events are market leaders in their field. Working closely with professional bodies, trade associations and government departments Reed Exhibitions ensures that each and every event is targeted and relevant to industry needs. The business is developing powerful online tools to facilitate networking, and enhance the effectiveness and efficiency of its shows, as well as broadening its event model to include continuing education and professional development.

Growth of the exhibition industry is supported by new industries and new markets, particularly as the emerging markets of Brazil, China, India, Russia and the Middle East open up and develop. Exhibitions are a key means for companies to enter these new markets, enabling them to reach and target new customers quickly and cost-effectively.

Reed Exhibitions' growth has been achieved through acquisitions and launches in key growth industries, and by developing strategic partnerships and replicating its brand-leading events in the emerging markets. Such partnerships will become an increasing feature of Reed Exhibitions' presence in these markets, with the building of local businesses operating close to local markets, supported by Reed Exhibitions' global networks and organisational expertise.

Reed Exhibitions is expanding the scope of its business model beyond the physical event to create online communities such as *ISC365, PSI-online* and *INTERPHEX365*. These communities provide tools allowing customers additional opportunities to interact with others in their industry, share knowledge and do business 365 days a year, and they are opening up new revenue streams for Reed Exhibitions.

Reed Exhibitions is particularly prominent in a number of sectors, notably Travel, for which it organises some of the world's leading events, including *World Travel Market* held annually in London, and *Arabian Travel Market* held in Dubai. *World Travel Market* attracted an unprecedented 49,963 participants in 2008.

Reed Exhibitions is also deeply involved in the Environment sector. Leading events include *Pollutec*, the international environment show held alternately in Lyon and Paris; the *World Future Energy Summit* in Abu Dhabi; and *Offshore Europe*, Aberdeen, which brings together the global oil and gas market to debate key issues and create common agendas for the future of the upstream industry.

The majority of Reed Exhibitions' revenue is derived from exhibitor participation fees, with the balance coming from advertising in exhibition guides, sponsorship fees and paid participation at conferences and exhibitions. Whilst the exhibitions business is more resilient to economic effects than many marketing channels, demand for exhibition space and attendance is affected by pressures on the marketing budgets of customers.

The exhibition industry has historically been very fragmented. Reed Exhibitions is the leader holding no more than 7% of the market. Other international exhibition organisers with which it competes include United Business Media, DMG World Media, Nielsen Business Media, Informa IIR and Messe Frankfurt. Competition also comes from industry focused trade associations and convention centre and exhibition hall owners.

Reed Business Information

Reed Business Information provides information and marketing solutions to business professionals in the United States, the United Kingdom, continental Europe, Australia and Asia. Total revenues for the year ended 31 December 2008 were £987m.

Business-to-business magazines, online lead generation services and community websites provide an effective marketing channel through which advertisers reach their target audiences and industry professionals can access valued information. The business has a number of leading brands in a range of sectors and online data services which enable users to enhance productivity through quicker and easier access to more comprehensive and searchable data. Business-to-business marketing spend has been driven historically by levels of corporate profitability, which itself has followed overall growth in GDP and business investment. Demand for online data services tends to be more resilient to fluctuations in GDP growth.

Reed Business Information publishes over 400 trade magazines, directories, newsletters, and over 200 online communities, jobsites, lead generation, data and other online services. Important magazine titles include *Variety* and *Interior Design* in the United States; *Flight International*, *Computer Weekly*, *Estates Gazette*, and *New Scientist* in the United Kingdom; and *Elsevier* and *Boerderij* in the Netherlands. Online services accounted for 34% of Reed Business Information 2008 revenues. These products include *totaljobs.com*, a major online recruitment site in the UK; *ICIS-LOR*, a global information and pricing service for the petrochemicals sector; *Elsevier.nl*, a news and lifestyle service in the Netherlands; *BuyerZone.com*, an online lead generation service in the US; and *Hotfrog*, a global online business directory.

Reed Business Information aims to be the first choice of business professionals for information and decision support in its individual markets and for marketing services. Its key strategic areas of focus are: to continue to develop existing and new online products and services in key markets; to develop print franchises through brand extensions and redesign; to upgrade the portfolio through investment, acquisition and divestment; to expand geographically in fast growing markets; and to improve organisational effectiveness through investment in people, further development of online competencies, and cost reduction programmes.

In the US, business-to-business magazines are primarily distributed on a controlled circulation basis, whereby the product is delivered without charge to qualified buyers within a targeted industry group based upon circulation lists developed and maintained by the publisher. Magazines distributed on this basis only are wholly dependent on advertising for their revenues. In the United Kingdom, business magazines are distributed both on a controlled circulation basis and a paid circulation basis. In the Netherlands, a higher proportion of publications are sold by paid circulation. Distribution of magazines is conducted primarily through national postal services, supplemented by news-stand sales through unaffiliated wholesalers.

Online products and services are generally sold through dedicated sales forces and intermediaries, including revenue sharing arrangements with other online service providers, and by direct promotion.

Reed Business Information's titles compete with a number of publishers on a title by title basis in individual market sectors, the largest competitors being: Advanstar, CMP Media (United Business Media), Hanley Wood, McGraw Hill, Penton and Nielsen in the United States; Eden (formerly EMAP), VNU and CMP Media in the United Kingdom; and Wolters Kluwer and Nielsen in the Netherlands. Reed Business Information competes for online advertising with other business-to-business websites as well as Google and other search engines.

RESOURCES AND INVESTMENT

Market leading brands
Reed Elsevier Group plc's businesses own numerous market leading brands, imprints, titles and technology platforms.

Within Elsevier, *ScienceDirect* is the world's largest database of scientific, technical and medical journal articles and delivers almost half a billion full text article downloads annually. Many of Elsevier's journals are the foremost publications in their field and a primary point of reference for new research. The workflow tool *Reaxys* is the world's largest online compilation of chemical reactions. Users of *MDConsult*, Elsevier's online clinical reference tool, conduct on average nearly 1.5 million searches per month and view more than nine million pages of clinical content. *The Lancet* has been publishing medical research, news and analysis since 1823. Similarly, Elsevier's booklist contains numerous pre-eminent and long standing titles.

Within LexisNexis, *lexis.com* is recognised as one of the foremost online research tools for practising lawyers, providing subscribers with access to seven billion searchable documents. The *Shepard's Citations Service* is a well known and highly reputed reference resource ("Shepardizing" is a common process for lawyers checking the authority of cases or statutory references).

Many of the Reed Exhibitions shows, which include *World Travel Market, Mipim, MIDEM, Batimat* and the *JCK Jewellery* shows, are acknowledged as the premier marketing events in their field.

Reed Business Information's well known magazine titles such as *Variety, Estates Gazette* and *Elsevier* are widely read for their authoritative content and up to date industry intelligence.

Investment
Reed Elsevier Group plc maintains and enhances the value of its intangible assets through continuous investment in the brands and imprints, new publishing, innovative product and market development, and in the technology platforms and publishing infrastructure on which they are based. Increasingly, investment is being made in developing digital workflow solutions.

Elsevier has made substantial investments in health information segments, including a wide range of electronic solutions that improve clinical outcomes and reduce costs for payers, physicians and hospitals; deliver enriched learning experiences for nursing trainees and practitioners; and increase the effectiveness of business development and promotional activities for pharmaceutical companies. Other significant investments in recent years have been in the *ScienceDirect* platform, digitisation of the archive of almost nine million research articles, e-books, the *Scopus* database, online editorial and production systems, and industry-specific solutions for corporate R&D markets.

In LexisNexis, substantial investment has been made in Total Solutions offerings such as *Total Litigator* and *Total Practice Advantage*. Alongside this, major investments have been made in technology, in particular in online research functionalities and in the development of the global online delivery platform. These investments are critical to providing integrated workflow solutions to our customers. Significant investment has also been made in new content development and in expanded sales and marketing activities. Investment in recent years in a major second data centre has expanded operational capabilities and is providing greater flexibility in continuous delivery.

DIRECTORS' REPORT

A new investment programme now underway is aimed at transforming the productivity of US legal research with modernised technology and advanced algorithms and functionality to provide much more powerful contextual solutions for customers and at greater speed. Combined with this is a major upgrade in back office infrastructure and customer service and support platforms to provide an integrated and superior customer experience across our US legal research, client development and solutions products.

Reed Exhibitions has continued to grow its portfolio through launching events and through geographical expansion, with 24 show launches in 2008, primarily in the BRIC countries and the Middle East. The business continues to develop new online products, including online communities which compliment and widen the footprint of existing events and brands. The latest such community is *INTERPHEX365.com*, which aims to become the Life Sciences industry's most in-depth and comprehensive online resource for gaining insights on the news, companies and technologies shaping the life science industries.

Reed Business Information has continued to develop and expand its online advertising and paid data services. Investment supports a strong mix of online products including lead generation services, recruitment sites, webzines and paid data tools and services. Recent online developments include the investment in BIM technology to enhance the US construction data business, strengthening the core and specialist job boards of Totaljobs Group, continued growth in online lead generation and business directory services *eMedia* and *Hotfrog*, and ongoing enhancement of the online community webzines.

These investments are largely embedded within the cost base of the businesses as new product development and market initiatives are a continuous activity.

Workforce

Reed Elsevier Group plc's workforce is highly skilled and a large proportion are graduates. It includes some 3,000 IT specialists and developers, 8,000 editorial staff, and some 11,000 specialist marketing, sales and customer service staff. Reed Elsevier Group plc aims to be an employer of choice, known for its best practices in recruiting and developing employees.

We seek to employ a workforce which reflects the diversity of our customers and communities. Our labour and employment practices are consistent with the principles of the United Nations Global Compact regarding fair and non-discriminatory labour practices. Every two years or so we conduct a global employee opinion survey to identify areas for improvement. Every employee in the company takes part in the annual Personal Development Programme, which reviews skills and performance and identifies opportunities for recognition and advancement. The Personal Development Programme is also the primary tool for assessing and planning employee training.

Reed Elsevier Group plc's remuneration policies are designed to attract, retain and motivate employees of the highest calibre and experience needed to shape and execute strategy. The remuneration packages of the directors and senior executives comprise a balance between fixed remuneration and variable performance related incentives, including a variable annual cash bonus based on achievement of financial performance measures and individual key performance objectives, and longer term incentive schemes. Pension scheme membership is offered to all employees in the United Kingdom, the Netherlands, the United States and a number of other countries.

PRINCIPAL RISKS

The key risks facing Reed Elsevier Group plc arise from the highly competitive and rapidly changing nature of our markets, the increasingly technological nature of our products and services, the international nature of our operations, legal and regulatory uncertainties, and economic conditions in our markets. Certain businesses could also be affected by the impact on publicly funded and other customers of changes in funding and by cyclical pressures on advertising and promotional spending or through information becoming publicly available for free.

Reed Elsevier Group plc 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), and are reviewed by the Audit Committee and the Board. Important specific risks that have been identified and are being addressed include:

- Demand for our products and services may be impacted by factors beyond our control such as the economic downturn currently being experienced in the United States and other major economies.

Macroeconomic, political and market conditions may adversely affect the availability of short and long term funding, volatility of interest rates, currency exchange rates and inflation.
- Reed Elsevier Group plc's businesses are dependent on the continued acceptance by our customers of our products and services and the prices which we charge for them. We cannot predict whether there will be changes in the future which will effect the acceptability of products, services and prices to our customers.
- We are investing significant amounts to develop and promote electronic products and platforms. The provision of these products and services is very competitive and is to some extent subject to factors outside our control such as competition from new technologies and changes in regulation. There is no assurance that this investment will produce satisfactory long term returns.
- Reed Elsevier Group plc's businesses are increasingly dependent on electronic platforms and networks, primarily the internet, for delivery of products and services. Although plans and procedures are in place to reduce such risks, our businesses could be adversely affected if their electronic delivery platforms and networks experience a significant failure, interruption, or security breach.
- 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. However, there is a risk that our proprietary rights could be challenged, limited, invalidated or circumvented.
- New organisational and operational structures are being developed with increased focus on outsourcing and offshoring functions. The failure of third parties to whom we have outsourced activities could adversely affect our reputation and financial condition.
- 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. Note 6 to the financial statements contains further information on risks associated with defined benefit pension schemes.
- Our businesses operate in over 200 locations worldwide and our earnings are subject to taxation in many differing jurisdictions and at differing rates. We seek to organise our affairs in a tax efficient manner, taking account of the jurisdictions in which we operate. However, tax laws that apply to Reed Elsevier Group plc businesses may be amended by the relevant authorities. Such amendments, or their application to Reed Elsevier Group plc businesses, could adversely affect our reported results.
- We often acquire and dispose of businesses to reshape and strengthen our portfolio and engage in restructuring activities. If we are unable to generate the anticipated benefits such as revenue growth, synergies and/or cost savings associated with these acquisitions and restructuring activities this could adversely affect our reputation and financial condition.

The Reed Elsevier Group plc financial statements are expressed in pounds sterling and are, therefore, subject to movements in exchange rates on the translation of the financial information of businesses whose operational currencies are other than sterling. The United States is our most important market and, accordingly, significant fluctuations in the US dollar exchange rate could significantly affect our reported results.

We recognise that Reed Elsevier Group plc and its businesses have a direct impact on the environment, principally through the use of energy and water and waste generation and in our supply chain through paper use and print and production technologies. We are committed to reducing these impacts, whenever possible, by limiting resource use and by efficiently employing sustainable materials and technologies. We require our suppliers and contractors to meet the same objectives. We seek to ensure that Reed Elsevier Group plc's businesses are compliant with all relevant environmental legislation and, accordingly, whilst environmental issues are important, we do not consider that they constitute a significant risk for Reed Elsevier Group plc.

KEY PERFORMANCE MEASURES

The key financial performance measures used by Reed Elsevier Group plc and the bases of their calculation are as follows:

- Revenue – as reported in the financial statements.
- Adjusted operating profit – reported operating profit before amortisation of acquired intangible assets and goodwill impairment, exceptional restructuring and acquisition related costs, and share of taxation of joint ventures.
- Adjusted operating margin – adjusted operating profit expressed as a percentage of revenue.

- Effective tax rate – reflects the tax rate excluding movements on deferred tax balances not expected to crystallise in the near term, more closely aligning with cash taxes payable, and includes the benefit of deductible tax amortisation on acquired goodwill and intangible assets.
- Adjusted profit after tax – reported profit after tax before amortisation of acquired intangible assets and goodwill impairment, exceptional restructuring and acquisition related costs, disposals and other non operating items, related tax effects and movements on deferred tax balances not expected to crystallise in the near term.
- Constant currency growth – growth rates calculated using the prior year average and hedge exchange rates.
- Underlying growth – constant currency growth rates excluding acquisitions and disposals.

The source data for calculating the key performance measures is obtained from the Reed Elsevier Group plc financial reporting system.

The adjusted figures are adopted as key performance measures since they measure performance without reference to non cash amortisation of intangible assets and impairment of goodwill, mostly acquired in prior periods, which has no operational relevance to current performance. Exceptional restructuring costs are excluded as they are typically one-off in nature and directed at improving the ongoing operational performance measured through the adjusted figures. Acquisition related expenses are excluded since they are a direct function of the relevant acquisition activity and not a reflection of ongoing operational performance. Underlying growth, excluding acquisitions and disposals, is measured to provide an assessment of year-on-year organic growth without distortion for part year contributions. Constant currency growth is measured to give a better reflection of year-on-year performance before translation and other currency effects in arriving at the reported figures of Reed Elsevier Group plc.

DIRECTORS' REPORT

DIRECTORS

At 31 December 2008 the Reed Elsevier Group plc board consisted of four executive directors: Sir Crispin Davis – Chief Executive Officer, Mark Armour – Chief Financial Officer, Erik Engstrom and Andrew Prozes, and six independent non-executive directors: Jan Hommen (Chairman), Mark Elliott, Lisa Hook, David Reid (senior independent non-executive director), Lord Sharman, and Robert Polet.

During the year Gerard van de Aast and Patrick Tierney ceased to be executive directors. Rolf Stomberg retired as a non-executive director. Ian Smith was appointed Chief Executive Officer designate on 1 January 2009. The Nominations Committee recommended Mr Smith's appointment after engaging external consultants to produce a short list of candidates who met the requirements of the recruitment brief developed by the boards. Sir Crispin Davis will retire in March 2009 and Jan Hommen will step down as Chairman and as a member of the Board in April 2009.

Board attendance

		Reed Elsevier Group plc	
Members	Date of cessation during year	Number of meetings held whilst a director	Number of meetings attended
Gerard van de Aast	December 2008	9	9
Mark Armour		9	9
Sir Crispin Davis		9	9
Mark Elliot		9	8
Erik Engstrom		9	9
Jan Hommen		9	9
Lisa Hook		9	9
Robert Polet		9	8
Andrew Prozes		9	9
David Reid		9	7
Lord Sharman		9	6
Rolf Stomberg	April 2008	3	3
Patrick Tierney	January 2008	1	0

At the board meeting to be held on 21 April 2009, Mark Elliott, David Reid and Lord Sharman will retire from the board of Reed Elsevier Group plc by rotation and Jan Hommen will step down as Chairman.

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 Group plc's management and staff, and its 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.

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 Group plc businesses and other relevant information to assist them in performing their duties. Non-executive directors are encouraged to visit the Reed Elsevier Group plc businesses to meet management and senior staff.

Board Committees

In accordance with the principles of good corporate governance, the following committees, all of which have written terms of reference, have been established.

Audit Committee

Reed Elsevier Group plc has established an Audit Committee. The Committee comprises only non-executive directors, all of whom are independent. The Committee is chaired by Lord Sharman, the other members being Lisa Hook and David Reid.

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

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

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

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

(iv) to make recommendations to the board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;

(v) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements; and

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

The Committee reports to the board on its activities identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Committee has explicit authority to investigate any matters within its terms of reference and has access to all resources and information that it may require for this purpose. The Committee is entitled to obtain legal and other independent professional advice and has the authority to approve all fees payable to such advisers.

The chief financial officer, group financial controller, chief risk officer and director of internal audit, and senior representatives of the external auditors attend meetings of the Audit Committee. The Committee met five times during the year and was attended by all members.

Remuneration Committee

The Committee is responsible for:

> setting the remuneration in all its forms, and the terms of the service contracts and all other terms and conditions of employment of directors of Reed Elsevier Group plc appointed to any executive office of employment;

> advising the Chief Executive Officer on the remuneration of members of the Management Committee (other than executive directors) of Reed Elsevier Group plc and of the Company Secretary;

> providing advice to the Chief Executive Officer, as required, on major policy issues affecting the remuneration of executives at a senior level below the board; and

> establishing and amending the rules of all share-based incentive plans for approval by shareholders.

Throughout 2008, the Committee consisted of independent non-executive directors as defined by the Combined Code and the Chairman of Reed Elsevier Group plc and is chaired by Mark Elliott. Following the retirement of Rolf Stomberg in April 2008, the Committee has comprised three independent non-executive directors, including the Chairman of Reed Elsevier Group plc. David Reid was appointed an additional member of the Committee in February 2009.

The Company Secretary, Stephen Cowden, also attends the meetings in his capacity as secretary to the Committee. At the invitation of the Committee Chairman, the Chief Executive Officer attends the meetings of the Committee except when his own remuneration is under consideration.

A Directors' Remuneration Report, which has been approved by the board of Reed Elsevier Group plc, appears on pages 24 to 49.

CORPORATE GOVERNANCE

Internal Control

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 the group'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.

The major strategic risks facing the Reed Elsevier Group plc businesses are considered by the Board. During 2008, Reed Elsevier Group plc appointed a Chief Risk Officer whose responsibilities include providing regular reports to the Board and Audit Committee. Working closely with divisional and business management and with the central functions, the role of the Chief Risk Officer is to ensure that Reed Elsevier Group plc 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 boards on any significant internal control matters arising.

Annual review

As part of the year end procedures, the audit committee and board of Reed Elsevier Group plc 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.

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by English company law to prepare a directors' report and financial statements for each financial period, which give a true and fair view of the state of affairs of the company and the group, and of the profit or loss for that period. In preparing those financial statements, the directors 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 directors 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 directors have general responsibility for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

As part of the process of approving the 2008 financial statements, the directors have taken steps pursuant to section 234ZA of the Companies Act 1985 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 of Reed Elsevier Group plc, having made appropriate enquiries, consider that adequate resources exist for the 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 2008 financial statements.

In reaching this conclusion, the directors have had due regard to the following factors: The group has strong cash generated from operating activities of £761 million in 2008 and £537 million in 2007; the group has committed credit facilities in place ($2.5 billion to May 2010, $2.0 billion from May 2010 to May 2012) that are available to it and affiliated companies; and the group has access to debt capital markets.

FORWARD LOOKING STATEMENTS

The Annual Report and Financial Statements 2008 contain forward looking statements. These statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently being anticipated as reflected in such forward looking statements. The terms 'expect', 'should be', 'will be', and similar expressions identify forward looking statements. Factors which may cause future outcomes to differ from those foreseen in forward looking statements include, but are not limited to: general economic conditions and business conditions in Reed Elsevier Group plc's markets; exchange rate fluctuations; customers' acceptance of its products and services; the actions of competitors; legislative, fiscal and regulatory developments; changes in law and legal interpretation affecting Reed Elsevier Group plc's intellectual property rights and internet communications; the impact of technological change.

CORPORATE SOCIAL RESPONSIBILITY

Constant engagement with stakeholders, including shareholders, employees, communities, governments, and members of civil society, helps us determine material corporate responsibility issues. Our Corporate Responsibility Forum, chaired by the CEO, sets corresponding objectives – covering governance, people, health and safety, customers, supply chain, environment and community – and measures performance against them.

The Reed Elsevier Code of Ethics and Business Conduct (Code), disseminated to every employee, is a guide to our corporate and individual behaviour. Encompassing topics like human rights, anti-bribery, and fair competition, it encourages open and principled behaviour. 70% of current employees have received online training on the Code. Our goal to launch the course in the Netherlands, where we have the third highest concentration of employees, was delayed until January 2009, as approval from the Dutch Data Protection Authority was not forthcoming until late in the year. In 2008, Code training was rolled out to employees in the UK, Australia, Canada, New Zealand, India, Singapore, Hong Kong, and Thailand, in addition to ongoing implementation for new US employees. Staff also received training on anti-harassment, data privacy and security, competition law, and doing business with government. Furthering the rule of law is a priority for Reed Elsevier. In 2008, we actively promoted the United Nations Global Compact to which we are a signatory, developing a presentation to help fellow signatories communicate about the Compact, and served on the steering group for the United Kingdom.

LexisNexis launched the Rule of Law Resource Center, the largest collection of Rule of Law resources on the internet, providing global visitors with up-to-date laws, news, and expert analysis. LexisNexis also supports the Southern African Litigation Centre, providing access to its entire South African law content, along with legislation and law reports for other African countries including Ghana, Kenya, Malawi, and Nigeria.

Our 35,000 people are our strength. To help them reach their potential and ensure Reed Elsevier remains an in demand place to work, we launched Tools for a Great Workplace as part of a new intranet. This online toolkit looks at how great leaders create motivated, successful teams; allows employees to assess how well they lead; and provides advice on developing skills to enhance local workplaces. We accelerated internal transfers and promotions through a new global jobs board which allows employees to search for new positions by location, function, and division. And an enhanced people and careers section at the new www.reedelsevier.com gives potential employees insight into what it is like to work for the company in the words of our staff. It outlines our focus on leadership and our values – customer focus, valuing our people, passion for winning, innovation and boundarylessness. With input from colleagues throughout the business, in 2008 we developed a Reed Elsevier Diversity and Inclusion statement. It articulates our commitment to a diverse workforce and a work environment that respects individuals and their contributions, regardless of background.

Our employees have the right to a healthy and safe workplace as outlined in the Reed Elsevier Health and Safety Policy. As a measure of improving conditions, we achieved a 24% drop in workers' compensation claims in the United States (117 in 2008 versus 153 in 2007), home to the majority of our employees. We expanded training for Health and Safety Champions to improve reporting, and received assurance on health and safety data from Ernst & Young. In 2008, we held our first Health and Safety Month focused on lifting and handling of materials, a primary cause of lost time incidents the previous year. We also reviewed our US total rewards programme and are exploring new work/life resources that positively impact wellness and productivity and ensure we remain competitive.

We moved from 37% of revenue from online in 2006 to over 50% in 2008. Innovative online products and services improve our customers' workflows, allowing them to utilise information on a scale never before possible. For example, Elsevier's Procedures Consult, uses online video, text and animation to help physicians and students learn and perform more than 150 medical procedures; in 2008, modules were added in orthopedics, anesthesia and emergency medicine. And Reed Exhibitions' MIPIM site, for the world's largest annual real estate show, expanded video content, including news reports from Reed Business Information's Estates Gazette TV. Through the Net Promoter Scores programme we surveyed nearly 30,000 customers to determine their willingness to recommend us. Results are reviewed by the CEO and senior managers and communicated to staff, to illuminate where we are doing well and where we must do better. We saw increases, for example, among health science journal editors, large law clients, and reached more show exhibitors. We noted areas for improvement, for example, with certain small law clients and have instituted a customer journey mapping pilot to understand how we can improve all aspects of our engagement with them. We are committed to information philanthropy ensuring those in the developing world who can benefit from our products gain access. We are a founding member of Health InterNetwork Access to Research Initiative. In collaboration with the United Nations, and other publishers, we make available over 1000 of our journals; in 2008 there were 1.5 million full text article downloads.

We require our suppliers to meet the same high standards we set for ourselves. Our Supplier Code of Conduct stipulates adherence to all laws and best practice in areas like human rights, labour, and environment. In 2008, we expanded our SRS database to 368 suppliers, 90 of which we deem to be high risk according to guidelines from the OECD and the US State Department. 74% of all suppliers were signatories to the Supplier Code, and specialists ITS conducted 19 external audits of high risk suppliers by year end. Going forward, we are engaging more people within the business to reach a higher Supplier Code return rate: the smaller number of external audits correlates to suppliers who deferred their 2008 audit to first quarter 2009, and a number with whom we ceased to do business. We provide tools for employees to undertake internal audits when visiting high risk suppliers; nine were completed in 2008. We also provided supplier training to increase reporting on the Reed Elsevier portion of their CO_2 emissions and water usage. In addition, our internal audit team reviewed the SRS programme; we will be working to implement their suggestions.

We saw a 16% decrease in travel, resulting from our focus on travel alternatives including video conferencing and webinars, and the introduction of a global travel portal. Initial results for 2008 indicate that our energy usage stayed reasonably constant, with a reduction in water and paper consumption and carbon emissions. But it will be a challenge to meet absolute targets. Increased data searches and hosting for our clients, for example, have contributed to energy increases in the five years to 2008, which we are addressing through our data centre working group focused on optimisation/rationalisation. The importance of CO_2 reduction was the theme of our annual World Environment Day campaign, launched with a message from the CEO. In 2009, we are introducing an environmental standards programme to help offices achieve best practice and go green.

We provide ongoing training to Reed Elsevier Environmental Champions and support to employee Green Teams. We encourage environmental volunteering, running programmes with Earthwatch in the US and Europe in 2008; we promoted good environmental performance through our leading edge environmental science products and shows, like Renewable Energy Focus and the Journal of Cleaner Production.

Through our Reed Elsevier Cares programme we concentrate on education – a common thread across the group – for disadvantaged young people. We saw a 66% rise in volunteering and donated £2.1 million in cash donations (including matching gift programmes) and the equivalent of £3.8 million in gifts of products, services and staff time in 2008. Our Two Days programme allows all employees up to two days off per year for their own community work.

Reed Elsevier Cares Champions engage colleagues in annual events including the RE Cares Challenge to reward business sponsored community engagement, and Reed Elsevier Cares Month, with hundreds of activities around the world. During the Month, we held our first-ever global fundraising drive, raising $62,000 for Save the Children's Rewrite the Future, which furthers education for children living in conflict affected countries; and our second global book drive yielded 18,208 books from employees for local and developing world readers.

POLITICAL DONATIONS

In the United States, the Reed Elsevier Group plc group contributed £39,000 (2007: £60,000) to political parties. There were no donations made in the European Union for political purposes.

PAYMENTS TO SUPPLIERS

The company agrees terms and conditions for business transactions with suppliers and payment is made on these terms. The average time taken to pay suppliers was between 30 and 45 days (2007: between 30 and 45 days).

AUDITORS

Resolutions for the reappointment of Deloitte LLP as auditors of the company and authorising the directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

By Order of the Board

Stephen J Cowden
Secretary
18 February 2009

Registered office
1-3, Strand
London, WC2N 5JR

DIRECTORS' REMUNERATION REPORT

This report provides Reed Elsevier Group plc's statement of how it has applied the principles of good governance relating to Directors' remuneration and communicates its policies and practices on executive remuneration to shareholders. It has been prepared by the Remuneration Committee (the "Committee") of Reed Elsevier Group plc and approved by the board of Reed Elsevier Group plc.

REMUNERATION COMMITTEE

Constitution

Throughout 2008, the Committee consisted of independent non-executive directors, as defined by the Combined Code of the FSA Listing Rules and the Chairman of Reed Elsevier Group plc. Details of Committee members are set out on page 18 in the Directors Report. Ian Fraser (Group HR Director) and Philip Wills (Director, Compensation and Benefits) provided material advice to the Committee during the year.

Advisors

Towers Perrin acted as external advisers to the Committee throughout 2008 and also provided market data and data analysis. Towers Perrin also provide actuarial and other human resources consultancy services directly to some Reed Elsevier Group plc companies.

Remuneration philosophy and policy

The context for Reed Elsevier Group plc's remuneration policy and practices is set by the needs of a group of global business divisions, each of which operates internationally by line of business. Furthermore, Reed Elsevier's 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 Group plc's guiding remuneration philosophy for senior executives is based on the following precepts.

> Performance-related compensation; this underpins Reed Elsevier Group plc's demanding performance standards.

> Creation of shareholder value; this is at the heart of our corporate strategy and is vital to meeting our investors' goals.

> Competitive remuneration opportunity; this helps Reed Elsevier Group plc attract and retain the best executive talent from anywhere in the world.

> Balanced mix of remuneration; this includes salary, incentive opportunities and benefits.

> Aligning the interests of executive directors with shareholders; this is the foundation for remuneration decisions.

The audited parts of the Directors' Remuneration Report

In compliance with the UK Directors' Remuneration Report Regulations 2002, the following elements of this report have been audited: the table entitled "Transfer value of accrued pension benefits" on page 36; the tables showing "Aggregate emoluments" and "Individual fees of non-executive directors" and "Directors shareholdings in Reed Elsevier plc and Reed Elsevier NV" on page 41; and the section "Share-based awards in Reed Elsevier PLC and Reed Elsevier NV" on pages 43 to 49.

DIRECTORS' REMUNERATION REPORT

Our remuneration policy

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

> Reed Elsevier Group plc 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 Group plc employees generally.

> The Committee considers the social, governance, and environmental implications of its decisions, particularly when setting and measuring performance objectives and targets, and seeks to ensure that incentives are consistent with the appropriate management of risk.

> Total remuneration of senior executives will be competitive with that of executives in similar positions in comparable companies, which includes global sector peers and companies of similar scale and international complexity.

> Competitiveness is assessed in terms of total remuneration (ie salary, short and long term incentives and benefits).

> The intention is to provide total remuneration that reflects sustained individual and business performance; ie median performance will be rewarded by total remuneration that is positioned around the median of relevant market data and upper quartile performance by upper quartile total remuneration.

> The Committee will consider all available discretion to claw back any payouts made on the basis of materially misstated data. With effect from 2009, the rules of all incentive plans have been amended to provide for specific provisions in this regard.

How the performance measures in incentives link to our business strategy

The Committee believes that the main driver of long term shareholder value is sustained growth in profitability. The primary measure of profitability that is used throughout the business is growth in adjusted earnings per share at constant currencies of Reed Elsevier Group plc's two parent companies, Reed Elsevier PLC and Reed Elsevier NV (Adjusted EPS). This performance measure has therefore been adopted as the key driver of performance in our longer term incentives.

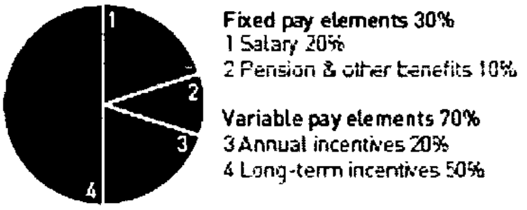
Our Annual Incentive Plan is focused on operational excellence as measured by the critical financial measures of revenue, profit and cash generation. In addition, a significant portion of the annual bonus is dependent on performance against a set of key performance objectives (KPOs), including returns metrics appropriate for each business. These are focused on the delivery of strategic priorities which create the essential platform for sustainable growth. These priorities align with the strategic imperatives described elsewhere in this report.

In our Long Term Incentive Plan we also use Total Shareholder Return (TSR) of Reed Elsevier PLC and Reed Elsevier NV relative to a focused industry peer group. Significant shareholding requirements are a condition of participation in the LTIP programme and of vesting the awards. This increases alignment of interest between our senior executives and our shareholders.

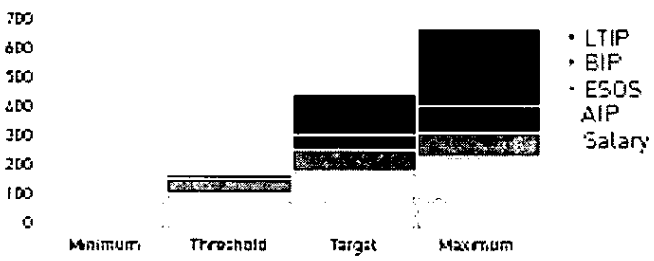
DIRECTORS' REMUNERATION REPORT

The balance between fixed and performance related pay

Around 70% of each executive director's total remuneration package is linked to performance. The following diagram shows the balance between the fixed and variable elements of the remuneration package assuming that target performance will be achieved in 2009.



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 illustrates the way in which remuneration payable to an executive director for 2009 would vary from base salary at minimum up to a theoretical maximum under different performance scenarios. For the purposes of this illustration a number of assumptions have been made in relation to share price growth and vesting/payout levels at the different levels of performance.



Our approach to market positioning and benchmarking

The market competitiveness of total remuneration (ie salary, short and long term incentives and benefits) is assessed against a range of relevant comparator groups as follows:

> Global peers in the media sector which includes those companies in Reed Elsevier's TSR comparator group.

> UK listed companies of similar size and international scope (excluding those in the financial services sector).

> US listed companies of similar size and international scope (excluding those in the financial services sector).

> Netherlands listed companies of similar size and international scope.

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

> First, the overall competitiveness of the total remuneration packages is assessed. The appropriate positioning of an individual's total remuneration against the market is determined based on the Committee's judgement of individual performance and potential.

> The Committee then considers market data and benchmarks for the different elements of the package including salary, total annual cash and total remuneration.

> If it is determined that a total remuneration competitive gap exists, the Committee believes that this should be addressed via a review of performance linked compensation elements in the first instance.

> Benefits, including medical and retirement benefits, are positioned to reflect local country practice.

DIRECTORS' REMUNERATION REPORT

The total remuneration package

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

The key elements of the reward package for executive directors are summarised below:

Summary of remuneration elements for executive directors

Element	Purpose	Performance period	Performance measure
Salary	Positions the role and individual within the relevant market for executive talent	Not applicable	Reflects the sustained value of an executive's skills, experience and contribution compared with the relevant talent market
Annual Incentive Plan (AIP)	Provides focus on the delivery of the financial targets/ budgets. Motivates the achievement of annual strategic milestones that create a platform for future performance	One year	Annual targets for: revenue, profit, cash flow conversion rate and key performance objectives
Bonus Investment Plan (BIP)	Encourages personal investment in and ongoing holding of Reed Elsevier shares promoting greater alignment with shareholders. Supports retention of key talent	Three years	Vesting subject to achievement of Adjusted EPS hurdle and continued employment There is no retesting of the performance condition
Executive Share Options Scheme (ESOS)	Provides focus on longer term share price growth. Rewards sustained delivery and quality of earnings growth	Three years	On grant – Adjusted EPS growth over three-year performance period prior to grant and individual performance. On vesting – Adjusted EPS growth over the three-year performance period post-grant There is no retesting of the performance condition
Long Term Incentive Plan (LTIP)	Drives value creation via the delivery of sustained earnings growth and superior returns for shareholders	Three years	Vesting subject to Adjusted EPS growth and Total Shareholder Return measured relative to industry peers There is no retesting of the performance conditions
Retirement benefits	Positioned to ensure broad competitiveness with local country practice	Not applicable	Terms and vesting are specific to individual with reference to relevant country practice

Each of these remuneration elements are described in greater detail below.

Salary

Salary reflects the role and the sustained value of the individual in terms of skills, experience and contribution compared with the relevant market.

Salaries are reviewed annually in the context of the competitiveness of total remuneration. Any increases typically take effect on 1 January.

Notwithstanding Reed Elsevier Group plc's strong performance during 2008 and positive outlook for 2009, in view of the wider economic climate, the Committee decided not to increase the salaries for executive directors with effect from 1 January 2009.

	Salary from 1 January 2009	Salary from 1 January 2008
Mark Armour	**£613,440**	£613,440
Sir Crispin Davis	**£1,181,100**	£1,181,100
Erik Engstrom	**$1,192,464**	£627,612
Andrew Prozes	**$1,215,180**	$1,215,180
Ian Smith*	**£900,000**	-

*Joined the Board as CEO-designate on 1 January 2009 and will take on the role of CEO on retirement of Sir Crispin Davis in March 2009.

During 2008 Erik Engstrom's remuneration package was returned to a US dollar base. His previous US dollar denominated annualised base salary as at 1 January 2007 of $1,146,600 was increased by 4% reflecting the salary increase that took effect on 1 January 2008 whilst his salary was denominated in sterling.

Reed Elsevier Group plc uses the same factors to determine the levels of increase across all employee populations globally: ie relevant pay market, skills, experience and contribution. Reed Elsevier Group plc 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. No salary increases are being awarded across the senior management population for 2009, except for promotions or where significant market adjustments are required.

Annual Incentive Plan (AIP)

The Annual Incentive Plan provides focus on the delivery of the financial targets set out in the annual budget. It further motivates the achievement of strategic annual goals and milestones that create a platform for future performance.

How the AIP works

For 2009, directors have a target bonus opportunity of 100% of salary (unchanged from 2008) that is weighted as follows across four elements:

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

*The Profit measure for the CEO and CFO is Adjusted Profit After Tax for the Reed Elsevier combined businesses. The profit measure for Divisional CEOs is the Adjusted Operating Profit for their respective divisions.

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

The KPOs are individual to each executive director. Each director is set up to six KPOs to reflect critical business priorities for which they are accountable. For 2009, the KPOs for executive directors will include returns metrics, reinforcing the importance placed by the Board on investment returns. Against each objective, a number of measurable 'milestone targets' are set for the year. All financial targets and KPOs are approved by the Committee at the beginning of the year.

For 2009, payment against each financial performance measure will only commence if a threshold of 97.5% of the target is achieved (unchanged from 2008). A maximum bonus of 150% of salary can be earned (unchanged from 2008) for substantial out-performance against the demanding annual budget targets and for the achievement of agreed KPOs to an exceptional standard.

AIP Payments for 2008

In assessing the level of bonus payments for 2008, the Committee noted the following underlying performances:

	Underlying percentage change over 2007 at constant exchange rates	
	Revenue	**Adjusted operating profit**
Elsevier	5%	10%
LexisNexis	5%	10%
Reed Business*	4%	8%
Reed Elsevier	4%	9%

*Includes Reed Business Information and Reed Exhibitions

The 2008 financial results were strong. At constant exchange rates, revenue growth in continuing operations was +7% (or 4% higher underlying, ie before acquisitions and disposals); underlying margins improved by 110 basis points; and adjusted operating profits were up 12% (or 9% underlying). Return on capital, increasing for the fifth successive year to 12.1% post tax, and conversion of adjusted operating profit into cash at 102% underpinned the quality of the earnings growth achieved. At divisional level, Elsevier, LexisNexis and Reed Exhibitions all showed good underlying revenue growth and strong double-digit growth in adjusted operating profit (at constant currencies). Reed Business Information held up well for most of the year, but was impacted by deteriorating advertising markets in the final quarter.

The strong financial performance was accompanied by very solid performances by individual directors against their key performance objectives. The only significant shortfall was in respect of the failure to divest Reed Business Information, which was largely due to the poor credit markets and the deteriorating economic environment. Achievements included the successful acquisition and well-advanced integration of ChoicePoint and good progress in refinancing the acquisition facility; innovation in new products and services to match the growing demand for online information and workflow solutions; the successful delivery of major restructuring programmes across the businesses and corporate functions, which are on track to deliver their annual savings targets; and the further development of business sectors targeted for strategic growth.

Overall, this resulted in the following bonuses for directors which, in the context of the highly challenging financial targets set for 2008, were generally below the on-target level.

	2008 annual bonus (to be paid in March 2009)	% of salary
Gerard van de Aast	£344,273	58.7
Mark Armour	£558,230	91.0
Sir Crispin Davis	£1,074,801	91.0
Erik Engstrom	$1,235,139	105.1
Andrew Prozes	$950,878	78.2

Bonus Investment Plan (BIP)

The Bonus Investment Plan encourages personal investment and ongoing shareholding in Reed Elsevier shares to develop greater alignment with shareholders.

How the BIP works

Executive directors and other designated key senior executives may invest up to half of their cash bonus received under the AIP in shares of Reed Elsevier PLC or Reed Elsevier NV. Subject to continued employment and their retaining these investment shares during a three-year performance period, participants will be awarded an equivalent number of matching shares.

The vesting of the matching shares is subject to the achievement of a performance condition. For the 2008 and 2009 matching awards this has been increased to at least 8% (from 6% in 2007 and 2006) per annum compound growth in Adjusted EPS over the three-year performance period. In the event of a change of control, the vesting of the matching shares is subject to the discretion of the Committee.

Contingent awards of matching shares made under the BIP to executive directors during 2008 and matching awards vested under the 2005-2007 BIP cycle are disclosed in the share tables on pages 43-49. Adjusted EPS performance over the three years ended 31 December 2007 was 11.4% p.a. and exceeded the performance condition to vest the 2005 matching awards.

At the date of this report, the Committee determined that the performance condition in respect of the 2006-2008 cycle of the BIP had been met. Therefore, subject to continued employment through the vesting date, the 2006 matching awards will vest on 3 April 2009.

Executive Share Option Scheme (ESOS)

The Executive Share Option Scheme is designed to provide focus on longer term share price growth and reward the sustained delivery and quality of earnings growth.

How the ESOS works

Annual grants of options are made over shares in Reed Elsevier PLC and Reed Elsevier NV at the market price on the date of grant. The size of the total grant pool available to all participants is determined by the compound annual growth in Adjusted EPS over the three years prior to grant. The maximum target grant pool for all participants is defined with reference to share usage during the base year as follows:

Adjusted EPS growth per annum **2008 & 2009 ESOS grants**	2007 & 2006 grants	Target Grant Pool
Less than 8%	Less than 6%	50%
8% or more	6% or more	75%
10% or more	8% or more	100%
12% or more	10% or more	125%
14% or more	12% or more	150%

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

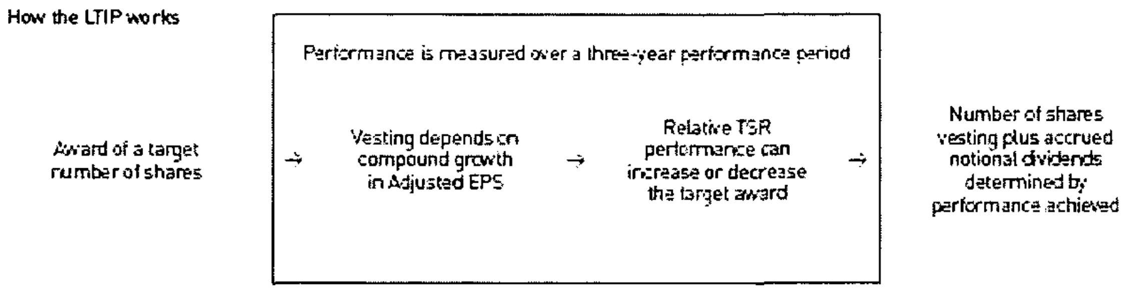
Test 1	On grant	The size of the Target Grant Pool determined as above.
Test 2	On grant	Individual performance prior to grant.
Test 3	On vesting	Compound Adjusted EPS growth during the three years following grant of at least 8% per annum (increased from 6% p.a. for 2006 & 2007 ESOS awards). There is no retesting of the performance condition.

ESOS awards made in 2008 to the executive directors are disclosed in the share tables on pages 43-49. Adjusted EPS performance over the three years ended 31 December 2007 was 11.4% p.a. and exceeded the performance condition to vest the 2005 ESOS awards.

At the date of this report, the Committee determined that the performance condition in respect of the 2006-2008 cycle of the ESOS had been met. Therefore, subject to continued employment through the vesting date, the 2006 ESOS awards will vest on 13 March 2009. Options are exercisable between three and ten years from the date of grant (except for defined categories of approved leavers). In the event of a change of control, the Committee would make an assessment of progress against targets at the time the change of control occurs.

Long Term Incentive Plan (LTIP)

The Long Term Incentive Plan rewards the creation of value via the delivery of sustained earnings growth and superior returns for shareholders.



Executive directors are eligible to receive an annual award of performance shares with a target value of up to 135% of salary. The vesting of the award is subject to performance against two measures: Adjusted EPS growth and relative TSR performance over the same three-year performance period. The awards are subject to meeting shareholding requirements and to the executive agreeing to be bound by strict non-compete provisions.

EPS measure

No payout is made under the LTIP unless Reed Elsevier achieves compound Adjusted EPS growth of at least 10% per annum. This is irrespective of the associated TSR performance. Maximum vesting (under the EPS component) is achieved for compound growth of 14% per annum or higher.

TSR measure

The award earned under the EPS component may be increased or decreased by TSR performance measured against a group of industry peers over three years:

- If TSR performance is below median, this will reduce the target award.

- The maximum uplift to the target award will be applied if TSR performance places Reed Elsevier at or above the upper quartile of the comparator group.

The combined effect of the two performance measures is shown in the following table, which sets out the potential vesting as a percentage of the initial target award:

LTIP vesting schedule

		TSR ranking			
Adjusted EPS growth p.a. 2008 & 2009 awards	2007 & 2006 awards	Below median	Median	62.5th percentile	Upper quartile and above
Below 10%	Below 8%	0%	0%	0%	0%
10%	8%	28%	35%	42%	49%
12%	10%	80%	100%	120%	140%
14% and above	12% and above	108%	135%	162%	189%

The Committee considers the above performance conditions to be tougher than normal UK practice because the TSR element can enhance the reward to participants if, but only if, the Adjusted EPS test has first been achieved, as explained above. The Committee has full discretion to reduce or cancel awards granted to participants based on its assessment as to whether the Adjusted EPS and TSR performance fairly reflects the progress of the business having regard to underlying revenue growth, cash generation, return on capital employed and any significant changes in currency and inflation, as well as individual performance. To the extent that the underlying shares vest, notional dividends are paid out as a cash bonus at the end of the three-year performance period.

Operation of the LTIP

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

The averaging period applied for TSR measurement purposes is six months prior to the start of the financial year in which the award is made and the final six months of the third financial year of the performance period. The TSR of each comparator company is calculated in the currency of its primary listing. Reed Elsevier's TSR is taken as a simple average of the TSR of Reed Elsevier PLC and Reed Elsevier NV, the two parent companies of Reed Elsevier Group plc.

In the event of a change of control, the performance test applied under the LTIP will be based on an assessment by the Committee of progress against the Adjusted EPS and TSR targets at the time the change of control occurs (subject to any rollover that may apply). Details of LTIP target awards made during 2008 are set out in the share tables on pages 43-49. No LTIP awards vested during 2008.

Vesting of 2006 LTIP awards

The 2006 LTIP award will formally vest on 27 February 2009, based on the Committee's assessment of Adjusted EPS and TSR performance. At the date of this report, the Committee agreed the following performance in relation to each measure. Compound Adjusted EPS growth over the three-year performance period was an exceptionally strong 12.5% p.a. This figure represents the simple average of the compound growth in the Adjusted EPS of Reed Elsevier PLC and Reed Elsevier NV disclosed in the financial highlights sections of the 2006, 2007 and 2008 annual reports. The performance for 2008 was the strongest Adjusted EPS growth in a decade. The Committee has determined, with assistance from the Audit Committee, that the compound Adjusted EPS performance of 12.5% p.a. is a fair reflection of the quality of earnings and the progress of the business having regard to underlying revenue growth, cash generation, and return on capital. In reaching this determination, the Committee had due regard to the impact of the strategic initiatives during the period designed to enhance long term shareholder returns, including the divestment of Harcourt Education, the acquisition of ChoicePoint, the share repurchase programme and the significant organisational restructuring.

TSR performance over the same three-year period was assessed by the Committee's external advisor, Towers Perrin, in accordance with a pre-defined methodology, which included specific rules governing companies which de-listed as a result of industry consolidation. The Committee confirmed that the operation of these rules was appropriate and in line with the Committee's intentions. The report from Towers Perrin showed Reed Elsevier to have attained a 76.4th percentile ranking against the peer group of global competitors.

Based on performance against the combined Adjusted EPS and TSR measures, the target awards under the 2006-08 cycle of the LTIP will therefore be subject to the maximum performance uplift of 189% in accordance with the vesting schedule. The Committee believes that this overall level of vesting is fully justified by the exceptionally strong earnings growth and comparative returns to shareholders achieved over the performance period.

DIRECTORS' REMUNERATION REPORT

The table below sets out the number of shares in Reed Elsevier PLC (PLC) and Reed Elsevier NV (NV) that will vest in respect of each director (and former directors) together with the notional dividends accrued during the performance period on the shares due to vest.

	Type of security	No. of shares subject to target award	**No. of shares vesting**	**Accrued notional dividends**
Gerard van de Aast	PLC ord NV ord	70,364 46,332	**132,987** **87,567**	**£66,493** **€106,131**
Mark Armour	PLC ord NV ord	75,075 49,434	**141,891** **93,430**	**£70,945** **€113,237**
Sir Crispin Davis	PLC ord NV ord	144,550 95,181	**273,199** **179,892**	**£136,599** **€218,029**
Erik Engstrom	PLC ord NV ord	82,092 54,055	**155,153** **102,163**	**£77,576** **€123,821**
Andrew Prozes	PLC ord NV ord	83.656 55,085	**158,109** **104,110**	**£79,054** **€126,181**
Patrick Tierney	PLC ord NV ord	53,685 35,350	**101,464** **66,811**	**£50,732** **€80,974**

The aggregate notional dividends per Reed Elsevier PLC and Reed Elsevier NV ordinary share are £0.500 and €1.212 respectively. These reflect the dividends paid in 2006, 2007 and 2008 and exclude the special distribution made in January 2008 following the sale of Harcourt Education. The vested awards will be disclosed in the share tables of the 2009 remuneration report.

Andrew Prozes had previously waived his right to participate in the 2009 and 2010 cycles of the LTIP. The Committee has determined that his increased scope of responsibility following the acquisition of ChoicePoint during 2008 justifies an award under future cycles of this plan.

LTIP shareholding requirement

The shareholding requirement for the Reed Elsevier Group plc Chief Executive Officer is three times salary and for other executive directors two times salary. Executive directors have five years to build up their shareholding to the required level. The shareholding requirement must be met in order to vest the designated LTIP awards and once met, is a condition of ongoing participation in the LTIP. As at 31 December 2008, those directors who were granted an LTIP award in 2006, and who are subject to ongoing shareholding requirements, well exceeded their requirement in order to vest this award in February 2009.

Treatment of the special distribution for share-based incentives

In January 2008 a special distribution was paid on ordinary shares in Reed Elsevier PLC and Reed Elsevier NV. The special distribution was not attributed to any unvested share-based awards nor to any vested share options that had been granted under the incentive plans. None of these awards was therefore adjusted as a result of the consolidation of share capital in January 2008.

Other employee share plans

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

Dilution

The estimated dilution over a ten-year period from outstanding awards over Reed Elsevier PLC shares under all share-based plans was 7.4% of the Reed Elsevier PLC share capital at 31 December 2008. The estimated dilution over the same period in respect of outstanding awards over Reed Elsevier NV shares was 7.6% of the Reed Elsevier NV share capital at 31 December 2008.

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 Group plc's major countries of operation. Base salary is the only pensionable element of remuneration.

Sir Crispin Davis is provided with a UK defined benefit pension arrangement targeting a pension of 45% of salary at his retirement age of 60. **Mark Armour** and **Erik Engstrom** are provided with UK defined benefit pension arrangements under which they accrue a pension of 1/30th of salary for every year of service (up to a maximum of two thirds of salary). The pension is provided through a combination of:

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

> Reed Elsevier's unfunded unapproved pension arrangement for salary above the cap.

Prior to 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.

In respect of **Ian Smith**, Reed Elsevier Group plc will pay him a cash allowance in lieu of pension equal to 30% of base salary per annum.

Gerard van de Aast was a member of the UK defined benefit pension arrangement until the termination of his employment on 31 December 2008. On the termination date his period of pensionable service was increased by eight months, reflecting his mitigated notice period.

Andrew Prozes, a US-based director, is provided with a mixed arrangement of defined benefit and defined contribution. In accordance with US legislation, he has no defined retirement age. On 17 July 2007, he became vested in an annual pension of US$300,000. His basic pension continues to accrue at a rate of $42,857 per annum for each completed year of service between 17 July 2007 and 1 February 2011. In addition, Andrew Prozes will be entitled to receive an enhancement to his annual pension unless he resigns or if his employment is terminated by Reed Elsevier Group plc for cause prior to 1 February 2011. Any such enhancement will be equal to $3,720.93 times the number of completed calendar months between 1 July 2007 and the date of termination or, if earlier, 1 February 2011. For these purposes, his termination date shall be deemed to be 12 months after he ceases employment.

Patrick Tierney retired on 30 January 2008 and became fully vested in his pension in November 2007. The pension is reduced by the value of any other retirement benefits payable by Reed Elsevier Group plc or any former employer (other than those attributable to employee contributions).

The pension arrangements for all directors (UK and non-UK) include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and a spouse's and/or dependants' pension on death. The increase in the transfer value of the directors' pensions, after deduction of contributions, is shown in the table below. Transfer values for the UK directors have been calculated in accordance with the guidance note GN11 published by the UK Institute of Actuaries and Faculty of Actuaries. The transfer values at 31 December 2008 have been calculated using the transfer value basis adopted by the trustees 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 31 December 2008	Director's contributions £	Transfer value of accrued pension 31 December 2007 £	Transfer value of accrued pension 31 December 2008 £	Increase in transfer value during the year (net of director's contributions)*** £	Accrued annual pension 31 December 2008 £	Increase in accrued annual pension during the year £	Increase in accrued annual pension during the year (net of inflation) £	Transfer value at 31 December of increase in accrued pension during the year (net of inflation and director's contributions) £
Gerard van de Aast*	51	5,820	1,379,993	2,352,882	967,069	170,943	40,385	35,163	478,166
Mark Armour	54	5,820	3,466,035	4,358,939	887,084	284,535	30,613	20,470	307,772
Sir Crispin Davis **	59	5,820	9,416,905	9,609,144	186,419	519,601	73,514	55,670	1,023,707
Erik Engstrom	45	5,820	28,306	271,227	237,101	24,415	21,054	20,919	226,568
Andrew Prozes	62	–	2,498,231	3,059,120	560,889	231,184	47,302	47,302	625,913
Patrick Tierney	63	–	3,095,761	3,020,215	(75,546)	237,838	–	–	–

*On 1 January 2009 he started to draw his pension of £137,894 p.a.
**Based on a sterling salary which at 1 January 2008 was £627,612.
***For UK directors, includes changes in the calculation basis of transfer values adopted by the scheme trustees from 1 October 2008.

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 change in control. The Committee believes that, as a general rule, notice periods should be 12 months and that the directors should, subject to practice within their base country, be required to mitigate their damages in the event of termination. The Committee will, however, note local market conditions so as to ensure that the terms offered are appropriate to attract and retain top executives operating in global businesses.

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

> non-compete provisions which prevent them from working with specified competitors, from recruiting Reed Elsevier employees and from soliciting Reed Elsevier Group plc customers for a period of 12 months after leaving employment;

> in the event of their resigning, they will immediately lose all rights to any outstanding awards under the LTIP, ESOS and BIP granted from 2004 onwards including any vested but unexercised options; and

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

DIRECTORS' REMUNERATION REPORT

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

	Contract Date	Expiry date (subject to notice period)	Notice period	Subject to:
Gerard van de Aast(i)	15 November 2000	Ended 31 December 2008	–	English law
Mark Armour(i)	7 October 1996	29 July 2014	12 months	English law
Sir Crispin Davis(i)	19 July 1999	19 March 2009	12 months	English law
Erik Engstrom(i)	25 June 2004	14 June 2025	12 months	English law
Andrew Prozes(ii)	5 July 2000	Indefinite	12 months salary payable for termination without cause	New York law
Ian Smith (i)	3 November 2008	22 January 2019	12 months	English Law
Patrick Tierney(ii)	19 November 2002	Retired on 30 January 2008	–	New York law

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

Gerard van de Aast's severance arrangements
Gerard van de Aast's position as CEO of Reed Business ceased to exist with effect from 15 December 2008 and his employment ended on 31 December 2008. He received the following compensation on termination:

> a gross cash sum of £391,000, equal to eight months' annual base salary, representing a mitigated payment in respect of his notice period (this payment was made in January 2009 and will be reported in the audited section of the 2009 remuneration report); and

> an augmentation of his accrued benefit under the UK defined benefit pension arrangement by an amount that reflects the crediting of his pensionable service by eight months (also reflecting mitigation).

His share-based awards were treated in accordance with the rules of the respective plans and his LTIP shareholding requirement ceased on termination.

Sir Crispin Davis' retirement arrangements
The Committee determined that the following terms shall apply in respect of Sir Crispin Davis' retirement in March 2009:

> he will continue to be eligible for a pro rata 2009 annual bonus under the AIP. Any bonus due will be paid in the first quarter of 2010 and will be subject to performance in the same way as the bonuses payable to the other executive directors;

> as is standard practice for retirements early in the year, he will not receive 2009 grants under ESOS and LTIP and will not participate in the 2009 BIP;

> no termination payments are due since he will be retiring;

> all unvested share-based awards will be treated in accordance with the rules of the plans, and outstanding options will be exercisable for three-and-a-half years from retirement; and

> his LTIP shareholding requirement will cease on retirement.

Ian Smith's remuneration arrangements

Ian Smith's base salary on his recruitment on 1 January 2009 was £900,000. He has an on target annual bonus opportunity under AIP of 100% of base salary for 2009 and will be eligible to participate in BIP in 2010 up to a maximum of 50% of his earned annual bonus for 2009.

Ian Smith will be eligible to participate in ESOS and will receive a grant of an option over shares with a market value on the date of grant of 100% of his base salary in February 2009. In addition, he is eligible for a target grant under the 2009-11 cycle of the LTIP with a market value on the date of grant of 135% of base salary. Ian Smith is subject to a shareholding requirement of three times salary to be built up over five years. The Company will pay a cash allowance in lieu of pension equal to 30% of his base salary. His other benefits are a company car, private medical insurance, disability and life assurance.

Under the terms of his contract, Ian Smith is eligible for an award of performance shares with a market value equal to 90% of his base salary. The grant will be made on 19 February 2009, on terms equivalent to the 2008 LTIP awards made to other executive directors including the same vesting date, vesting schedule, performance conditions (subject to such adjustments as the Committee considers appropriate) and entitlement to notional dividends.

Any shares to which Ian Smith becomes entitled when the award vests, subject to performance, in 2011 will be satisfied out of existing ordinary shares only. The award will not be pensionable. The Committee considered the grant of this performance share award to have been essential to secure Ian Smith's services, and was satisfied that the award was appropriate and would align his interests with those of shareholders. As this was a special arrangement to facilitate, in unusual circumstances, Ian Smith's recruitment, shareholder approval was not required by virtue of 9.4.2(2)R of the UK Listing Rules.

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 Group plc. 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.

> Gerard van de Aast is a non-executive director of OCE NV and received a fee of €44,723 (£35,494) during 2008 (€37,216 (£25,490) during 2007).

> Sir Crispin Davis is a non-executive director of GlaxoSmithKline plc and received a fee of £86,250 during 2008 (£70,000 during 2007).

> Andrew Prozes is a non-executive director of the Cott Corporation and received a fee of $153,790 (£83,130) during 2008 ($62,270 (£31,135) during 2007).

NON-EXECUTIVE DIRECTORS

Policy on non-executive directors' fees

Reed Elsevier Group plc seeks to recruit non-executive directors with the experience to contribute to the boards of a dual listed global business and with a balance of personal skills that will make a major contribution to the boards and their committee structures. With the exception of Dien de Boer-Kruyt, who 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 represent 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.

DIRECTORS' REMUNERATION REPORT

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. Non-executive directors are reimbursed for expenses incurred in attending meetings. They do not receive any performance related bonuses, pension provision, share options or other forms of benefit. Fees may be reviewed annually, although in practice they have changed on a less frequent basis.

Following a review in 2007, new fee levels for the non-executive directors took effect from 1 January 2008. Annual fee rates applicable to non-executive directors and the Chairman are set out in the following table:

	Annual fee 2009	Annual fee 2008
Chairman	**€350,000**	€350,000
Non-executive directors	**£55,000/€75,000**	£55,000/€75,000
Chairman of:		
– Audit Committee	**£15,000/€20,000**	£15,000/€20,000
– Remuneration Committee	**£15,000/€20,000**	£15,000/€20,000

The Reed Elsevier Chairman chairs the Nominations Committee and does not receive a separate fee for his role as chairman of that committee.

The non-executive directors' donation matching programme was discontinued on 31 December 2007.

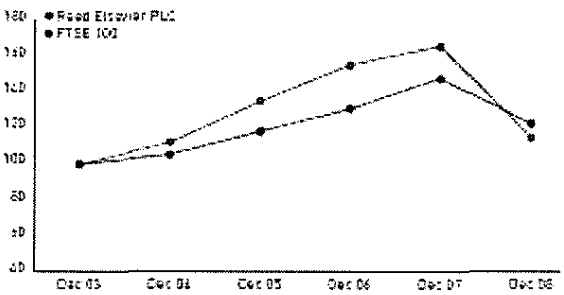
DIRECTORS' REMUNERATION REPORT

Total Shareholder Return graphs

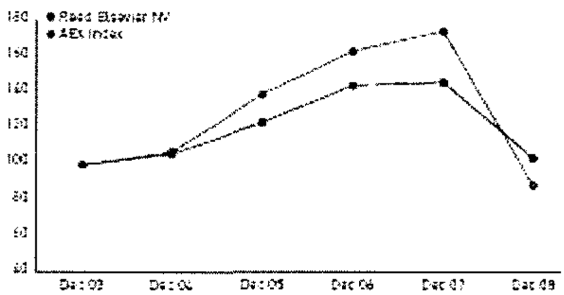
The graphs in this section show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested. They compare the Reed Elsevier PLC performance with that achieved by the FTSE 100, and the Reed Elsevier NV performance with the performance achieved by the Euronext Amsterdam (AEX) Index, over the five-year period from 31 December 2003 to 31 December 2008.

For the five-year period from 31 December 2003, the TSR for Reed Elsevier PLC was 23%, against a FTSE 100 return of 15%. For Reed Elsevier NV during the same period, TSR was 4% against an AEX Index return of minus 12%. As Reed Elsevier PLC and Reed Elsevier NV are members of the FTSE 100 and AEX Index respectively, these indices are relevant.

Reed Elsevier PLC v FTSE 100 - 5 years

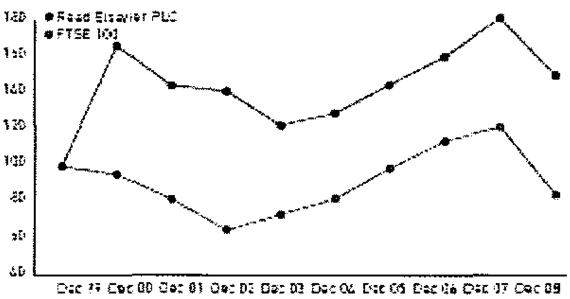


Reed Elsevier NV v AEX - 5 years

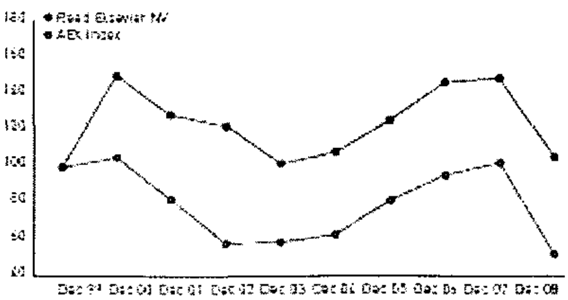


For the nine-year period since 31 December 1999, being the period since Reed Elsevier set out its investment led growth strategy, the TSR for Reed Elsevier PLC was 50%, significantly outperforming the FTSE 100 which showed a return of minus 16%. For Reed Elsevier NV in the same nine-year period, TSR was 6%, also significantly outperforming the AEX index which showed a return of minus 48%.

Reed Elsevier PLC v FTSE 100 - 9 years



Reed Elsevier NV v AEX - 9 years



For the purposes of the charts, the total shareholder return is calculated on the basis of the average share price in the 30 trading days prior to the respective year ends and on the assumption that dividends were reinvested (this includes the special distribution made in January 2008).

REMUNERATION AND SHARE TABLES

The information set out in this section forms part of the audited disclosures in this report.

Directors' emoluments and fees

Aggregate emoluments
The emoluments of the directors of Reed Elsevier Group plc were as follows:

	2008 £'000	2007 £'000
Salaries and fees	**4,322**	4,543
Benefits	**115**	117
Annual performance-related bonuses	**5,547**	4,073
Pension contributions	**51**	131
Pension in respect of former director	**429**	203
Total	**10,464**	9,067

Individual fees of non-executive directors

	2008 £	2007 £
Mark Elliott	**70,000**	48,500
Jan Hommen	**277,778**	239,726
Lisa Hook	**55,000**	45,000
Robert Polet	**55,000**	31,785
David Reid	**55,000**	45,000
Lord Sharman	**70,000**	52,000
Rolf Stomberg (until 23 Apr 2008)	**19,841**	48,630
Cees van Lede (until 18 April 2007)	-	11,130
Strauss Zelnick (until 7 December 2007)	-	45,000
Total	**602,619**	566,771

Other required disclosures

Patrick Tierney retired on 30 January 2008 and did not receive any compensation payments for loss of office. Gerard van de Aast's employment ended on 31 December 2008 under the arrangements described on page 37.

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

Details of long-term share-based incentives which vested and were exercised by the directors over shares in Reed Elsevier PLC and Reed Elsevier NV during the year are shown on pages 43-49. The aggregate notional pre-tax gain made by the directors from such incentives during the year was £1,857,517 (2007: £15,031,942). In relation to Patrick Tierney and Gerard van de Aast this reflects the vesting of shares during 2008 up to their respective termination dates.

DIRECTORS' REMUNERATION REPORT

Individual emoluments of executive directors

	Salary £	Benefits £	Bonus £	Total 2008 £	Total 2007 £
Gerard van de Aast	**585,996**	**17,792**	**344,273**	**948,061**	1,164,923
Mark Armour	**613,440**	**21,381**	**558,230**	**1,193,051**	1,275,903
Sir Crispin Davis	**1,181,100**	**29,246**	**1,074,801**	**2,285,147**	2,431,236
Erik Engstrom	***629,026**	**22,949**	**667,643**	**1,319,618**	1,188,691
Andrew Prozes	**656,854**	**18,278**	**513,988**	**1,189,120**	1,133,202
Patrick Tierney	**52,706**	**5,372**	****2,387,649**	**2,445,727**	972,643
Total	**3,719,122**	**115,018**	**5,546,584**	**9,380,724**	8,166,598

*This reflects the pro-rating of his sterling salary to the end of November 2008 and one month of his US dollar denominated salary for December 2008.
**As disclosed in the 2007 Remuneration Report, in connection with Patrick Tierney's agreement to defer his planned retirement in early 2007 in order to manage and oversee the sale of Harcourt Education and the successful completion of the Harcourt Education sale in January 2008, the Committee awarded Patrick Tierney a sale bonus of $2,917,150 calculated by reference to the excess of the sale proceeds over a predetermined target figure and a payment of $1,500,000 under the terms of his retention bonus in recognition of his outstanding management contribution to the Harcourt Education performance in meeting financial targets during the extended sale period.

Benefits principally comprise the provision of a company car or car allowance, health and disability insurance. Patrick Tierney was the highest paid director in 2008. In respect of 2008, up to the date of his retirement, he had made no notional pre-tax gains on the vesting of share-based incentives and did not exercise any options (2007: £3,085,160).

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 2008 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 2008	31 December 2008(i)	1 January 2008	31 December 2008(i)
Mark Armour	112,378	131,572	47,461	62,384
Sir Crispin Davis	787,577	800,639	445,197	386,940
Mark Elliott	–	–	–	–
Erik Engstrom	79,379	77,856	219,867	211,760
Jan Hommen	–	–	–	–
Lisa Hook	–	–	–	–
Robert Polet	–	–	–	–
Andrew Prozes	230,981	231,709	169,334	168,676
David Reid	–	–	–	–
Lord Sharman	–	–	–	–

(i) On 7 January 2008 the Reed Elsevier PLC and Reed Elsevier NV ordinary shares in issue were consolidated on the basis of 58 new ordinary shares for every 67 existing ordinary shares held, resulting in the number of ordinary shares held by the directors being reduced in accordance with the consolidation ratio.

Ian Smith was appointed a director of Reed Elsevier PLC on 1 January 2009. He did not hold an interest in Reed Elsevier PLC or Reed Elsevier NV ordinary shares at the date of his appointment. There have been no changes in the interests of the directors in the Reed Elsevier PLC or Reed Elsevier NV ordinary shares at the date of this report.

Employee Benefit Trust

Any ordinary shares required to satisfy entitlements under nil cost restricted share awards are provided by the Employee Benefit Trust (EBT) from market purchases. As a potential beneficiary under the EBT in the same way as other employees of Reed Elsevier, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2008, amounted to 20,078,899 Reed Elsevier PLC ordinary shares (1.76% of issued share capital) and 11,177,422 Reed Elsevier NV ordinary shares (1.60% of issued share capital).

On 7 January 2008 the Reed Elsevier PLC and Reed Elsevier NV ordinary shares in issue were consolidated on the basis of 58 new ordinary shares for every 67 existing ordinary shares held. The deemed interests of the directors in the shares held by the EBT, together with their personal interests as shown above, were adjusted on 7 January 2008 in accordance with the consolidation ratio.

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

Details of vested and unvested options and unvested restricted shares and restricted shares vested during the year held by directors in Reed Elsevier PLC (PLC) and Reed Elsevier NV (NV) during 2008 are shown in the tables in this section. For disclosure purposes, any PLC and NV ADRs awarded to directors under the BIP have been converted into ordinary share equivalents. At the date of this report there have been no changes in the options or restricted shares held by directors in office at 31 December 2008. The market price on award for BIP and LTIP, gains on the exercise of options and any notional gains on vesting are based on the middle market price of the respective security.

DIRECTORS' REMUNERATION REPORT

Gerard van de Aast

Gerard van de Aast ceased to be a director on 15 December 2008. The tables below reflect the position as at 31 December 2008 when his employment ended.

Options

	Year of grant	Option over:	No of options held on 1 Jan 2008	**No. of options granted during 2008**	Option price	**No. of options exercised during 2008**	Market price per share at exercise	**Gross gains made on exercise £/€**	No. of options held on 31 Dec 2008	Unvested options vesting on:	Options exercisable until:
ESOS	2000	PLC ord	50,940		£6.380				50,940		1 Dec 2010
		NV ord	35,866		€14.87				35,866		1 Dec 2010
	2001	PLC ord	49,317		£6.590				49,317		31 Dec 2010
		NV ord	35,148		€14.75				35,148		31 Dec 2010
	2002	PLC ord	58,000		£6.000				58,000		31 Dec 2010
		NV ord	40,699		€13.94				40,699		31 Dec 2010
	2004	PLC ord	124,956		£4.872				124,956		31 Dec 2010
		NV ord	85,805		€10.57				85,805		31 Dec 2010
	2005	PLC ord	120,900		£5.335				120,900		31 Dec 2010
		NV ord	82,478		€11.31				82,478		31 Dec 2010
	2006	PLC ord	127,662		£5.305				127,662		31 Dec 2010
		NV ord	85,775		€11.47				85,775		31 Dec 2010
	2007*	PLC ord	122,536		£6.445				81,690		31 Dec 2010
		NV ord	80,928		€14.51				53,952		31 Dec 2010
	2008*	PLC ord		**134,000**	£6.275				44,666		31 Dec 2010
		NV ord		**89,000**	€12.21				29,666		31 Dec 2010
LTIP	2004	PLC ord	233,955		£4.872				233,955		31 Dec 2010
		NV ord	160,651		€10.57				160,651		31 Dec 2010
Total PLC ords			888,266	**134,000**					892,086		
Total NV ords			607,350	**89,000**					610,040		

Shares

	Year of grant	Type of security	No of unvested shares held on 1 Jan 2008	**No. of shares awarded during 2008**	Market price per share at award	**No. of share vested during 2008**	Market price per share at vesting	**Notional gross gains at vesting £/€**	No. of unvested shares held on 31 Dec 2008	Date of vesting
BIP	2005	NV ord	26,347		€11.35	**26,347**	€12.05	**£317,481**	-	14 Apr 2008
	2006	PLC ord	18,633		£5.470	**17,068**	£5.055	**£86,279**	-	31 Dec 2008
		NV ord	12,311		€11.74	**11,277**	€8.42	**€94,952**	-	31 Dec 2008
	2007*	NV ord	29,483		€13.49	**17,179**	€8.42	**€144,647**	-	31 Dec 2008
	2008*	NV ord		**30,856**	€12.44	**7,552**	€8.42	**£63,588**	-	31 Dec 2008
LTIP	2006	PLC ord	70,364		£5.350				70,364	27 Feb 2009
		NV ord	46,332		€11.76				46,332	27 Feb 2009
	2007*	PLC ord	57,898		£6.445				38,598	15 Feb 2010
		NV ord	38,238		€14.51				25,492	15 Feb 2010
	2008*	PLC ord		**64,000**	£6.275				21,333	21 Feb 2011
		NV ord		**42,000**	€12.21				14,000	21 Feb 2011
Total PLC ords			146,895	**64,000**		**17,068**		**£86,279**	130,295	
Total NV ords			152,711	**72,856**		**62,355**		**€620,668**	85,824	

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

DIRECTORS' REMUNERATION REPORT

Mark Armour

Options

	Year of grant	Option over:	No. of options held on 1 Jan 2008	**No. of options granted during 2008**	Option price	**No. of options exercised during 2008**	Market price per share at exercise	**Gross gains made on exercise £/€**	No. of options held on 31 Dec 2008	Unvested options vesting on:	Options exercisable until:
ESOS	1998	PLC ord	66,900		£5.230	**66,900**	£5.810	**£38,802**	-		17 Aug 2010
	1999	PLC ord	33,600		£5.375				33,600		19 Apr 2008
		NV ord	20,244		€13.55				20,244		19 Apr 2008
	2001	PLC ord	62,974		£6.590				62,974		23 Feb 2011
		NV ord	44,882		€14.75				44,882		23 Feb 2011
	2002	PLC ord	74,000		£6.000				74,000		22 Feb 2012
		NV ord	51,926		€13.94				51,926		22 Feb 2012
	2005	PLC ord	150,422		£5.335				150,422		17 Feb 2015
		NV ord	102,618		€11.31				102,618		17 Feb 2015
	2006	PLC ord	158,836		£5.305				158,836		13 Mar 2016
		NV ord	106,720		€11.47				106,720		13 Mar 2016
	2007	PLC ord	130,740		£6.445				130,740		15 Feb 2017
		NV ord	86,347		€14.51				86,347		15 Feb 2017
	2008	PLC ord		**144,000**	£6.275				144,000		21 Feb 2018
		NV ord		**94,000**	€12.21				94,000		21 Feb 2018
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	2006	PLC ord	4,329		£3.776				4,329		31 Jan 2010
Total PLC ords			972,282	**144,000**		**66,900**		**£38,802**	1,049,382		
Total NV ords			612,204	**94,000**					706,204		

Shares

	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2008	**No. of shares awarded during 2008**	Market price per share at award	**No. of shares vested during 2008**	Market price per share at vesting	**Notional gross gains at vesting £/€**	No. of unvested shares held on 31 Dec 2008	Date of vesting
BIP	2005	PLC ord	21,861		£5.365	**21,861**	£6.435	£140,676	-	14 Apr 2008
		NV ord	15,098		€11.35	**15,098**	€12.05	€181,931	-	14 Apr 2008
	2006	PLC ord	21,653		£5.470				21,653	4 Apr 2009
		NV ord	14,306		€11.74				14,306	4 Apr 2009
	2007	PLC ord	19,859		£6.155				19,859	4 Apr 2010
		NV ord	13,371		€13.49				13,371	4 Apr 2010
	2008	PLC ord		**25,291**	£6.600				25,291	8 Apr 2011
		NV ord		**16,993**	€12.44				16,993	8 Apr 2011
LTIP	2006	PLC ord	75,075		£5.350				75,075	27 Feb 2009
		NV ord	49,434		€11.76				49,434	27 Feb 2009
	2007	PLC ord	61,775		£6.445				61,775	15 Feb 2010
		NV ord	40,799		€14.51				40,799	15 Feb 2010
	2008	PLC ord		**67,000**	£6.275				67,000	21 Feb 2011
		NV ord		**44,000**	€12.21				44,000	21 Feb 2011
Total PLC ords			200,223	**92,291**		**21,861**		**£140,676**	270,653	
Total NV ords			133,008	**60,993**		**15,098**		**€181,931**	178,903	

DIRECTORS' REMUNERATION REPORT

Sir Crispin Davis*

Options

	Year of grant	Option over:	No. of options held on 1 Jan 2008	**No. of options granted during 2008**	Option price	**No. of options exercise during 2008**	Market price per share at exercise	**Gross gains made on exercise £/€**	No. of options held on 31 Dec 2008	Unvested options vesting on:	Options exercisable until:
ESOS	1999	PLC ord	321,199		£4.67				321,199		1 Sept 2009
		NV ord	191,550		€12.00				191,550		1 Sept 2009
	2000	PLC ord	171,821		£4.365				171,821		2 May 2010
		NV ord	120,245		€10.73				120,245		2 May 2010
	2001	PLC ord	122,914		£6.590				122,914		23 Feb 2011
		NV ord	87,601		€14.75				87,601		23 Feb 2011
	2002	PLC ord	148,500		£6.000				148,500		22 Feb 2012
		NV ord	104,204		€13.94				104,204		22 Feb 2012
	2003	PLC ord	209,192		£4.515				209,192		21 Feb 2013
		NV ord	148,946		€9.34				148,946		21 Feb 2013
	2004	PLC ord	305,303		£4.872				305,303		19 Feb 2014
		NV ord	209,645		€10.57				209,645		19 Feb 2014
	2005	PLC ord	292,409		£5.335				292,409		17 Feb 2015
		NV ord	199,481		€11.31				199,481		17 Feb 2015
	2006	PLC ord	305,824		£5.305				305,824		13 Mar 2016
		NV ord	205,480		€11.47				205,480		13 Mar 2016
	2007	PLC ord	251,730		£6.445				251,730		15 Feb 2017
		NV ord	166,254		€14.51				166,245		15 Feb 2017
	2008	PLC ord		**276,000**	£6.275				276,000		21 Feb 2018
		NV ord		**182,000**	€12.21				182,000		21 Feb 2018
LTIP	2004	PLC ord	571,616		£4.872				571,616		19 Feb 2014
		NV ord	392,516		€10.57				392,515		19 Feb 2014
SAYE	2008	PLC ord	3,793		£4.244				3,793		31 Jan 2010
Total PLC ords			2,704,301	**276,000**					2,980,301		
Total NV ords			1,825,922	**182,000**					2,007,922		

Shares

	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2008	**No. of shares awarded during 2008**	Market price per share at award	**No. of shares vested during 2008**	Market price per share at vesting	**Notional gross gains at vesting £/€**	No. of unvested shares held on 31 Dec 2008	Date of vesting
BIP	2005	PLC ord	86,042		£5.365	**86,042**	£6.435	**£553,680**	-	14 Apr 2008
	2006	PLC ord	42,092		£5.470				42,092	4 Apr 2009
		NV ord	27,810		€11.74				27,810	4 Apr 2009
	2007	PLC ord	74,708		£6.155				74,708	4 Apr 2010
	2008	PLC ord		**96,227**	£6.600				96,227	8 Apr 2011
LTIP	2006	PLC ord	144,550		£5.350				144,550	27 Feb 2009
		NV ord	95,181		€11.76				95,181	27 Feb 2009
	2007	PLC ord	118,942		£6.445				118,942	15 Feb 2010
		NV ord	78,555		€14.51				78,555	15 Feb 2010
	2008	PLC ord		**129,000**	£6.275				129,000	21 Feb 2011
		NV ord		**85,000**	€12.21				85,000	21 Feb 2011
Total PLC ords			466,334	**225,227**		**86,042**		**£553,680**	605,519	
Total NV ords			201,546	**85,000**					286,546	

*Subsequent to Sir Crispin Davis' retirement, the 2007 and 2008 awards will be treated in accordance with the rules of the respective plans.

Erik Engstrom

Options

	Year of grant	Option over:	No. of options held on 1 Jan 2008	**No. of options granted during 2008**	Option price	**No. of options exercised during 2008**	Market price per share at exercise	**Gross gains made on exercise £/€**	No. of options held on 31 Dec 2008	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	13 Mar 2016
		NV ord	120,198		€11.47				120,198	13 Mar 2016	13 Mar 2016
	2007	PLC ord	130,060		£6.445				130,060	15 Feb 2017	15 Feb 2017
		NV ord	85,897		€14.51				85,897	15 Feb 2017	15 Feb 2017
	2008	PLC ord		**143,000**	£6.275				143,000	21 Feb 2018	21 Feb 2018
		NV ord		**94,000**	€12.21				94,000	21 Feb 2018	21 Feb 2018
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			852,095	**143,000**					995,095		
Total NV ords			580,139	**94,000**					674,139		

Shares

	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2008	**No. of shares awarded during 2008**	Market price per share at award	**No. of shares vested during 2008**	Market price per share at vesting	**Notional gross gains at vesting £/€**	No. of unvested shares held on 31 Dec 2008	Date of vesting
BIP	2005	PLC ord	14,020		£5.365	**14,020**	£6.435	**£90,218**	-	14 Apr 2008
	2006	NV ord	29,442		€11.74				29,442	4 Apr 2009
	2007	NV ord	27,572		€13.49				27,572	4 Apr 2010
	2008	NV ord		**30,318**	€12.44				30,318	8 Apr 2011
LTIP	2006	PLC ord	82,092		£5.350				82,092	27 Feb 2009
		NV ord	54,055		€11.76				54,055	27 Feb 2009
	2007	PLC ord	61,453		£6.445				61,453	15 Feb 2010
		NV ord	40,586		€14.51				40,586	15 Feb 2010
	2008	PLC ord		**68,500**	£6.275				68,500	21 Feb 2011
		NV ord		**45,000**	€12.21				45,000	21 Feb 2011
Total PLC ords			157,565	**68,500**		**14,020**		**£90,218**	212,045	
Total NV ords			151,655	**75,318**					226,973	

Andrew Prozes

Options

	Year of grant	Option over:	No. of options held on 1 Jan 2008	**No. of options granted during 2008**	Option price	**No. of options exercised during 2008**	Market price per share at exercise	**Gross gains made on exercise £/€**	No. of options held on 31 Dec 2008	Unvested options vesting on:	Options exercisable until:
ESOS	2000	PLC ord	188,281		£5.660				188,821		9 Aug 2010
		NV ord	131,062		€13.60				131,062		9 Aug 2010
	2001	PLC ord	83,785		£6.590				83,785		23 Feb 2011
		NV ord	59,714		€14.75				59,714		23 Feb 2011
	2002	PLC ord	103,722		£6.000				103,722		22 Feb 2012
		NV ord	72,783		€13.94				72,783		22 Feb 2012
	2003	PLC ord	132,142		£4.515				132,142		21 Feb 2013
		NV ord	94,086		€9.34				94,086		21 Feb 2013
	2004	PLC ord	162,666		£4.872				162,666		19 Feb 2014
		NV ord	111,699		€10.57				111,699		19 Feb 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	182,303		£5.305				182,303	13 Mar 2009	13 Mar 2016
		NV ord	122,487		€11.47				122,487	13 Mar 2009	13 Mar 2016
	2007	PLC ord	132,537		£6.445				132,537	15 Feb 2010	15 Mar 2017
		NV ord	87,533		€14.51				87,533	15 Feb 2010	15 Mar 2017
	2007	PLC ord		**145,000**	£6.275				145,000	21 Feb 2011	21 Feb 2018
		NV ord		**96,000**	€12.21				96,000	21 Feb 2011	21 Feb 2018
LTIP	2004	PLC ord	304,558		£4.872				304,558		19 Feb 2014
		NV ord	209,133		€10.57				209,133		19 Feb 2014
Total PLC ords			1,444,511	**145,000**					1,589,511		
Total NV ords			993,909	**96,000**					1,089,909		

Shares

	Year of grant	Type of security	No. of unvested shares held on 1 Jan 2008	**No. of shares awarded durning 2008**	Market price per share at award	**No. of shares vested during 2008**	Market price per share at vesting	**Notional gross gains at vesting £/€**	No. of unvested shares held on 31 Dec 2008	Date of vesting
BIP	2005	PLC ord	23,756		£5.365	**23,756**	£6.435	**£152,870**	-	14 Apr 2008
		NV ord	16,522		€11.35	**16,522**	€12.05	**€199,090**	-	14 Apr 2008
	2006	PLC ord	26,400		£5.470				26,400	4 Apr 2009
		NV ord	17,636		€11.74				17,636	4 Apr 2009
	2007	PLC ord	21,548		£6.155				21,548	4 Apr 2010
		NV ord	14,574		€13.49				14,574	4 Apr 2010
	2008	PLC ord		**20,030**	£6.600				20,030	8 Apr 2011
		NV ord		**13,505**	€12.44				13,505	8 Apr 2011
LTIP	2006	PLC ord	83,656		£5.350				83,656	27 Feb 2009
		NV ord	55,085		€11.76				55,085	27 Feb 2009
	2007	PLC ord	63,623		£6.445				62,623	15 Feb 2010
		NV ord	41,359		€14.51				41,359	15 Feb 2010
	2008	PLC ord		**68,000**	£6.275				68,000	21 Feb 2011
		NV ord		**44,500**	€12.21				44,500	21 Feb 2011
Total PLC ords			217,983	**88,030**		**23,756**		**£152,870**	282,257	
Total NV ords			145,176	**58,005**		**16,522**		**€199,090**	186,659	

DIRECTORS' REMUNERATION REPORT

Patrick Tierney

Options

	Year of grant	Option over:	No of options held on 1 Jan 2008	No. of options granted during 2008	Option price	No. of options exercised at 30 Jan 2008 inclusive	Market price per share at exercise	Gross gains made on exercise at 30 Jan 2008 £/€	No. of options held at 31 Jan 2008	Unvested options vesting on:	Options exercisable until:
ESOS	2004	PLC ord	162,666		£4.872				162,666		30 Jan 2010
		NV ord	111,699		€10.57				111,699		30 Jan 2010
	2005	PLC ord	154,517		£5.335				154,517		30 Jan 2010
		NV ord	105,412		€11.31				105,412		30 Jan 2010
	2006*	PLC ord	175,488		£5.305				116,992		30 Jan 2010
		NV ord	117,908		€11.47				78,605		30 Jan 2010
	2007*	PLC ord	121,628		£6.445				40,542		30 Jan 2010
		NV ord	80,329		€14.51				26,776		30 Jan 2010
LTIP	2004	PLC ord	107,962		£4.872				107,962		30 Jan 2010
		NV ord	75,936		€10.57				75,936		30 Jan 2010
Total PLC ords			722,261						582,679		
Total NV ords			491,284						398,428		

Shares

	Year of grant	Type of security	No of unvested shares held on 1 Jan 2008	No. of shares awarded during 2008	Market price per share at award	No. of shares vested at 30 Jan 2008 inclusive	Market price per share at vesting	Notional gross gains at vesting at 30 Jan 2008 £/€	No. of unvested shares held at 30 Jan 2008	Date of vesting
BIP	2005	PLC ord	24,156		£5.365				24,156	14 Apr 2008
		NV ord	16,800		€11.35				16,800	14 Apr 2008
	2006	PLC ord	8,124		£5.470				8,124	4 Apr 2009
		NV ord	5,426		€11.74				5,426	4 Apr 2009
	2007	PLC ord	8,012		£6,155				8,012	4 Apr 2010
		NV ord	5,420		€12.44				5,420	4 Apr 2010
LTIP	2006	PLC ord	80,528		£5.350				53,685	27 Feb 2009
	*	NV ord	53,025		€11.76				35,350	27 Feb 2009
	2007	PLC ord	57,412		£6.445				19,137	15 Feb 2010
	*	NV ord	37,917		€14.51				12,639	15 Feb 2010
Total PLC ords			178,232						113,114	
Total NV ords			118,588						75,635	

*Proration for service was applied in respect of these awards.

Options granted under ESOS vest on the third anniversary and expire on the tenth anniversary of the date of grant. The proportion of the target award that may vest in relation to 2006, 2007 and 2008 LTIP grant is subject to the annual growth in Adjusted EPS and relative TSR measured against a group of competitor companies during the performance period. The number of shares subject to the target award is reflected in the above tables which are determined by reference to an assumed achievement of 12% for the 2008 award (10% for the 2006 and 2007 LTIP grants) per annum compound growth in Adjusted EPS and median TSR, which would result in 100% of the award vesting. Depending on actual Adjusted EPS growth and TSR, the proportion of the award that may vest could be lower or higher.

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

Approved by the board of Reed Elsevier Group plc on 18 February 2009

Signed on behalf of the Remuneration Committee by Stephen J Cowden, Company Secretary

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the members of Reed Elsevier Group plc

We have audited the consolidated financial statements of Reed Elsevier Group plc for the year ended 31 December 2008 ("the consolidated financial statements"), which comprise the consolidated income statement, the consolidated cash flow statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated reconciliation of shareholders' deficit, the group accounting policies, and the related notes 1 to 35. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the company financial statements of Reed Elsevier Group plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view, and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors' report is consistent with the consolidated financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the other information contained in the annual report, as described in the contents section, and consider whether it is consistent with the audited consolidated financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the members of Reed Elsevier Group plc

Basis of audit opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view in accordance with IFRS, as adopted for use in the European Union, of the state of the group's affairs as at 31 December 2008 of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the consolidated financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
18 February 2009

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Revenue - continuing operations	1	**5,281**	4,534
Cost of sales		**(1,902)**	(1,606)
Gross profit		**3,379**	2,928
Selling and distribution costs		**(1,052)**	(934)
Administration and other expenses		**(1,482)**	(1,160)
Operating profit before joint ventures		**845**	834
Share of results of joint ventures		**18**	16
Operating profit - continuing operations	3	**863**	850
Finance income	8	**53**	36
Finance costs	8	**(553)**	(454)
Net finance costs		**(500)**	(418)
Disposals and other non operating items	9	**(93)**	98
Profit before tax - continuing operations		**270**	530
Taxation	10	**(99)**	112
Net profit from continuing operations		**171**	642
Net profit from discontinued operations	2	**18**	309
Net profit for the year		**189**	951
Attributable to:			
Parent company's shareholders		**185**	948
Minority interests		**4**	3
Net profit for the year		**189**	951

The historical cost profits and losses are not materially different from the results disclosed above.

CONSOLIDATED CASH FLOW STATEMENT
As at 31 December 2008

	Note	2008 £m	2007 £m
Cash flow from operating activities - continuing operations			
Cash generated from operations	12	**1,401**	1,144
Interest paid		**(146)**	(115)
Interest received		**31**	22
Net interest paid to Reed Elsevier NV		**(62)**	(46)
Net interest (paid to)/received from Reed Elsevier PLC		**(1)**	3
Net interest paid to the Elsevier Reed Finance BV group		**(302)**	(287)
Tax paid		**(160)**	(184)
Net cash from operating activities		**761**	537
Cash flows from investing activities - continuing operations			
Acquisitions	12	**(2,161)**	(327)
Purchases of property, plant and equipment		**(57)**	(64)
Expenditure on internally developed intangible assets		**(115)**	(80)
Purchase of investments		**(4)**	(4)
Net purchase of shares in Reed Elsevier PLC and Reed Elsevier NV		**(54)**	(75)
Proceeds on disposal of property, plant and equipment		**5**	6
Proceeds from other disposals		**7**	240
Dividends received from joint ventures		**23**	12
Net cash used in investing activities		**(2,356)**	(292)
Cash flows from financing activities - continuing operations			
Dividends paid to shareholders of the parent company		**(1,453)**	(1,816)
Increase in net borrowings from shareholders and fellow affiliates		**139**	1,709
(Decrease)/increase in short term bank loans, overdrafts and commercial paper		**(429)**	15
Issuance of other loans		**1,555**	-
Repayment of other loans		**(411)**	(62)
Repayment of finance leases		**(56)**	(12)
Redemption of debt related derivative financial instrument		**51**	-
Net cash used in financing activities		**(604)**	(166)
Net cash (used in)/from discontinued operations	2	**(48)**	1,912
(Decrease)/increase in cash and cash equivalents	12	**(2,247)**	1,991
Movement in cash and cash equivalents			
At 1 January		**2,345**	322
(Decrease)/increase in cash and cash equivalents		**(2,247)**	1,991
Exchange translation differences		**146**	32
At 31 December		**244**	2,345

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Note	2008 £m	2007 £m
Non-current assets			
Goodwill	15	4,905	2,464
Intangible assets	16	4,233	1,950
Investments in joint ventures	17	145	116
Other investments	17	242	340
Property, plant and equipment	18	328	238
Net pension assets	6	152	183
Deferred tax assets	20	349	137
		10,354	5,428
Current assets			
Inventories and pre-publication costs	21	343	268
Trade and other receivables	22	1,675	1,134
Derivative financial instruments		12	194
Amounts owed by Reed Elsevier PLC		540	-
Amounts owed by the Elsevier Reed Finance BV group		173	55
Cash and cash equivalents		244	2,345
		2,987	3,996
Assets held for sale	23	49	341
Total assets		13,390	9,765
Current liabilities			
Trade and other payables	24	2,719	1,926
Derivative financial instruments		207	16
Borrowings	25	63	554
Amounts owed to Reed Elsevier NV		1,518	1,377
Amounts owed to Reed Elsevier PLC		1,317	1,520
Amounts owed to Reed Holding BV		21	16
Amounts owed to the Elsevier Reed Finance BV group	25	1,750	982
Taxation		453	670
Provisions	27	79	-
		8,127	7,061
Non-current liabilities			
Borrowings	25	3,718	1,348
Amounts owed to the Elsevier Reed Finance BV group	25	6,290	4,030
Deferred tax liabilities	20	1,517	689
Net pension obligations	6	521	133
Provisions	27	35	21
		12,081	6,221
Liabilities associated with assets held for sale	23	2	84
Total liabilities		20,210	13,366
Net liabilities		(6,820)	(3,601)
Capital and reserves			
Share capital	29	-	-
Share premium	30	324	324
Translation reserve	31	(1,290)	216
Other reserves	32	(5,882)	(4,152)
Consolidated shareholders' deficit		(6,848)	(3,612)
Minority interests		28	11
Total deficit		(6,820)	(3,601)

Approved by the board of Reed Elsevier Group plc, 18 February 2009.

M H Armour
Chief Financial Officer

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE
For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Net profit for the year		**189**	951
Exchange difference on translation of foreign operations		**(1,535)**	(71)
Actuarial (losses)/gains on defined benefit pension schemes	6	**(347)**	224
Fair value movements on available for sale investments		**(99)**	(6)
Fair value movements on cash flow hedges		**(194)**	12
Tax recognised directly in equity	10	**152**	(52)
Net (expense)/income recognised directly in equity		**(2,023)**	107
Cumulative exchange differences on disposal of foreign operations		**27**	148
Cumulative fair value movements on disposal of available for sale investments		**-**	(7)
Transfer to net profit from hedge reserve (net of tax)		**(18)**	(21)
Total recognised income and expense for the year		**(1,825)**	1,178
Attributable to:			
Parent company's shareholders		**(1,829)**	1,175
Minority interests		**4**	3
Total recognised income and expense for the year		**(1,825)**	1,178

CONSOLIDATED RECONCILIATION OF SHAREHOLDERS' DEFICIT
For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Total recognised net (expense)/income attributable to parent company's shareholders		**(1,829)**	1,175
Dividends declared and paid	14	**(1,453)**	(1,816)
Increase in share based remuneration reserve		**46**	46
Net increase in consolidated shareholders' deficit		**(3,236)**	(595)
Consolidated shareholders' deficit at 1 January		**(3,612)**	(3,017)
Consolidated shareholders' deficit at 31 December		**(6,848)**	(3,612)

ACCOUNTING POLICIES

Basis of preparation

The Reed Elsevier Group plc 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), and are prepared on a going concern basis.

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

In addition to the figures required to be reported by applicable accounting standards, adjusted operating profit figures have been presented as an additional performance measure. Adjusted operating profit is shown before the amortisation of acquired intangible assets and goodwill impairment, exceptional restructuring and acquisition related costs, and is also grossed up to exclude the equity share of taxes in joint ventures.

Foreign exchange translation

The consolidated financial statements are presented in pounds sterling.

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

Assets and liabilities of foreign operations are translated at exchange rates prevailing on the balance sheet 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 Group plc uses derivative financial instruments, primarily forward contracts, to hedge its exposure to certain foreign exchange risks. Details of Reed Elsevier Group plc'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 group.

Revenues are recognised for the various categories of turnover as follows: subscriptions – on periodic despatch of subscribed product or rateably over the period of the subscription where performance is not measurable by despatch; circulation – on despatch; advertising – on publication or over the period of online display; 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 recognised income and expense in the period in which they occur. Past service costs are recognised immediately to the extent that benefits have vested, or, if not vested, on a straight line basis over the period until the benefits vest.

Net pension obligations in respect of defined benefit schemes are included in the balance sheet at the present value of scheme liabilities, less the fair value of scheme assets. Where schemes are in surplus, i.e. assets exceed liabilities, the net pension assets are separately included in the balance sheet. Any net pension asset is limited to the extent that the asset is recoverable through reductions in future contributions.

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

ACCOUNTING POLICIES

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 Group plc group's share based remuneration is equity settled by the ultimate holding companies, Reed Elsevier PLC and Reed Elsevier NV, and is accounted for as equity settled in Reed Elsevier Group plc.

Borrowing costs

All interest on borrowings is expensed as incurred. The cost of issuing borrowings is generally expensed over the life of the borrowings 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 balance sheet date.

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

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

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

Goodwill

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

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

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

ACCOUNTING POLICIES

Intangible assets

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

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trade marks, imprints, brands); customer related assets (e.g. subscription bases, customer lists, customer relationships); editorial content; software and systems (e.g. application infrastructure, product delivery platforms, in-process research and development); contract based assets (e.g. publishing rights, exhibition rights, supply contracts); and other intangible 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 balance sheet at cost less accumulated depreciation. No depreciation is provided on freehold land. Freehold buildings and long leases are depreciated over their estimated useful lives up to a maximum of 50 years. Short leases are written off over the duration of the lease. Depreciation is provided on other assets on a straight line basis over their estimated useful lives as follows: leasehold improvements – shorter of life of lease and 10 years; plant – 3 to 20 years; office furniture, fixtures and fittings – 5 to 10 years; computer systems, communication networks and equipment – 3 to 7 years.

Investments

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

Available for sale investments and venture capital investments held for trading represent investments in listed and unlisted securities. The fair value of listed securities is determined based on quoted market prices, and of unlisted securities on management's estimate of fair value based on standard valuation techniques, including market comparisons and discounting of future cash flows, having regard to maximising the use of observable inputs and adjusting for risk. Independent valuation experts are used as appropriate.

Shares of the parent companies, Reed Elsevier PLC and Reed Elsevier NV, that are purchased by the Reed Elsevier Group plc Employee Benefit Trust are classified as investments available for sale and are held at market value with changes in fair value recognised directly in equity.

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

Impairment

At each balance sheet date, reviews are carried out of the carrying amounts of tangible and intangible assets and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount, 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.

Impairment (continued)

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 overheads, and estimated net realisable value. Pre-publication costs, representing costs incurred in the origination of content prior to publication, are expensed systematically reflecting the expected sales profile over the estimated economic lives of the related products, generally up to five years.

Leases

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

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

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 balance sheet 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 balance sheet.

Discontinued operations

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

ACCOUNTING POLICIES

Financial instruments

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

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

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

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

Where an effective hedge is in place against changes in the fair value of fixed rate borrowings, the hedged borrowings are adjusted for changes in fair value attributable to the risk being hedged with a corresponding income or expense included in the income statement 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 market rates of interest and exchange. The fair value of long term borrowings is calculated by discounting expected future cash flows at market rates.

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

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

Provisions

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

ACCOUNTING POLICIES

Critical judgments and key sources of estimation uncertainty

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

Standards effective for the year

IFRIC14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, clarifies how to assess the limit in IAS 19 Employee Benefits on the amount of a defined benefit pension surplus that can be recognised as an asset. Adoption of this interpretation has not significantly impacted the measurement, presentation or disclosure of employee benefits in the financial statements.

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 Group plc are set out below.

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

Amendment to IAS23 – Borrowing Costs (effective for the 2009 financial year). The amendment removes the option to immediately recognise as an expense borrowing costs relating to assets requiring a substantial period of time to get ready for use or sale and requires such costs to be capitalised. Adoption of this standard will change our accounting policy on borrowing costs but is not expected to significantly impact the measurement, presentation or disclosure of borrowing costs in the financial statements.

Amendment to IAS1 – Presentation of Financial Statements (effective for the 2009 financial year). The amendment introduces changes to the way in which movements in equity must be disclosed and requires an entity to disclose separately each component of other comprehensive income not recognised in profit or loss. The amendment also requires disclosure of the amount of income tax relating to each component of other comprehensive income as well as several other minor disclosure amendments. Other than as described above, this amendment is not expected to significantly change the presentation of the financial statements.

Amendment to IFRS2 – Share Based Payment (effective for the 2009 financial year). The amendment clarifies that cancellations of share options, whether by the entity or holder, should be accounted for as an acceleration of the vesting period. The amendment also restricts the definition of a vesting condition to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. The amendment is not expected to significantly impact the measurement, presentation or disclosure of share based remuneration in the financial statements.

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

Amendments to IAS 27 – Consolidated and Separate Financial Statements (effective for the 2010 financial year). The amendments introduce changes to the accounting for partial disposals of subsidiaries, associates and joint ventures.

Standards, amendments and interpretations not yet effective (continued)

Adoption of these amendments is not expected to significantly impact the measurement, presentation or disclosure of future disposals.

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

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

1. Segment analysis

Reed Elsevier Group plc is a publisher and information provider organised as four business segments: Elsevier, comprising scientific, technical and medical publishing; LexisNexis providing legal, tax, regulatory, risk management, information and analytics, and business information solutions to professional, business and government customers; Reed Exhibitions, organising trade exhibitions and conferences; and Reed Business Information (RBI), providing information and marketing solutions to business professionals. Internal reporting is consistent with this organisational structure. On 21 February 2008 Reed Elsevier Group plc announced the intention to divest RBI and on 10 December 2008 Reed Elsevier Group plc announced the termination of discussions to sell RBI as it was judged not possible to structure a transaction on acceptable terms at that time. RBI has therefore been presented as a continuing operation. RBI and Reed Exhibitions, previously presented together as the Reed Business segment, are now managed as separate divisions and are presented as separate business segments. Comparatives have been restated accordingly.

Adjusted operating profit figures are presented as additional performance measures. They are stated before amortisation of acquired intangible assets and goodwill impairment, exceptional restructuring and acquisition related costs, and are grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs relate to the major restructuring programme announced in February 2008 and in RBI, which was to be divested and not part of the original programme. Exceptional restructuring costs principally comprise severance, outsourcing migration and associated property costs. Adjusted operating profit is reconciled to operating profit in note 11.

	Revenue		Operating profit		Adjusted operating profit	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Business segment						
Elsevier	**1,647**	1,457	**407**	374	**521**	441
LexisNexis	**1,940**	1,594	**291**	287	**513**	405
Reed Exhibitions	**707**	577	**118**	106	**178**	139
Reed Business Information	**987**	906	**54**	88	**125**	118
Sub-total	**5,281**	4,534	**870**	855	**1,337**	1,103
Corporate costs	**-**	-	**(46)**	(44)	**(46)**	(44)
Unallocated net pension credit	**-**	-	**39**	39	**39**	39
Total	**5,281**	4,534	**863**	850	**1,330**	1,098
Geographical origin						
North America	**2,544**	2,147	**333**	352	**617**	504
United Kingdom	**905**	896	**179**	176	**235**	207
The Netherlands	**594**	505	**175**	175	**202**	178
Rest of Europe	**865**	676	**128**	94	**204**	148
Rest of world	**373**	310	**48**	53	**72**	61
Total	**5,281**	4,534	**863**	850	**1,330**	1,098

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

Share of post-tax results of joint ventures of £18m (2007: £16m) included in operating profit comprises £4m (2007: £3m) relating to LexisNexis and £14m (2007: £13m) relating to Reed Exhibitions. The unallocated net pension credit of £39m (2007: £39m) comprises the expected return on pension scheme assets of £219m (2007: £196m) less interest on pension scheme liabilities of £180m (2007: £157m).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

1. Segment analysis (continued)

Analysis of revenue by geographical market	2008 £m	2007 £m
North America	**2,616**	2.227
United Kingdom	**577**	601
The Netherlands	**234**	205
Rest of Europe	**1,126**	881
Rest of world	**728**	620
Total	**5,281**	4.534

	Expenditure on acquired goodwill and intangible assets		Capital expenditure additions		Amortisation of acquired intangible assets and goodwill impairment		Depreciation and other amortisation	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Business segment								
Elsevier	**31**	193	**54**	50	**65**	61	**51**	47
LexisNexis	**2,705**	42	**74**	76	**137**	105	**68**	72
Reed Exhibitions	**58**	61	**11**	8	**46**	27	**6**	4
Reed Business Information	**64**	67	**26**	22	**31**	27	**25**	23
Sub-total	**2,858**	363	**165**	156	**279**	220	**150**	146
Corporate	-	-	**7**	-	-	-	**17**	2
Total	**2,858**	363	**172**	156	**279**	220	**167**	148
Geographical location								
North America	**2,701**	152	**90**	86				
United Kingdom	**54**	26	**36**	31				
The Netherlands	**4**	-	**26**	22				
Rest of Europe	**34**	163	**11**	12				
Rest of world	**65**	22	**9**	5				
Total	**2,858**	363	**172**	156				

Capital expenditure comprises additions to property, plant and equipment and internally developed intangible assets. The net book amount of property, plant and equipment added through acquisitions totalled £48m (2007: nil). Amortisation of acquired intangible assets includes the share of amortisation in joint ventures of £3m (2007: £2m) in Reed Exhibitions. Other than the depreciation and amortisation above, non cash items of £46m (2007: £38m) relate to the recognition of share based remuneration and comprise £7m (2007: £8m) in Elsevier, £8m (2007: £10m) in LexisNexis, £6m (2007: £8m) in Reed Business Information, £3m (2007: £3m) in Reed Exhibitions and £22m (2007: £9m) in Corporate.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

1. Segment analysis (continued)

	Total assets		Total liabilities		Net assets/(liabilities)	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Business segment						
Elsevier	**3,081**	2,364	**1,213**	715	**1,868**	1,649
LexisNexis	**6,758**	2,531	**774**	415	**6,015**	2,116
Reed Exhibitions	**862**	659	**379**	285	**483**	374
Reed Business Information	**868**	684	**418**	321	**464**	363
Sub-total	**11,569**	6,238	**2,784**	1,736	**8,830**	4,502
Taxation	**349**	137	**1,970**	1,359	**(1,621)**	(1,222)
Cash/(borrowings)	**244**	2,345	**3,781**	1,902	**(3,537)**	443
Balances with fellow associated undertakings	**713**	55	**10,896**	7,925	**(10,183)**	(7,870)
Net pension assets/(obligations)	**152**	183	**521**	133	**(369)**	50
Assets and liabilities held for sale	**49**	341	**2**	84	**47**	257
Other assets and liabilities	**314**	466	**256**	227	**13**	239
Total	**13,390**	9,765	**20,210**	13,366	**(6,820)**	(3,601)
Geographical location						
North America	**9,103**	4,559	**13,888**	7,793	**(4,785)**	(3,234)
United Kingdom	**1,628**	2,349	**2,638**	2,686	**(1,010)**	(337)
The Netherlands	**747**	1,539	**2,272**	1,748	**(1,525)**	(209)
Rest of Europe	**1,301**	1,030	**1,073**	915	**228**	115
Rest of world	**611**	288	**339**	224	**272**	64
Total	**13,390**	9,765	**20,210**	13,366	**(6,820)**	(3,601)

Investments in joint ventures of £145m (2007: £116m) included in segment assets above comprise £42m (2007: £30m) relating to LexisNexis, nil (2007: £1m) relating to Elsevier, £99m (2007: £83m) relating to Reed Exhibitions and £4m (2007: £2m) relating to Reed Business Information.

2. Discontinued operations

Discontinued operations comprise the results of the Harcourt Education division. The disposal of the Harcourt Education International business completed in May and August 2007; the disposal of the Harcourt US K-12 Schools Education business completed in December 2007 and the disposal of the Harcourt Assessment business completed in January 2008.

	2008 £m	2007 £m
Net profit from discontinued operations		
Revenue	**12**	752
Operating costs	**(12)**	(640)
Operating profit and profit before tax	**-**	112
Taxation	**-**	(31)
Profit after taxation	**-**	81
Gain on disposals	**67**	611
Tax on disposals	**(49)**	(383)
Net profit from discontinued operations	**18**	309

The gain on disposals of discontinued operations in 2008 relates to the sale of Harcourt Assessment (2007: Harcourt US K-12 Schools Education business and the Harcourt Education International businesses). Net assets disposed comprise £92m (2007: £318m) of goodwill, £74m (2007: £383m) intangible assets, £9m (2007: £39m) of property, plant and equipment, £53m (2007: £377m) of inventory and £16m (2007: £40m) of other net assets.

Tax on disposals in 2007 is stated before taking account of tax credits of £223m in respect of previously unrecognised deferred tax assets and capital losses. These were realised as a result of the disposal of discontinued operations, but were reported within continuing operations whence they first arose.

	2008 £m	2007 £m
Cash flows from discontinued operations		
Net cash flow from operating activities	**2**	33
Net cash flow (used in)/from investing activities	**(50)**	1,879
Net cash flow from financing activities	**-**	-
Net movement in cash and cash equivalents	**(48)**	1,912

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

3. Operating profit

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

	Note	2008 £m	2007 £m
Staff costs			
Wages and salaries		**1,375**	1,182
Social security costs		**162**	143
Pensions	6	**59**	48
Share based remuneration	7	**46**	38
Total staff costs		**1,642**	1,411
Depreciation and amortisation			
Amortisation of acquired intangible assets	17	**267**	218
Share of joint ventures' amortisation of acquired intangible assets		**3**	2
Goodwill impairment	16	**9**	-
Amortisation of internally developed intangible assets	17	**87**	72
Depreciation of property, plant and equipment	18	**79**	76
Total depreciation and amortisation		**445**	368
Other expenses and income			
Pre-publication costs, inventory expenses and other cost of sales		**1,902**	1,606
Royalties payable to the Elsevier Reed Finance BV group		**27**	22
Operating lease rentals expense		**116**	104
Operating lease rentals income		**(13)**	(15)

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

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

4. Auditors' remuneration

	2008 £m	2007 £m
Auditors' remuneration		
For audit services	**4.6**	3.7
For non audit services	**2.1**	1.5
Total auditors' remuneration	**6.7**	5.2

Auditors' remuneration, in respect of continuing and discontinued operations, for audit services comprises £0.4m (2007: £0.4m) payable to the auditors of the parent company and £4.2m (2007: £3.3m) payable to the auditors of the parent company 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: £0.6m (2007: £0.6m) for taxation services, £1.3m (2007: £0.7m) for due diligence and other transaction related services and £0.2m (2007: £0.2m) for other non audit services.

5. Personnel

Number of people employed - continuing operations

	At 31 December		Average during the year	
	2008	2007	**2008**	2007
Business segment				
Elsevier	**7,000**	6,800	**7,000**	7,000
LexisNexis	**15,900**	13,300	**13,800**	13,400
Reed Exhibitions	**2,700**	2,700	**2,700**	2,600
Reed Business Information	**8,200**	8,100	**8,300**	8,100
Sub-total	**33,800**	30,900	**31,800**	31,100
Corporate/shared functions	**800**	300	**800**	300
Total	**34,600**	31,200	**32,600**	31,400
Geographical location				
North America	**18,800**	15,500	**16,600**	15,600
United Kingdom	**5,300**	5,300	**5,400**	5,400
The Netherlands	**2,300**	2,400	**2,400**	2,400
Rest of Europe	**4,600**	4,500	**4,700**	4,600
Rest of world	**3,600**	3,500	**3,500**	3,400
Total	**34,600**	31,200	**32,600**	31,400

The number of people employed by discontinued operations at 31 December 2008 was nil (2007: 1,300). The average number of people employed by discontinued operations during the year was 100 (2007: 4,300).

6. Pension schemes

A number of pension schemes are operated around the world. The major schemes are of the defined benefit type with assets held in separate trustee administered funds. The largest schemes, which cover the majority of employees, are in the UK, the US and the Netherlands. Under these plans, employees are entitled to retirement benefits dependent on the number of years service provided.

The principal assumptions 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		
	2008	2007	2006
Discount rate	**6.2%**	5.9%	5.3%
Expected rate of return on scheme assets	**7.1%**	7.1%	7.0%
Expected rate of salary increases	**3.7%**	4.4%	4.2%
Inflation	**2.7%**	3.1%	2.9%
Future pension increases	**2.8%**	3.2%	2.9%

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

6. Pension schemes (continued)

	2008		2007	
Average life expectancy (at 31 December)	**Male (years)**	**Female (years)**	Male (years)	Female (years)
Member currently aged 60	**86**	**87**	86	87
Member currently aged 45	**86**	**87**	86	87

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

	2008 £m	2007 £m
Service cost (including curtailment credits of nil (2007: £19m)	**75**	78
Interest on pension scheme liabilities	**180**	157
Expected return on scheme assets	**(219)**	(196)
Net defined benefit pension expense	**36**	39

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

6. Pension schemes (continued)

The service cost includes nil (2007: £8m) in respect of discontinued operations. A total of £23m (2007: £21m) was recognised as an expense in relation to defined contribution pension schemes, including nil (2007: £3m) in respect of discontinued operations. Included in gains on disposals of discontinued operations are £3m (2007: £11m) of pension curtailment credits.

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

	2008			2007		
	Defined benefit obligation £m	**Fair value of scheme assets £m**	**Net pension obligation £m**	Defined benefit obligation £m	Fair value of scheme assets £m	Net pension obligation £m
At start of year	**(2,968)**	**3,018**	**50**	(3,008)	2,772	(236)
Acquisitions	**(9)**	**-**	**(9)**	-	-	-
Service cost	**(75)**	**-**	**(75)**	(78)	-	(78)
Interest on pension scheme liabilities	**(180)**	**-**	**(180)**	(157)	-	(157)
Expected return on scheme assets	**-**	**219**	**219**	-	196	196
Actuarial gain/(loss)	**418**	**(765)**	**(347)**	190	34	224
Contributions by employer	**-**	**79**	**79**	-	83	83
Contributions by employees	**(13)**	**13**	**-**	(13)	13	-
Benefits paid	**119**	**(119)**	**-**	114	(110)	4
Curtailment on disposal of operations	**3**	**-**	**3**	11	-	11
Exchange translation differences	**(346)**	**237**	**(109)**	(27)	30	3
At end of year	**(3,051)**	**2,682**	**(369)**	(2,968)	3,018	50

The net pension obligation of £369m at 31 December 2008 comprises schemes in deficit with net pension obligations of £521m (2007: £133m) and schemes in surplus with net pension assets of £152m (2007: £183m).

As at 31 December 2008 the defined benefit obligations comprise £2,923m (2007: £2,877m) in relation to funded schemes and £128m (2007: £91m) in relation to unfunded schemes. The weighted average duration of defined benefit scheme liabilities is 19 years (2007: 19 years). Deferred tax liabilities of £44m (2007: £51m) and deferred tax assets of £190m (2007: £52m) are recognised in respect of the pension scheme surpluses and deficits respectively.

6. Pension schemes (continued)

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

	2008			2007		
	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	**8.9%**	**1,408**	**52%**	8.3%	1,904	63%
Bonds	**4.3%**	**1,167**	**44%**	4.6%	970	32%
Other	**5.5%**	**107**	**4%**	5.3%	144	5%
Total	**7.1%**	**2,682**	**100%**	7.1%	3,018	100%

The actual return on scheme assets for the year ended 31 December 2008 was a £546m loss (2007: £230m gain). A summary of pension balances for the five years ended 31 December 2008 is set out below:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	**2,682**	3,018	2,772	2,575	2,204
Defined benefit obligations	**(3,051)**	(2,968)	(3,008)	(2,980)	(2,525)
Net pension (obligations)/surplus	**(369)**	50	(236)	(405)	(321)

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Gains and losses arising during the year:					
Experience losses on scheme liabilities	**(9)**	(28)	(30)	(25)	(18)
Experience (losses)/gains on scheme assets	**(765)**	34	99	230	66
Actuarial gains/(losses) arising on the present value of scheme liabilities due to changes in:					
- discount rates	**202**	367	198	(217)	(113)
- inflation	**198**	(152)	(77)	-	-
- life expectancy and other actuarial assumptions	**27**	3	(51)	(25)	(9)
	(347)	224	139	(37)	(74)
Net cumulative gains/(losses) at start of year	**252**	28	(111)	(74)	-
Net cumulative (losses)/gains at end of year	**(95)**	252	28	(111)	(74)

Regular contributions to defined benefit pension schemes in 2009 are expected to be approximately £91m.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

6. Pension schemes (continued)

Sensitivity analysis

Valuation of the Reed Elsevier Group plc group's pension scheme liabilities involves judgement about uncertain events, including the life expectancy of the members, salary and pension increases, inflation and the rate at which the future pension payments are discounted. Estimates are used for each of these factors, determined in conjunction with independent actuaries. Differences arising from actual experience or future changes in assumptions may materially affect future pension charges. 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 the discount rate:	
Decrease/increase in annual net pension expense	6
Decrease/increase in defined benefit pension obligations	132
Increase/decrease of one year in assumed life expectancy:	
Increase/decrease in annual net pension expense	6
Increase/decrease in defined benefit pension obligations	90
Increase/decrease of 0.25% in the expected inflation rate:	
Increase/decrease in annual net pension expense	5
Increase/decrease in defined benefit pension obligations	121

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 £6m and would increase/decrease the amount of the net pension surplus by £70m.

7. Share based remuneration

The Reed Elsevier Group plc group provides a number of share based remuneration schemes to directors and employees. The principal share based remuneration schemes are the Executive Share Option Scheme (ESOS), the Long Term Incentive Plan (LTIP), the Retention Share Plan (RSP) and the Bonus Investment Plan (BIP). Share options granted under ESOS and LTIP are exercisable after three years and up to ten years from the date of grant at a price equivalent to the market value of the respective shares at the date of grant. Conditional shares granted under ESOS, LTIP, RSP and BIP are exercisable after three years for nil consideration if conditions are met. Other awards principally relate to all employee share saving schemes in the UK and the Netherlands.

Share based remuneration awards are, other than in exceptional circumstances, subject to the condition that the employee remains in employment at the time of exercise. Share options and conditional shares granted under LTIP, RSP and BIP are subject to the achievement of growth targets of Reed Elsevier PLC and Reed Elsevier NV adjusted earnings per share measured at constant exchange rates. LTIP grants made in 2006, 2007 and 2008 are also variable subject to the achievement of an additional total shareholder return performance target. The numbers of share options and conditional shares included in the tables below are calculated on the basis that 100% of the awards will vest. Further details of performance conditions are given in the Directors' Remuneration Report.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

7. Share based remuneration (continued)

The estimated fair values of grants made in the two years ended 31 December 2008 are set out below. The fair values of grants are recognised in the income statement over the vesting period, typically three years.

	In respect of Reed Elsevier PLC ordinary shares			In respect of Reed Elsevier NV ordinary shares			Total fair value
	Number of shares '000	Weighted average fair value per award £	Fair value £m	Number of shares '000	Weighted average fair value per award £	Fair value £m	£m
2008 grants							
Share options							
- ESOS	4,397	1.14	5	2,891	1.57	4	9
- Other	656	1.73	1	694	0.97	1	2
Total share options	5,053	1.22	6	3,585	1.45	5	11
Conditional shares							
- ESOS	717	5.79	4	469	8.85	4	8
- LTIP	1,524	6.98	11	1,006	10.85	11	22
- RSP	19	5.79	-	13	8.89	-	-
- BIP	720	6.17	4	319	9.10	3	7
Total conditional shares	2,980	6.49	19	1,807	10.01	18	37
Total			25			23	48
2007 grants							
Share options							
- ESOS	4,246	1.30	5	2,802	1.66	5	10
- Other	1,058	1.78	2	423	0.99	-	2
Total share options	5,304	1.40	7	3,225	1.57	5	12
Conditional shares							
- ESOS	775	5.94	5	510	8.96	5	10
- LTIP	1,584	7.14	11	1,047	10.92	11	22
- RSP	78	5.50	-	53	7.78	-	-
- BIP	662	5.67	4	308	8.20	3	7
Total conditional shares	3,099	6.48	20	1,918	9.88	19	39
Total			27			24	51

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

7. 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**	
	2008	2007	**2008**	2007
Weighted average share price at date of grant				
- ESOS	**£6.26**	£6.42	**€12.16**	€14.41
- LTIP	**£6.27**	£6.43	**€12.19**	€14.45
- RSP	**£6.28**	£6.39	**€12.21**	€14.31
- BIP	**£6.68**	£6.15	**€12.51**	€13.37
- Other	**£6.30**	£6.01	**€11.55**	€13.44
Expected share price volatility	**22%**	22%	**22%**	22%
Expected option life	**4 years**	4 years	**4 years**	4 years
Expected dividend yield	**2.7%**	2.7%	**3.2%**	3.2%
Risk free interest rate	**4.4%**	5.6%	**3.6%**	4.2%
Expected lapse rate	**3-5%**	3-5%	**3-4%**	3-5%

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

The share based remuneration awards outstanding as at 31 December 2008, in respect of both Reed Elsevier PLC and Reed Elsevier NV ordinary shares, are set out below.

	ESOS		**LTIP**		**Other**		**Total**	
Share options: Reed Elsevier PLC	**Number of shares '000**	**Weighted average exercise price (pence)**	**Number of shares '000**	**Weighted average exercise price (pence)**	**Number of shares '000**	**Weighted average exercise price (pence)**	**Number of shares '000**	**Weighted average exercise price (pence)**
Outstanding at 1 January 2007	48,192	523	5,017	488	3,373	414	56,582	513
Granted	4,246	642	-	-	1,058	480	5,304	610
Exercised	(16,724)	497	(2,145)	487	(771)	411	(19,640)	493
Forfeited	(1,105)	564	-	-	(476)	431	(1,581)	524
Expired	(542)	571	-	-	(74)	415	(616)	552
Outstanding at 1 January 2008	**34,067**	**547**	**2,872**	**489**	**3,110**	**434**	**40,049**	**534**
Granted	**4,397**	**626**	**-**	**-**	**656**	**504**	**5,053**	**610**
Exercised	**(6,134)**	**517**	**(547)**	**487**	**(659)**	**411**	**(7,340)**	**505**
Forfeited	**(846)**	**607**	**-**	**-**	**(441)**	**459**	**(1,287)**	**556**
Expired	**(1,312)**	**570**	**-**	**-**	**(35)**	**407**	**(1,347)**	**561**
Outstanding at 31 December 2008	**30,172**	**562**	**2,325**	**489**	**2,631**	**454**	**35,128**	**549**
Exercisable at 31 December 2007	19,704	536	2,872	489	50	425	22,626	530
Exercisable at 31 December 2008	**19,692**	**540**	**2,325**	**489**	**69**	**420**	**22,086**	**534**

7. Share based remuneration (continued)

Share options: Reed Elsevier NV	ESOS Number of shares '000	ESOS Weighted average exercise price €	LTIP Number of shares '000	LTIP Weighted average exercise price €	Other Number of shares '000	Other Weighted average exercise price €	Total Number of shares '000	Total Weighted average exercise price €
Outstanding at 1 January 2007	32,956	11.55	3,445	10.58	1,846	12.21	38,247	11.50
Granted	2,802	14.41	-	-	423	13.44	3,225	14.28
Exercised	(10,737)	10.73	(1,527)	10.57	(202)	11.50	(12,466)	10.73
Forfeited	(738)	12.29	-	-	(23)	13.89	(761)	12.34
Expired	(390)	13.28	-	-	-	-	(390)	13.28
Outstanding at 1 January 2008	**23,893**	**12.16**	**1,918**	**10.60**	**2,044**	**12.54**	**27,855**	**12.08**
Granted	**2,891**	**12.16**	**-**	**-**	**694**	**11.55**	**3,585**	**12.04**
Exercised	**(2,579)**	**10.78**	**(109)**	**10.57**	**(5)**	**10.85**	**(2,693)**	**10.77**
Forfeited	**(560)**	**13.04**	**-**	**-**	**(376)**	**12.94**	**(936)**	**13.00**
Expired	**(1,834)**	**13.43**	**-**	**-**	**-**	**-**	**(1,834)**	**13.43**
Outstanding at 31 December 2008	**21,811**	**12.23**	**1,809**	**10.60**	**2,357**	**12.19**	**25,977**	**12.11**
Exercisable at 31 December 2007	14,266	12.16	1,918	10.60	2,044	12.54	18,228	12.04
Exercisable at 31 December 2008	**14,875**	**12.04**	**1,809**	**10.60**	**2,357**	**12.19**	**19,041**	**11.92**

Conditional shares: Reed Elsevier PLC	Number of shares '000 ESOS	LTIP	RSP	BIP	Total
Outstanding at 1 January 2007	1,149	4,244	1,832	1,733	8,958
Granted	775	1,584	78	662	3,099
Exercised	(112)	(2,226)	(1,698)	(457)	(4,493)
Forfeited	(156)	(170)	(67)	(95)	(488)
Outstanding at 1 January 2008	**1,656**	**3,432**	**145**	**1,843**	**7,076**
Granted	**717**	**1,524**	**19**	**720**	**2,980**
Exercised	**(85)**	**-**	**(101)**	**(561)**	**(747)**
Forfeited	**(237)**	**(440)**	**(28)**	**(101)**	**(806)**
Outstanding at 31 December 2008	**2,051**	**4,516**	**35**	**1,901**	**8,503**

7. Share based remuneration (continued)

Conditional shares: Reed Elsevier NV	Number of shares '000 ESOS	LTIP	RSP	BIP	Total
Outstanding at 1 January 2007	770	2,858	1,278	649	5,555
Granted	510	1,047	53	308	1,918
Exercised	(71)	(1,523)	(1,165)	(199)	(2,958)
Forfeited	(151)	(151)	(68)	(34)	(404)
Outstanding at 1 January 2008	**1,058**	**2,231**	**98**	**724**	**4,111**
Granted	**469**	**1,006**	**13**	**319**	**1,807**
Exercised	**(57)**	**-**	**(63)**	**(176)**	**(296)**
Forfeited	**(112)**	**(259)**	**(24)**	**(29)**	**(424)**
Outstanding at 31 December 2008	**1,358**	**2,978**	**24**	**838**	**5,198**

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

Range of exercise prices for outstanding share options	2008 Number of share options under option '000	2008 Weighted average remaining period until expiry (years)	2007 Number of share options under option '000	2007 Weighted average remaining period until expiry (years)
Reed Elsevier PLC ordinary shares (pence)				
351-400	**252**	**1.2**	668	1.6
401-450	**1,927**	**1.5**	2,652	2.4
451-500	**9,111**	**4.6**	12,356	4.8
501-550	**9,834**	**6.1**	12,716	7.1
551-600	**3,856**	**3.4**	4,331	4.3
601-650	**7,452**	**8.5**	4,280	8.8
651-700	**2,696**	**2.2**	3,046	3.2
Total	**35,128**	5.3	40,049	4.8
Reed Elsevier NV ordinary shares (euro)				
9.01-10.00	**1,617**	**4.3**	1,954	5.1
10.01-11.00	**5,771**	**4.8**	6,791	5.8
11.01-12.00	**6,866**	**6.2**	8,912	7.2
12.01-13.00	**3,362**	**8.7**	402	5.3
13.01-14.00	**3,777**	**3.0**	4,269	4.6
14.01-15.00	**4,382**	**4.9**	5,041	6.5
15.01-16.00	**202**	**2.4**	486	2.3
Total	**25,977**	**5.4**	27,855	6.0

Share options are expected, upon exercise, to be met principally by the issue of new ordinary shares but may also be met from shares held by the Reed Elsevier Group plc Employee Benefit Trust (EBT) (see note 17). Conditional shares will be met from shares held by the EBT.

8. Net finance costs

	2008 £m	2007 £m
Interest on short term bank loans, overdrafts and commercial paper	**(27)**	(21)
Interest on other loans	**(100)**	(97)
Interest payable to Reed Elsevier NV	**(61)**	(48)
Interest payable to Reed Elsevier PLC	**(1)**	-
Interest payable to the Elsevier Reed Finance BV group	**(334)**	(284)
Interest on obligations under finance leases	**-**	(1)
Total borrowing costs	**(523)**	(451)
Acquisition related finance costs	**(17)**	-
Losses on derivatives not designated as hedges	**(12)**	(2)
Fair value losses on interest rate derivatives formerly designated as cash flow hedges transferred from equity	**(1)**	(1)
Finance costs	**(553)**	(454)
Interest on bank deposits	**24**	26
Gains on loans and derivatives not designated as hedges	**-**	5
Dividends received from Reed Elsevier PLC	**18**	5
Dividends received from Reed Elsevier NV	**11**	-
Finance income	**53**	36
Net finance costs	**(500)**	(418)

Finance costs include £1m (2007: £1m) transferred from the hedge reserve. A net loss of £15m (2007: nil) on interest rate derivatives designated as cash flow hedges was recognised directly in equity in the hedge reserve.

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

9. Disposals and other non operating items

	2008 £m	2007 £m
Revaluation of held for trading investments	**(6)**	(2)
(Loss)/gain on disposal and write down of businesses and other assets	**(87)**	100
Net (loss)/gain on disposals and other non operating items	**(93)**	98

The loss on disposal and write down of businesses and other assets in 2008 comprise gains on disposals of businesses and investments of £14m less costs of the RBI divestment process terminated in December 2008 of £31m and a £70m write down in the carrying value of the investment in Education Media and Publishing Group that arose on the sale of the Harcourt US K-12 Schools business in 2007.

Net proceeds received in respect of disposals of businesses and other assets were £7m (2007: £240m).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

10. Taxation

	2008 £m	2007 £m
Current tax		
United Kingdom	40	40
The Netherlands	34	28
Rest of world	(1)	(134)
Total current tax charge/(credit)	73	(66)
Deferred tax		
Origination and reversal of temporary differences	26	(46)
Total taxation charge/(credit) on profit from continuing operations	99	(112)

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

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

	2008 £m	2007 £m
Profit before tax from continuing operations	270	530
Tax at average applicable rates	91	158
Non taxable income	(9)	-
Tax on share of results of joint ventures	(5)	(5)
Offset of tax reliefs against capital gains and tax base differences on disposal	-	(251)
Non deductible amounts and other items	22	(14)
Tax expense/(credit)	99	(112)
Tax expense/(credit) as a percentage of profit before tax	37%	(21%)

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

	2008 £m	2007 £m
Tax on actuarial movements on defined benefit pension schemes	116	(65)
Tax on fair value movements on cash flow hedges	55	(4)
Deferred tax (charge)/credits on share based remuneration	(19)	17
Net tax charge recognised directly in equity	152	(52)

During 2008, a tax charge of £5m was transferred to net profit from the hedge reserve (2007: £9m).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

11. Adjusted profit

The Reed Elsevier Group plc group uses adjusted operating profit as an additional performance measure. Adjusted operating profit is stated before amortisation of acquired intangible assets and goodwill impairment, exceptional restructuring and acquisition related costs, disposals and other non operating items. Adjusted operating profit is also grossed up to exclude the equity share of taxes in joint ventures. Exceptional restructuring costs relate to the major restructuring programme announced in February 2008 and in RBI (not included in the February 2008 announcement as the business was to be divested). Acquisition related costs relate to acquisition integration.

Continuing operations	**2008 £m**	2007 £m
Operating profit - continuing operations	**863**	850
Adjustments:		
Amortisation of acquired intangible assets and goodwill impairment	**279**	220
Exceptional restructuring costs	**152**	-
Acquisition related costs	**27**	20
Reclassification of tax in joint ventures	**9**	8
Adjusted operating profit from continuing operations	**1,330**	1,098

12. Cash flow statement

Reconciliation of operating profit before joint ventures to cash generated from operations - continuing operations	Note	**2008 £m**	2007 £m
Operating profit before joint ventures		**845**	834
Amortisation of acquired intangible assets and goodwill impairment	16	**276**	218
Amortisation of internally developed intangible assets	16	**87**	72
Depreciation of property, plant and equipment	18	**79**	76
Share based remuneration	7	**46**	38
Total non cash items		**488**	404
Decrease/(increase) in inventories and pre-publication costs		**6**	(11)
Increase in receivables		**(107)**	(42)
Increase/(decrease) in payables		**169**	(41)
Decrease/(increase) in working capital		**68**	(94)
Cash generated from operations		**1,401**	1,144

Cash flow on acquisitions – continuing operations	Note	**2008 £m**	2007 £m
Purchase of businesses	13	**(2,112)**	(293)
Payment of ChoicePoint change of control and other non-operating payables assumed		**(19)**	-
Investment in joint ventures		-	(24)
Deferred payments relating to prior year acquisitions		**(30)**	(10)
Total		**(2,161)**	(327)

12. Cash flow statement (continued)

Reconciliation of net borrowings	**Cash & cash equivalents**	**Borrowings**	**Related derivative financial instruments**	**Net borrowings from shareholders and fellow affiliates**	**2008**	2007
	£m	**£m**	**£m**	**£m**	**£m**	£m
At 1 January	**2,345**	**(1,902)**	**162**	**(7,870)**	**(7,265)**	(7,551)
(Decrease)/increase in cash and cash equivalents	**(2,247)**	**-**	**-**	**-**	**(2,247)**	1,991
Net movement in short term bank loans, overdrafts and commercial paper	**-**	**429**	**-**	**-**	**429**	(15)
Issuance of other loans	**-**	**(1,555)**	**-**	**-**	**(1,555)**	-
Repayment of other loans	**-**	**411**	**-**	**-**	**411**	62
Repayment of finance leases	**-**	**56**	**-**	**-**	**56**	12
Redemption of debt related derivative financial instrument	**-**	**-**	**(51)**	**-**	**(51)**	-
Net movement in borrowings from shareholders and fellow affiliates	**-**	**-**	**-**	**(139)**	**(139)**	(1,709)
Change in net borrowings resulting from cash flows	**(2,247)**	**(659)**	**(51)**	**(139)**	**(3,096)**	341
Borrowings in acquired businesses	**-**	**(219)**			**(219)**	-
Inception of finance leases	**-**	**(1)**	**-**	**-**	**(1)**	(11)
Fair value adjustments to borrowings and related derivatives	**-**	**124**	**(124)**	**-**	**-**	-
Exchange translation differences	**146**	**(1,124)**	**13**	**(2,174)**	**(3,139)**	(44)
At 31 December	**244**	**(3,781)**	**-**	**(10,183)**	**(13,720)**	(7,265)

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 includes £55m (2007: nil) held in trust to satisfy liabilities in respect of change of control obligations related to the acquisition of ChoicePoint.

13. Acquisitions

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

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

	Note	ChoicePoint		Other			
		Book value on acquisition £m	Fair value £m	Book value on acquisition £m	Fair value £m	Total fair value 2008 £m	Total fair value 2007 £m
Goodwill	(i)	-	1,162	-	117	1,279	101
Intangible assets	(ii)	15	1,471	-	108	1,579	262
Property, plant and equipment		46	46	2	2	48	-
Current assets		117	117	11	11	128	7
Current liabilities		(221)	(221)	(16)	(16)	(237)	(14)
Deferred tax		6	(444)	-	(25)	(469)	-
Current tax		19	19	3	3	22	-
Borrowings		(219)	(219)	-	-	(219)	(37)
Net assets acquired		(237)	1,931	-	200	2,131	319
Consideration (after taking account of £51m net cash acquired)	(iii)					2,131	319
Less: consideration deferred to future years						(19)	(26)
Net cash flow						2,112	293

(i) Goodwill, being the excess of the consideration over the net tangible and intangible assets acquired, represents benefits which do not qualify for recognition as intangible assets, including the ability of a business to generate higher returns than individual assets, skilled workforces, acquisition synergies that are specific to Reed Elsevier Group plc 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.

(ii) The provisional fair value of intangible assets acquired with ChoicePoint have been established with advice from independent qualified valuers.

(iii) Consideration for ChoicePoint comprises £1,955m to acquire the entire share capital and £22m of professional fees and other costs relating to the acquisition.

The fair values included above are provisional pending the completion of the valuation exercise. Final fair values will be incorporated in the 2009 consolidated financial statements.

The businesses acquired in 2008 contributed £180m to revenue, £41m to adjusted operating profit, increased adjusted profit attributable by £21m, decreased profit attributable by £10m and contributed £42m to net cash inflow from operating activities and for the part year under Reed Elsevier Group plc ownership and before taking account of acquisition financing costs. Had the businesses been acquired at the beginning of the year, on a proforma basis the Reed Elsevier Group plc group's revenues, adjusted operating profit and profit attributable for the year would have been £5,665m, £1,413m and £867m respectively before taking account of acquisition financing costs.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

14. Equity dividends

	£ per share		£ million	
	2008	2007	**2008**	2007
Dividends declared in the year				
Dividends declared by subsidiary undertakings to Reed Elsevier NV			**953**	966
Dividends declared by Reed Elsevier Group plc				
Interim to "E" ordinary shareholders	**-**	-	**-**	-
Interim to "R" ordinary shareholders	**50,000**	85,000	**500**	850
Total			**1,453**	1,816

The dividends paid by subsidiary undertakings relate to Reed Elsevier NV's holding of shares carrying special dividend rights in Reed Elsevier Overseas BV. These shares do not carry any capital rights beyond the right to repayment of their nominal value.

The dividends to be paid by the company are regulated by the equalisation arrangements between Reed Elsevier PLC and Reed Elsevier NV, the company's shareholders. The arrangements have the effect of requiring dividends to be paid by the company according to the respective requirements of the shareholders to enable them to pay dividends on their ordinary shares on an equalised basis. Accordingly, the proportion in which dividends are paid on either class of share will vary from one dividend payment to another.

15. Goodwill

	2008 £m	2007 £m
At 1 January	**2,464**	2,804
Acquisitions	**1,279**	101
Disposals	**(4)**	(323)
Impairment	**(9)**	-
Reclassified as held for sale	**-**	(117)
Exchange translation differences	**1,175**	(1)
At 31 December	**4,905**	2,464

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

Impairment charges principally relate to the Spanish residential property shows business within Reed Exhibitions Continental Europe which has seen a significant contraction of revenues since acquisition.

Impairment review

Impairment testing of goodwill and indefinite lived intangible assets is performed at least annually based on cash generating units (CGUs). A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. CGUs which are not individually significant have been aggregated for presentation purposes. Typically, when an acquisition is made the acquired business is fully integrated into the relevant business unit and CGU, and the goodwill arising is allocated to the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. LexisNexis Risk has been separated out from Lexis Nexis US as a separate CGU in 2008 following the acquisition of ChoicePoint and its integration into the existing Risk business with comparative information restated.

15. Goodwill (continued)

The carrying value of goodwill recorded in each of the major groups of cash generating units is set out below:

	2008 £m	2007 £m
Goodwill		
Elsevier	**1,074**	767
LexisNexis US Legal	**1,104**	787
LexisNexis Risk	**1,846**	271
LexisNexis International	**137**	118
LexisNexis	**3,087**	1,176
Reed Exhibitions Continental Europe	**336**	264
Reed Exhibitions Other	**71**	38
Reed Exhibitions	**407**	302
Reed Business Information US	**162**	113
Reed Business Information UK	**71**	41
Reed Business Information NL	**33**	23
Reed Business Information International	**71**	42
Reed Business Information	**337**	219
Total	**4,905**	2,464

The carrying value of each CGU is compared with its estimated value in use, which is determined to be its recoverable amount. Value in use is calculated based on estimated future cash flows, discounted to their present value. Estimated future cash flows are determined by reference to latest budgets and forecasts for the next five years approved by management, after which a long-term perpetuity growth rate is applied. The estimates of future cash flows are consistent with past experience adjusted for management's estimates of future performance. The key assumptions used in the value in use calculations are discount rates and perpetuity growth rates.

The discount rates used are based on the Reed Elsevier Group plc weighted average cost of capital, adjusted to reflect a risk premium specific to each CGU. The Reed Elsevier Group plc weighted average cost of capital reflects an assumed equity return, based on the risk free rate for government bonds adjusted for an equity risk premium, and the Reed Elsevier Group plc post tax cost of debt. The pre-tax discount rates applied are 9.5% for Elsevier, 10.0-10.5% for LexisNexis, 10.5- 11.0% for Reed Exhibitions and 10.5-11.0% for Reed Business Information.

Cash flows subsequent to the forecast period of five years are assumed to grow at a nominal perpetuity growth rate. The rates assumed are based on the long-term historic growth rates of the territories where the CGUs operate and the growth prospects for the sectors in which the CGUs operate. A nominal perpetuity rate growth rate of 3% is used for all CGUs.

15. Goodwill (continued)

The value in use calculations and impairment reviews are sensitive to changes in key assumptions, particularly relating to discount rates and cash flow growth. A sensitivity analysis has been performed based on changes in key assumptions considered to be possible by management: an increase in discount rate of 0.5%; a decrease in the compound annual growth rate (CAGR) for adjusted operating cash flow in the five year forecast period of between 2.0% and 5.0%, depending on the CGU; and a decrease in perpetuity growth rates of 0.5%. The sensitivity analysis shows that no impairments would result under each of the sensitivity scenarios other than in the case of a 5.0% decline in adjusted operating cash flow CAGR over the five year forecast period which, if applied across all CGUs, would result in an impairment of £24m, or £35m if perpetuity growth rates were coincidentally reduced by 0.5%.

16. Intangible assets

	Market and customer related £m	Content, software and other £m	Total acquired developed intangible assets £m	Internally developed intangible assets £m	Total £m
Cost					
At 1 January 2007	1,355	2,862	4,217	632	4,849
Acquisitions	63	199	262	-	262
Additions	-	-	-	80	80
Disposals	(544)	(254)	(798)	(60)	(858)
Reclassified as held for sale	(29)	(116)	(145)	(33)	(178)
Exchange translation differences	(27)	23	(4)	16	12
At 1 January 2008	**818**	**2,714**	**3,532**	**635**	**4,167**
Acquisitions	**1,349**	**230**	**1,579**	**-**	**1,579**
Additions	**-**	**-**	**-**	**115**	**115**
Disposals	**-**	**(15)**	**(15)**	**(19)**	**(34)**
Exchange translation differences	**652**	**801**	**1,453**	**207**	**1,660**
At 31 December 2008	**2,819**	**3,730**	**6,549**	**938**	**7,487**
Amortisation					
At 1 January 2007	276	1,712	1,988	338	2,326
Charge for the year	52	166	218	72	290
Disposals	(166)	(107)	(273)	(52)	(325)
Reclassified as held for sale	(2)	(77)	(79)	(9)	(88)
Exchange translation differences	(9)	12	3	11	14
At 1 January 2008	**151**	**1,706**	**1,857**	**360**	**2,217**
Charge for the year	**84**	**183**	**267**	**87**	**354**
Disposals	**-**	**(15)**	**(15)**	**(8)**	**(23)**
Exchange translation differences	**75**	**506**	**581**	**125**	**706**
At 31 December 2008	**310**	**2,380**	**2,690**	**564**	**3,254**
Net book amount					
At 31 December 2007	667	1,008	1,675	275	1,950
At 31 December 2008	**2,509**	**1,350**	**3,859**	**374**	**4,233**

16. Intangible assets (continued)

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trade marks, imprints, brands); customer related assets (e.g. subscription bases, customer lists, customer relationships); and content, software and other intangible assets (e.g. editorial content, software and product delivery systems, other publishing rights, exhibition rights and supply contracts). Included in content, software and other acquired intangible assets are assets with a net book value of £902m (2007: £817m) 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 £397m (2007: £288m) 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 life intangibles are tested for impairment at least annually using the same value in use assumptions as set out in note 15.

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

17. Investments

	2008 £m	2007 £m
Investments in joint ventures	**145**	116
Available for sale investments	**24**	90
Shares in Reed Elsevier NV and Reed Elsevier PLC	**193**	229
Venture capital investments held for trading	**25**	21
Total	**387**	456

The reduction in value of available for sale investments principally relates to the write down of the investment in Education Media and Publishing Group described in note 9.

At 31 December 2008, the Reed Elsevier Group plc Employee Benefit Trust ("EBT") held 20,078,899 (2007: 18,723,830) Reed Elsevier PLC ordinary shares and 11,177,422 (2007: 10,100,765) Reed Elsevier NV ordinary shares. The EBT purchases Reed Elsevier PLC and Reed Elsevier NV shares which, at the Trustee's discretion, can be used in respect of the exercise of share options and to meet commitments under conditional share awards.

The number of shares held by the EBT and parent companies were reduced by the share consolidations of the parent companies which accompanied the payment of the special distribution from the net proceeds of the disposal of Harcourt Education. The ordinary share capitals of the parent companies were consolidated on the basis of 58 new ordinary shares for every 67 existing ordinary shares, reflecting the ratio of the aggregate special distribution to the combined market capitalisation of Reed Elsevier PLC and Reed Elsevier NV (excluding the 5.8% indirect equity interest in Reed Elsevier NV held by Reed Elsevier PLC) as at 12 December 2007, the date of the announcement of the special distribution.

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17. Investments (continued)

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

	2008 £m	2007 £m
At 1 January	**116**	73
Share of results of joint ventures	**18**	16
Dividends received from joint ventures	**(23)**	(12)
Additions	**4**	30
Exchange translation differences	**30**	9
At 31 December	**145**	116

The principal joint ventures at 31 December 2008 are exhibition joint ventures within Reed Exhibitions and Giuffrè (an Italian legal publisher in which Reed Elsevier Group plc has a 40% shareholding).

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

	Total joint ventures		Reed Elsevier Group plc share	
	2008 £m	2007 £m	2008 £m	2007 £m
Revenue	**209**	214	**104**	103
Net profit for the year	**37**	36	**18**	16
Total assets	**325**	302	**152**	143
Total liabilities	**(163)**	(165)	**(75)**	(76)
Net assets	**162**	137	**77**	67
Goodwill			**68**	49
Total			**145**	116

18. Property, plant and equipment

	2008			2007		
	Land and buildings £m	Fixtures and equipment £m	Total £m	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost						
At 1 January	157	507	664	179	665	844
Acquisitions	30	18	48	-	1	1
Capital expenditure	13	44	57	6	70	76
Disposals	(1)	(65)	(66)	(26)	(184)	(210)
Reclassified as held for sale	-	-	-	(2)	(45)	(47)
Exchange translation differences	60	137	197	-	-	-
At 31 December	259	641	900	157	507	664
Accumulated depreciation						
At 1 January	71	355	426	82	464	546
Acquisitions	-	-	-	-	1	1
Disposals	(1)	(56)	(57)	(18)	(148)	(166)
Reclassified as held for sale	-	-	-	(1)	(30)	(31)
Charge for the year	10	69	79	8	68	76
Exchange translation differences	26	98	124	-	-	-
At 31 December	106	466	572	71	355	426
Net book amount	153	175	328	86	152	238

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

The depreciation charge includes nil (2007: £1m) in respect of discontinued operations.

19. Financial instruments

Details of the objectives, policies and strategies pursued by the Reed Elsevier Group plc group in relation to financial instruments are set out in the Directors' Report. The main financial risks faced by the Reed Elsevier Group plc group are liquidity risk and market risk - comprising interest rate risk and foreign exchange risk – and credit risk. Financial instruments are used to finance the group's businesses and to hedge interest rate and foreign exchange risks. The group'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

The Reed Elsevier Group plc group 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.

19. Financial instruments (continued)

		Contractual cash flows						
At 31 December 2008	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 owing to:								
Third parties	**(1,577)**	**(95)**	**(94)**	**(474)**	**(371)**	**(53)**	**(1,431)**	**(2,518)**
Elsevier Reed Finance BV group	**(7,915)**	**(2,093)**	**(1,725)**	**(1,723)**	**(1,422)**	**(1,405)**	**(1,093)**	**(9,461)**
Floating rate borrowings owing to:								
Third parties	**(2,204)**	**(117)**	**(758)**	**(1,417)**	**-**	**-**	**-**	**(2,292)**
Elsevier Reed Finance BV group	**(125)**	**(125)**	**-**	**-**	**-**	**-**	**-**	**(125)**
Reed Elsevier NV	**(1,518)**	**(1,518)**	**-**	**-**	**-**	**-**	**-**	**(1,518)**
Reed Elsevier PLC	**(1,317)**	**(1,317)**	**-**	**-**	**-**	**-**	**-**	**(1,317)**
Derivative financial liabilities								
Interest rate derivatives	**(40)**	**(11)**	**(14)**	**(11)**	**(4)**	**(2)**	**-**	**(42)**
Forward foreign exchange contracts	**(167)**	**(567)**	**(345)**	**(171)**	**(43)**	**-**	**-**	**(1,126)**
Derivative financial assets								
Interest rate derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Forward foreign exchange contracts	**12**	**484**	**294**	**151**	**40**	**-**	**-**	**969**
Total	**(14,851)**	**(5,359)**	**(2,642)**	**(3,645)**	**(1,800)**	**(1,460)**	**(2,524)**	**(17,430)**
At 31 December 2007	£m	£m	£m	£m	£m	£m	£m	£m
Borrowings								
Fixed rate borrowings owing to:								
Third parties	(1,598)	(469)	(77)	(76)	(349)	(275)	(1,210)	(2,456)
Elsevier Reed Finance BV group	(4,748)	(991)	(1,376)	(807)	(972)	(635)	(917)	(5,698)
Floating rate borrowings owing to:								
Third parties	(304)	(185)	(4)	(128)	-	-	-	(317)
Elsevier Reed Finance BV group	(264)	(264)	-	-	-	-	-	(264)
Reed Elsevier NV	(1,377)	(1,377)	-	-	-	-	-	(1,377)
Reed Elsevier PLC	(1,520)	(1,520)	-	-	-	-	-	(1,520)
Derivative financial liabilities								
Interest rate derivatives	(3)	(1)	(2)	-	-	-	(4)	(7)
Cross currency interest rate swaps	-	(233)	-	-	-	-	-	(233)
Forward foreign exchange contracts	(13)	(459)	(265)	(118)	-	-	-	(842)
Derivative financial assets								
Interest rate derivatives	13	2	5	4	2	2	3	18
Cross currency interest rate swaps	149	390	-	-	-	-	-	390
Forward foreign exchange contracts	32	480	276	120	-	-	-	876
Total	(9,633)	(4,627)	(1,443)	(1,005)	(1,319)	(908)	(2,128)	(11,430)

In January 2009, fixed rate term debt of $1,500m (£1,037m) due in more than five years from 31 December 2008 was issued and used to repay floating rate borrowings maturing in one to two years.

19. Financial instruments (continued)

The carrying amount of derivative financial liabilities comprises £168m (2007: £10m) in relation to cash flow hedges and £39m (2007: £6m) held for trading. The carrying amount of derivative financial assets comprises nil (2007: £162m) in relation to fair value hedges, £7m (2007: £27m) in relation to cash flow hedges and £5m (2007: £5m) held for trading. Derivative financial assets and liabilities held for trading comprise interest rate derivatives and forward foreign exchange contracts that were not designated as hedging instruments.

At 31 December 2008, the group had access to £2,074m (2007: £1,502m) of committed bank facilities that expire in one to two years (2007: two to three years), of which £26m (2007: £42m) was drawn. These facilities principally provide back up for short term borrowings. In February 2009, these facilities were reduced to £1,728m and, at the same time, new £1,382m committed bank facilities, forward starting in May 2010 and maturing in May 2012, were put in place.

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2008, and after utilising available cash resources, no third party borrowings mature in the next twelve months (2007: nil); 17% of borrowings mature in the second year (2007: nil); 50% of borrowings mature in the third year (2007: 9%); 9% in the fourth and fifth years (2007: 38%); 13% in the sixth to tenth years (2007: 30%); and 11% beyond the tenth year (2007: 23%). Allowing for the £1,037m of term debt issued in January 2009 and the $2,000m (£1,382m) forward start facility, no borrowings mature in the next three years; 46% of borrowings mature in the fourth and fifth years; 22% in the sixth to tenth years; and 32% beyond the tenth year.

At 31 December 2008, Reed Elsevier Group plc had drawn down £1,970m (2007: nil) of a committed loan facility established to finance the acquisition of ChoicePoint, Inc.

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totalling £8,040m (2007: £5,012m) of which 22% mature in the next year (2007: 20%); 17% mature in the second year (2007: 23%); 18% mature in the third year (2007: 12%); 31% mature in the fourth and fifth years (2007: 28%); and 12% mature in the sixth to tenth years (2007: 17%).

Market Risks

The Reed Elsevier Group plc group'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 the group 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

The Reed Elsevier Group plc group's interest rate exposure management policy is aimed at reducing the exposure of its businesses to changes in interest rates.

At 31 December 2008, 72% of net borrowings are either fixed rate or have been fixed through the use of interest rate swaps, forward rate agreements and options. A 100 basis point reduction in interest rates would result in an estimated decrease in net finance costs of £39m (2007: £33m), based on the composition of financial instruments including cash, cash equivalents, balances with fellow joint ventures and Reed Elsevier Group plc's shareholders, bank loans and commercial paper borrowings at 31 December 2008. A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £39m (2007: £33m).

After taking additional account of $1.5bn of term debt issued in January 2009, 79% of net borrowings are either fixed rate or have been fixed through the use of interest rate swaps, forward rate agreements and options, and a 100 basis point reduction in interest rates would result in an estimated decrease in net finance costs of £28m. A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £28m.

The impact on net equity of a theoretical change in interest rates as at 31 December 2008 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 £15m (2007: £2m) and a 100 basis point increase in interest rates would increase net equity by an estimated £14m (2007: £2m). 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.

19. 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 25).

A theoretical weakening of all currencies by 10% against sterling at 31 December 2008 would decrease the carrying value of net assets, excluding net borrowings, by £558m (2007: £265m). This would be offset by a decrease in net borrowings of £1,139m (2007: £591m). A strengthening of all currencies by 10% against sterling at 31 December 2008 could increase the carrying value of net assets, excluding net borrowings, by £695m (2007: £332m) and increase net borrowings by £1,392m (2007: £722m).

A retranslation of the group's net profit for the year assuming a 10% weakening of all foreign currencies against sterling but excluding transactional exposures would reduce net profit by £10m (2007: £82m). A 10% strengthening of all foreign currencies against sterling on this basis would increase net profit for the year by £12m (2007: £101m).

Credit risk

The Reed Elsevier Group plc group 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. The group 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.

The Reed Elsevier Group plc group has treasury policies in place which do not allow concentrations of risk with individual counterparties and do not allow significant treasury exposures with counterparties which are rated lower than A by Standard and Poor's, Moody's or Fitch.

The Reed Elsevier Group plc group 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 in which 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 balance sheet.

Included within trade receivables are amounts which are past due but for which no allowance has been made. Past due up to one month £279m (2007: £234m); past due two to three months £123m (2007: £78m); past due four to six months £35m (2007: £26m) and past due greater than six months £10m (2007: £21m). 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 credit worthiness 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

The Reed Elsevier Group plc group 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.

19. Financial instruments (continued)

Interest rate derivatives (including cross currency interest rate swaps) with a principal amount of $940m (£471m translated at 31 December 2007 exchange rates), were in place at 31 December 2007 swapping fixed rate term debt issues denominated in US dollars and euros to floating rate US dollar debt for the whole or part of their term. During 2008 one such debt issue and the related cross currency interest rate swap matured, and the remaining debt issues were de-designated from fair value hedging relationships and the related interest rate swaps were closed out. No interest rate derivatives swapping fixed rate term debt issues to floating rate debt were therefore in place at 31 December 2008.

The gains and losses on the borrowings and derivatives designated as fair value hedges, which are included in the income statement, for the two years ended 31 December 2008, were as follows:

Gains/(losses) on borrowings and related derivatives	1 January 2007 £m	Fair value movement gain/(loss) £m	Exchange gain/(loss) £m	1 January 2008 £m	Fair value movement gain/(loss) £m	De-designated £m	Exchange gain/(loss) £m	31 December 2008 £m
USD debt	(7)	(6)	-	(13)	(37)	51	(1)	-
Related interest rate swaps	6	7	-	13	37	(51)	1	-
	(1)	1	-	-	-	-	-	-
Euro debt	(116)	(35)	2	(149)	161	-	(12)	-
Related Euro to USD cross-currency interest rate swaps	117	34	(2)	149	(161)	-	12	-
	1	(1)	-	-	-	-	-	-
Net gain	-	-	-	-	-	-	-	-

All fair value hedges were highly effective throughout the two years ended 31 December 2008. A fair value loss of nil (2007: nil) has been included within finance costs.

Gross borrowings as at 31 December 2008 included £64m (2007: nil) in relation to fair value adjustments to borrowings previously designated in a fair value hedge relationship which were de-designated during the year. The related derivatives were closed out on de-designation with a cash inflow of £51m (£65m translated at 31 December 2008 exchange rates). During 2008, none of the fair value adjustments were amortised as a reduction to finance costs.

Cash flow hedges

The Reed Elsevier Group plc group enters into two types of cash flow hedge:

1) Interest rate derivatives which fix the interest expense on a portion of forecast floating rate denominated debt (including commercial paper, short term bank loans and floating rate term debt).

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.

19. Financial instruments (continued)

Movements in the hedge reserve (pre-tax) in 2008 and 2007, including gains and losses on cash flow hedging instruments were as follows:

	Transition loss £m	Interest rate hedges £m	Foreign exchange hedges £m	Total hedge reserve pre-tax £m
Hedge reserve at 1 January 2007: (losses)/gains deferred	(2)	-	50	48
Gains arising in 2007	-	-	12	12
Amounts recognised in income statement	1	-	(31)	(30)
Exchange translation differences	-	-	2	2
Hedge reserve at 1 January 2008: (losses)/gains deferred	(1)	-	33	32
Losses arising in 2008	-	(15)	(179)	(194)
Amounts recognised in income statement	1	-	(24)	(23)
Exchange translation differences	-	(4)	(4)	(8)
Hedge reserve at 31 December 2008: losses deferred	-	(19)	(174)	(193)

All cash flow hedges were highly effective throughout the two years ended 31 December 2008.

A tax credit of £57m (2007: £9m charge) in respect of the above gains and losses at 31 December 2008 was also deferred in the hedge reserve.

Of the amounts recognised in the income statement in the year, gains of £24m (2007: £31m) were recognised in revenue and losses of £1m (2007: £1m) were recognised in finance costs. A tax charge of £5m (2007: £9m) was recognised in relation to these items.

The transition loss relates to interest rate derivatives which were not designated as hedging instruments on adoption of IAS39 – Financial Instruments.

The deferred gains and losses on cash flow hedges at 31 December 2008 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
2009	(2)	(63)	(65)
2010	(5)	(66)	(71)
2011	(5)	(37)	(42)
2012	(5)	(8)	(13)
2013	(2)	-	(2)
Losses deferred in hedge reserve at 31 December 2008	(19)	(174)	(193)

The cash flows for these hedges are expected to occur in line with the recognition of the gains and losses in the income statement, other than in respect of certain forward foreign exchange hedges on subscriptions, where the cash flows may be expected to occur in advance of the subscription year.

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For the year ended 31 December 2008

20. Deferred tax

	2008 £m	2007 £m
Deferred tax assets	**349**	137
Deferred tax liabilities	**(1,517)**	(689)
Total	**(1,168)**	(552)

Movements in deferred tax liabilities and assets are summarised as follows.

	Deferred tax liabilities				Deferred tax assets			
	Excess of tax allowances over amortisation £m	Acquired intangible assets £m	Pensions assets £m	Other temporary differences - liabilities £m	Losses carried forward £m	Pensions liabilities £m	Other temporary differences - assets £m	Total £m
Deferred tax (liability)/asset at 1 January 2007	(133)	(642)	(6)	(42)	7	92	70	(654)
(Charge)/credit to profit	(29)	63	-	14	(3)	(15)	16	46
(Charge)/credit to equity	-	-	(44)	(2)	-	(21)	16	(51)
Acquisitions	-	(38)	-	-	1	-	-	(37)
Disposals	34	95	(1)	-	-	(3)	(24)	101
Reclassified as held for sale	1	24	-	15	-	-	-	40
Exchange translation differences	2	-	-	-	-	(1)	2	3
Deferred tax (liability)/asset at 1 January 2008	**(125)**	**(498)**	**(51)**	**(15)**	**5**	**52**	**80**	**(552)**
(Charge)/credit to profit	**(37)**	**69**	**(6)**	**(5)**	-	**(10)**	**(37)**	**(26)**
Credit to equity	-	-	**13**	**7**	-	**103**	**29**	**152**
Acquisitions	-	**(536)**	-	-	-	**4**	**63**	**(469)**
Disposals	-	**7**	-	-	-	-	-	**7**
Exchange translation differences	**(57)**	**(281)**	-	**(2)**	**1**	**41**	**18**	**(280)**
Deferred tax (liability)/asset at 31 December 2008	**(219)**	**(1,239)**	**(44)**	**(15)**	**6**	**190**	**153**	**(1,168)**

21. Inventories and pre-publication costs

	2008 £m	2007 £m
Raw materials	**11**	9
Pre-publication costs	**232**	153
Finished goods	**100**	106
Total	**343**	268

22. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	**1,571**	1,047
Allowance for doubtful debts	**(77)**	(48)
	1,494	999
Prepayments and accrued income	**181**	135
Total	**1,675**	1,134

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:

	2008 £m	2007 £m
At 1 January	**48**	50
Charged for the year	**29**	19
Trade receivables written off	**(20)**	(17)
Acquisitions	**4**	-
Reclassified as held for sale	**-**	(5)
Exchange translation differences	**16**	1
At 31 December	**77**	48

23. Assets and liabilities held for sale

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

	2008 £m	2007 £m
Goodwill	**24**	118
Intangible assets	**3**	89
Property, plant and equipment	**7**	16
Inventories and pre-publication costs	**-**	54
Trade and other receivables	**15**	64
Total assets held for sale	**49**	341
Trade and other payables	**2**	44
Deferred tax liabilities	**-**	40
Total liabilities associated with assets held for sale	**2**	84

Assets held for sale as at 31 December 2008 relate to minor businesses within LexisNexis (2007: principally relate to Harcourt Assessment, which was sold in January 2008, see note 2).

24. Trade and other payables

	2008 £m	2007 £m
Payables and accruals	**1,362**	976
Deferred income	**1,357**	950
Total	**2,719**	1,926

25. Borrowings

	2008			2007		
	Falling due within 1 year £m	**Falling due in more than 1 year £m**	**Total £m**	Falling due within 1 year £m	Falling due in more than 1 year £m	Total £m
Financial liabilities measured at amortised cost:						
Amounts owed to the ERF BV Group	**1,750**	**6,290**	**8,040**	982	4,030	5,012
Short term bank loans, overdrafts and commercial paper	**61**	**-**	**61**	180	-	180
Finance leases	**2**	**1**	**3**	5	6	11
Other loans	**-**	**3,311**	**3,311**	-	1,081	1,081
Other loans in fair value hedging relationships	**-**	**-**	**-**	369	261	630
Other loans previously in fair value hedging relationships	**-**	**406**	**406**	-	-	-
Total	**1,813**	**10,008**	**11,821**	1,536	5,378	6,914

The total fair value of financial liabilities measured at amortised cost is £11,989m (2007: £6,466m). The total fair value of other loans in fair value hedging relationships is nil (2007: £685m). The total fair value of other loans previously in fair value hedging relationships is £472m (2007: nil).

25. Borrowings (continued)

Analysis by year of repayment	Short term bank loans, overdrafts and commercial paper £m	Other loans £m	Amounts owed to ERF BV Group £m	Finance leases £m	Total £m
As at 31 December 2008					
Within 1 year	**61**	**-**	**1,750**	**2**	**1,813**
Within 1 to 2 years	**-**	**733**	**1,351**	**1**	**2,085**
Within 2 to 3 years	**-**	**1,790**	**1,435**	**-**	**3,225**
Within 3 to 4 years	**-**	**311**	**1,222**	**-**	**1,533**
Within 4 to 5 years	**-**	**-**	**1,280**	**-**	**1,280**
After 5 years	**-**	**883**	**1,002**	**-**	**1,885**
	-	**3,717**	**6,290**	**1**	**10,008**
Total	**61**	**3,717**	**8,040**	**3**	**11,821**
As at 31 December 2007					
Within 1 year	180	369	981	5	1,535
Within 1 to 2 years	-	-	1,140	3	1,143
Within 2 to 3 years	-	125	632	3	760
Within 3 to 4 years	-	276	843	-	1,119
Within 4 to 5 years	-	225	561	-	786
After 5 years	-	716	855	-	1,571
	-	1,342	4,031	6	5,379
Total	180	1,711	5,012	11	6,914

In January 2009, fixed rate term debt of $1,500m (£1,037m) due in more than five years from 31 December 2008 was issued and used to repay other loans maturing within one to two years. Short term bank loans, overdrafts and commercial paper are backed up by $3,000m (£2,074m) of committed bank facilities maturing in May 2010 of which $38m (£26m) was drawn. In February 2009 these facilities were reduced to $2,500m (£1,728m) and additional $2,000m (£1,382m) committed bank facilities, forward starting in May 2010 and maturing in May 2012, were put in place.

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25. **Borrowings (continued)**

Analysis by currency	**Short term bank loans, overdrafts and commercial paper £m**	**Other loans £m**	**Amounts owed to ERF BV Group £m**	**Finance leases £m**	**Total £m**
As at 31 December 2008					
US Dollars	-	**3,317**	**7,347**	**3**	**10,667**
£ Sterling	-	**400**	**9**	-	**409**
Euro	-	-	**607**	-	**607**
Other currencies	**61**	-	**77**	-	**138**
Total	**61**	**3,717**	**8,040**	**3**	**11,821**
As at 31 December 2007					
US Dollars	108	1,311	4,341	11	5,771
£ Sterling	7	400	16	-	423
Euro	-	-	605	-	605
Other currencies	65	-	50	-	115
Total	180	1,711	5,012	11	6,914

Included in the US dollar amounts for other loans above at 31 December 2007 was £369m of debt denominated in euros (€500m), that was swapped into US dollars on issuance and against which there were related derivative financial instruments, which, as at 31 December 2007, had a fair value of £149m. During 2008 both the debt and related derivative financial instrument matured.

26. Lease arrangements

Finance leases

At 31 December 2008 future finance lease obligations fall due as follows:

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

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

Operating leases

The Reed Elsevier Group plc group 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 2008 outstanding commitments under non-cancellable operating leases fell due as follows:

	2008 £m	2007 £m
Within one year	**144**	104
In the second to fifth years inclusive	**424**	318
After five years	**291**	273
Total	**859**	695

Of the above outstanding commitments, £801m (2007: £677m) relate to land and buildings.

The Reed Elsevier Group plc group has a number of properties that are sub-leased. The future lease receivables contracted with sub-tenants fall as follows:

	2008 £m	2007 £m
Within one year	**21**	14
In the second to fifth years inclusive	**52**	42
After five years	**14**	11
Total	**87**	67

27. Provisions

	2008			2007		
	Property £m	Restructuring £m	Total £m	Property £m	Restructuring £m	Total £m
At start of year	21	-	21	28	-	28
Charged	22	57	79	-	-	-
Utilised	(9)	-	(9)	(6)	-	(6)
Exchange translation differences	11	12	23	(1)	-	(1)
Total	45	69	114	21	-	21

Property provisions relate to estimated sub-lease shortfalls and guarantees given in respect of certain property leases for various periods up to 2021. Restructuring provisions relate to costs incurred in connection with the major restructuring programme announced in February 2008 and in RBI, principally in respect of severance and outsourcing migration costs.

Provision have been analysed between current and non-current as set out below.

	2008 £m	2007 £m
Current liabilities	79	-
Non-current liabilities	35	21
Total	114	21

28. Contingent liabilities and capital commitments

There are contingent liabilities amounting to £26m (2007: £28m) in respect of property lease guarantees.

The Company has accepted, in accordance with clause 403 Book 2 of the Dutch Civil Code, responsibilities for the liabilities, including trade creditors and external borrowings, totalling £115m (2007: £95m) of subsidiary undertakings registered in the Netherlands.

29. Share capital

£ and number of shares	Authorised 31 Dec 2007 and 2008	Called up, issued and fully paid 31 Dec 2007 and 2008
Preference shares (cumulative) of £1 each		
- Irredeemable 7.50%	100,000	100,000
Ordinary shares of £1 each		
- 'R' ordinary shares	10,000	10,000
- 'E' ordinary shares	10,000	10,000
Total	120,000	120,000

All of the preference shares rank equally in respect of the right to receive fixed dividends.

All of the "R" ordinary shares rank equally in respect of voting rights and the right to receive dividends. All of the "E" ordinary shares rank equally in respect of voting rights and the right to receive dividends.

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30. Share premium

	2008 £m	2007 £m
At 1 January and 31 December	**324**	324

31. Translation reserve

	2008 £m	2007 £m
At 1 January	**216**	141
Exchange differences on translation of foreign operations	**(1,535)**	(71)
Cumulative exchange differences on disposal of foreign operations	**27**	148
Exchange translation differences on capital and reserves	**2**	(2)
At 31 December	**(1,290)**	216

32. Other reserves

	Hedge reserve 2008 £m	Other reserves 2008 £m	Total 2008 £m	2007 £m
At 1 January	**23**	**(4,175)**	**(4,152)**	(3,482)
Profit attributable to parent company's shareholders	**-**	**185**	**185**	948
Dividends declared	**-**	**(1,453)**	**(1,453)**	(1,816)
Actuarial (losses)/gains on defined benefit pension schemes	**-**	**(347)**	**(347)**	224
Fair value movements on available for sale investments	**-**	**(99)**	**(99)**	(6)
Cumulative fair value movements on disposals of available for sale investments	**-**	**-**	**-**	(7)
Fair value movements on cash flow hedges	**(194)**	**-**	**(194)**	12
Tax recognised directly in equity	**55**	**97**	**152**	(52)
Increase in share based remuneration reserve	**-**	**46**	**46**	46
Transfers from hedge reserve to net profit (net of tax)	**(18)**	**-**	**(18)**	(21)
Exchange translation differences	**(2)**	**-**	**(2)**	2
At 31 December	**(136)**	**(5,746)**	**(5,882)**	(4,152)

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

33. Related party transactions

The company is jointly owned and controlled by Reed Elsevier PLC and Reed Elsevier NV.

There were no material transactions during the year between the Reed Elsevier Group plc group and its fellow joint ventures, other than those disclosed in these accounts.

The group's fellow joint ventures are Elsevier Reed Finance BV and its subsidiaries. Elsevier Reed Finance BV is incorporated in the Netherlands and jointly owned and controlled by Reed Elsevier PLC and Reed Elsevier NV. The Elsevier Reed Finance BV group provides a range of treasury services and funding to the Reed Elsevier Group plc group.

Foreign exchange contracts entered into during 2008 by Reed Elsevier Group plc and its subsidiaries with its fellow joint ventures amounted to £1,208m (2007: £4,428m).

Transactions between the Reed Elsevier Group plc group's businesses have been eliminated within the financial statements. Transactions with joint ventures were made on normal market terms of trading and comprise sales of goods and services of £4m (2007: £6m). As at 31 December 2008, amounts owed by joint ventures were £3m (2007: £7m). 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.

	2008 £m	2007 £m
Salaries and other short term employee benefits	**7**	8
Post employment benefits	**1**	1
Share based remuneration	**10**	9
Total	**18**	18

Post employment benefits represent the service cost under IAS 19 – Employee Benefits in relation to defined benefit schemes, together with any contributions made to defined contribution schemes. Share based remuneration is the amount charged in respect of executive directors under IFRS2 – Share Based Payment.

34. Post balance sheet events

In January 2009, term debt of $1,500m (£1,037m) due in more than five years from 31 December 2008 was issued and used to repay loans maturing within one to two years.

As at 31 December 2008 short term bank loans, overdrafts and commercial paper were backed up by $3,000m of committed bank facilities maturing in May 2010, of which $38m (£26m) was drawn. In February 2009 these facilities were reduced to $2,500m (£1,728m) and new $2,000m (£1,382m) committed bank facilities, forward starting in May 2010 and maturing in May 2012, were put in place.

35. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors of Reed Elsevier Group plc on 18 February 2009.

PARENT COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2008

PARENT COMPANY BALANCE SHEET
As at 31 December 2008

	2008 £m	2007 £m
Fixed assets		
Investments		
Shares in subsidiary undertakings		
Cost	**866**	866
Provided	**(4)**	(4)
Net book amount	**862**	862
Joint ventures (cost and net book value)	**29**	29
	891	891
Current assets		
Amounts owed by Reed Elsevier PLC	**2**	2
Amounts owed by subsidiary undertakings	**-**	420
	2	422
Total assets	**893**	1,313
Current liabilities		
Amounts owed to subsidiary undertakings	**(411)**	(325)
Trade and other payables	**-**	(1)
	(411)	(326)
Net assets	**482**	987
Capital and reserves		
Called up share capital	**-**	-
Share premium account	**324**	324
Profit and loss reserves	**158**	663
Shareholders' funds	**482**	987

Approved by the board of Reed Elsevier Group plc, 18 February 2009

M H Armour
Chief Financial Officer

PARENT COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2008

PARENT COMPANY RECONCILIATION OF SHAREHOLDERS' FUNDS
For the year ended 31 December 2008

	Share capital £m	Share premium £m	Profit and loss reserve £m	Total £m
At 1 January 2007	-	324	481	805
Profit attributable to ordinary shareholders	-	-	1,032	1,032
Ordinary dividends paid	-	-	(850)	(850)
At 1 January 2008	-	**324**	**663**	**987**
Profit attributable to ordinary shareholders	-	-	**(5)**	**(5)**
Ordinary dividends paid	-	-	**(500)**	**(500)**
At 31 December 2008	-	**324**	**158**	**482**

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 Principles (UK GAAP). Unless otherwise indicated, all amounts in the financial statements are in millions of pounds.

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The Reed Elsevier Group plc accounting policies under UK GAAP are set out below and have been applied consistently in the current and prior year.

Investments

Fixed asset investments are stated at cost, less provision, if appropriate, for any impairment in value.

Principal joint ventures and subsidiaries are set out in the supplementary information page.

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.

INDEPENDENT AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS
To the members of Reed Elsevier Group plc

We have audited the individual parent company financial statements of Reed Elsevier Group plc for the year ended 31 December 2008 ("the company financial statements") which comprise the parent company balance sheet, the parent company reconciliation of shareholders' funds and the parent company accounting policies. These company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Reed Elsevier Group plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report and the company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the company financial statements give a true and fair view in accordance with the Companies Act 1985. We report to you if, in our opinion, the directors' report is consistent with the company financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information contained in the annual report, as described in the contents section, and consider whether it is consistent with the audited company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the company financial statements.

INDEPENDENT AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS
To the members of Reed Elsevier Group plc

Opinion

In our opinion:

- the company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the company financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
18 February 2009

SUPPLEMENTARY INFORMATION

Principal subsidiary undertakings at 31 December 2008

Holding Companies	
Reed Elsevier (UK) Limited (1)	
Reed Elsevier (Holdings) Ltd (6)	
Reed Elsevier (Investments) plc	
Reed Elsevier Holdings B.V.	(The Netherlands)
Reed Elsevier Nederland B.V.	(The Netherlands)
Reed Elsevier Overseas B.V.	(The Netherlands)
Reed Elsevier US Holdings Inc	(USA)
Reed Elsevier Inc. (1)	(USA)
Reed Elsevier Capital Inc.	(USA)
Reed Elsevier Properties Inc.	(USA)
Elsevier	
Elsevier Limited	
Elsevier B.V.	(The Netherlands)
Excerpta Medica Medical Communications B.V.	(The Netherlands)
Elsevier Inc.	(USA)
Excerpta Medica, Inc	(USA)
Academic Press (2)	(USA)
Elsevier Health Sciences (2)	(USA)
Mosby, Inc.	(USA)
MC Strategies Inc	(USA)
Masson SAS	(France)
Masson SA	(Spain)
MDL Information Systems GmbH	(Germany)
LexisNexis	
ChoicePoint, Inc.	(USA)
LexisNexis Butterworths Tolley (3)	
LexisNexis (4)	(USA)
Matthew Bender and Company, Inc.	(USA)
Martindale-Hubbell (4)	(USA)
LexisNexis Risk Information and Analytics Group Inc.	(USA)
Seisint, Inc	(USA)
LexisNexis SA	(France)
Butterworths Australia (5)	(Australia)
Reed Exhibitions	
Reed Exhibitions Limited	
Reed Exhibitions (4)	(USA)
Reed Expositions France SA	(France)
Reed Midem Organisation SA	(France)
Groupe Strategies SA	(France)
Reed Exhibitions Japan Limited	(Japan)
Reed Business Information	
Reed Business Information Limited	
Reed Business B.V.	(The Netherlands)
Reed Business Information US (4)	(USA)
Reed Construction Data Inc.	(USA)
BuyerZone Inc.	(USA)

All are wholly owned subsidiary undertakings registered and operating in England and Wales unless otherwise stated.

SUPPLEMENTARY INFORMATION

(1) Holding company, but also trades through one or more operating divisions
(2) Division of Elsevier Inc.
(3) Division of Reed Elsevier (UK) Limited
(4) Division of Reed Elsevier Inc.
(5) Division of Reed International Books Australia Pty Ltd
(6) Direct subsidiary undertaking of Reed Elsevier Group plc

Principal joint ventures at 31 December 2008

Operating in		*Principal place of business*
Dott. A. Giuffrè Editore Spa	40%	Italy, Via Busto Arsizio, Milan