Company Registration No. 2746616

Reed Elsevier Group plc

Annual Report and Financial Statements

For the year ended 31 December 2012

OFFICERS AND AUDITOR

Directors

The following served as directors during the year

A Habgood*	- Chairman
E Engstrom	- Chief Executive Officer
M H Armour	(retired 31 December 2012)
D J Palmer	- Chief Financial Officer (appointed 15 November 2012)
M W Elliott*	
L Hook*	
A Hennah*	
R B Polet*	
Sir David Reid*	
L Sanford*	(appointed 4 December 2012)
B van der Veer*	

*Indicates non-executive director

Secretary

Henry A Udow

Registered Office

1-3 Strand
London
WC2N 5JR

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditors
London
United Kingdom

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

PRINCIPAL ACTIVITIES

The company is a holding company and through its subsidiary undertakings is a leading provider of professional information solutions, 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

Financial Review: Results and dividends

Revenue was £6,061m (2011 £5,934m) up 2% At constant exchange rates, revenue was up 3% Underlying revenue growth was 4%, or 3% excluding the net cycling in of biennial exhibitions

Reported operating profit, after amortisation of acquired intangibles and acquisition related costs, was £1,313m (2011 £1,159m), reflecting the improved trading performance described in the Business Review

The amortisation charge in respect of acquired intangible assets, including the share of amortisation in joint ventures, amounted to £317m (2011 £347m) Acquisition related costs were £21m (2011 £52m), reflecting the completion of the ChoicePoint integration programme in 2011 Disposals and other non operating gains were £45m (2011 £21m losses) principally arising from business divestments, in particular Totaljobs, offset by property charges relating to disposed businesses

Net finance costs were lower at £477m (2011 £534m), including the benefit of term debt refinancing and currency translation effects

The reported profit before tax was £881m (2011 £603m) The reported tax charge was £100m (2011 £169m) This includes an exceptional tax credit of £96m resulting from the resolution of a number of significant prior year tax matters The reported net profit attributable to equity shareholders was £776m (2011 £427m)

Adjusted operating profit was £1,656m (2011 £1,568m), up 6% At constant currencies, adjusted operating profits were up 6% Underlying growth was 6%

The overall adjusted operating margin at 27 3% was 0 9 percentage points higher than in the prior year This included a 0 5 percentage point benefit to margin from portfolio change and a 0 1 percentage point benefit from the multi-year journal subscription currency hedging programme net of other currency translation effects

The net pension expense, before the net pension financing credit, was £89m (2011 £96m), including settlement and curtailment credits of £20m (2011 £9m) The net pension financing credit was £25m (2011 £34m) reflecting the increase in scheme liabilities at the beginning of the year compared with a year before and lower expected asset returns

The effective tax rate on adjusted profit before tax was 28 9% (2011 30 3%), reflecting the geographic mix of the net increase in pre-tax profits

During the year the company paid dividends of £300m (2011 £600m) on the "R" ordinary shares and nil on the "E" ordinary shares (2011 nil), and preference dividends of £7,500 (2011 £7,500) No dividends were paid by subsidiary undertakings to Reed Elsevier NV (2011 nil)

Cash flows

Cash generated from operations was £1,806m (2011 £1,674m), up 8% compared with the prior year, principally reflecting good cash conversion and improved operating profit After net interest payments of £484m (2011 £532m) and net tax paid of £200m (2011 £191m), net cash from operating activities was £1,122m (2011 £951m)

Capital expenditure was £333m (2011 £350m), including £263m (2011 £265m) in respect of capitalised development costs included within internally generated intangible assets This reflects the sustained investment in new products and related infrastructure, particularly in the Legal business Spend on acquisitions and investments was £553m (2011 £550m) including deferred consideration of £30m on past acquisitions Gross cash proceeds from disposals amounted to £242m including £7m from the sale of non-controlling interests Net proceeds, before tax, amounted to £160m (2011 £80m) after related separation and transaction costs, additional pension scheme contributions, and working capital and other adjustments in respect of prior year transactions

Ordinary dividends of £300m (2011 £600m) were paid in the year by the company to shareholders and no dividends were paid by subsidiary undertakings to Reed Elsevier NV (2011 nil)

Debt

Net borrowings at 31 December 2012 were £9,496m (2011 £9,959m), a decrease of £463m since 31 December 2011 The decrease principally reflects the benefit of free cash flow and disposal proceeds less acquisition spend and dividends paid, and currency translation effects Excluding currency translation effects net debt decreased by £108m

Net borrowings from shareholders and affiliated undertakings at 31 December 2012 amounted to £7,928m (2011 £7,870m) Other borrowings amounted to £2,186m (2011 £2,679m) and the fair value of related derivative assets was £36m (2011 £30m) Cash balances totalled £582m (2011 £560m)

Net pension obligations, i e pension obligations less pension assets, at 31 December 2012 were £466m (31 December 2011 £242m), including a net deficit of £306m (31 December 2011 £87m) in respect of funded schemes which were on average 93% funded at the end of the year on an IFRS basis The increase in the overall net deficit reflects a reduction in average discount rates at the end of the year compared with the end of the prior year

Liquidity

At 31 December 2012, the Reed Elsevier Group plc group had access, along with other affiliated companies, to a $2,000m committed bank facility maturing in June 2015, which was undrawn This backup facility provides security of funding for short term debt

In October and November 2012, $561m of fixed rate term debt with a maturity of ten years was issued at a coupon of 3 125% Related to this transaction, $299m of fixed rate term debt maturing in January 2014 and January 2019, with a weighted average coupon of 8 4% was exchanged for $311m of newly issued term debt and cash payments of $75m The remaining cash proceeds were used to reduce short term commercial paper borrowings ahead of the January 2014 bond maturity

After taking account of committed bank facilities and available cash resources, no third party borrowings mature within two years (2011 nil), no third party borrowings mature in the third year (2011 18%), 29% in the fourth and fifth years (2011 19%), 49% in the sixth to tenth years (2011 44%), and 22% beyond the tenth year (2011 19%)

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totalling £5,889m (2011 £6,340m) of which 27% mature in the next year (2011 23%), 12% in the second year (2011 21%), 17% in the third year (2011 11%), 34% in the fourth and fifth years (2011 30%), and 10% in the sixth to tenth years (2011 15%) Reed Elsevier Group plc has net borrowings due within one year of £2,039m (2011 £1,530m) from the parent companies, Reed Elsevier PLC and Reed Elsevier NV, and other affiliated undertakings

DIRECTORS' REPORT

FORWARD LOOKING STATEMENTS

The Annual Report and Financial Statements 2012 contains forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended These statements are subject to a number of risks and uncertainties that could cause actual results or outcomes to differ materially from those currently being anticipated The terms "estimate", "project", "plan", "intend", "expect", "should be", "will be", "believe" and similar expressions identify forward-looking statements Factors which may cause future outcomes to differ from those foreseen in forward-looking statements include, but are not limited to competitive factors in the industries in which we operate, demand for our products and services, exchange rate fluctuations, general economic and business conditions, legislative, fiscal, tax and regulatory developments and political risks, the availability of third party content and data, breaches of our data security systems and interruptions in our information technology systems, changes in law and legal interpretations affecting Reed Elsevier Group plc's intellectual property rights

BUSINESS REVIEW

Reed Elsevier Group plc is a world leading provider of professional information solutions A company that delivers improved outcomes to professional customers across industries, helping them make better decisions, get better results and be more productive

We achieve this by leveraging deep customer understanding to combine high quality content & data with analytics & technology in global platforms Our solutions often account for about 1 percent of our customers' total cost base but can have a significant, positive, impact on the remaining 99 percent We seek to build leading positions in long-term global growth markets by leveraging our institutional skills, assets and resources across Reed Elsevier Group plc, both to build solutions for our customers and to pursue cost efficiencies

Across Reed Elsevier Group plc, we are systematically migrating towards this type of business, primarily through organic development, by investing in the transformation of our current assets and building out new products and solutions in adjacent markets and geographies We are supplementing organic growth with selective acquisitions where we are the natural owner and can accelerate our strategy with good returns We will continue to divest assets that we are not able to migrate in this direction, or where we do not see significant future value creation for Reed Elsevier Group plc

Reed Elsevier Group plc is a world leading provider of professional information solutions organised as five business segments Scientific, technical & medical, providing information and tools to help its customers improve scientific and healthcare outcomes, Risk Solutions, providing tools that combine proprietary, public and third-party information with advanced technology and analytics, Business Information, providing data services, information and marketing solutions to business professionals, Legal, providing legal, tax, regulatory news & business information to legal, corporate, government, accounting and academic markets, and Exhibitions, organising exhibitions and conferences

Adjusted operating profit is the key segmental profit measure used by Reed Elsevier Group plc in assessing performance It is stated before amortisation of acquired intangible assets, the share of profit on disposals in joint ventures, acquisition related costs, and is grossed up to exclude the equity share of taxes in joint ventures Underlying growth rates are the year on year change at constant currencies, excluding the results of all acquisitions and disposals made both in the year and prior year and assets held for sale Comparison at constant exchange rates uses 2011 full year and hedge exchange rates

Scientific, Technical & Medical

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

Revenues for the year ended 31 December 2012 were £2,008m Elsevier is a global business with principal operations in Amsterdam, Beijing, Boston, Chennai, Delhi, London, Madrid, Munich, New York, Oxford, Paris, Philadelphia, Rio de Janeiro, St Louis, San Diego, Singapore and Tokyo It has 7,000 employees

Elsevier serves the needs of the science, technology and health markets by publishing primary research, reference, and education content, as well as by providing a range of database and workflow solutions Elsevier s customers are scientists, academic institutions, research leaders and administrators, medical researchers, doctors, nurses, allied health professionals and students, as well as hospitals, research institutions, health insurers, managed healthcare organisations, research-intensive corporations, and governments All of these customers rely on Elsevier to provide high quality content and critical information for making scientific and medical decisions, to review, publish, disseminate and preserve research findings, to create innovative tools to help focus research strategies, increase research effectiveness, improve medical outcomes, and enhance the efficiency of healthcare and healthcare education

In the primary research market during 2012, over 1m research papers were submitted to Elsevier, a double digit increase on the prior year Over 10,000 editors managed the peer review and selection of these papers, resulting in the publication of more than 330,000 articles in almost 2,000 journals, many of which are the foremost publications in their field and a primary point of reference for new research This content was accessed by around 11m people, with nearly 700m full text article downloads last year Content is provided free or at very low cost in most of the world s poorest countries Elsevier's journals are primarily published and delivered through the *ScienceDirect* platform, the world's largest database of scientific and medical research, hosting over 11m articles, and over 11,000 full text e-books Flagship journals include *Cell* and *The Lancet* families of titles Elsevier continuously innovates to improve the utility and effectiveness of its journals For example, its Article of the Future' enhances the traditional scientific paper with new and broader types of content, such as links to experimental data, related content, and enhanced media to supplement the article s text

Elsevier is also a global leader in the scientific, technical and medical reference market, providing authoritative and current professional reference content While reference has traditionally been a print industry, Elsevier has been a leader in driving the shift from print to electronic Elsevier publishes over 20,000 reference titles, with 1,400 new titles published annually along with supporting bibliographic data, indices and abstracts Approximately 85% of these titles are available electronically Flagship titles include works such as *Gray's Anatomy*, *Nelson's Pediatrics* and *Netter s Atlas of Human Anatomy*

Elsevier launched *ClinicalKey* in 2012, a product that allows physicians to access the leading reference and evidence-based medicine content in a single, fully-integrated site *ClinicalKey* includes a full taxonomy and improved smart content search to help clinicians look up detailed information on highly specific topics as they seek to answer clinical questions The platform covers Elsevier s as well as relevant third-party health content *ClinicalKey* has already been deployed at leading teaching hospitals, such as Oxford University s John Radcliffe the Cleveland Clinic, and the US Department of Veterans Affairs

In medical education, Elsevier serves students of medicine, nursing and allied health professions through print and electronic books, as well as electronic solutions For example, its *Evolve* portal provides a rich resource to support faculty and students and now has over 3 5m registered users, *Evolve Reach* provides online review and testing tools for nursing and the allied health professions, *Evolve Teach* provides online resources and solutions to support faculty

Elsevier s database and workflow products provide a range of tools and solutions for professionals in the science, technical, and medical fields Customers include academic and corporate researchers, research administrators and healthcare professionals

For academic and corporate researchers, significant products include *Scopus*, *Geofacets*, and *Reaxys* *Scopus* is the largest abstract and citation database of research literature in the world, with abstracts and bibliographic information on almost 50m scientific research articles from 19,500 peer reviewed journals and 5,000 international publishers *Geofacets* is an oil and gas exploration tool which packages research-relevant Elsevier and third-party geological content and tags that content to enable rich search functionality *Reaxys* is a leading solution for synthetic chemists, integrating chemical reaction and compound data searching with synthesis planning

In December 2012, Elsevier acquired *Knovel*, a web-based provider of productivity tools for the engineering community, integrating technical information with analytics and search to deliver trusted answers and drive innovation

Elsevier serves academic and government research administrators through its *SciVal* suite of products that help them evaluate their institutions research performance, determine research strategies and increase institutional efficiencies Leveraging bibliometric data, such as citations from *Scopus*, *SciVal Spotlight* helps institutions and governments to identify their distinctive research strengths, evaluate performance and increase the focus of their research and development investments *SciVal Funding* assists researchers and institutions in identifying grants that are most relevant in their research areas

In August 2012, Elsevier bolstered its research management portfolio by acquiring *Atira*, a provider of software and tools that complement the *SciVal* platform and help academic institutions and researchers improve their research outcomes

DIRECTORS' REPORT

For healthcare professionals, Elsevier develops products to deliver patient-specific solutions at the point of care to improve patient outcomes Its clinical solutions include *Gold Standard*, which provides critical information on drug interactions to assist effective treatment, and *CPM Resource Center*, which provides a data-driven framework to support nurses in undertaking procedures

Elsevier further bolstered its clinical solutions portfolio with the acquisition in September 2012 of *ExitCare*, a provider of patient education and discharge instructions *ExitCare's* products, incorporated into Elsevier's clinical decision support content and tools, will help healthcare providers improve the delivery of healthcare information and services across all care environments

Market opportunities
Scientific, Technical and Medical information markets have good long-term growth characteristics The importance of research and development to economic performance and competitive positioning is well understood by governments, academic institutions and corporations This is reflected in the long-term growth in research and development spend and in the number of researchers worldwide Growth in health markets is driven by ageing populations in developed markets, rising prosperity in developing markets and the increasing focus on improving medical outcomes and efficiency Given that a significant proportion of scientific research and healthcare is funded directly or indirectly by governments, spending is influenced by governmental budgetary considerations The commitment to research and health provision does, however, remain high, even in more difficult budgetary environments

Strategic priorities
Elsevier s strategic goal is to lead the way in providing information solutions that advance science and improve health To achieve this, Elsevier creates solutions that reflect deep insight into the way its users work and the outcomes they are seeking to achieve, drives for excellence in content, service and technology, constantly adapts and revitalises its products, solutions and business models, and leverages its shared resources and knowledge to promote innovation, efficiency and excellence in execution

For academic and corporate researchers, priorities are to continue to strengthen journal brands and the quality of published articles, and to further improve scientific communication and user experience with our journal content Elsevier is focused on delivering journal content quickly, making it available through different access channels, and exploring a range of innovative new business models Elsevier will also build new services, and add greater functionality and utility to existing solutions to improve researcher productivity

For science and health professionals, priorities are to continue enhancing the quality and relevance of our content and our workflow tools, while actively managing the ongoing format shift from print to electronic information

For students, priorities are to continue to provide the highest quality educational content and tools and to develop an even better customer experience In addition, Elsevier will develop tools to track student performance, train new faculty members, and improve the effectiveness of existing faculty staff

Business model, distribution channels and competition
Science and medical research is principally disseminated on a paid subscription basis to the research facilities of academic institutions, government and corporations, and, in the case of medical and healthcare journals, also to individual practitioners and medical society members For a number of journals, advertising and promotional income represents a small proportion of revenues predominantly from pharmaceutical companies in healthcare titles

Over the past 15 years alternative payment models for the dissemination of research such as so-called author-pays open access or author s-funder-pays ' have emerged While it is expected that paid subscription will remain the primary distribution model, Elsevier has long invested in alternate business models to address the needs of customers and researchers Over 1,500 of Elsevier's journals now offer the option of funding research publishing and distribution via a sponsored article fee In addition, Elsevier now publishes around 30 author-pays ' journals

Electronic products, such as *ScienceDirect*, *Scopus* and *ClinicalKey*, are generally sold direct to customers through a dedicated sales force that has offices around the world Subscription agents facilitate the sales and administrative process for print journals Books are sold through traditional and online book stores, wholesalers and, particularly in medical and healthcare markets, directly to end users

Competition within science and medical publishing is generally on a title-by-title and product-by-product basis Competing journals, books and databases are typically published by learned societies and other professional publishers Workflow tools face similar competition as well as from software companies and internal solutions developed by customers

DIRECTORS' REPORT

2012 financial performance

Elsevier achieved good revenue growth in primary research and databases & tools across scientific & medical segments, with particular strength in emerging markets Research article submissions and usage grew double digits Electronic revenues, which now account for approximately 70% of total revenues, grew strongly across all segments Print book and pharma promotion revenues continued to decline

Underlying revenues grew +2% and underlying adjusted operating profits grew +4%

Good underlying revenue growth in primary research solutions across the scientific and medical segments was driven by double digit growth in both submissions and article downloads, with particularly strong growth in faster growing economies outside Europe and the US The number of article submissions to our journals exceeded 1m for the first time in 2012, with over 11m users downloading nearly 700m articles during the year Elsevier s overall relative impact factor and citation share continued to grow in the year as we focused on providing our customers with high quality content embedded in sophisticated online tools

In addition to good growth in traditional subscriber-pays ' article volumes, author-pays', or author's-funder-pays" article volumes increased during the year, albeit from a small base A sponsored article option is currently available in 1,500 of our journals and 30 stand-alone journals operate under this payment model

Good growth in databases & tools revenue was driven by strong new sales and usage growth

Sales of print books to individuals continued to decline in 2012 reflecting format migration and subdued reference and education markets Print pharma promotion revenues also continued to decline reflecting industry trends

In August 2012 the management structure of Elsevier was reorganised, combining science & technology and health sciences Had these revenue streams still been managed separately, their pro forma underlying revenue growth would have been +5% and flat respectively

In 2012 adjusted operating profit margin continued to improve, driven by continued process efficiencies and currency hedging benefits

2013 Outlook
The customer environment is broadly unchanged on last year, with variations by geography and customer segment We expect volume growth in research and strong demand for electronic products and solutions to continue across scientific and medical markets, with continued declines in print book and pharma promotion revenues Overall we expect another year of modest underlying revenue growth in 2013

Risk Solutions & Business Information

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

Revenues for the year ended 31 December 2012 were £926m LexisNexis Risk Solutions is headquartered in Alpharetta, Georgia, has principal operations in Georgia, Florida, and Ohio, and has 4,100 employees

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

Insurance Solutions provides a comprehensive combination of data and analytics to property and casualty (P&C) personal and commercial insurance and life insurance carriers in the US to improve critical aspects of their business, from customer acquisition and underwriting to claims handling Information solutions, including the US's most comprehensive personal loss history database, *C L U E*, help insurers assess risks and provide important inputs to pricing and underwriting insurance policies Additional key products include *Data Prefill*, which provides critical information on customers, potential customers and their auto ownership directly into the insurance workflow, and *Current Carrier*, which identifies current or previous insurance as well as any lapses in coverage

Business Services provides financial institutions with risk management, identity management, fraud detection, credit risk management, and compliance solutions These include know your customer and anti-money laundering products The business also provides risk and identity management solutions for corporate customers in retail, telecommunications and utilities sectors Receivables management solutions help debt recovery professionals in the segmentation, management and collection of consumer and business debt

Government Solutions provides data and analytics to US federal, state and local law enforcement and government agencies to help solve criminal and intelligence cases and to identify fraud, waste and abuse in government programmes

The Risk Solutions business also provides risk-related information to the legal industry through LexisNexis Legal & Professional Risk Solutions continues to focus on developing a pipeline of new solutions to drive growth in selected adjacent markets and geographies For example, in the UK, Risk Solutions has launched a new product that uses public information to help insurers assess and segment risk more effectively among motor insurance customers and is planning to launch additional innovative products to facilitate sharing of data across motor insurers, improving insurers ability to understand underwriting risks In the government segment, customers are adopting fraud detection, waste, and abuse solutions, which enable government agencies to identify incidences of tax and benefits fraud, and boost revenue collections Risk Solutions has also continued to broaden its portfolio of identity management solutions, including one-time-password and biometric solutions, and has made existing identity products more configurable to address the specific needs of customers across our market segments

The identity verification and risk evaluation solutions provided by Risk Solutions utilise a comprehensive database of public records and proprietary information with more than 2,000 terabytes of unique data, which makes it the largest database of its kind in the US market today *LexisNexis Accurint* is a flagship product, powered by the High Performance Computing Cluster (HPCC) technology This market-leading technology enables Risk Solutions to provide its customers with highly relevant search results swiftly and to create new, low-cost solutions quickly and efficiently It is also increasingly used across other Reed Elsevier Group plc markets such as Legal and Scientific, Technical & Medical

In January 2013, Risk Solutions announced the sale of its Screening business This will allow it to increase its focus on higher-growth segments leveraging its core data, technology and analytical capabilities The Screening business presented limited opportunities to apply these capabilities to generate unique customer value, sustained growth, and superior margins

Market opportunities
Risk Solutions operates in markets with strong long-term underlying growth drivers including insurance underwriting transactions, insurance, healthcare, tax and entitlement fraud, credit defaults and financial fraud, regulatory compliance and due diligence requirements surrounding customer enrolment, and security considerations

In the insurance segment, growth is supported by increasing transactional activity in the auto, property and life insurance markets and the increasing adoption by insurance carriers of more sophisticated data and analytics in the prospecting, underwriting and claims evaluation processes, to assess underwriting risk, increase competitiveness and improve operating cost efficiency Transactional activity is driven by product extensions across insurance carriers workflow and growth in insurance quoting, as consumers seek better policy terms This activity is stimulated by increasing competition between insurance companies, high levels of carrier advertising, and rising levels of internet quoting and policy binding

A number of factors support growth for risk solutions in the financial services market, including new credit originations, continued high fraud losses, stringent regulatory compliance requirements, and increasing anti-money laundering fines In receivables management, demand is driven mainly by levels of consumer debt and the prospect of recovering that debt, which is impacted by employment conditions in the US In corporate markets, demand is supported by growth in online retail sales and continued high levels of credit card fraud Growth in government markets is driven by the increasing use of data and analytics to combat criminal activity, fraud and tax evasion, and to address security issues The level and timing of demand in this market is influenced by government funding and revenue considerations

Strategic priorities
Risk Solutions strategic goal is to make businesses and government more effective, through a better understanding of the risks associated with individuals, other businesses and transactions and by providing the highest quality tools to help manage those risks efficiently and cost effectively To achieve this, Risk Solutions is

focused on delivering innovative new products across customer workflows, expanding the range of risk management solutions across adjacent markets, addressing international opportunities in selected markets to meet local risk management needs, and continuing to strengthen its content, technology, and analytical capabilities

Business model, distribution channels and competition
Risk Solutions products are predominantly sold directly, with pricing mostly on a transactional basis for insurance carriers and corporations, and primarily on a subscription basis for government entities

Risk Solutions and Verisk, a competitor, each sell data and analytics solutions to insurance carriers but largely address different activities Risk Solutions principal competitors in commercial and government segments include Thomson Reuters and major credit bureaus, in many cases addressing different activities in these segments as well

2012 financial performance
Underlying revenue growth accelerated slightly in 2012 as we extended our data & analytics solutions across risk markets, driving strong growth in both Insurance and business Services, and a return to growth in the government segment The improvement in adjusted operating profit margin largely reflects the impact of disposals, with underlying cost growth broadly matching revenue growth, reflecting ongoing spend on new product development

Underlying revenues and adjusted operating profits both grew +6%

The Insurance business grew underlying revenues by +7%, with solid growth reflecting the extension of products and services across the insurance carrier workflow, and expansion in new market segments The international launches progressed well in 2012, albeit on a scale that was not material to Risk Solutions overall

Business Services revenue growth accelerated to +7% In financial services, the anti-money laundering, fraud detection and credit decisioning solutions all performed well, and revenues were positively impacted by some temporary effects of increased mortgage refinancing activities Our receivables management business remained soft

The Government business returned to growth in 2012 reflecting good demand for new fraud detection products in the state & local segment, with continuing moderate declines in the federal segment

All Risk Solutions market segments now leverage HPCC, our proprietary "big data" technology, to combine proprietary, public, and third party information with advanced analytics to help customers in evaluating, predicting, and managing risk and improving efficiency The business is already virtually 100% electronic

In January 2013 we announced the disposal of the Screening business, which has been excluded from underlying revenue growth figures If Screening had been included in the underlying results, the underlying revenue growth rate for Risk Solutions as a whole would still have been 6%

Underlying cost growth was broadly in line with revenue growth in 2012, reflecting spend on new products and content sets The adjusted operating profit margin increased by 2 4 percentage points, largely reflecting the impact of portfolio changes in 2011

2013 outlook
Risk Solutions operates in markets with strong long-term underlying growth drivers, and we will continue to invest in new products that leverage our leading content and expertise in big data' analytics and extend our services across customer workflows We expect continued good growth in the Insurance and Business Services market segments, and mixed Government markets

Business Information

Reed Business Information (RBI) provides data services, information and marketing solutions to business professionals across industries globally It produces industry critical data services and lead generation tools, online community sites as well as business magazines with market leading positions in many sectors

Revenues for the year ended 31 December 2012 were £663m RBI is a global business headquartered in Sutton in the UK and in addition has principal operations in London, Amsterdam, Skokie (Illinois), Norcross (Georgia) and Boston (Massachusetts) in the US, as well as Paris, Milan and Shanghai RBI has 4,800 employees worldwide

RBI s customers use its data services to help make key strategic decisions and reduce risk, to improve productivity and performance and identify new business opportunities RBI s magazines and websites deliver high value news, information and opinion to business professionals across many industry sectors while also providing an effective marketing channel for customers RBI s online marketing solutions bring buyers and sellers together through a range of innovative digital channels

RBI s market leading data services include *ICIS*, an information and pricing service in chemicals, fertilisers and energy, *BankersAccuity*, a provider of payment routing data, anti-money laundering (AML) services and compliance information to the banking and corporate sectors, *XpertHR*, an online service providing regulatory guidance, best practices and tools for HR professionals, and *Reed Construction Data*, a provider of online construction data and information to the construction industry

RBI s leading brands include *New Scientist*, *Farmers Weekly*, *Estates Gazette*, *Elsevier* magazine and *Boerderij* Online marketing solutions include *emedia*, an email bulletin based lead generation service and *BuyerZone*, a web-based request for quotation (RFQ) service

In 2012, RBI continued to reshape its portfolio significantly, addressing continued growth opportunities in data services while exiting areas not core to its paid content strategy In addition, the business continued to focus on cost efficiency across the traditional publishing businesses

As part of this strategy RBI sold Totaljobs Group, comprising seven recruitment job boards, created organically by RBI RBI continued to create value from its existing magazine brands, while exiting a number of titles including *Variety*, the entertainment market title in the US, and those in the electronics and catering markets in the UK In January 2013, RBI announced that it had completed the sale of RBI Australia RBI is in a process to exit its operations in Spain

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

Strategic priorities
RBI's strategic goal is to help business professionals achieve better outcomes with information and decision support in its individual markets Its areas of strategic focus are further growing the data services businesses, restructuring the business magazines and advertising-driven portfolio, developing paid content services in key markets and supporting print franchises through brand extensions and redesign, and driving further organisational effectiveness

Business model, distribution channels and competition
Across the RBI portfolio, user and subscription revenues now account for 69% of the total business with the remaining 31% derived from print and online advertising and lead generation RBI electronic revenue streams now account for 54% of total revenue

Data services are typically sold directly on a subscription or transactional basis Business magazines are mainly distributed on a paid basis Advertising and lead generation revenues are sold directly or through agents

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

2012 financial performance

Improved underlying revenue growth in 2012 reflects strong growth from most of our major data Services businesses, modest growth in marketing Solutions and leading brands, and a moderation in the rate of decline in other business magazines & Services In 2012 we continued the transformation of the business, exiting businesses that no longer fit our strategy We have remained focused on process efficiencies which, together with portfolio development benefits, drove a 2 2 percentage point margin improvement

Underlying revenues grew +2%, and underlying adjusted operating profits grew +10%

Double digit growth at *BankersAccuity* and *ICIS* helped to drive growth in Major Data Services, only held back by continued weakness in US construction data Major Data Services now accounts for approximately 45% of continuing portfolio pro forma revenues and the majority of Reed Business Information operating profit

Marketing Solutions delivered modest growth in 2012 and, following the disposal of *Totaljobs* and *Hotfrog*, accounts for only a small proportion of continuing portfolio revenues

Leading Brands also delivered modest underlying revenue growth as solid performances in the UK agriculture and property sectors were offset by advertising declines elsewhere

Other Business Magazines & Services saw moderating underlying revenue declines and continued portfolio reshaping

We have continued to exit businesses that no longer fit our strategy, including *Totaljobs*, Marketcast, *Variety*, RBI Australia, RBI Spain, and a number of small businesses in other markets

In 2012 we continued to focus on process innovation which, together with the benefits of portfolio development, helped to increase the adjusted operating profit margin by 2.2 percentage points to an historic high of 18%

These actions have contributed to the transformation of Reed Business Information's profile with user and subscription services now accounting for nearly 70% of revenues, and electronic revenue streams now accounting for over half of the total

In December 2012 we reorganised our management structure to bring LexisNexis Risk Solutions and Reed Business Information together more closely in order to continue to build out Risk Solutions rapidly growing business globally We plan to leverage Risk Solutions strength in data, analytics and technology in combination with Reed Business Information s broader geographic footprint and industry specific databases

2013 outlook
Demand for data & analytics in our market segments continues to grow, although print and advertising revenues remain weak In 2013 we expect continued good growth in Major Data Services, stable Leading Brands, and further benefits from portfolio reshaping

Legal

Serving customers in more than 175 countries, LexisNexis Legal & Professional provides resources and services that inform decisions, increase productivity and drive new business

Revenues for the year ended 31 December 2012 were £1.610m LexisNexis Legal & Professional is headquartered in New York and has principal operations in the New York area, Ohio and North Carolina in the United States, Toronto in Canada, London and Paris in Europe, and cities in several other countries in Africa and Asia Pacific It has 10,400 employees worldwide

LexisNexis Legal & Professional is organised in market facing groups The most significant are Research & Litigation Solutions and Business of Law Software Solutions in the US and LexisNexis International and LexisNexis Asia outside the US These are supported by global shared services organisations providing platform and product development, operational and distribution services, and other support functions

In Research & Litigation Solutions, electronic information solutions and innovative workflow tools, developed through close collaboration with customers, help legal and business professionals make better informed decisions in the practice of law and in managing their businesses Flagship products for legal research are *Lexis.com* and *Lexis Advance*, which provide federal and state statutes and case law, together with analysis and expert commentaries from sources such as *Matthew Bender* and *Michie* and the leading citation service *Shepard's*, which advises on the continuing relevance of case law precedents Research solutions also include news and business information, ranging from daily news to company filings, as well as public records information and analytics Through its litigation solutions, LexisNexis provides lawyers with a suite of tools covering case preparation to processing and review to trial preparation LexisNexis partners with law schools to provide services to students as part of their training

In 2012, LexisNexis introduced in the US two new releases of *Lexis Advance*, an innovative web application designed to transform how legal professionals conduct research Built on an advanced technology platform, *Lexis Advance* allows primary researchers within legal and professional organisations to find highly relevant information more easily and efficiently, helping them to drive better outcomes Future releases will continue to expand content and add new innovative tools LexisNexis employs lawyers and trained editors with professional legal backgrounds who review, annotate and update the legal content to help ensure each document in the collection is current and comprehensive This domain expertise combined with the application of Reed Elsevier Group plc's big data' HPCC technology means LexisNexis is able to update its entire legal collection faster and more efficiently, while also identifying and linking content, enabling customers to uncover previously undiscovered relationships between documents

LexisNexis launched *Lexis Practice Advisor* in the US in 2012, a web-based practical guidance product tailored for attorneys who handle transactional matters Additionally, LexisNexis introduced a legal news solution through the acquisition of *Law360* – providing attorneys with breaking news and analysis by practice area to supplement the legal research process

DIRECTORS' REPORT

In litigation solutions, LexisNexis released *Hosted Concordance Evolution* which is a fully hosted service that delivers electronic discovery review capabilities on an 'on-demand' basis *Sanction Solutions* was also acquired, adding trial presentation software to the LexisNexis suite of litigation offerings

The web-based marketing services group assists law firms in their client development through *Lawyers com* and providing them with website development, search engine optimisation and other web marketing services

LexisNexis Business of Law Software Solutions provides law firms with practice management solutions, including time and billing systems, case management, cost recovery and document management services

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

LexisNexis focuses on providing customers with leading collections of content and innovative online solutions to help legal and business professionals make better decisions more efficiently Penetration of online information services has grown strongly and electronic solutions now account for 58% of revenue outside the US

In the UK, LexisNexis is a leading legal information provider offering an unrivalled collection of primary and secondary legislation, case law, expert commentary, and forms and precedents Its extensive portfolio includes a number of heritage brands *Halsbury's*, *Tolleys*, *Butterworths* The content is delivered through multiple formats – from print to online, to mobile apps and embedded in customers' workflow

In 2012, LexisNexis launched additional modules of the *LexisPSL* product suite which provides lawyers a single destination for their practical legal information needs with direct links to the relevant cases, legislation, precedents, forms, practical guidance and expert commentary The ability to drive measurable customer value was recognised by the British Legal Awards which has named LexisNexis UK '2012 Supplier of the Year' for its innovation, authority and understanding of law firms' needs A similar service is being launched across other markets – Australia already has 13 practice area modules and by the end of next year it will have more

In France, LexisNexis is a leading online provider of information to lawyers, notaries and courts A heritage brand *JurisClasseur* and leading authoritative content is provided through multiple formats – lexisnexis fr, mobile and in print These content sources are, as in the UK, being combined with new content and innovative workflow tools to develop practical guidance and practice management solutions In 2012, LexisNexis France launched *Lexis 360*, the first semantic search online tool combining legal information, practical content and results from the web

Following the success of *Lexis for Microsoft Office* (LMO) in US markets, a Canadian version was launched in 2012 LMO enables customers to access LexisNexis content and services via add-ins/ toolbars within Microsoft Word and Outlook

In 2012, LexisNexis Legal & Professional strengthened its positions in Asia through enhanced products created specifically for legal professionals and practitioners, corporate counsels, legal researchers and government institutions in markets including India, China and Japan In Japan, LexisNexis launched *Lexis AS ONE*, a product created specifically for corporate compliance and legal professionals to help navigate the complex regulatory environment

Market opportunities
Longer term growth in legal and regulatory markets worldwide is driven by increasing levels of legislation, regulation, regulatory complexity and litigation, and an increasing number of lawyers Additional market opportunities are presented by the increasing demand for online information solutions and practice management tools that improve the quality and productivity of research, deliver better legal outcomes, and improve business performance Notwithstanding this, legal activity and legal information markets are also influenced by economic conditions and corporate activity, as has been seen with the dampening impact on demand of the recent global recession and the somewhat subdued environment that followed in North America and in Europe

Strategic priorities
LexisNexis Legal & Professional's strategic goal is to enable better legal outcomes and be the leading provider of productivity-enhancing information and information-based workflow solutions in its markets To achieve this LexisNexis is focused on introducing next generation products and solutions on the global New Lexis platform and infrastructure, leveraging New Lexis globally to continue to drive print to electronic migration and long-term international growth, and upgrading operational infrastructure, improving process efficiency and gradually improving margins

In the US LexisNexis' focus is on the continuing development of next generation legal research and practice solutions It is also conducting a major upgrade in operations infrastructure and customer service and support platforms This will provide customers with an integrated and superior experience across US legal research, litigation services, practice management and client development Over the next few years progressive product introductions, often based on the New Lexis platform, leveraging big data HPCC technology, will combine advanced technology with enriched content, sophisticated analytics and applications to enable LexisNexis' customers to make better legal decisions and drive better outcomes for their organisations and clients

Outside the US, LexisNexis is focused on growing online services and developing further high quality actionable content and workflow tools, including the development of practical guidance and practice management applications In 2013, LexisNexis will begin to introduce New Lexis globally Additionally, LexisNexis is focusing on the expansion of its activities in emerging markets

Business model, distribution channels and competition
LexisNexis Legal & Professional products and services are generally sold directly to law firms and to corporate, government, accounting and academic customers on a paid subscription basis, with subscriptions with law firms often under multi-year contracts

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

2012 financial performance

Underlying revenue growth was positive despite subdued legal markets in the US and Europe Growth was driven by electronic revenues, which account for over 75% of total revenues In 2012 we continued to release new products and platforms which have been well received The adjusted operating profit margin improved in 2012 reflecting process efficiency

Underlying revenues grew +1%, and underlying adjusted operating profits grew +4%

In the US, usage and sales of online research and litigation solutions to law firms grew despite challenging market conditions Underlying revenues from government and corporate customers also grew modestly Print revenues continued to decline, and News & Business revenue declines moderated

LexisNexis introduced new releases of *Lexis Advance* during 2012, combining our deep domain expertise and content with Reed Elsevier Group plc's big data HPCC technology to allow researchers within legal and professional organisations to find highly relevant information more easily and efficiently The new applications have been well received, with US customer penetration of 45% by 2012 year end

In Europe market conditions remain subdued, with robust growth in online revenue largely offset by declining print revenues

The 2012 adjusted operating profit margin improved slightly, with process efficiencies more than offsetting continued spend on new product development

2013 outlook
We will continue to roll out new products and platforms in 2013 and will maintain our focus on process efficiencies Our customer markets remain subdued, however, limiting the scope for revenue and profit growth

Exhibitions

Reed Exhibitions' portfolio of exhibitions and conferences serves 44 industry sectors across the Americas, Europe, the Middle East, Africa and Asia Pacific In 2012, Reed Exhibitions brought together over 6m event participants from around the world, generating billions of dollars in business for its customers, and boosting the local economies where the events are hosted

Revenues for the year ended 31 December 2012 were £854m Reed Exhibitions is a global business headquartered in London and has principal offices in Paris, Vienna, Norwalk (Connecticut), São Paulo, Abu Dhabi, Beijing, Tokyo, and Sydney Reed Exhibitions has 3,200 employees worldwide

Reed Exhibitions organises market-leading events which are relevant to industry needs, where participants from around the world meet face to face to do business, to network and to learn Its exhibitions and conferences encompass a wide range of sectors They include construction, electronics, energy and alternative energy, engineering, entertainment, gifts and jewellery, healthcare, hospitality, interior design, logistics, manufacturing, pharmaceuticals, real estate, recreation, security and safety, transport and travel

Market opportunities

Growth in the exhibitions market is influenced by both business-to-business marketing spend and business investment Historically, these have been driven by levels of corporate profitability, which in its turn has followed overall growth in GDP Emerging markets and growth industries provide additional opportunities As some events are held other than annually, growth in any one year is affected by the cycle of non-annual exhibitions

Strategic priorities

Reed Exhibitions strategic goal is to provide market-leading events in growth sectors, especially in higher growth geographies, enabling exhibitors to target and reach new customers quickly and cost-effectively and providing a platform for industry participants to do business, to network and to learn To achieve this, Reed Exhibitions is focused on driving organic growth by leveraging its global sector expertise, by developing new events and by building out its technology platforms It is also shaping the portfolio through a combination of strategic partnerships and selective acquisitions in high growth sectors and geographies as well as withdrawal from markets and industries with lower growth prospects

Reed Exhibitions is committed to continually improving customer solutions and experience by implementing best practice initiatives across geographies and sectors Its integrated web event platform is used by more than 70 per cent of events and is driving both customer satisfaction and insight Using customer insights, Reed Exhibitions has developed an innovative product offering which enhances the value proposition for exhibitors by broadening their options in terms of the type and location of stand they take and the timing of their commitment to the event

In 2012 Reed Exhibitions launched 30 new events These included events which extended the geographical footprint of the luxury travel brand, ILTM, to Mexico and the high end Prive jewellery brand to Panama Reed Exhibitions Japan responded to customer demand by introducing several new events, some of which were in the fast moving sectors of cosmetics and high-technology plastics In China, the Nepcon brand was used to launch an electronics manufacturing event in the western city of Chengdu A key element of building business in China and Brazil is a regional strategy, taking more events to China s second tier cities and cloning events from São Paulo to Recife in Brazil's fast developing north east Reed Exhibitions now organises over 150 events in emerging markets

A number of targeted acquisitions were completed during 2012 In Brazil, Reed Exhibitions took full ownership of its joint venture, Reed Exhibitions Alcantara Machado, and expanded into hospitality (Equipotel) and logistics (Movimat), cementing Reed Exhibitions' position as the leading exhibition organizer in Brazil Elsewhere, acquisitions were made to extend Reed Exhibitions reach in China and its global position in the alternative energy sector During the year, Reed Exhibitions also established positions in new markets with attractive growth prospects, including Indonesia, Saudi Arabia and Turkey, where a joint venture has been created with Tuyap, the country's leading event organiser

Business model, distribution channels and competition

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

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

2012 financial performance

Exhibitions performed strongly in 2012, driven by strong growth in the US and Japan, moderate growth in Europe, and double digit growth in most emerging markets We continued to invest throughout the year, launching 30 new shows in total, and we strengthened our position in high growth markets through partnerships and targeted acquisitions

Underlying revenues grew +15% (+7% excluding biennial event cycling), and underlying adjusted operating profits grew +20%

In the US and Japan underlying revenues grew strongly, and growth in emerging markets was well into double digits In Europe good growth from a number of core events helped to offset some softness in southern European markets, resulting in moderate underlying revenue growth overall in the region

During 2012 we launched 30 new events, primarily in high growth sectors and geographies, and completed a number of targeted acquisitions In Brazil we took full ownership of our joint venture, Alcantara Machado, and expanded into hospitality and logistics, and in Turkey we created a new joint venture with Tuyap, the country s leading event organiser

The 2012 adjusted operating profit margins improved by 1 0 percentage points, reflecting both process efficiencies and the positive impact of biennial event cycling

During the year we continued to roll out global platforms and processes across geographies and sectors Our integrated web event platform is now used by more than 70% of events, driving customer satisfaction and providing customer insight Innovative products and services are enhancing the value proposition for exhibitors by broadening their range of options

2013 outlook
In 2013 we expect good growth in the US and Japan, limited growth in Europe, and strong growth in other markets However 2013 will be a biennial cycling out year, reducing underlying revenue growth by 5-6 percentage points

ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board following the accounting policies shown on pages 56 to 64 The most significant accounting policies in determining the financial condition and results of the consolidated businesses, and those requiring the most subjective or complex judgement, relate to the valuation of goodwill and intangible assets, share based remuneration, pensions, litigation, taxation and property provisioning Further detail is provided in the accounting policies on pages 61 to 64

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 are liquidity risk, interest rate risk, foreign currency risk and credit risk The Board of Reed Elsevier Group plc agrees policies (in line with parent company guidelines) for its business and treasury centres A summary of these policies is given below

Capital and liquidity management
The capital structure is managed to support the objective of Reed Elsevier Group plc's parent companies, Reed Elsevier PLC and Reed Elsevier NV, to maximise long-term shareholder value through appropriate security of funding, ready access to debt and capital markets, cost effective borrowing and flexibility to fund business and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital

Reed Elsevier Group plc uses its cash to fund selective acquisitions and to pay dividends to Reed Elsevier PLC and Reed Elsevier NV whilst retaining the balance sheet strength to maintain access to the most cost effective sources of borrowing and to support Reed Elsevier Group plc's strategic ambition in evolving publishing and information markets

The balance of long term debt, short term debt and committed bank facilities is managed to provide security of funding, taking into account the cash generation of the business and the uncertain size and timing of acquisition spend Reed Elsevier Group plc maintains a range of borrowing facilities and debt programmes from a variety of sources to fund its requirements at short notice and at competitive rates The significance of Reed Elsevier Group plc's US operations means that the majority of debt is denominated in US dollars From time to time, Reed Elsevier Group plc may redeem term debt early or repurchase outstanding debt in the open market depending on market conditions

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

Interest rate exposure management
Reed Elsevier Group plc s interest rate exposure management policy is aimed at reducing the exposure of the consolidated businesses to changes in interest rates The proportion of interest expense that is fixed on net debt is

determined by reference to the level of net interest cover Reed Elsevier Group plc uses fixed rate term debt, interest rate swaps, forward rate agreements and interest rate options to manage the exposure Interest rate derivatives are used only to hedge an underlying risk and no net market positions are held

At 31 December 2012, 78% of gross borrowings were either fixed rate or had been fixed through the use of interest rate swaps, forward rate agreements and options

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, in advance of becoming contractual The precise policy differs according to the specific circumstances of the individual businesses Highly predictable future cash flows may be covered for transactions expected to occur during the next 24 months (50 months for the Scientific, Technical & Medical subscription businesses) within limits defined according to the period before the transaction is expected to become contractual Cover takes the form of foreign exchange forward contracts

As at 31 December 2012, the amount of outstanding foreign exchange cover against future transactions was £1 2bn (2011 £1 3bn)

Credit risk
Reed Elsevier Group plc has a credit exposure for the full principal amount of cash and cash equivalents held with individual counterparties In addition, it has a credit risk from the potential non performance by counterparties to financial instruments, this credit risk normally being restricted to the amounts of any hedge gain and not the full principal amount being hedged Credit risks are controlled by monitoring the credit quality of counterparties, principally licensed commercial banks and investment banks with strong long term credit ratings, and the amounts outstanding with each of them

Reed Elsevier 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-/A3 by Standard & Poor's, Moody's and Fitch At 31 December 2012, cash and cash equivalents totaled £582m, of which 98% was held with banks rated A/A2 or better

PRINCIPAL RISKS

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) The principal risks facing Reed Elsevier Group plc, which have been considered by the Audit Committees and Boards, are described below It is not possible to identify every risk that could affect our businesses, and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise and/or adversely affect our business or financial performance Our risk management and internal control processes are described in the Structure and Corporate Governance section A description of the business and a discussion of factors affecting performance is set out in the Chief Executive Officer s report and Business Review Financial risks are discussed in the Chief Financial Officer's report and in note 18 to the consolidated financial statements Our approach to managing environmental and other non financial risks is set out in the Business Review and Corporate Responsibility section of the Directors' Report Important specific risks identified include

EXTERNAL RISKS

Risk	Description and impact	Mitigation
Economy and market conditions	Demand for our products and services may be impacted by factors such as the economic environment in the US, Europe and other major economies, and government funding	Our businesses are focused on professional markets which have generally been more resilient in periods of economic downturn We deliver information solutions, many on a subscription basis, which are important to our customers effectiveness and efficiency We have extended our position in high growth markets through organic new launches supported by selective small acquisitions We are disposing of businesses that no longer fit our strategy at an accelerated pace
Intellectual property rights	Our products and services are largely comprised of intellectual property content delivered through a variety of media We rely on trademark, copyright, patent and other intellectual property laws to establish and protect our proprietary rights in these products and services There is a risk that our proprietary rights could be challenged, limited, invalidated or circumvented which may impact demand for and pricing of our products and services	We actively engage in developing and promoting the legal protection of intellectual property rights In our businesses, subscription contracts with customers contain provisions as to the use of proprietary content We are also vigilant as to the use of our content and, as appropriate, take legal action to challenge illegal distribution sources
Data resources	A number of our businesses rely extensively upon content and data from external sources Data is obtained from public records, governmental authorities, customers and other information companies, including competitors The disruption or loss of data sources, because of changes in the law or because data suppliers decide not to supply them, could adversely affect our products and services if we were unable to arrange for substitute sources in a timely manner or at all	We seek as far as possible to have proprietary content Where content is supplied to us by third parties, we seek to have contracts which provide mutual commercial benefit We also maintain an active dialogue with regulatory authorities on privacy and other data related issues, and promote, with others, the responsible use of data

Paid subscriptions	Our scientific, technical and medical (STM) primary publications, like those of most of our competitors, are published on a paid subscription basis There is continuous debate in the government, academic and library communities, which are the principal customers for our STM publications, regarding whether such publications should be funded instead through fees charged to authors and from governmental and other subsidies or made freely available after a period following publication If these methods of STM publishing are widely adopted or mandated, it could adversely affect our revenue from paid subscription publications	We engage extensively with stakeholders in the STM community to better understand their needs and deliver value to them We are open to serving the STM community under any payment model that can sustainably provide researchers with the critical information tools that they need We focus on the integrity and quality of research through the editorial and peer review process, we invest in efficient editorial and distribution platforms and in innovation in platforms and tools to make content and data more accessible and actionable, and we ensure vigilance on plagiarism and the long term preservation of research findings

STRATEGIC RISKS

Risk	Description and impact	Mitigation
Customer acceptance of products	Reed Elsevier Group plc s businesses are dependent on the continued acceptance by our customers of our products and services and the value placed on them Failure to meet evolving customer needs could impact demand for our products and consequently adversely affect our revenue	We are focused on the needs and economics of our customers and seek to provide content and innovative solutions that help them achieve better outcomes and enhance productivity
Competition	Our businesses operate in highly competitive markets These markets continue to change in response to technological innovations, changing legislation, regulatory changes, the entrance of new competitors and other factors Failure to anticipate market trends could impact the competitiveness of our products and services and consequently adversely affect our revenue	To remain competitive we continuously invest significant resources in our products and services, and the infrastructure to support them We gain insights into our markets, evolving customers' needs and opportunities, the potential application of new technologies and business models, and the actions of competitors, and these insights inform our market strategies and operational priorities
Acquisitions	From time to time we acquire businesses to strengthen our portfolio If we are unable to generate the anticipated benefits such as revenue growth, synergies and/or cost savings associated with these acquisitions this could adversely affect return on invested capital and financial condition	Our acquisitions are made within the framework of our overall strategy, which emphasizes organic development We have a well formulated process for reviewing and executing acquisitions and for managing the post acquisition integration This process is underpinned with clear strategic, financial and ethical acquisition criteria We closely monitor the performance of acquisitions

OPERATIONAL RISKS

Risk	Description and impact	Mitigation
Technology failure	Our businesses are dependent on electronic platforms and networks, primarily the internet, for delivery of products and services They could be adversely affected if our electronic delivery platforms and networks experience a significant failure, interruption, or security breach	We have established procedures for the protection of our technology assets These include the development of business continuity plans, including IT disaster recovery plans and back-up delivery systems, to reduce business disruption in the event of a major technology failure

Data Security	Our businesses maintain databases and information online, including personal information Breaches of our data security or failure to comply with applicable legislation or regulatory or contractual requirements could damage our reputation and expose us to risk of loss or litigation and increased regulation	We have established data privacy and security programmes We test and re-evaluate our procedures and controls with the aim of ensuring that personal data is protected and that we comply with relevant legislation, regulatory and contractual requirements
Supply chain dependencies	Our organisational and operational structures have increased dependency on outsourced and offshored functions Poor performance or failure of third parties to whom we have outsourced activities could adversely affect our business performance, reputation and financial condition	We select our vendors with care and establish contractual service levels that we closely monitor, including through key performance indicators and targeted supplier audits We have also developed business continuity plans to reduce disruption in the event of a major failure by a vendor
Talent	The implementation and execution of our strategies and business plans depend on our ability to recruit, motivate and retain high quality people We compete globally and across business sectors for talented management and skilled individuals, particularly those with technology and data analytics capabilities Inability to recruit, motivate or retain such people could adversely affect our business performance	We have well established management development and talent review programmes We monitor capability needs and remuneration schemes are tailored to attract and motivate the best talent available at an appropriate level of cost We actively seek feedback from employees, which feeds into plans to enhance employee engagement and motivation

FINANCIAL RISKS

Risk	Description and impact	Mitigation
Pensions	We operate a number of pension schemes around the world Historically, the largest schemes being of the defined benefit type in the UK, the US and the Netherlands The assets and obligations associated with defined benefit pension schemes are particularly sensitive to changes in the market values of assets and the market related assumptions used to value scheme liabilities Adverse changes to inter alia asset values, discount rates or inflation could increase future pension costs and funding requirements	We have professional management of our pension schemes and we focus on maintaining appropriate asset allocation and plan designs We review our funding requirements on a regular basis with the assistance of independent actuaries and ensure that the funding plans are sufficient to meet future liabilities
Tax	Our businesses operate worldwide and our earnings are subject to taxation in many differing jurisdictions and at differing rates We seek to organise our affairs in a tax efficient manner, taking account of the jurisdictions in which we operate However, tax laws that apply to Reed Elsevier Group plc businesses may be amended by the relevant authorities or interpreted differently which could adversely affect our reported results	We have clear and consistent tax policies and tax matters are dealt with by a professional tax function, supported by external tax advisors We maintain an open dialogue with the relevant tax authorities and are vigilant in ensuring that we comply with tax legislation

Treasury	The Reed Elsevier Group plc consolidated financial statements are expressed in pounds sterling and are subject to movements in exchange rates on the translation of the financial information of businesses whose operational currencies are other than sterling The US is our most important market and, accordingly, significant fluctuations in the US dollar exchange rate could significantly affect our reported results Macro economic, political and market conditions may also adversely affect the availability of short and long term funding, volatility of interest rates, currency exchange rates and inflation	Reed Elsevier Group plc s approach to funding and management of interest rate and foreign currency exposures is described on pages 15 and 16 The approach to the management of financial risks is described in note 18 to the consolidated financial statements

REPUTATIONAL RISKS

Risk	Description and impact	Mitigation
Ethics	As a world leading provider of professional information solutions to the scientific, technical & medical, risk solutions and business information, legal and exhibitions markets we are expected to adhere to high standards of independence and ethical conduct A breach of generally accepted ethical business standards could adversely affect our business performance, reputation and financial condition	The Reed Elsevier Group plc Code of Ethics and Business Conduct is provided to every employee and is supported by training It encompasses such topics as fair competition, anti-bribery and human rights and it encourages open and principled behaviour We also have well established processes for reporting and investigating unethical conduct Our major suppliers are required to adopt our Supplier Code of Conduct
Environmental	Reed Elsevier Group plc and its businesses have an impact on the environment, principally through the use of energy and water, waste generation and, in our supply chain, through our paper use and print and production technologies Failure to manage our environmental impact could adversely affect our reputation	We are committed to reducing these impacts by limiting resource use and by efficiently employing sustainable materials and technologies We require our major suppliers and contractors to meet the same objectives We seek to ensure that Reed Elsevier Group plc s businesses are compliant with all relevant environmental regulation

CORPORATE RESPONSIBILITY

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

Constant engagement with stakeholders, including shareholders, employees, communities in which we operate and governments, helps us determine material corporate responsibility issues The Reed Elsevier Group plc Board, senior management and the Corporate Responsibility Forum oversee corresponding objectives and monitor performance against them

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

Our unique contributions

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

DIRECTORS' REPORT

Elsevier, the world's leading provider of scientific, technical and medical information, plays an important role in advancing human welfare and economic progress through its science and health information, which spurs the diffusion of innovation and enables critical decision making. To ensure access to this information, Elsevier supports key programmes in places where resources are often scarce. Among them is Research4Life, a partnership with United Nations agencies and other publishers. This partnership provides core and cutting-edge scientific information to researchers in more than 100 developing countries. As a founding partner, we contribute 50% of the content available in Research4Life, encompassing all *Science Direct* content, including approximately 2,000 Elsevier journals and 7,000 books. In the year, there were more than 6m Research4Life article downloads from *ScienceDirect*, including from the Access to Research for Development and Innovation (ARDI) programme, which we joined in 2012. In addition to support for ongoing projects, the Elsevier Foundation committed $650,000 to support libraries, new scholars, and nursing, including a grant to the Medical Libraries Association/Librarians Without Borders' e-library training initiative in Latin America and Asia, and the Appalachian Women Scientists programme at Appalachian State University in the US.

LexisNexis Risk Solutions tools and resources help protect society. LexisNexis Risk Solutions Bridger Insight XG watch list screening solution is used by over 3,000 financial institutions globally to help ensure compliance with sanctions regulations. The combination of the Bridger Insight XG solution with Reed Business Information's BankersAccuity Global Watch List, a global data set of sanctioned or high risk entities, helps customers ensure proactive compliance. LexisNexis Risk Solutions employees created the Automated Delivery of Alerts on Missing Children (ADAM) programme which assists in the safe recovery of missing children. ADAM alerts circulate missing child posters – more than 2.1m in 2012 – to police, news media, schools, businesses, medical centres and other recipients within a specific geographic search area. Since launching in 2000, 135 children have been located, including nine in 2012.

Reed Business Information (RBI) uses the power of its brands to aid communities. ICIS, providing news and market intelligence for the chemicals, energy and fertiliser sectors, held its ninth Innovation Awards in 2012 to reward innovation in the chemicals industry. France's Rhodia won Best Innovation for Sustainability for creating an "urban mine" – a process to recover scarce metallic elements from consumer waste. Over the past two years, Hairdressers Journal has partnered with John Frieda to build awareness of HAIRraising, a charity which has raised more than £1m in support of London's Great Ormond Street Children's Hospital, through its publications, sites and shows.

LexisNexis Legal & Professional promotes justice through its products and services. Its Rule of Law Resource Center is a free online community covering topics like human rights, protecting minority communities and anti-human trafficking. In the year, staff in the UK developed the free Human Trafficking Awareness Index, which uses the Nexis news service to highlight emerging trends within and across national borders to help campaigners in their efforts to combat trafficking. Among the ways LexisNexis expanded pro bono partnerships in 2012, was through a new collaboration with the Lex Mundi Pro Bono Foundation to promote law firm engagement with social entrepreneurs working around the world to improve the lives of the poor and disenfranchised.

Reed Exhibitions' trade shows provide platforms for supporting our corporate responsibility focus areas. At the 2012 World Travel Market, its global event for the travel industry, Reed Exhibitions hosted World Responsible Tourism Day with events available to the show's more than 40,000 attendees on topics ranging from poverty reduction to wildlife protection and reducing greenhouse gas emissions. Over the last nine years, Reed Exhibitions has given free space at the London Book Fair to Book Aid International, which annually provides more than 500,000 books – including those donated from across Reed Elsevier Group plc – to readers in the developing world, enabling the charity to engage with a wide range of potential book and financial donors. In 2012, the International Vision Expo & Conference expanded offerings for optometry students through a new mentor programme, in addition to providing free entry, a job fair, and travel grants to students from the 22 schools of the American Optometric Student Association.

Drawing on expertise across Reed Elsevier Group plc, in 2012 we awarded prizes in the second Reed Elsevier Group plc Environmental Challenge to projects that improve sustainable access to water and sanitation where it is presently at risk. We offered access to relevant products from our businesses to nearly 600 registrants from more than 50 countries and saw a 40% increase in proposals over 2011. The winner of the $50,000 first prize was the Centre for Affordable Water and Sanitation Technology for a project that modifies biosand filters with iron particles in order to remove water contaminants, including viruses, to bring safe drinking water to rural villages in Nepal. Over a period of two years, 150 filters will be installed. Second prize of $25,000 went to Sanergy to extend a pilot project in Kenya that ensures accessible and affordable hygienic sanitation through a network of small-scale, high quality sanitation centres. Sanergy toilets are franchised to local entrepreneurs and stimulate the economy by turning waste into products, such as organic fertiliser sold to farms. In 2012, we expanded our alternative energy portfolio to include new products such as Elsevier s Comprehensive Renewable Energy and Reed Exhibitions Asia Future Energy Forum and Exhibition

Governance

The Reed Elsevier Group plc Code of Ethics and Business Conduct (Code) is disseminated to every employee, setting the standard for our corporate and individual conduct Encompassing topics such as fair competition, anti-bribery, and human rights, it encourages open and principled behaviour In 2012, we ensured that 100% of employees completed training on the Code within 90 days of starting their employment We provided refresher courses on competition laws and data privacy and security to staff that had completed courses previously, with 100% completion by year end All US managers have completed a course on preventing workplace harassment

We continued to enhance bribery law compliance efforts, including compliance with the UK Bribery Act and US Foreign Corrupt Practices Act, by ensuring 100% of employees had completed online anti-bribery training at least once by the close of 2012, and rolling it out to new employees on an ongoing basis We supplement online training with in-person sessions on topics as required, including training on competition law and preventing bribery for employees in higher risk positions and locations Each of our businesses have designated Preventing Bribery Working Groups, which are engaged in implementing and overseeing compliance activities Our policies, training and other materials are developed to help ensure compliance with laws globally We also undertake intermediary due diligence and monitoring as part of routine process

We maintain a Record Management Policy, Record Retention Schedule and related resources to help employees properly manage company records, setting out what, why, how, and for how long, different types of records must be retained and disposed of In the year, we issued the policy to all employees in English-speaking countries

Reed Elsevier Group plc is a signatory of the United Nations Global Compact (UNGC) – businesses must align their governance and operations with ten principles related to human rights, labour, environment and anti-corruption We demonstrated leadership in 2012 by serving on the UNGC Advisory Group for the UK and the UNGC Supply Chain Advisory Group We were also part of the CEO Water Mandate Steering Group and represented the initiative on the board of the Alliance for Water Stewardship We participated in the UNGC's Corporate Sustainability Forum in Rio de Janeiro, where a new Water Action Hub was launched, for which we are providing a free news feed with water basin information The UNGC judged our 2012 Communication on Progress, required of signatories each year, to have attained Advanced level In the year, we provided video content on the UNGC for lawyers and held webinars on the UNGC for our suppliers

People

Our 30,200 people are our strength Our workforce is 53% female and 47% male, with an average length of service of 9 years

The Reed Elsevier Group plc Nominations Committee considers the knowledge, experience and background of individual Board directors By year end 2012, women made up 20% of the members of the Reed Elsevier Group plc Board Following the Annual General Meetings to be held in 2013 we expect is percentage to have increased to 22%, reaching the goals we announced in 2011

The Reed Elsevier Group plc Diversity and Inclusion (D&I) Statement articulates our commitment to a diverse workforce and environment that respects individuals and their contributions, regardless of their gender, race or other characteristics Our D&I Strategy is focused on translating the Statement into practical action Among its commitments is maintaining a D&I Advisory Group comprised of a senior business and HR leader from each business unit, supported by a broader D&I Working Group Together with D&I specialists, Pluribus, we carried out a D&I training pilot in 2012 involving 78 staff from all business units Course content included making the business case for D&I on ethical, economic, regulatory, and reputational grounds We encourage affinity groups, like women s forums, which provide support and mentoring and encourage community involvement

In 2012, we held a stakeholder session with our CR Forum (chaired by a member of senior management and involving individuals representing all key business functions and businesses) on diversity and inclusion for media companies and Reed Elsevier Group plc Participants included the head of diversity and corporate social responsibility for one of our customers, the CEO of the Association of Women in Science, the head of talent for one of our business units, a diversity expert, and the convener of the Media CSR Forum As a member of ID (Inclusion and Diversity) 100, a network for sharing D&I knowledge among FTSE100 peers, we hosted a panel on boardroom diversity with executive search firm leaders Egon Zehnder, JCA Group and the Zygos Partnership In 2012, we conducted a global Employee Opinion Survey (EOS) to understand how our people feel about Reed

Elsevier Group plc We donated $1 for every completed survey to our global fundraising effort for Plan UK focused on education for girls, and had a 77% participation rate Overall, employees rate Reed Elsevier Group plc as a company that employs strong, ethical principles in its business practices with improved scores since the last survey in 2009 in overall satisfaction, innovation and customer focus We are prioritising areas identified in the EOS that remained flat with local action plans led by managers

Our employees have the right to a healthy and safe workplace as outlined in the Reed Elsevier Group plc Health and Safety Policy We concentrate on areas of greatest risk, for example, warehouses, events and exhibitions However, as a primarily office-based company, our key impact areas are posture-related muscular strains, slips/trips and falls To reduce our severity rate (lost days per 200,000 hours worked), we conduct risk assessments, and work with a third party in the US to assign a nurse case manager to each complex or severe claim We have achieved a 70% reduction in the severity rate since 2008

In the US, where we have our largest concentration of employees, we expanded the REACH programme, which promotes workplace wellbeing through health screenings, online assessments, stress awareness training, and weight loss and smoking cessation programmes, with financial incentives for participation We captured wellbeing metrics including the number of people who attended a personal wellness screening which increased to 34% of US employees. There was a 40% quit rate among employees who undertook a stop smoking course The resulting data is helping us understand the health status of our people to better target wellness programmes

Our annual re fit2win global wellbeing competition, which encourages employees to establish fitness teams to compete for cash prizes for the charities of their choice, continued to grow in 2012 116 teams (84 in 2011) took part across Reed Elsevier Group plc and ran, walked, cycled and swam a total of 106,271 miles/171,027 kilometres, a 77% increase over 2011

Customers

In 2012, we surveyed more than 300,000 customers through Net Promoter Score (measuring customer loyalty) and business dashboard programmes This allows us to deepen understanding of their needs and further drives forward a customer-centric culture across Reed Elsevier Group plc Results, reviewed by the CEO and senior managers and communicated to staff, illuminate where we are doing well and where we must do better To aid colleagues who work with customers, in 2012 we began a CR Sales Academy to help them articulate our commitment to corporate responsibility and the benefits it provides to our business such as reducing risk and strengthening our corporate reputation Sessions included our approach to corporate responsibility, the environment, accessibility, and governance Content is made available to all staff through the Corporate Responsibility section of the corporate intranet

In the year, we consulted more widely on the Reed Elsevier Group plc Editorial Policy, including with our European Works Council, further strengthening provisions such as editorial independence as a result The Editorial Policy stipulates our responsibility to make clear distinctions between fact and opinion and user-generated or other content and encourages dialogue on our content, including through social media We made it available to all staff through the corporate intranet and publicly available through the Reed Elsevier website

We are committed to improving access to our products and services for all users, regardless of physical ability In 2012, we drafted a Reed Elsevier Group plc Accessibility Policy that expresses our desire to lead the industry in providing accessibility solutions to customers and contribute to international standards with products that are perceivable, operable, understandable, and robust In the year, members of the Accessibility Working Group logged 76 projects in accessibility undertaken during the course of the year Elsevier s Global Books Digital Archive fulfilled 4,000 disability requests, 50% of them through AccessText org, a service it helped establish

Community

RE Cares, our global community programme, promotes education for disadvantaged young people aligned with our unique contributions as a business, and allows staff up to two days off per year for their own community work We donated £2 5m in cash (including through matching gifts) and the equivalent of£2 8m in products, services and staff time in 2012 30% of employees were engaged in volunteering through RE Cares and we reached 20,200 disadvantaged young people through volunteering, in-kind, and cash donations

An international network of more than 180 RE Cares Champions engage colleagues throughout the year in activities such as the RE Cares Challenge, which rewards business-sponsored community engagement

Each September, we hold RE Cares Month to celebrate our community activities, with volunteering spotlighted on Global RE Cares Day during the month In 2012, activities involved more than 3,300 staff in local community projects Among them, LexisNexis Risk Solutions held the Windward Challenge, a 5km race in support of KaBoom! which provides recreational spaces for children, involving more than 500 staff and members of the community

During the month we held our annual global book drive yielding more than 12,000 books for local and developing world readers, and announced the winners of the second Recognising Those Who Care Awards to highlight the contributions to RE Cares of eight individuals and four RE Cares teams Individual winners from across the business took part in visits to projects we are supporting through Plan International in Peru and India led by Youngsuk YS Chi, Reed Elsevier Group plc s Director of Corporate Affairs, and Hugo Zhang, Reed Elsevier Group plc China's Director of Government Affairs The winning teams were from Elsevier Amsterdam, LexisNexis Dayton, LexisNexis New York, and Reed Exhibitions Norwalk who won cash prizes for their chosen charities

Supply management

We require our suppliers to meet the high standards we set for ourselves Our Supplier Code of Conduct stipulates adherence to all laws and best practice in areas such as human rights, labour and the environment Through our Socially Responsible Supplier (SRS) database, in 2012 we tracked 477 critical, preferred and strategic suppliers, and those we deem high risk according to criteria from the Corporate Executive Board's Global Country Analysis Support Tool, human trafficking data from the US State Department and rankings in the Environmental Performance Index produced by Yale University and Columbia University The tracking list changes year on year based on the number of suppliers we do business with who meet the required criteria We started 2012 with 47% of suppliers on the SRS tracking list as signatories to the Supplier Code and reached 75% by year end We have embedded signing the Supplier Code into our e-sourcing tool as one of the criteria for doing business with us and have an additional 1,925 signed codes

Specialist supply chain auditors, Intertek, undertook 52 external audits for 2012 of high risk suppliers Any incidence of Supplier Code non-compliance identified in the audit process triggers a corrective action plan with supplier remediation required on all issues

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

Environment

In 2012, we launched our updated environmental targets following extensive consultation with stakeholders Our targets reflect our performance and key issues and can be found along with full environmental performance details in the 2012 Corporate Responsibility Report at reporting reedelsevier com/cr12

We attained 33% of our electricity from renewable sources in the year and were ranked as the 2012 sector leader in the Carbon Disclosure Project, representing 655 investors with $78,000bn under management

Our Environmental Champions network, employee-led Green Teams, and engagement through networks such as Publishers Database for Responsible Ethical Paper Sourcing, inform management plans to address our environmental impact Among them is the Reed Elsevier Group plc Environmental Standards programme, which sets benchmark performance levels and inspires green competition among offices In 2012, 69 sites (58% of key locations) achieved five or more standards attaining green status Reed Elsevier Group plc s CFO wrote to all staff recognising their achievement on World Environment Day and also identified Green Heroes across the company, nominated by their peers for their environmental efforts

We have a positive environmental impact through our environmental publications and services which spread good practice, encourage debate, and aid researchers and decision makers The most recent results from independent Market Analysis System show our share of citations in environmental science represented 33% of the total market, and 71% in energy and fuels In 2012, CEO Erik Engstrom signed a CEO Water Mandate Communique calling on government leaders attending the Rio + 20 Earth Summit to prioritise sustainable water

DIRECTORS' REPORT

DIRECTORS

During the year the Reed Elsevier Group plc Board consisted of two executive directors Erik Engstrom – Chief Executive Officer and Mark Armour – Chief Financial officer Mark Armour stepped down as Chief Financial Officer in November 2012 and retired from the Reed Elsevier Group plc Board in December 2012

Board changes

Changes during the year in the composition of the Board of Reed Elsevier Group plc are set out in the table below

Following a recommendation from the Nominations Committee, Duncan Palmer joined Reed Elsevier Group plc in August 2012 and was appointed Chief Financial Officer in November 2012 During the year, the Reed Elsevier Group plc Board consisted of eight independent non-executive directors Anthony Habgood (Chairman), Mark Elliott, Robert Polet, Sir David Reid, Adrian Hennah, Lisa Hook and Ben van der Veer Following a recommendation from the Nominations Committee, Linda Sanford was appointed as a Non-Executive director in December 2012 Mark Elliott and Sir David Reid will retire as Non-Executive directors following the conclusion of the Annual General Meetings in April 2013, after ten years service and will not seek re-election Taking into account the assessment by the Corporate Governance Committee of the qualifications, performance and effectiveness of each individual director seeking re-election, the Board have accepted a recommendation from the Nominations Committee that each director be proposed for re-election at the Annual General Meeting

BOARD ATTENDANCE Members	Date of appointment (cessation) during the year	Number of meetings held whilst a director	Number of meetings attended
Duncan Palmer*		3	3
Mark Armour	(December 2012)	7	6
Mark Elliott		7	6
Erik Engstrom		7	7
Anthony Habgood		7	7
Adrian Hennah		7	6
Lisa Hook		7	7
Robert Polet		7	7
Sir David Reid		7	4
Linda Sanford	December 2012	1	1
Ben van der Veer		7	7

* Duncan Palmer was appointed to the Board of Reed Elsevier Group plc on 25 September 2012 as Chief Financial Officer Designate He was appointed Chief Financial Officer on 15 November 2012

Board induction and information

Following appointment and as required, Directors receive training appropriate to their level of experience and knowledge 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

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 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, the Directors attend 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 and committee members

DIRECTORS' REPORT

Board committees

In accordance with the principles of good corporate governance, the following committees have been established by the Board All of the committees have written terms of reference, which are published on the Reed Elsevier website, www reedelsevier com Membership of each committee and attendance during the year are set out below

Audit Committee

Reed Elsevier Group plc have established an Audit Committee The Committee comprises only independent Non-Executive Directors The Committee is chaired by Ben van der Veer The other members of the Committee are Adrian Hennah, Linda Sanford (since December 2012) and Sir David Reid Lisa Hook was a member until May 2012

AUDIT COMMITTEE Members	Date of appointment (cessation) during the year	Number of meetings held whilst a director	Number of meetings attended
Ben van der Veer (Committee Chairman)		5	5
Adrian Hennah		5	4
Lisa Hook	(May 2012)	2	2
Sir David Reid		5	5
Linda Sanford*	December 2012	-	-

* Linda Sanford was appointed to the Committee after the meetings held in December 2012

The main activities of the Committee during the year are set out in written terms of reference and include

(i) to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company s financial performance, reviewing significant financial reporting judgements contained therein,

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

(iii) to monitor and review the effectiveness of the Company's internal audit function,

(iv) to make recommendations in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor,

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

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

The 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 Ben van der Veer and Sir David Reed attended all five meetings Adrian Hennah attended four meetings and Lisa Hook attended two meetings

Remuneration Committee

The Board of Reed Elsevier Group plc has established a Remuneration Committee, which is responsible for considering the remuneration of the Executive Directors of the company The Committee comprises only Non- Executive Directors and is chaired by Mark Elliott The other members of the Committee are Anthony Habgood, Lisa Hook (since May 2012), Robert Polet and Sir David Reid

REMUNERATION COMMITTEE Members	Date of appointment (cessation) during the year	Number of meetings held whilst a director	Number of meetings attended
Mark Elliott (Committee Chairman)		5	5
Anthony Habgood		5	5
Lisa Hook	May 2012	3	3
Robert Polet		5	5
Sir David Reid		5	5

The Committee met five times during the year Mark Elliott, Anthony Habgood, Robert Polet and Sir David Reid attended all five meetings and Lisa Hook (since May 2012) attended three meetings

A Directors' Remuneration Report, which has been approved by the Board of Reed Elsevier Group plc, appears on page 30 to 49 This report also serves as disclosure of the Directors' remuneration policy, and the remuneration of the Directors and their interests in the shares of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV

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 Reed Elsevier Group plc 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 principal risks facing Reed Elsevier Group plc are set out on pages 17 to 20

The major risks facing the Reed Elsevier Group plc businesses are considered by the Board Reed Elsevier Group plc s Chief Risk Officer is responsible for providing regular reports to the Board and Audit Committee Working closely with business management and with the central functions, the role of the Chief Risk Officer is to ensure that Reed Elsevier 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 Board on any significant internal control matters arising

DIRECTORS' REPORT

Annual review

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

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Applicable accounting standards have been followed and the Reed Elsevier Group plc consolidated financial statements, which are the responsibility of the Directors, are prepared using accounting policies which comply with International Financial Reporting Standards

GOING CONCERN

The Directors of Reed Elsevier Group plc, having made appropriate enquiries, consider that adequate resources exist for the group to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the 2012 financial statements In reaching this conclusion, the Directors have had due regard to the financial position as at 31 December 2012, the strong free cash flow of the group, the ability to access capital markets and the principal risks facing the group

A commentary on the group's cash flow, financial position and liquidity for the year ended 31 December 2012 is set out in the Director's Report Reed Elsevier Group plc s policies on liquidity capital management and management of risks relating to interest rate, foreign exchange and credit exposures are set out in the Director's Report Further information on liquidity can be found in note 18 of the consolidated financial statements The principal risks facing the group are set out in the Director s Report

DISCLOSURE OF INFORMATION TO AUDITORS

As part of the process of approving the company s 2012 financial statements, the Directors have taken steps pursuant to section 418(2) of the Companies Act 2006 to ensure that they are aware of any relevant audit information and to establish that the company s auditor is 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 auditor is unaware

POLITICAL DONATIONS

Reed Elsevier Group plc does not make donations to EU political organisations or incur EU political expenditure In the United States, Reed Elsevier Group plc companies donated £57,201 (2011 £53,550) to political organisations In line with federal regulations, these donations were not made at federal level, but only to candidates and political parties at the state and local levels

CREDITOR PAYMENT POLICY

Reed Elsevier Group plc companies agree terms and conditions for business transactions with suppliers including the terms of payment Reed Elsevier Group plc does not operate a standard code in respect of payments to suppliers The average time taken to pay suppliers during the year was between 30 and 45 days (2011 between 30 and 45 days)

DIRECTORS' REPORT

AUDITOR

Resolutions for the re-appointment of Deloitte LLP as auditor 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

Henry A Udow
Secretary
27 February 2013

Registered office
1-3 Strand
London, WC2N 5JR

DIRECTORS' REMUNERATION REPORT

This report describes how Reed Elsevier Group plc applies the principles of good governance relating to directors remuneration This report has been prepared by the Remuneration Committee of Reed Elsevier Group plc (the Committee) in accordance with regulations made under the Companies Act 2006 This report has been approved by the board of Reed Elsevier Group plc

The audited parts of the report

In compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following elements of this report have been audited the table entitled 'Transfer values of accrued pension benefits on page 42, the tables showing Aggregate emoluments' and Individual fees of non-executive directors on page 45, the tables on Individual emoluments of executive directors and Directors' shareholdings in Reed Elsevier PLC and Reed Elsevier NV on pages 45 to 46, and the section Share-based awards in Reed Elsevier PLC and Reed Elsevier NV' on pages 46 to 48

Constitution

Throughout 2012, the Committee consisted of independent non-executive directors, as set out in the structure and corporate governance report, and the chairman of Reed Elsevier Group plc Details of Committee members and meeting attendance are contained in the Director's Report The Chief Legal Officer & Company Secretary also attends the meetings in his capacity as secretary to the Committee At the invitation of the Committee Chairman, the CEO of Reed Elsevier Group plc attends appropriate parts of the meetings The CEO of Reed Elsevier Group plc is not in attendance during discussions pertaining to his remuneration

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

Advisers

Towers Watson acted as external advisers to the committee throughout 2012 and also provided market data and data analysis Towers Watson also provided actuarial and other human resources consultancy services directly to some Reed Elsevier Group plc companies

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

Terms of reference

The committee's responsibilities are as follows

Executive directors

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

Senior management

- on the advice of the CEO, to approve the remuneration policy of other senior leaders and of the Chief Legal Officer and Company Secretary, and
- to monitor the level and structure of remuneration for this group of executives

Reed Elsevier Group plc Chairman

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

DIRECTORS' REMUNERATION REPORT

General

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

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

EXECUTIVE DIRECTORS

Remuneration philosophy and policy

The context for Reed Elsevier Group plc's remuneration policy and practices is set by the needs of a global business with business areas that operate internationally by line of business Furthermore, the market listings of Reed Elsevier Group plc's parent companies 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 with demanding performance standards
- Creation of shareholder value
- Competitive remuneration opportunity to attract and retain the best executive talent from anywhere in the world
- A balanced mix of remuneration between fixed and variable elements, and annual and longer-term performance
- Aligning the interests of executive directors with shareholders and other stakeholders
- Operating the company consistent with long-term sustainability

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 takes into account the salary increases for the employee population worldwide as one of the inputs when determining salary increases for directors
- The Committee considers the social, governance, and environmental implications of its decisions, particularly when setting and assessing performance objectives and targets, and seeks to ensure that incentives are consistent with the appropriate management of risk and corporate sustainability
- Total targeted remuneration of senior executives will be competitive with that of executives in similar positions in comparable companies, which includes global sector peers and companies of similar scale and international complexity
- Competitiveness is assessed in terms of total remuneration (i e salary, annual and multi-year incentives and benefits)

- The intention is to provide total remuneration that reflects sustained individual and business performance, i e median performance will be rewarded by total remuneration that is positioned around the median of relevant market data and upper quartile performance by upper quartile total remuneration
- The Committee will consider all available discretion to claw back any payouts made, or to reduce unvested awards, on the basis of materially misstated data The rules of all incentive plans provide for specific provisions in this regard
- The Committee considers it important to encourage personal investment and ongoing holding of Reed Elsevier PLC and/or Reed Elsevier NV securities among the senior executive population Executive directors and other senior executives are subject to minimum shareholding requirements

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

Reed Elsevier Group plc s strategic focus is on transforming its core business through organic investment and the organic build out of new products into adjacent markets and geographies, supplemented by selective portfolio acquisitions and divestments

The performance related components of the executive directors' multi-year incentives support this strategy by focusing on return on capital, returns to shareholders and sustained earnings growth

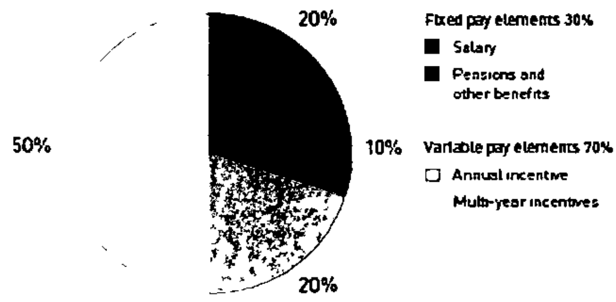
Furthermore, our annual incentive plan is focused on operational excellence as measured by the financial measures of revenue, profit and cash generation In addition, a significant portion of the annual bonus is dependent upon the achievement of annual key performance objectives (KPOs) that create a platform for sustainable future performance These KPOs align with Reed Elsevier Group plc s strategic plans and range from the delivery of specific projects and the achievement of customer metrics or efficiency targets to corporate and social responsibility objectives Each executive director has at least one sustainability or corporate responsibility objective

The Committee believes that one of the main drivers of long-term shareholder value is sustained growth in profitability, underpinned by appropriate capital discipline Therefore, growth in earnings per share and targeted return on invested capital are utilised in our multi-year incentives

We aim to set challenging performance targets as demonstrated by the fact that there has been no vesting for directors under any of our multi-year incentives since the awards granted in 2006 vested in 2009, and no directors' bonuses paid out above target since 2009

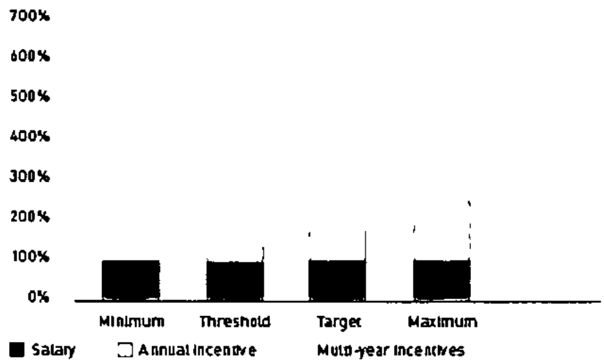
The balance between fixed and performance-related pay

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



DIRECTORS' REMUNERATION REPORT

The chart below illustrates how our levels of compensation are driven by business performance (scale in percent of base salary) This shows the way in which annual remuneration payable to the CEO would vary under different performance scenarios For the purposes of this illustration, assumptions have been made in relation to vesting/payout levels at the different levels of performance



Our approach to market positioning and benchmarking

When reviewing executive director and senior executive remuneration, one factor which the committee takes into account is market competitiveness This is done by assessing total remuneration (i e salary, annual and multi-year incentives and benefits) against a range of relevant comparator groups as follows

- Global peers operating in businesses similar to those of Reed Elsevier Group plc (including Thomson Reuters, WPP, Pearson, John Wiley, Wolters Kluwer, Experian, McGraw-Hill and Equifax)
- Companies listed on the London Stock Exchange (cross-industry but excluding those in the financial services sector) of a similar size (measured by aggregate market capitalisation) and international scope
- Companies listed on the New York Stock Exchange (cross-industry but excluding those in the financial services sector) of a similar size (measured by aggregate market capitalisation) and international scope
- Companies listed on the NYSE Euronext Amsterdam Stock Exchange, cross-industry and of a similar size (measured by aggregate market capitalisation) and international scope

Referring to companies listed in these three different locations is relevant and necessary as demonstrated by the fact that several recent senior executive hires have been recruited from the US, including our CFO

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

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

- First, the overall competitiveness of the total remuneration packages is assessed both against the market and taking account of remuneration levels within Reed Elsevier Group plc more widely The appropriate positioning of an individual's total remuneration against the market is determined based on the committee s judgement of individual performance and potential
- The Committee then considers market data and benchmarks for the different elements of the package including salary, total annual cash and total remuneration While relevant benchmark information is a meaningful input to the process, it informs rather than drives the outcome of the review and is just one factor that the committee considers
- Benefits, including medical and retirement benefits, are positioned to reflect local country practice

The total remuneration package

Each element of the remuneration package for executive directors is designed to achieve specific objectives, as described in this section In aggregate, they create a unified and balanced reward mix and competitive employment proposition The value of the reward package is only maximised through the integrated delivery of annual and longer-term performance Reward for the delivery of business results is connected with reward for value flowing to shareholders Through the use of a range of performance metrics such as earnings per share, return on invested capital, profit after tax, revenue, cash flow conversion rate, personal objectives and total shareholder return and the assessment of performance over multiple time-horizons, the incentive arrangements are structured in such a way that reward cannot be maximised through inappropriate short-term risk-taking

The table below summarises the component parts of the remuneration package provided in 2012 to executive directors who served in 2012

Component		Erik Engstrom	Mark Armour**	Duncan Palmer***
Annual base salary (page 34)		£1,050,625	£644,495	£600,000
Retirement benefits (page 41)		UK defined benefit plan	UK defined benefit plan	UK defined contribution plan and cash supplement
Other benefits		Includes car allowance and private medical benefit	Includes company car or car allowance and private medical benefit	Includes car allowance and private medical benefit
Annual Incentive (pages 35 to 36) (earned for 2012 and payable in March 2013)		£1,149,909	£693,799	£230,205
Multi-year incentives* granted (page 36)	**ESOS**	Market value options over 198,836 PLC and 139,742 NV ordinary shares	n/a	Market value options over 67,311 PLC and 48,018 NV ordinary shares
	BIP	68,475 NV ADRs	90,987 PLC and 21,028 NV ordinary shares	n/a
	PSP	n/a	n/a	179,551 PLC shares
Shareholding requirement (page 40)		300% of salary	200% of salary	200% of salary

* No multi-year incentives vested in 2012 Multi-year incentives from previous years lapsed in early 2012 as already described in last year's report

** Mark Armour served as a director until 31 December 2012

*** Additional awards were made to Duncan Palmer in conjunction with his recruitment Further details are contained on page 41

Base salary

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

Salaries for executive directors are reviewed annually in the context of the competitiveness of total remuneration and Reed Elsevier Group plc's guidelines for wages and salaries agreed for the whole of Reed Elsevier Group plc for the forthcoming financial year Any increases typically take effect on 1 January

The Committee decided to award a salary increase of 2 5% to Erik Engstrom, which increased his base salary with effect from 1 January 2013 to £1,076,891 Duncan Palmer s service agreement provides that his first salary review following commencement of employment would be on or around 1 January 2014, so his base salary remains unchanged for 2013 In determining the salary recommendation for the CEO, the committee considered, among other inputs, 2013 salary guidance for Reed Elsevier Group plc s most significant employee locations globally The increase awarded to the CEO is within the guidelines agreed for those employees in respect of 2013 increases

In respect of salaries for the broader employee population, Reed Elsevier Group plc uses the same factors to determine the levels of increase across all employee populations globally i e relevant pay market, skills, experience and contribution Reed Elsevier 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 An average increase of approximately 2 5% will be awarded across the senior management population globally for 2013 This level of increase is in line with increases provided to the wider employee population

Annual incentive

The annual incentive plan (AIP) provides focus on the delivery of stretching annual financial targets and the achievement of annual objectives and milestones that create a platform for sustainable future performance

For 2013, executive directors have a target bonus opportunity of 100% of salary that is weighted as follows across four elements (unchanged from 2012)

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

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

For 2013, the minimum threshold on the financial elements of the AIP at which a bonus starts to accrue is 94% of target and the maximum bonus is 150% of target (unchanged from 2012)

The KPOs are individual to each executive director Each executive director is set up to six KPOs to reflect critical business priorities for which he is accountable The KPO component for the executive directors and other senior executives will contain at least one KPO relating to the achievement of specific sustainability objectives and targets contained within Reed Elsevier Group plc's corporate responsibility agenda

Against each objective, measurable milestone targets are set for the year All financial targets and KPOs are approved by the Committee and are subject to formal assessment at the end of each year The Chairman of Reed Elsevier Group plc presents his assessment of performance against KPOs for the CEO of Reed Elsevier Group plc to the Committee while the CEO of Reed Elsevier Group plc presents his assessment of KPO performance for the CFO of Reed Elsevier Group plc The Committee then discusses and agrees the final KPO score for each executive director

AIP payments for 2012

In assessing the level of bonus payments for 2012, the Committee noted the following performances for the Reed Elsevier combined businesses

	% change over 2011 at constant exchange rates	
	Underlying revenue growth	Total adjusted PAT
Reed Elsevier	+4%	+8%

The Reed Elsevier combined businesses executed well on its strategic and financial priorities in 2012 Positive revenue momentum and focus on operating efficiency combined to lift underlying operating profit growth and earnings Underlying revenues, which exclude the effects of currency translation and acquisitions and disposals, were up 4%, or 3% excluding the cycling effect of biennial exhibitions, and all five business areas contributed to the underlying growth Underlying adjusted operating profits were up 6%, with the improvement in profitability driven by a combination of process innovation and portfolio development across all business areas Underlying costs were up 4%, reflecting volume growth as well as organic investment in new product development and sales and marketing, partly offset by continued improvements in process efficiency Adjusted operating cash flow was £1,603m (2011 £1,515m), up 6% compared with the prior year and up 7% at constant currencies The rate of conversion of adjusted operating profits into cash flow was 94% (2011 93%) Returns on invested capital increased to 11 9%, 0 7 percentage points higher than in 2011, reflecting the improved trading performance and capital efficiency

Set out below is a summary of the outcome of performance against each financial measure

Revenue	Just above target
Adjusted Profit After Tax	Just above target
Cash Flow Conversion Rate	Just above target

The progress on personal objectives for each director was then added in the form of the KPO score and, overall, the sum of the scores achieved against the four AIP components for the executive directors, resulted in the following bonuses for 2012

	2012 annual bonus (to be paid in March 2013)	% of 2012 base salary earnings
Erik Engstrom	£1,149,909	109 5%
Mark Armour	£693,799	107 7%
Duncan Palmer*	£230,205	107 7%

*Duncan Palmer's bonus reflects service during the year of reporting His service commenced on 24 August 2012

Multi-year incentives

It is intended to continue to provide executive directors with multi-year incentives comprising a combination of a long-term incentive plan (LTIP), a personal investment bonus deferral plan (BIP) and market value options (ESOS) To this end, a new LTIP and ESOS are proposed and will be presented for shareholder approval at the 2013 Annual General meeting (AGM)

The purpose of the multi-year incentives is to provide focus on the delivery of the medium to longer-term strategy and holding executives accountable for the execution of that strategy while driving value creation through sustained financial performance, capital discipline and the delivery of returns for shareholders

In addition, the multi-year incentives are structured so as to encourage personal investment and require a minimum level of ongoing personal shareholding in Reed Elsevier PLC and Reed Elsevier NV securities among the senior executive population, in order to promote alignment with shareholders and to provide focus on the share price

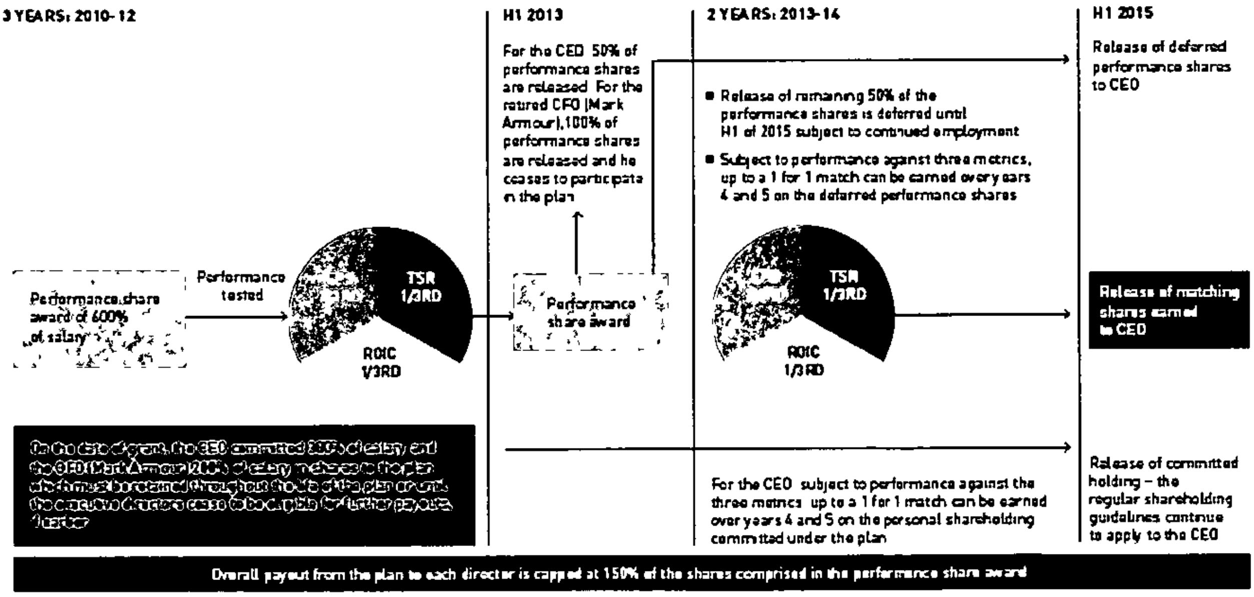
Awards under the current and proposed multi-year incentives vest over a period of three years, except for the one-off REGP under which awards vest over three and five years The vesting of all awards made to executive directors under these plans is subject to meeting a number of stretching performance targets based on internal financial metrics and total shareholder return

Reed Elsevier Growth Plan (REGP)

The details of the REGP have been disclosed in the previous years Report

Mechanics

The chart below illustrates how the REGP operates



Performance measures and targets

Total Shareholder return (TSR)

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

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

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

	3-year period 2010-12	5-year period 2010-14
TSR ranking within the relevant TSR comparator group	Vesting percentage of each third of the TSR tranche	Vesting percentage of each third of the TSR tranche
Below median	0%	0%
Median	30%	30%
Upper quartile	100%	100%

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

TSR comparators groups

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

- Companies included in the relevant market index as at 31 December 2009 and nearest in size to Reed Elsevier Group plc in terms of market capitalisation
- The relevant market indices are (1) FTSE 100 for the Sterling Comparator Group, (2) Euronext100 and the DAX 30 for the Euro Comparator Group, and (3) the S&P 500 for the US Dollar Comparator Group
- The following companies were excluded for this purpose
  - companies with mainly domestic revenues (as they do not reflect the global nature of Reed Elsevier Group plc's customer base).
  - those engaged in extractive industries (as they are exposed to commodity cycles), and
  - financial services companies (as they have a different risk/reward profile)
- Relevant listed global peers operating in businesses similar to those of Reed Elsevier Group plc not otherwise included were added to the relevant comparator group

The Committee retains discretion as to how to deal with changes to the comparator groups as a result of demergers, de-listings or other corporate events over the performance period and applies its policy in this regard in an appropriate manner

Return on invested capital (ROIC)

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

3 years 2010-12	2 years 2013-14	Vesting percentage of ROIC tranche
ROIC in 2012, subject to actual exceeding 2009 ROIC calculated on the same basis	ROIC in 2014	
Below 10 2%	Below 10 7%	0%
10 2%	10 7%	60%
11 2% or above	12 7% or above	100%

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

For the purposes of the plan, the following definitions apply

- Invested capital = arithmetic average of the opening and closing capital employed for the Reed Elsevier combined businesses for the financial year with all cumulative amortisation and impairment charges for acquired intangible assets and goodwill added back In addition, any exceptional restructuring and acquisition integration charges (net of tax) are capitalised for these purposes and changes in exchange rates and movements in pension deficits are excluded
- Return = adjusted operating profit for the Reed Elsevier combined businesses before amortisation and impairment of acquired intangible assets and goodwill, exceptional restructuring and acquisition integration charges In addition, it is grossed up to exclude the equity share of taxes in joint ventures and further adjusted to exclude net pension financing credit movement, after applying the effective rate of tax used for adjusted earnings calculations and using exchange rates to match those used in the calculation of invested capital

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

Adjusted earnings per share (EPS)

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

3 years 2010-12	2 years 2013-14	Vesting percentage of EPS tranche
Average Adjusted EPS growth in years 2011 and 2012 (subject to average Adjusted EPS growth over the whole three year period being positive)	Average Adjusted EPS growth over the two year period	
Below 5% p a	Below 7% p a	0%
5% p a	7% p a	60%
9% p a or above	13% p a or above	100%

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

For the purposes of the plan, the following definitions apply

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

Performance share awards were granted under the REGP to Mr Engstrom and Mr Armour in May 2010 At its meeting on 25 April 2013, the Committee will assess the extent to which the performance conditions have been met for these share awards, which includes an overall assessment of underlying business performance and other relevant factors Based on a review of the three performance measures used in the plan, preliminary calculations indicate that 66 8% of the awards are expected to vest This is based on a TSR ranking of just above median in respect of two of the comparator groups, ROIC achievement slightly below the 11 2% maximum after taking into account adjustments for such items as foreign exchange rates, pension deficits and acquisition integration costs as provided in the plan, and EPS growth slightly above the middle of the range specified in the plan

This would result in 429,710 PLC ordinary shares and 282,187 NV ordinary shares vesting in respect of Erik Engstrom 50% of these shares will be released to Mr Engstrom following the April Committee meeting and 50% of these shares will be deferred until 2015 In respect of Mr Armour, under the terms of the plan relating to retirement, 100% of the shares vesting will be released to him following the April Committee meeting In accordance with the preliminary vesting calculations, this will result in 263,601 PLC ordinary shares and 173,105 NV ordinary shares being released to Mr Armour Thereafter, Mr Armour will have no further entitlement for payment under this plan Dividend equivalents will be payable in cash on any shares released which, based on the preliminary calculations, would result in payments of £135,251 and €179 329 to Mr Engstrom and £165,937 and €220,016 to Mr Armour

Long Term Incentive Plan (LTIP)

No awards under the LTIP were made to executive directors in 2012 and no award cycles remain outstanding for directors under this plan

A long-term incentive award was granted to senior leaders below the Board in 2012 Grants are made on a rolling three-year basis in the form of performance shares that vest subject to performance metrics and vesting scales consistent with the REGP The targets set for each metric are aligned to the five-year performance scale applicable to the executive directors under the REGP

It is intended to commence making annual grants under a new long-term incentive plan to executive directors from 2013 onwards, under which the first awards would vest in H1 2016

Executive Share option Scheme (ESOS)

The current ESOS, which was approved by shareholders in 2003, expires on 8 April 2013 A replacement ESOS, for which we are seeking shareholder approval at the AGM in April 2013, is described in the notice of AGM and it is intended to make grants under this plan to around 1,000 employees globally, including the executive directors, in 2013 It is not intended to make any further grants under the existing ESOS, the key features of which were described in last year's remuneration report

During 2012, Erik Engstrom received a grant of 200% of base salary of market value options (two-thirds of the permitted maximum) On joining, Duncan Palmer received a grant of 135% of salary The vesting of the options is subject to a 6% p a compound growth in adjusted earnings per share hurdle, measured at constant currencies over a three-year period commencing on 1 January of the year of grant (the same condition also applies to the 2011 ESOS grants which were made to Erik Engstrom and Mark Armour) In view of his retirement at the end of 2012, Mark Armour did not receive an ESOS grant in 2012

Early in 2012, as disclosed in last year's Report, the 2009-11 cycle of ESOS lapsed for Erik Engstrom and Mark Armour

Bonus Investment Plan (BIP)

The BIP is a voluntary plan aimed at encouraging personal investment in, and ongoing holding of, Reed Elsevier shares to promote greater alignment with shareholders and support the retention of key talent

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

Bonus Investment Plan (BIP)
Overview

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

The following targets and vesting scale apply to awards granted under the BIP in 2012

Matched earned on personal investment	Average growth in Adjusted EPS (%) over the 3 year performance period	ROIC (%) in the third year of the performance period
0%	below 4% p a	below 11%
50%	4% p a	11%
75%	6 5% p a	11 5%
100%	9% p a or above	12% or above

The targets for the 2010-12 and 2011-13 cycles of BIP are set out in last year s Report

Awards were granted under the BIP to Mr Engstrom and Mr Armour in May 2010 At its meeting on 25 April 2013, in much the same way as for the REGP, the Committee will assess the extent to which the performance conditions have been met for these awards, which includes an overall assessment of underlying business performance and other relevant factors

Based on a review of the two performance measures used in the plan, preliminary calculations indicate that 89 5% of the awards are expected to vest This is based on ROIC achievement slightly below the 11 2% maximum after taking into account adjustments for such items as foreign exchange rates, pension deficits and restructuring costs as provided in the plan, and EPS growth just below the 70th percentile of the target range specified in the plan

This would result in the vesting of 62,819 NV ADR matching awards in respect of Mr Engstrom and a corresponding cash dividend equivalent payment of $178,181 In respect of Mr Armour, 58,223 PLC ordinary shares and 38,048 NV ordinary shares would be released, with corresponding dividend equivalent payments of £36 651 and €48,359 respectively

Shareholding requirements

The Committee believes that one of the aspects that creates closer alignment between senior management and shareholders is to require executives to build up and maintain a significant personal stake in Reed Elsevier Group plc The shareholding requirements applicable to the executive directors are set out in the table below and, as described on page 36, were pre-requisites to participate in the REGP Shareholding requirements also apply to selected senior executives below the Board

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

On 31 December 2012, the executive directors shareholdings were as follows (valued at the mid-market closing prices of Reed Elsevier securities)

	Shareholding requirement (in % of 31 December 2012 annualised base salary)	Actual shareholding as at 31 December 2012 (in % of 31 December 2012 annualised base salary)
Erik Engstrom	300%	512%
Mark Armour	200%	442%
Duncan Palmer*	200%	0%

* Duncan Palmer has until 31 December 2015 to build up to his required level of shareholding and must retain any net shares earned from Reed Elsevier share plans until he meets his requirement

Other employee share plans

The CEO and Mr Palmer have waived their right to participate in any local all-employee share-based plans in any country, including the HMRC approved all-employee UK savings-related share option scheme (SAYE)

Retirement benefits

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

Erik Engstrom is provided with UK defined benefit pension arrangements under which he accrues 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 the scheme earnings cap, (determined annually on the same basis as the pre-April 2006 Inland Revenue earnings cap) and HMRC annual allowance, and
- Reed Elsevier Group plc s unapproved pension arrangement for the balance

Prior to 1 November 2007, Erik Engstrom was not a member of any company pension scheme and Reed Elsevier Group plc made annual contributions of 19 5% of his salary to his personal pension plan

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

The pension arrangements for Erik Engstrom include life assurance cover while in employment, an entitlement to a pension in the event of ill health or disability and a spouse s and/or dependants pension on death

The increase in the transfer value of the directors pensions after deduction of contributions, is shown in the table below Transfer values have been calculated in accordance with the guidance note GN11 published by the UK Institute of Actuaries and Faculty of Actuaries The transfer values at 31 December 2012 have been calculated using the transfer value basis adopted by the Trustees of the Reed Elsevier Pension Scheme

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

Mark Armour retired on 31 December 2012, at which point he became entitled to a pension of £378,785 per annum

DIRECTORS' REMUNERATION REPORT

Transfer values of accrued pension benefits

	Age at 31 December 2012	Director's contributions	Transfer value of accrued pension 31 December 2011	Transfer value of accrued pension 31 December 2012	Increase in transfer value during the year (net of director's contributions)	Accrued annual pension 31 December 2012	Increase in accrued annual pension during the year	Increase in accrued annual pension during the year (net of inflation)	Transfer value at 31 December 2012 of increase in accrued pension during the year (net of inflation and director's contributions)
Erik Engstrom	49	£9,158	£2,099,132	£2,730,651	£622,361	£180,958	£38,584	£31,750	£469,944
Mark Armour	58	£1,944	£6,758,053	£7,525,908	£765,911	£384,878*	£30,355	£13,362	£259,332

*The reason for the difference between Mr Armour's accrued annual pension as at 31 12 12 as stated in the table above, and the annual pension entitlement following retirement is that Mr Armour retired early so there was a reduction made to his accrued annual pension as at 31 12 12

Duncan Palmer is a member of the UK Reed Elsevier Group plc defined contribution pension plan (the Reed Elsevier Pension Plan – 'REPP) The company contribution is 19% of Mr Palmer s salary £50,000 is paid as a contribution to the REPP, being the maximum contribution which can be made under HMRC limits, and the balance is paid to him as a cash allowance, subject to deduction of income tax and national insurance The pension arrangement for Mr Palmer includes life assurance cover while in employment

Service contracts

Executive directors are employed under service contracts that provide for a maximum of one year's notice The contracts neither specify a predetermined level of severance payment nor contain specific provisions in respect of a change in control The Committee believes that, as a general rule, notice periods should be 12 months and that the executive directors should, subject to any legal constraints within their base country, be required to mitigate their losses in the event of termination The Committee will, however, note local market conditions so as to ensure that the terms offered are appropriate to attract and retain top executives operating in global businesses

The contractual terms of the executive directors (and for approximately 100 other senior executives) include certain covenants as follows

- non-competition restrictions apply which prevent the executive from working in a capacity which competes with any Reed Elsevier Group plc business which he/she was involved with during the preceding 12 months, from recruiting Reed Elsevier Group plc employees and from soliciting Reed Elsevier Group plc customers and suppliers for a period of 12 months after leaving employment,
- in the event of the executive resigning, he/she will immediately lose all rights to any outstanding awards under the multi-year incentives including any vested but unexercised options, and
- in the event of a breach of the covenants, any gains made or payouts received, in the period starting six months prior to and ending 12 months after leaving employment, on the vesting or exercise of awards from the multi-year incentives may be repayable

Each executive director has a service contract with Reed Elsevier Group plc, as summarised in the table below

	Current contract date	Date employment commenced	Expiry date (subject to notice period)	Notice period	Subject to
Erik Engstrom	14 March 2011	23 August 2004	14 June 2028	12 months	English law
Mark Armour	7 October 1996	1 February 1995	Ceased to be a director and retired on 31 December 2012	12 months	English law
Duncan Palmer	15 August 2012	24 August 2012	n/a	12 months	English law

Duncan Palmer's remuneration arrangements

Duncan Palmer s annual base salary on his recruitment was £600,000 and he has an annual target bonus opportunity of 100% of base salary He will be eligible to participate in BIP from 2013 onwards up to his target bonus opportunity and to participate in the new ESOS and LTIP, subject to shareholders approving those plans He will receive annual pension contributions equal to 19% of salary and benefits in accordance with the policies applicable to executive directors

In addition, in September 2012, he was granted the following awards

- A market value option under ESOS to acquire shares with a face value on the date of grant of 135% of base salary, which vests on the 3rd anniversary of grant subject to achieving at least 6% p a Compound growth in adjusted EPS at constant currencies over the three year performance period from 1 January 2012 to 31 December 2014
- Performance shares (PSP) with an aggregate face value of 180% of base salary, which are subject to the same performance targets as will apply to any matching award that may be granted to the CEO under the REGP in 2013, with performance being assessed in the first half of 2015 The award is non-pensionable and carries a right to receive dividend equivalents (calculated on the same basis as under the REGP) The leaver rules are consistent with those which apply under the REGP with the exception that "retirement with the consent of the company" is not automatically treated as an approved leaver reason for the performance share award
- Restricted shares (RSP) with an aggregate face value of 250% of base salary, which vest 50% in 2014 and 50% in 2015 provided all unvested stock-based awards granted to him by his previous employer lapse This one-off grant of restricted shares was made to compensate Mr Palmer for the forfeiture of awards from his former employer They are subject to a time pro-rated claw-back if he resigns, or is summarily terminated, before the date of the announcement of the 2014 annual results in 2015

The Committee considered the grant of performance shares and restricted shares noted above to have been essential to secure Duncan Palmer's services The Committee was satisfied that the awards are appropriate and align his interests with those of shareholders Both awards fall within paragraph 9 4 2(2)r of the UK Listing Rules and were granted over Reed Elsevier PLC ordinary shares, but half of each award will be settled on vesting with Reed Elsevier NV ordinary shares The awards cannot be amended to the advantage of Duncan Palmer without shareholder approval and the documentation governing these awards will be available for inspection from the date of the notice of the 2013 Annual General Meeting up to and including the meeting itself In recognition of Mr Palmer and his family having to relocate to the UK in order for him to take up his new position, he will receive a one-off cash relocation allowance of £500,000 in May 2013 (subject to a time pro-rated claw-back if he resigns or is summarily terminated prior to 31 December 2014) and relocation support under the standard Reed Elsevier Group plc policy

Mark Armour's retirement terms

Mark Armour's retirement terms were disclosed in last year s remuneration report (page 44)

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

Mark Armour is a non-executive director of SABMiller plc and received remuneration of £106,250 during 2012 (£100,694 during 2011) He is also a non-executive director of the Financial Reporting Council (FRC) and received remuneration of £12,500 since commencing his appointment on 2 July 2012

Duncan Palmer is a non-executive director of Oshkosh Corporation and received fees of £15,487 since his appointment as a director of Reed Elsevier Group plc up to the end of 2012

NON-EXECUTIVE DIRECTORS

Policy on non-executive directors' fees

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

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 Non-executive directors, including the Chairman, are appointed to the Boards of Reed Elsevier Group plc, Reed Elsevier PLC and the supervisory Board of Reed Elsevier NV Non-executive directors fees reflect the directors membership of the three Boards

The primary source for comparative market data is the practice of FTSE 50 companies, although reference is also made to NYSE Euronext Amsterdam (AEX) index and US-listed companies

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

Fee levels

Non-executive directors receive an annual fee in respect of their memberships of the Boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc Non-executive directors are reimbursed for expenses incurred in attending meetings They do not receive any performance-related bonuses, pension provision, share options or other forms of benefit, except for the following the Chairman receives private medical benefit and non-executive directors and the Chairman are provided with tax filing support to meet any tax filing obligations arising from their directorships with Reed Elsevier Group plc in countries other than their home country

Fees may be reviewed annually, although in practice they have changed on a less frequent basis The last fee review was during 2011 and the current fee arrangements took effect on 1 January 2012

The fees for 2013 are unchanged from 2012 and are set out below

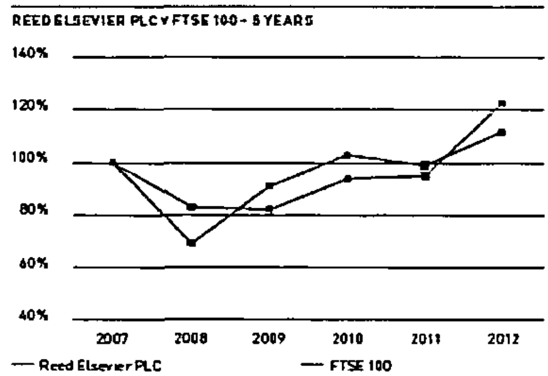
	Annual fee 2013
Chairman	**£550,000**
Non-executive directors	**£65,000/€80,000**
Senior Independent Director	**£20,000**
Chairman of	
- Audit Committee	**£25,000/€30,000**
- Remuneration Committee	**£20,000**

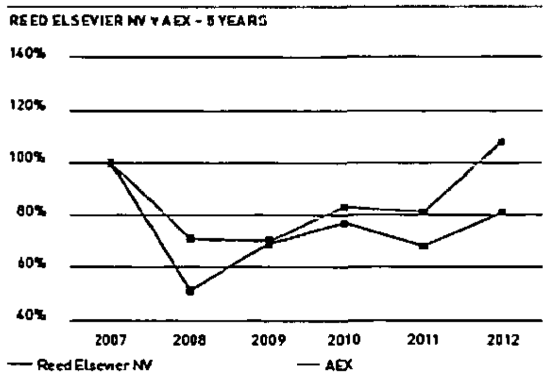
The Chairman of Reed Elsevier Group plc does not receive committee chairman fees

Total Shareholder Return graphs

As required by the Large and Medium-sized companies and Groups (Accounts and Reports) Regulations 2008, the graphs in this section show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested They compare the Reed Elsevier PLC performance with that achieved by the FTSE 100, and the Reed Elsevier NV performance with the performance achieved by the AEX index, over the five-year period from 31 December 2007 to 31 December 2012

For the five-year period from 31 December 2007, the TSR for Reed Elsevier PLC was 22 6%, against a FTSE 100 return of 11 7% For Reed Elsevier NV during the same period, TSR was 8 4% against an AEX index return of minus 19% These indices are relevant since Reed Elsevier PLC is a member of the FTSE 100 index and Reed Elsevier NV is a member of the AEX index





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

REMUNERATION AND SHARE TABLES

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

Directors' emoluments and fees

Aggregate emoluments

The emoluments of the directors of Reed Elsevier Group plc (including any entitlement to fees or emoluments from either Reed Elsevier PLC, Reed Elsevier NV or Elsevier Reed Finance BV) were as follows

	2012 £'000	2011 £ 000
Salaries and fees	**2,919**	2,548
Benefits	**89**	56
Annual performance-related bonuses	**2,074**	1,634
Pension contributions	**44**	42
Total	**5,126**	4,280

Individual fees of non-executive directors

	2012 £*	2011 £*
Mark Elliott	**85,000**	70,000
Anthony Habgood	**550,000****	500,000**
Adrian Hennah (from 20 April 2011)	**65,000**	38,475
Lisa Hook	**65,000**	55,000
Robert Polet	**65,000**	55,000
Sir David Reid	**85,000**	75,000
Lord Sharman (until 20 April 2011)	**-**	18,333
Linda Sanford (from 4 December 2012)	**5,416**	-
Ben van der Veer	**89,431*****	82,609***
Total	**1,009,847**	894,417

* The above figures exclude an imputed notional benefit in respect of tax filing support provided to non-executive directors for tax filings in countries other than their home country resulting from their directorship with Reed Elsevier Group plc The incremental assessable benefit charge per relevant tax return has been agreed by PWC to amount to £300

** Excludes private medical insurance benefit of £1,389 in respect of 2012 (£1,329 in 2011)

*** The fees for Ben van der Veer are paid in euro and were €110,000 for 2012 (€95,000 for 2011)
For reporting purposes they were converted into pounds sterling at the average exchange rate for the year of reporting

Other required disclosures

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

As disclosed in last year's Report, the 2009-11 cycle of awards made under ESOS and LTIP lapsed in early 2012 for Erik Engstrom and Mark Armour The executive directors made no pre-tax gains during 2012 on any multi-year incentives, except for Mark Armour, who made a gain of £1,185 on the exercise of vested options during the year Details are shown on page 47

Individual emoluments of executive directors

	Salary £	Benefits £	Bonus £	Total 2012 £	Total 2011 £
Erik Engstrom	**1,050,625**	**28,396**	**1,149,909**	**2,228,930**	2,075,417
Mark Armour	**644,495**	**23,984**	**693,799**	**1,362,278**	1,263,563
Duncan Palmer*	**213,846**	**32,878**	**230,205**	**476,929**	n/a
Total	**1,908,966**	**85,258**	**2,073,913**	**4,068,137**	3,338,980

*The benefits figure for Duncan Palmer includes the balance of his company pension contribution which is paid to him as a cash allowance, as detailed under the Retirement Benefits section on page 41, which, for 2012, was £22,810

Market value options awarded under ESOS and restricted shares awarded in the year of reporting under the BIP are set out by executive director on pages 46-48 Vesting is subject to performance conditions relating to growth in adjusted EPS and ROIC as described in the front section of this report The maximum number of options that can vest under the ESOS and the maximum number of restricted shares that can vest under the BIP is equivalent to the awards granted The maximum number of shares which can vest under the September 2012 grants of performance share awards and restricted share awards to Duncan Palmer is equivalent to the awards granted Erik Engstrom was the highest paid director in 2012

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 2012 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 2012*	31 December 2012	1 January 2012*	31 December 2012
Mark Armour	248,742	250,242	136,889	136,889
Mark Elliott	-	-	7,600	7,600
Erik Engstrom	107,040	107,040	447,356	509,556
Antony Habgood	50,000	50,000	25,000	25,000
Adrian Hennah	5,136	5,163	-	-
Lisa Hook	-	-	-	4,800
Duncan Palmer	-	-	-	-
Robert Polet	1,000	1,000	-	-
Sir David Reid	-	-	-	-
Linda Sanford	-	-	-	-
Ben van der Veer	-	-	5,000	5,000

*On date of appointment if subsequent to 1 January 2012

There have been no changes in the interests of the current directors serving as at the date of this report in the issued share capital of Reed Elsevier PLC or Reed Elsevier NV at the date of this report

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

Details of vested options (shown in italics) and unvested options and restricted shares held by executive directors in Reed Elsevier PLC (PLC) and Reed Elsevier NV (NV) as at 31 December 2012 are shown in the tables below Any awards that have been described as lapsed in prior year reports have been excluded The shading in the tables denotes awards granted during the year of reporting The vesting of outstanding unvested awards is subject to performance conditions in accordance with the provisions of the respective plan rules, except for the RSP award granted to Mr Palmer on joining Reed Elsevier Group plc The conditions of vesting of this award are set out on page 42 of this report For disclosure purposes, any PLC and NV ARDS awarded under the BIP have been converted into ordinary share equivalents At the date of this report there have been no changes in the options or restricted shares held by executive directors in office at the date of this report The market price at the date of award of grants made under the multi-year incentives are based on the middle market price of the respective security

Erik Engstrom

Options	Year of grant	Option over	No of options held on 1 Jan 2012	No of options granted during 2012	Option price	No of options exercised during 2012	Market price per share at exercise	Gross gains made on exercise £/€	No of options held on 31 Dec 2012	Unvested options vesting on	Options exercisable until
ESOS	*2004*	*PLC ord*	*63 460*		*£4 780*				*63 460*		*23 Aug 2014*
		NV ord	*43 866*		*€10 30*				*43 866*		*23 Aug 2014*
	2005	*PLC ord*	*154 517*		*£5 335*				*154 517*		*17 Feb 2015*
		NV ord	*105 412*		*€11 31*				*105 412*		*17 Feb 2015*
	2006	*PLC ord*	*178 895*		*£5 305*				*178 895*		*13 Mar 2016*
		NV ord	*120 198*		*€11 47*				*120 198*		*13 Mar 2016*
	2011	PLC ord	139,146		£5 390				139,146	5 May 2014	5 May 2021
		NV ord	92,953		€8 969				92,953	5 May 2014	5 May 2021
	2012	PLC ord	-	**198,836**	£5 155				198,836	2 May 2015	2 May 2022
		NV ord	-	**139,742**	€9 030				139,742	2 May 2015	2 May 2022
LTIP	*2004*	*PLC ord*	*325 163*		*£4 780*				*325 163*		*23 Aug 2014*
		NV ord	*224 766*		*€10 30*				*224 766*		*23 Aug 2014*
Total PLC ords			861,181	**198,836**					1,060,017		
Total NV ords			587,195	**139,742**					726,937		

Shares	Year of grant	Type of security	No of unvested shares held on 1 Jan 2012	No of shares awarded during 2012	Market price per share at award	No of shares vested during 2012	Market price per share at vesting	Notional gross gains at vesting £/€	No of unvested shares held on 31 Dec 2012	Date of performance testing	Date of release
BIP	2010	NV ord	140,378		€8 310				140,378	H1 2013	H1 2013
	2011	NV ord	122,352		€8 969				122,352	H1 2014	H1 2014
	2012	NV ord	-	**136,950**	€9 030				136,950	H1 2015	H1 2015
REGP	2010	PLC ord	643,086		£4 665				643,086	H1 2013	50% H1 2013 50% H1 2015
		NV ord	422,310		€8 310				422,310	H1 2013	50% H1 2013 50% H1 2015
Total PLC ords			643,086						643,086		
Total NV ords			685,040	**136,950**					821,990		

Mark Armour

Options	Year of grant	Option over	No of options held on 1 Jan 2012	No of options granted during 2012	Option price	No of options exercised during 2012	Market price per share at exercise	Gross gains made on exercise £/€	No of options held on 31 Dec 2012	Unvested options vesting on	Options exercisable until
ESOS	*2002*	*PLC ord*	*74 000*		*£6 000*				-		*Expired**
		NV ord	*51 926*		*€13 94*				-		*Expired**
	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*	*1 500*	*£6 095*	*£1 185*	*157 336*		*13 Mar 2016*
		NV ord	*106 720*		*€11 47*				*106 720*		*13 Mar 2016*
	2011	*PLC ord*	*85 358*		*£5 390*				*56 905*		*9 May 2016**
		NV ord	*57 021*		*€8 969*				*38 014*		*9 May 2016**
LTIP	*2004*	*PLC ord*	*290 481*		*£4 872*				*290 481*		*19 Feb 2014*
		NV ord	*199 467*		*€10 57*				*199 467*		*19 Feb 2014*
SAYE	*2010*	*PLC ord*	*2 173*		*£4 176*				*2 173*		*30 Jun 2013*
Total PLC ords			761,270			1,500			657,317		
Total NV ords			517,752						446,819		

*Expired unexercised on 22 February 2012
**Pro-rated for service

Shares	Year of grant	Type of security	No of unvested shares held on 1 Jan 2012	No of shares awarded during 2012	Market price per share at award	No of shares vested during 2012	Market price per share at vesting	Notional gross gains at vesting £/€	No of unvested shares held on 31 Dec 2012	Date of performance testing	Date of release
BIP	2010	PLC ord	65,054		£4 665				65,054	H1 2013	H1 2013
		NV ord	42,512		€8 310				42,512	H1 2013	H1 2013
	2011	PLC ord	56,876		£5 390				37,917	H1 2014	H1 2014*
		NV ord	37 687		€8 969				25 124	H1 2014	H1 2014*
	2012	PLC ord	-	**90,987**	£5 155				30 329	H1 2015	H1 2014*
		NV ord	-	**21,028**	€9 030				7,009	H1 2015	H1 2014*
REGP	2010	PLC ord	394,495		£4 665				394,495	H1 2013	H1 2013
		NV ord	259,062		€8 310				259,062	H1 2013	H1 2013
Total PLC ords			516,425	**90,987**					527,795		
Total NV ords			339,261	**21,028**					333,707		

* Pro-rated for service

Duncan Palmer

Options	Year of grant	Option over	No of options held on 1 Jan 2012	No of options granted during 2012	Option price	No of options exercised during 2012	Market price per share at exercise	Gross gains made on exercise £/€	No of options held on 31 Dec 2012	Unvested options vesting on	Options exercisable until
ESOS	2012	PLC ord	-	67,331	£6 015				67,331	7 Sep 2015	7 Sep 2022
		NV ord	-	48,018	€10 560				48,018	7 Sep 2015	7 Sep 2022
Total PLC ords				**67,331**					67,331		
Total NV ords				**48,018**					48,018		

Shares	Year of grant	Type of security	No of unvested shares held on 1 Jan 2012	No of shares awarded during 2012	Market price per share at award	No of shares vested during 2012	Market price per share at vesting	Notional gross gains at vesting £/€	No of unvested shares held on 31 Dec 2012	Date of performance testing	Date of release
PSP*	2012	PLC ord		**179,551**	£6 015				179,551	H1 2015	H1 2015
RSP*	2012	PLC ord		**249,376**	£6 015				249,376	-	50% H1 2014
										-	50% H1 2015
Total PLC ords			-	**428,927**					428,927		
Total NV ords			-	-					-		

* Half of Duncan Palmer's 2012 PSP and RSP awards which vest, if any, will be settled with Reed Elsevier NV ordinary shares The number of NV shares will be calculated using the closing price of a Reed Elsevier NV share and the euro/pound sterling exchange rate on the date of grant

Other required disclosures in respect of share-based awards

The number of shares and options that vest in respect of all outstanding (unvested) awards under the multi-year incentives depend on the extent to which performance conditions are met, except for the RSP grant to Duncan Palmer which vests subject to an ongoing employment condition

In respect of the REGP grant to Erik Engstrom, the maximum number of shares that can vest is 150% of the number of shares shown in the tables above In respect of ESOS and BIP, the number of awards shown in the table is the maximum capable of vesting ESOS awards vest on the third anniversary and expire on the tenth anniversary of the date of grant For the PSP and RSP awards granted to Duncan Palmer, the number of shares shown in the share tables reflects the maximum number of shares which can vest

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 the time of grant They are normally exercisable after the expiry of three or five years from the date of grant No performance targets are attached to these option grants as the SAYE is a UK all-employee scheme Mr Engstrom and Mr Palmer have waived any right to participate in any local all-employee share based plans in any country including the HMRC approved all-employee UK savings-related share option scheme (SAYE)

The middle market price of a Reed Elsevier PLC ordinary share at the date of award of grants in 2012 under the BIP was £5 155 The middle market price of a Reed Elsevier NV ordinary share at the date of award of grants in 2012 under the BIP was €9 03 The middle market price of a Reed Elsevier PLC ordinary share at the date of award of grants made to Mr Palmer on 7 September 2012 was £6 015

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range of £4 694 to £6 52 and at 31 December 2012 was £6 42 The middle market price of a Reed Elsevier NV ordinary share during the year was in the range of €8 17 to €11 37 and at 31 December 2012 was €11 185

DIRECTORS' REMUNERATION REPORT

Employee Benefit Trust

Any securities required to satisfy entitlements under the REGP, LTIP and BIP are provided by the Employee Benefit Trust (EBT) from market purchases As a potential beneficiary under the EBT in the same way as other employees of Reed Elsevier Group plc, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2012, amounted to 13,451,468 Reed Elsevier PLC ordinary shares (1 07% of issued share capital) and 6,990,101 Reed Elsevier NV ordinary shares (0 91% of issued share capital) These numbers include ordinary share equivalents held in the form of Reed Elsevier PLC ADRS and Reed Elsevier NV ADRS

Approved by the Board of Reed Elsevier Group plc on 27 February 2013

Signed on behalf of the Remuneration Committee by Mark Elliott, Director

INDEPENDENT AUDITOR'S 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 2012 ("the consolidated financial statements"), which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of financial position, the consolidated statement of changes in equity, the group accounting policies, and the related notes 1 to 30 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for preparation of the Annual Report and the consolidated financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the consolidated financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended, and
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulations

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the consolidated financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the Companies Act 2006, which requires us to report to you if, in our opinion, we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the parent company financial statements of Reed Elsevier Group plc for the year ended 31 December 2012

Douglas King (Senior statutory auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 February 2013

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Revenue	1	**6,061**	5,934
Cost of sales		**(2,122)**	(2,104)
Gross profit		**3,939**	3,830
Selling and distribution costs		**(1,015)**	(1,075)
Administration and other expenses		**(1,635)**	(1,626)
Operating profit before joint ventures		**1,289**	1,129
Share of results of joint ventures		**24**	30
Operating profit	2	**1,313**	1,159
Finance income	7	**9**	17
Finance costs	7	**(486)**	(551)
Net finance costs		**(477)**	(534)
Disposals and other non operating items	8	**45**	(22)
Profit before tax		**881**	603
Taxation	9	**(100)**	(169)
Net profit for the year		**781**	434
Attributable to			
Equity shareholders		**776**	427
Non-controlling interests		**5**	7
Net profit for the year		**781**	434

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Net profit for the year		**781**	434
Exchange difference on translation of foreign operations		**107**	18
Actuarial losses on defined benefit pension schemes	5	**(329)**	(113)
Fair value movements on available for sale investments		**29**	(6)
Transfer to net profit on disposal of available for sale investments		**11**	-
Fair value movements on cash flow hedges		**72**	(19)
Transfer to net profit from cash flow hedge reserve (net of tax)	18	**10**	26
Tax recognised directly in equity	9	**88**	42
Other comprehensive expense for the year		**(12)**	(52)
Total comprehensive income for the year		**769**	382
Attributable to			
Equity shareholders		**764**	375
Non-controlling interests		**5**	7
Total comprehensive income for the year		**769**	382

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from operations	11	**1,806**	1,674
Interest paid		**(170)**	(183)
Interest received		**8**	10
Net interest paid to Reed Elsevier NV		**(8)**	(18)
Net interest paid to Reed Elsevier PLC		**(1)**	(1)
Net interest paid to the Elsevier Reed Finance BV group		**(313)**	(340)
Tax paid (net)		**(200)**	(191)
Net cash from operating activities		**1,122**	951
Cash flows from investing activities			
Acquisitions	11	**(553)**	(474)
Purchases of property, plant and equipment		**(70)**	(85)
Expenditure on internally developed intangible assets		**(263)**	(265)
Purchase of investments		**(6)**	(10)
Proceeds from disposals of property, plant and equipment		**7**	7
Gross proceeds from other disposals		**235**	101
Payments on other disposals		**(82)**	(21)
Dividends received from joint ventures		**20**	33
Net cash used in investing activities		**(712)**	(714)
Cash flows from financing activities			
Dividends paid to parent companies		**(300)**	(600)
Distributions to non-controlling interests		**(4)**	(9)
Increase in net borrowings from shareholders and fellow affiliates		**360**	403
(Decrease)/increase in short term bank loans, overdrafts and commercial paper		**(238)**	125
Issuance of other loans		**157**	-
Repayment of other loans		**(346)**	(150)
Repayment of finance leases		**(4)**	(22)
Disposal/(acquisition) of non-controlling interests		**7**	(48)
Net cash used in financing activities		**(368)**	(301)
Increase/(decrease) in cash and cash equivalents	11	**42**	(64)
Movement in cash and cash equivalents			
At start of year		**560**	623
Increase/(decrease) in cash and cash equivalents		**42**	(64)
Exchange translation differences		**(20)**	1
At end of year		**582**	560

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Note	2012 £m	2011 £m
Non-current assets			
Goodwill	14	**4,576**	4,731
Intangible assets	15	**3,416**	3,374
Investments in joint ventures	16	**100**	124
Other investments	16	**229**	193
Property, plant and equipment	17	**263**	287
Deferred tax assets	19	**71**	202
Derivative financial instruments		**64**	-
		8,719	8,911
Current assets			
Inventories and pre-publication costs	20	**154**	184
Trade and other receivables	21	**1,363**	1,471
Derivative financial instruments		**23**	42
Amounts owed by Reed Elsevier PLC		**366**	684
Amounts owed by the Elsevier Reed Finance BV group		**57**	12
Cash and cash equivalents	11	**582**	560
		2,545	2,953
Assets held for sale	22	**299**	44
Total assets		**11,563**	11,908
Current liabilities			
Trade and other payables	23	**2,509**	2,593
Derivative financial instruments		**9**	57
Borrowings	24	**44**	591
Amounts owed to Reed Elsevier NV	24	**1,137**	907
Amounts owed to Reed Elsevier PLC	24	**1,318**	1,318
Amounts owed to Reed Holding BV	24	**7**	1
Amounts owed to the Elsevier Reed Finance BV group	24	**1,594**	1,476
Taxation		**540**	606
Provisions	26	**30**	37
		7,188	7,586
Non-current liabilities			
Borrowings	24	**2,142**	2,088
Amounts owed to the Elsevier Reed Finance BV group	24	**4,295**	4,864
Deferred tax liabilities	19	**941**	1,228
Net pension obligations	5	**466**	242
Provisions	26	**139**	88
		7,983	8,510
Liabilities associated with assets held for sale	22	**96**	17
Total liabilities		**15,267**	16,113
Net liabilities		**(3,704)**	(4,205)
Capital and reserves			
Share capital		**-**	-
Share premium		**2,430**	2,430
Translation reserve		**(688)**	(795)
Other reserves	28	**(5,480)**	(5,865)
Consolidated shareholders' deficit		**(3,738)**	(4,230)
Non-controlling interests		**34**	25
Total deficit		**(3,704)**	(4,205)

The financial statements of Reed Elsevier Group plc, registered number 2746616, were approved by the board of directors and authorised for issue on 27 February 2013

D J Palmer

Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Note	Share capital £m	Share premium £m	Translation reserve £m	Other reserves £m	Consolidated shareholders' deficit £m	Non-controlling interests £m	Total deficit £m
Balance at 1 January 2011		–	2,430	(813)	(5,599)	(3,982)	27	(3,955)
Total comprehensive income for the year		–	–	18	357	375	7	382
Dividends paid	13	–	–	–	(600)	(600)	(9)	(609)
Acquisitions		–	–	–	–	–	5	5
Acquisition of non-controlling interests		–	–	–	(43)	(43)	(5)	(48)
Increase in share based remuneration reserve		–	–	–	27	27	–	27
Settlement of share awards		–	–	–	(7)	(7)	–	(7)
Balance at 31 December 2011		–	2,430	(795)	(5,865)	(4,230)	25	(4,205)

	Note	**Share capital £m**	**Share premium £m**	**Translation reserve £m**	**Other reserves £m**	**Consolidated shareholders' deficit £m**	**Non-controlling interests £m**	**Total deficit £m**
Balance at 1 January 2012		–	2,430	(795)	(5,865)	(4,230)	25	(4,205)
Total comprehensive income for the year		–	–	107	657	764	5	769
Dividends paid	13	–	–	–	(300)	(300)	(4)	(304)
Deferred losses on cash flow hedges in acquired businesses		–	–	–	(2)	(2)	–	(2)
Acquisitions		–	–	–	–	–	9	9
Disposal of non-controlling interests		–	–	–	6	6	1	7
Increase in share based remuneration reserve		–	–	–	31	31	–	31
Settlement of share awards		–	–	–	(7)	(7)	–	(7)
Exchange differences on translation of capital and reserves		–	–	–	–	–	(2)	(2)
Balance at 31 December 2012		–	2,430	(688)	(5,480)	(3,738)	34	(3,704)

ACCOUNTING POLICIES

Basis of preparation

The Reed Elsevier Group plc financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted 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 preparing the consolidated financial statements, subsidiaries of Reed Elsevier Group plc are accounted for under the acquisition method and investments in associates and joint ventures are accounted for under the equity method All transactions and balances between the consolidated businesses are eliminated

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

Non-controlling interests in the net assets of the consolidated businesses are identified separately from Reed Elsevier Group plc shareholders' equity Non-controlling interests consist of the amount of those interests at the date of the original acquisition and the non-controlling share of changes in equity since the date of acquisition

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

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

Reed Elsevier 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 consolidated businesses

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

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

Employee benefits

The expense of defined benefit pension schemes and other post-retirement employee benefits is determined using the projected unit credit method and charged in the income statement as an operating expense, based on actuarial assumptions reflecting market conditions at the beginning of the financial year Actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur

Past service costs are recognised immediately to the extent that benefits have vested, or, if not vested, on a straight line basis over the period until the benefits vest

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

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

Share based remuneration

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

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

Taxation

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

The tax payable on current year taxable profits is calculated using the applicable tax rates that have been enacted, or substantively enacted, by the date of the statement of financial position

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

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

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

ACCOUNTING POLICIES

Goodwill

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

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

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

Intangible assets

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

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

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

Property, plant and equipment

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

Investments

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

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

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

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

Inventories and pre-publication costs

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

Leases

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

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

Cash and cash equivalents

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

Assets held for sale

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

Financial instruments

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

Investments (other than investments in joint ventures and associates) are classified as either held for trading or available for sale, as described above (These investments are classified as either Level 1 or 2 in the IFRS7 fair value hierarchy)

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

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

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

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

Where an effective hedge is in place against changes in the fair value of fixed rate borrowings, the hedged borrowings are adjusted for changes in fair value attributable to the risk being hedged with a corresponding income or expense included in the income statement within finance costs The offsetting gains or losses from remeasuring the fair value of the related derivatives are also recognised in the income statement within finance costs When the related derivative expires, is sold or terminated, or no longer qualifies for hedge accounting, the cumulative change in fair value of the hedged borrowing is amortised in the income statement over the period to maturity of the borrowing using the effective interest method

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

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

Provisions

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

ACCOUNTING POLICIES

Critical judgements and key sources of estimation uncertainty

The most significant accounting policies in determining the financial condition and results of the Reed Elsevier Group plc group, and those requiring the most subjective or complex judgement, relate to the valuation of goodwill and intangible assets, share based remuneration, pensions, litigation, taxation, and property provisioning

Goodwill and acquired intangible assets
On acquisition of a subsidiary or business, the purchase consideration is allocated between the net tangible and intangible assets other than goodwill on a fair value basis, with any excess purchase consideration representing goodwill The valuation of acquired intangible assets represents the estimated economic value in use, using standard valuation methodologies, including as appropriate, discounted cash flow, relief from royalty and comparable market transactions Acquired intangible assets are capitalised and amortised systematically over their estimated useful lives, subject to impairment review

Appropriate amortisation periods are selected based on assessments of the longevity of the brands and imprints, the strength and stability of customer relationships, the market positions of the acquired assets and the technological and competitive risks that they face Certain intangible assets in relation to acquired science and medical publishing businesses have been determined to have indefinite lives The longevity of these assets is evidenced by their long established and well regarded brands and imprints, and their characteristically stable market positions

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

The discount rates used are based on the Reed Elsevier Group plc weighted average cost of capital, adjusted to reflect a risk premium specific to each business The pre-tax discount rates applied are 11 4% for Scientific, Technical & Medical, 11 8% for Risk Solutions, 11 5-12 9% for Business Information, 11 6% for Legal and 11 2-12 9% for Exhibitions The nominal long term growth rates, which are based on historic growth rates and the growth prospects for businesses are 3% There were no charges for impairment of acquired intangible assets and goodwill in 2012 (2011 nil)

A sensitivity analysis has been performed based on changes in key assumptions considered to be reasonably possible by management an increase in the discount rate of 0 5%, a decrease in the compound annual growth rate for adjusted operating cash flow in the five-year forecast period of 2 0%, and a decrease in perpetuity growth rates of 0 5% The sensitivity analysis shows that no impairment charges would result under any of the sensitivity scenarios Further information is provided in note 14 to the consolidated financial statements

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

The assumptions of share price volatility of 30%, of expected share option life of four years, and of expected lapse rate of 2-5% are based on relevant historical data Other judgements made on grant are based on market data Assumptions as to future performance against non market related vesting conditions are based on management estimates The charge for share based and related remuneration was £26m in 2012 (2011 £27m) Further information is provided in note 6 to the consolidated financial statements

ACCOUNTING POLICIES

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

The principal assumptions as at 31 December 2012, expressed as a weighted average of the various defined benefit pension schemes, were a discount rate of 4 4% (2011 5 2%, 2010 5 6%), an expected rate of salary increases of 3 2% (2011 3 5%, 2010 4 1%) and inflation of 2 7% (2011 2 9%, 2010 3 2%) The expected return on scheme assets set at the beginning of the year was 6 2% for 2012 and 6 8% for 2011 Future pension increases are assumed at 2 8% (2011 2 9%, 2010 3 2%) and average life expectancy of 88-89 years (2011 88-89 years) for scheme members currently aged 45 and 60 years The net defined benefit pension expense was £18m (2011 £23m) The service cost was £43m (2011 £57m) after pension curtailment credits of £20m (2011 £9m) from changes to pension plan design and staff reductions The net pension financing credit is based on market data at the beginning of the year and was £25m (2011 £34m) reflecting the increase in scheme liabilities at the beginning of the year compared with a year before and lower expected asset returns Further information and sensitivity analysis is provided in note 5 to the consolidated financial statements

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

Taxation
Reed Elsevier Group plc is subject to tax in numerous jurisdictions, giving rise to complex tax issues that require management to exercise judgement in making tax determinations While Reed Elsevier Group plc is confident that tax returns are appropriately prepared and filed, amounts are provided in respect of uncertain tax positions that reflect the risk with respect to tax matters under active discussion with tax authorities, or which are otherwise considered to involve uncertainty Amounts are provided using the best estimate of tax expected to be paid based on a qualitative assessment of all relevant factors However, it is possible that at some future date liabilities may be adjusted as a result of audits by taxing authorities Discussions with tax authorities relating to cross border transactions and other matters are ongoing Although the outcome of open items cannot be predicted, no significant impact on the financial position of Reed Elsevier Group plc is expected

In addition, estimation of income taxes includes assessments of recoverability of deferred tax assets Deferred tax assets are only recognised to the extent that they are considered recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised The recoverability of these assets is reassessed at the end of each reporting period, and changes in recognition of deferred tax assets will affect the tax liability in the period of that reassessment

Property provisions
Reed Elsevier Group plc has exposures to sub lease shortfalls in respect of certain property leases for periods up to 2024 Provisions are recognised for net liabilities expected to arise on these exposures Estimation of the provisions requires judgement in respect of future head lease costs, sub lease income and the length of vacancy periods The charge for property provisions was £62m (2011 £16m) relating to surplus property arising on the restructuring, sale and closure of businesses and includes expected losses on sub leases entered into during 2012 and an estimate of vacancy periods and future market conditions Further information is provided in note 26 to the consolidated financial statements

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

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

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

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

Standards and amendments effective for the year
The interpretations and amendments to IFRS effective for 2012 have not had a significant impact on Reed Elsevier Group plc s accounting policies or reporting

Standards, amendments and interpretations not yet effective
New accounting standards and amendments and their expected impact on the future accounting policies and reporting of Reed Elsevier Group plc are set out below

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

Adoption of IAS19 (revised) will have no impact on Reed Elsevier Group plc s consolidated balance sheet or cash flows The net pension financing credit or charge will, with effect from 1 January 2013, be presented within net finance costs in Reed Elsevier Group plc s consolidated income statement, rather than within operating profit as currently reported Given that the revised standard may introduce greater volatility to the income statement, following adoption on 1 January 2013 the net pension financing credit or charge will be excluded from the adjusted earnings figures used by Reed Elsevier Group plc as additional performance measures

Had IAS19 (revised) and related presentation been in effect for the 2012 financial year, operating profit for twelve months to 31 December 2012 would have been £25m lower (2011 £34m) and net finance costs would have been higher by £11m (2011 £9m) On an adjusted basis, profit before tax would have been £25m lower (2011 £34m) The balance sheet and cash flows would have been unchanged

IFRS9 – Financial Instruments (effective for the 2015 financial year) The standard replaces the existing classification and measurement requirements in IAS39 for financial assets by requiring entities to classify them as being measured either at amortised cost or fair value depending on the business model and contractual cash flow characteristics of the asset For financial liabilities, IFRS9 requires an entity choosing to measure a liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income rather than the income statement Adoption of the standard is not expected to have a significant impact on the measurement, presentation or disclosure of financial assets and liabilities in the consolidated financial statements

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

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

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

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

IAS1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS1 (effective for the 2013 financial year) The standard amends the grouping of items presented in the statement of comprehensive income into items that may be reclassified (or recycled) to the profit or loss in a future period and items that will never be reclassified Adoption of the standard will lead to some re-presentation of the items in the statement of comprehensive income in the consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

1 Segment analysis

Reed Elsevier Group plc s reported segments are based on the internal reporting structure and financial information provided to the Chief Executive Officer and Board

Reed Elsevier Group plc is a world leading provider of professional information solutions organised as five business segments Scientific, Technical & Medical, providing information and tools to help its customers improve scientific and healthcare outcomes, Risk Solutions, providing tools that combine proprietary, public and third-party information with advanced technology and analytics, Business Information, providing data services, information and marketing solutions to business professionals, Legal, providing legal, tax, regulatory news & business information to legal, corporate, government, accounting and academic markets, and Exhibitions, organising exhibitions and conferences

Adjusted operating profit is the key segmental profit measure used by Reed Elsevier Group plc in assessing performance It is stated before amortisation of acquired intangible assets, the share of profit on disposals in joint ventures, acquisition related costs, and is grossed up to exclude the equity share of taxes in joint ventures Adjusted operating profit is reconciled to operating profit in note 10

Analysis by business segment	**Revenue**		**Operating profit**		**Adjusted operating profit**	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Scientific, Technical & Medical	**2,008**	1,990	**658**	646	**721**	709
Risk Solutions	**926**	908	**281**	181	**391**	362
Business Information	**663**	695	**76**	68	**119**	110
Legal	**1,610**	1,634	**146**	144	**234**	229
Exhibitions	**854**	707	**165**	127	**204**	162
Sub-total	**6,061**	5,934	**1,326**	1,166	**1,669**	1,572
Corporate costs	**-**	-	**(38)**	(41)	**(38)**	(38)
Unallocated net pension financing credit	**-**	-	**25**	34	**25**	34
Total	**6,061**	5,934	**1,313**	1,159	**1,656**	1,568

Revenue is analysed before the £91m (2011 £128m) share of joint ventures' revenue, of which £2m (2011 £2m) relates to Business Information, £22m (2011 £23m) relates to Legal, principally to Giuffrè, and £67m (2011 £103m) relates to Exhibitions

Share of post-tax results of joint ventures of £24m (2011 £30m) included in operating profit comprises nil (2011 £1m) relating to Business Information, £2m (2011 £4m) relating to Legal, £22m (2011 £25m) relating to Exhibitions The unallocated net pension financing credit of £25m (2011 £34m) comprises the expected return on pension scheme assets of £221m (2011 £235m) less interest on pension scheme liabilities of £196m (2011 £201m)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

1 Segment analysis (continued)

Analysis of revenue by geographical origin	2012 £m	2011 £m
North America	3,122	3,103
United Kingdom	966	947
The Netherlands	610	615
Rest of Europe	761	747
Rest of world	602	522
Total	6,061	5,934

Analysis of revenue by geographical market	2012 £m	2011 £m
North America	3,143	3,209
United Kingdom	441	483
The Netherlands	165	188
Rest of Europe	1,170	1,084
Rest of world	1,142	970
Total	6,061	5,934

Analysis of revenue by type	2012 £m	2011 £m
Subscriptions	2,953	2,787
Circulation/transactions	1,574	1,616
Advertising	349	436
Exhibitions	846	700
Other	339	395
Total	6,061	5,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

1 Segment analysis (continued)

Analysis by business segment	**Expenditure on acquired goodwill and intangible assets**		**Capital expenditure additions**		**Amortisation of acquired intangible assets**		**Depreciation and other amortisation**	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Scientific, Technical & Medical	**397**	38	**106**	94	**56**	60	**81**	68
Risk Solutions	**15**	-	**21**	23	**109**	156	**23**	26
Business Information	**-**	532	**17**	18	**37**	29	**14**	15
Legal	**80**	-	**173**	203	**83**	78	**92**	87
Exhibitions	**178**	33	**25**	22	**32**	24	**16**	10
Total	**670**	603	**342**	360	**317**	347	**226**	206

Capital expenditure comprises additions to property, plant and equipment and internally developed intangible assets Amortisation of acquired intangible assets includes amounts in respect of joint ventures of £1m (2011 £4m) in Exhibitions Other than the depreciation and amortisation above, non cash items include £31m (2011 £27m) relating to the recognition of share based remuneration, comprising £5m (2011 £5m) in Scientific, Technical & Medical, nil (2011 £3m) in Risk Solutions, £3m (2011 £2m) in Business Information, £7m (2011 £6m) in Legal, £4m (2011 £3m) in Exhibitions and £12m (2011 £8m) in Corporate

Analysis of non-current assets by geographical location	**2012 £m**	2011 £m
North America	**6,511**	6,981
United Kingdom	**674**	645
The Netherlands	**121**	124
Rest of Europe	**904**	668
Rest of world	**374**	291
Total	**8,584**	8,709

Non-current assets by geographic location exclude amounts relating to deferred tax and derivative financial instruments

2 Operating profit

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

	Note	2012 £m	2011 £m
Staff costs			
Wages and salaries		**1,532**	1,521
Social security costs		**185**	171
Pensions	5	**64**	62
Share based and related remuneration		**26**	27
Total staff costs		**1,807**	1,781
Depreciation and amortisation			
Amortisation of acquired intangible assets	15	**316**	343
Share of joint ventures' amortisation of acquired intangible assets		**1**	4
Amortisation of internally developed intangible assets	15	**150**	131
Depreciation of property, plant and equipment	17	**76**	75
Total depreciation and amortisation		**543**	553
Other expenses and income			
Pre-publication costs, inventory expenses and other cost of sales		**2,167**	2,104
Royalties payable to the Elsevier Reed Finance BV group		**37**	38
Operating lease rentals expense		**112**	116
Operating lease rentals income		**(10)**	(11)

Depreciation and amortisation charges are included within administration and other expenses

3 Auditor's remuneration

	2012 £m	2011 £m
Auditor's remuneration		
For audit services	**4 5**	4 5
For non audit services	**1.6**	1 1
Total auditor's remuneration	**6.1**	5 6

Auditor s remuneration for audit services comprises £0 5m (2011 £0 5m) payable to the auditors of the parent company and £4 0m (2011 £4 0m) 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 Auditor s remuneration for non audit services comprises £0 8m (2011 £0 7m) for tax compliance services, £0 7m (2011 £0 2m) for other audit related assurance services and £0 1m (2011 £0 2m) for due diligence and other transaction related services

4 Personnel

Number of people employed

	At 31 December		Average during the year	
	2012	2011	**2012**	2011
Business segment				
Scientific, Technical & Medical	**6,800**	6,700	**6,800**	6,700
Risk Solutions	**4,100**	4,000	**4,000**	4,300
Business Information	**4,800**	5,600	**5,200**	5,400
Legal	**10,400**	10,300	**10,400**	10,400
Exhibitions	**3,200**	2,800	**3,000**	2,700
Sub-total	**29,300**	29,400	**29,400**	29,500
Corporate/shared functions	**900**	900	**900**	900
Total	**30,200**	30,300	**30,300**	30,400
Geographical location				
North America	**15,700**	16,000	**15,900**	16,300
United Kingdom	**4,100**	4,600	**4,200**	4,600
The Netherlands	**1,600**	1,600	**1,600**	1,600
Rest of Europe	**3,500**	3,600	**3,600**	3,700
Rest of world	**5,300**	4,500	**5,000**	4,200
Total	**30,200**	30,300	**30,300**	30,400

5 Pension schemes

A number of pension schemes are operated around the world Historically, the major schemes have been of the defined benefit type with assets held in separate trustee administered funds The largest defined benefit schemes 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		
	2012	2011	2010
Discount rate	**4.4%**	5 2%	5 6%
Expected rate of return on scheme assets	**n/a**	6 2%	6 8%
Expected rate of salary increases	**3 2%**	3 5%	4 1%
Inflation	**2 7%**	2 9%	3 2%
Future pension increases	**2 8%**	2 9%	3 2%

The discount rate is set by reference to AA corporate bond yields The expected rates of return on individual categories of scheme assets are determined by reference to relevant market indices and market expectations of real rates of return The overall expected rate of return on scheme assets is based on the weighted average of each asset category

Mortality assumptions used in assessing defined benefit obligations make allowance for future improvements in longevity and have been determined by reference to applicable mortality statistics and the actuaries' expectations for each scheme

5 Pension schemes (continued)

The average life expectancies assumed in the valuation of the defined benefit obligations are set out below

	2012		2011	
Average life expectancy (at 31 December)	**Male (years)**	**Female (years)**	Male (years)	Female (years)
Member currently aged 60	**88**	**88**	88	87
Member currently aged 45	**89**	**89**	89	88

The pension expense recognised within the income statement comprises

	2012 £m	2011 £m
Service cost (including settlement and curtailment credits of £20m (2011 £9m))	**43**	57
Interest on pension scheme liabilities	**196**	201
Expected return on scheme assets	**(221)**	(235)
Net defined benefit pension expense	**18**	23
Defined contribution pension expense	**46**	39
Total pension expense	**64**	62

5 Pension schemes (continued)

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

	2012			2011		
	Defined benefit obligations £m	Fair value of scheme assets £m	Net pension obligations £m	Defined benefit obligations £m	Fair value of scheme assets £m	Net pension obligations £m
At start of year	(3,876)	3,634	(242)	(3,677)	3,507	(170)
Service cost	(43)	-	(43)	(57)	-	(57)
Interest on pension scheme liabilities	(196)	-	(196)	(201)	-	(201)
Expected return on scheme assets	-	221	221	-	235	235
Actuarial (loss)/gain	(416)	87	(329)	(78)	(35)	(113)
Contributions by employer	-	116	116	-	66	66
Contributions by employees	(11)	11	-	(11)	11	-
Benefits paid	216	(216)	-	141	(141)	-
Exchange translation differences	54	(47)	7	7	(9)	(2)
At end of year	(4,272)	3,806	(466)	(3,876)	3,634	(242)

The net pension obligations of £466m (2011 £242m) at 31 December 2012 comprise schemes in deficit with net pension obligations of £466m (2011 £242m), and schemes in surplus with net pension assets of nil (2011 nil)

As at 31 December 2012 the defined benefit obligations comprise £4,112m (2011 £3,721m) in relation to funded schemes and £160m (2011 £155m) in relation to unfunded schemes The weighted average duration of defined benefit scheme liabilities is 19 years (2011 19 years) Deferred tax assets of £153m (2011 £86m) are recognised in respect of the pension scheme deficits

5 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, are shown below

	2012		2011		
	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	**1,804**	**47%**	8 7%	1,699	47%
Bonds	**1,715**	**45%**	3 7%	1,722	47%
Other	**287**	**8%**	4 3%	213	6%
Total	**3,806**	**100%**	6 2%	3,634	100%

The actual return on scheme assets for the year ended 31 December 2012 was a £308m gain (2011 £200m gain)

A summary of pension balances in respect of funded and unfunded schemes for the five years ended 31 December 2012 is set out below

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	**3,806**	3,634	3,507	3,067	2,682
Defined benefit obligations	**(4,272)**	(3,876)	(3,677)	(3,302)	(3,051)
Net pension obligations	**(466)**	(242)	(170)	(235)	(369)

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Gains and losses arising during the year					
Experience (losses)/gains on scheme liabilities	**(32)**	(27)	(43)	18	(9)
Experience gains/(losses) on scheme assets	**87**	(35)	198	301	(765)
Actuarial (losses)/gains arising on the present value of scheme liabilities due to changes in					
- discount rates	**(552)**	(238)	(162)	(249)	202
- inflation	**74**	182	(50)	(124)	198
- other actuarial assumptions	**94**	5	(6)	60	27
	(329)	(113)	(63)	6	(347)
Net cumulative (losses)/gains at start of year	**(265)**	(152)	(89)	(95)	252
Net cumulative losses at end of year	**(594)**	(265)	(152)	(89)	(95)

Regular contributions to defined benefit pension schemes in respect of 2013 are expected to be approximately £55m

5 Pension schemes (continued)

Sensitivity analysis

Valuation of the Reed Elsevier Group plc group s pension scheme liabilities involves judgements about uncertain events, including the life expectancy of the members, salary and pension increases, inflation and the rate at which the future pension payments are discounted Estimates are used for each of these factors, determined in conjunction with independent actuaries Differences arising from actual experience or future changes in assumptions may materially affect future pension charges In particular, changes in assumptions for discount rates, inflation and life expectancies would have the following approximate effects on the annual service cost and the defined benefit pension obligations

	£m
Increase/decrease of 0 25% in the discount rate	
Decrease/increase in annual service cost	5
Decrease/increase in defined benefit pension obligations	195
Increase/decrease of one year in assumed life expectancy	
Increase/decrease in annual service cost	1
Increase/decrease in defined benefit pension obligations	104
Increase/decrease of 0 25% in the expected inflation rate	
Increase/decrease in annual service cost	3
Increase/decrease in defined benefit pension obligations	113

6 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 Schemes (ESOS), the Long Term Incentive Plan (LTIP), the Reed Elsevier Growth Plan (REGP), the Retention Share Plan (RSP) and the Bonus Investment Plan (BIP) Share options granted under ESOS and LTIP are exercisable after three years and up to ten years from the date of grant at a price equivalent to the market value of the respective shares at the date of grant Conditional shares granted under ESOS, LTIP, RSP and BIP are exercisable after three years for nil consideration if conditions are met Conditional shares granted under REGP are exercisable for nil consideration if conditions are met after three and five years Other awards principally relate to all employee share based saving schemes in the UK and the Netherlands

Share based remuneration awards are, other than upon retirement or in exceptional circumstances, subject to the condition that the employee remains in employment at the time of exercise

Conditional shares granted under LTIP, REGP, RSP and BIP in 2010, 2011 and 2012 are subject to the achievement of growth targets of Reed Elsevier PLC and Reed Elsevier NV adjusted earnings per share measured at constant exchange rates as well as the achievement of a targeted percentage return on invested capital of Reed Elsevier PLC and Reed Elsevier NV LTIP grants in 2010, 2011 and 2012 and REGP grants are also variable subject to the achievement of a total shareholder return performance target

6 Share based remuneration (continued)

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

	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	Number of shares '000	Weighted average fair value per award £	Number of shares '000	Weighted average fair value per award £
2012 grants				
Share options				
- ESOS	**1,801**	**0 90**	**1,263**	**1 20**
- Other	**702**	**1.04**	**293**	**0.95**
Total share options	**2,503**	**0 94**	**1,556**	**1.15**
Conditional shares				
- ESOS	**797**	**4 60**	**560**	**6.41**
- LTIP	**1,807**	**4 45**	**1,144**	**6.13**
- RSP	**256**	**6 00**	**5**	**7.82**
- BIP	**1,542**	**5 20**	**696**	**7.41**
Total conditional shares	**4,402**	**4 83**	**2,405**	**6.57**
2011 grants				
Share options				
- ESOS	2,053	0 98	1,372	1 41
- Other	633	1 03	381	0 97
Total share options	2,686	0 99	1,753	1 32
Conditional shares				
- ESOS	755	4 85	504	6 91
- LTIP	1,822	4 56	1,217	6 65
- RSP	322	4 73	5	7 15
- BIP	1,339	5 43	607	8 00
Total conditional shares	4,238	4 90	2,333	7 06

6 Share based remuneration (continued)

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

Assumptions for grants made during the year	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	2012	2011	**2012**	2011
Weighted average share price at date of grant				
- ESOS	**£5.19**	£5 39	**€9 07**	€8 97
- LTIP	**£5 25**	£5 31	**€8 91**	€8 89
- RSP	**£6 00**	£5 26	**€9 65**	€9 27
- BIP	**£5 20**	£5 43	**€9 15**	€9 21
- Other	**£5 49**	£5 13	**€9 63**	€9 03
Expected share price volatility	**30%**	29%	**30%**	29%
Expected option life	**4 years**	4 years	**4 years**	4 years
Expected dividend yield	**3 9%**	3 6%	**4 5%**	4 1%
Risk free interest rate	**0.8%**	1 9%	**0.9%**	2 5%
Expected lapse rate	**2-5%**	2-5%	**2-4%**	2-4%

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

The share based remuneration awards outstanding as at 31 December 2012, in respect of both Reed Elsevier PLC and Reed Elsevier NV ordinary shares, are set out below

Share Options	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	Number of shares under option '000	Weighted average exercise price (pence)	Number of shares under option '000	Weighted average exercise price (€)
Outstanding at 1 January 2011	33,711	544	24,833	11 45
Granted	2,686	509	1,753	8 99
Exercised	(1,626)	493	(201)	8 84
Forfeited	(2,001)	479	(1,941)	10 94
Expired	(3,230)	640	(2,803)	8 68
Outstanding at 1 January 2012	**29,540**	**534**	**21,641**	**10.99**
Granted	**2,503**	**497**	**1,556**	**9.19**
Exercised	**(6,694)**	**497**	**(1,913)**	**9.36**
Forfeited	**(1,022)**	**498**	**(581)**	**9.33**
Expired	**(4,992)**	**592**	**(5,121)**	**12 34**
Outstanding at 31 December 2012	**19,335**	**529**	**15,582**	**10 63**
Exercisable at 31 December 2011	20,061	552	16,876	11 56
Exercisable at 31 December 2012	**12,573**	**553**	**12,329**	**11 12**

6 Share based remuneration (continued)

Conditional shares	In respect of Reed Elsevier PLC ordinary shares	In respect of Reed Elsevier NV ordinary shares
	Number of shares '000	Number of shares '000
Outstanding at 1 January 2011	12,037	7,293
Granted	4,238	2,332
Vested	(580)	(383)
Forfeited	(1,799)	(975)
Outstanding at 1 January 2012	**13,896**	**8,267**
Granted	**4,402**	**2,405**
Vested	**(601)**	**(391)**
Forfeited	**(5,885)**	**(3,575)**
Outstanding at 31 December 2012	**11,812**	**6,706**

6 Share based remuneration (continued)

The weighted average share price at the date of exercise of share options and vesting of conditional shares during 2012 was 593p (2011 554p) for Reed Elsevier PLC ordinary shares and €10 43 (2011 €9 71) for Reed Elsevier NV ordinary shares

	2012		2011	
Range of exercise prices for outstanding share options	**Number of shares under option 000**	**Weighted average remaining period until expiry (years)**	Number of shares under option '000	Weighted average remaining period until expiry (years)
Reed Elsevier PLC ordinary shares (pence)				
401-450	**1,925**	**2.8**	2,148	2 9
451-500	**4,415**	**3.5**	7,793	3 6
501-550	**8,981**	**5.7**	11,662	5 5
551-600	**189**	**5.4**	2,726	0 8
601-650	**3,825**	**4.8**	5,176	5 7
651-700	**-**	**-**	35	0 3
Total	**19,335**	**4.7**	29,540	4 4
Reed Elsevier NV ordinary shares (euro)				
7 01-8 00	**58**	**6.1**	120	7 2
8 01-9 00	**2,736**	**7.7**	3,233	8 6
9 01-10 00	**3,142**	**6.9**	3,686	5 3
10 01-11 00	**2,697**	**1.6**	3,921	2 3
11 01-12 00	**3,982**	**2.6**	4,865	3 5
12 01-13 00	**1,806**	**5.1**	2,339	6 0
13 01-14 00	**118**	**4.1**	2,025	0 5
14 01-15 00	**1,043**	**4.1**	1,426	5 1
15 01-16 00	**-**	**-**	26	0 3
Total	**15,582**	**4.6**	21,641	4 5

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 16) Conditional shares will be met from shares held by the EBT

7 Net finance costs

	2012 £m	2011 £m
Interest on short term bank loans, overdrafts and commercial paper	(12)	(15)
Interest on other loans	(146)	(165)
Interest payable to Reed Elsevier NV	(7)	(18)
Interest payable to Reed Elsevier PLC	(1)	(1)
Interest payable to the Elsevier Reed Finance BV group	(313)	(341)
Interest on obligations under finance leases	(1)	(1)
Total borrowing costs	(480)	(541)
Losses on loans and derivatives not designated as hedges	(6)	(10)
Finance costs	(486)	(551)
Interest on bank deposits	6	10
Gains on loans and derivatives not designated as hedges	1	5
Dividends received from Reed Elsevier NV	2	2
Finance income	9	17
Net finance costs	(477)	(534)

Finance costs include £4m (2011 £5m) transferred from the hedge reserve

8. Disposals and other non operating items

	2012 £m	2011 £m
Revaluation of held for trading investments	19	6
Property provisions on disposed businesses	(60)	(16)
Gain/(loss) on disposal of businesses and assets held for sale	86	(12)
Net gain/(loss) on disposals and other non operating items	45	(22)

Property provisions relate to estimated sub-lease shortfalls and guarantees given in respect of certain property leases for various periods up to 2024 The charge in 2012 of £62m (2011 £16m) predominantly relates to property exposures on disposed businesses

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9 Taxation

	2012 £m	2011 £m
Current tax		
United Kingdom	**80**	62
The Netherlands	**67**	86
Rest of world	**(5)**	98
Total current tax charge	**142**	246
Deferred tax	**(42)**	(77)
Tax expense	**100**	169

The net tax expense charged on profit before tax differs from the theoretical amount that would arise using the weighted average of tax rates applicable to accounting profits and losses of the consolidated entities, as follows

	2012 £m	2011 £m
Profit before tax	**881**	603
Tax at average applicable rates	**238**	160
Tax on share of results of joint ventures	**(7)**	(9)
Expenses not deductible for tax purposes	**33**	26
Non-deductible costs of share based remuneration	**(3)**	3
(Non-taxable)/non-deductible disposal related gains and losses	**(69)**	7
Tax losses of the period not recognised	**6**	4
Recognition and utilisation of tax losses that arose in prior years	**(6)**	(22)
Exceptional prior year credit	**(96)**	-
Other adjustments in respect of prior periods	**3**	1
Deferred tax effect of changes in tax rates	**1**	(1)
Tax expense	**100**	169

The weighted average applicable tax rate for the year was 27% (2011 26%) This increase is caused by a change in the relative profitability of the consolidated entities in the countries in which they operate, partially offset by the impact of the reduction in the tax rate of the United Kingdom (see below)

During 2012, Reed Elsevier Group plc resolved a number of significant prior year tax matters and reassessed its exposure to other tax matters across the jurisdictions in which Reed Elsevier Group plc operates As a result of this reassessment, current tax liabilities were reduced by £96m to reflect the lower cash tax expected to be payable

9 Taxation (continued

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

	2012 £m	2011 £m
Tax on actuarial movements on defined benefit pension schemes	**102**	36
Tax on fair value movements on cash flow hedges	**(19)**	5
Tax credit on share based remuneration	**5**	1
Net tax credit recognised directly in equity	**88**	42

A number of changes to the UK corporation tax system, including reductions of the main rate of corporation tax from 26% to 24% with effect from 1 April 2012, and from 24% to 23% with effect from 1 April 2013, were substantively enacted on 3 July 2012 Reed Elsevier Group plc has therefore remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 23%, which has resulted in recognition of a deferred tax debit of £1m in the income statement The UK government has also announced an intention to reduce the rate of corporation tax to 21% by 1 April 2014, but as this change had not been substantively enacted at the date of the statement of financial position, the effect on deferred tax has not been recognised in these financial statements It is not currently anticipated that the proposed reduction in rate would have a significant impact on deferred tax balances

10 Adjusted operating 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, acquisition related costs, and is also grossed up to exclude the equity share of taxes and disposals in joint ventures Acquisition related costs relate to acquisition integration, professional and other transaction related fees, and adjustments to deferred and contingent consideration

	2012 £m	2011 £m
Operating profit	**1,313**	1,159
Adjustments		
Amortisation of acquired intangible assets	**317**	347
Acquisition related costs	**21**	52
Share of profit on disposals in joint ventures	**-**	(1)
Reclassification of tax in joint ventures	**5**	11
Adjusted operating profit	**1,656**	1,568

11 Statement of cash flows

Reconciliation of operating profit before joint ventures to cash generated from operations

	2012 £m	2011 £m
Operating profit before joint ventures	**1,289**	1,129
Amortisation of acquired intangible assets	**316**	343
Amortisation of internally developed intangible assets	**150**	131
Depreciation of property, plant and equipment	**76**	75
Share based remuneration	**31**	27
Total non cash items	**573**	576
Decrease in inventories and pre-publication costs	**21**	30
Decrease/(increase) in receivables	**8**	(38)
Decrease in payables	**(85)**	(23)
Increase in working capital	**(56)**	(31)
Cash generated from operations	**1,806**	1,674

Cash flow on acquisitions

	Note	2012 £m	2011 £m
Purchase of businesses	12	**(513)**	(448)
Investment in joint ventures		**(10)**	(1)
Deferred payments relating to prior year acquisitions		**(30)**	(25)
Total		**(553)**	(474)

11. Statement of cash flows (continued)

Reconciliation of net borrowings

	Cash and cash equivalents £m	Borrowings £m	Related derivative financial instruments £m	Net borrowings from shareholders and fellow affiliates £m	2012 £m	2011 £m
At start of year	560	(2,679)	30	(7,870)	(9,959)	(9,527)
Increase/(decrease) in cash and cash equivalents	42	-	-	-	42	(64)
Net movement in short term bank loans, overdrafts and commercial paper	-	238	-	-	238	(125)
Issuance of other loans	-	(157)	-	-	(157)	-
Repayment of other loans	-	346	-	-	346	150
Repayment of finance leases	-	4	-	-	4	22
Net movement in borrowings from shareholders and fellow affiliates	-	-	-	(360)	(360)	(403)
Change in net borrowings resulting from cash flows	42	431	-	(360)	113	(420)
Receivables/(borrowings) in acquired businesses	-	-	-	6	6	(18)
Inception of finance leases	-	(13)	-	-	(13)	(8)
Fair value and other adjustments to borrowings and related derivatives	-	(4)	6	-	2	6
Exchange translation differences	(20)	79	-	296	355	8
At end of year	582	(2,186)	36	(7,928)	(9,496)	(9,959)

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

12 Acquisitions

During the year a number of acquisitions were made for a total consideration of £578m (2011 £485m), after taking account of net cash acquired of £20m (2011 £24m) The net assets of the businesses acquired are incorporated at their fair value to the group Provisional fair values of the consideration given and of the assets and liabilities acquired are summarised below

	Fair value 2012 £m	Fair value 2011 £m
Goodwill	**196**	299
Intangible assets	**474**	305
Property, plant and equipment	**1**	1
Current assets	**21**	23
Current liabilities	**(73)**	(46)
Borrowings	**6**	(18)
Current tax	**-**	(1)
Deferred tax	**(47)**	(78)
Net assets acquired	**578**	485
Consideration (after taking account of £20m (2011 £24m) net cash acquired)	**578**	485
Less consideration deferred to future years	**(23)**	(27)
Less acquisition date fair value of equity interest	**(42)**	(10)
Net cash flow	**513**	448

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

The fair values of the assets and liabilities acquired are provisional pending the completion of the valuation exercises Final fair values will be incorporated in the 2013 consolidated financial statements There were no significant adjustments to the provisional fair values of prior year acquisitions established in 2011

The businesses acquired in 2012 contributed £82m to revenue, increased adjusted operating profit by £26m, decreased reported net profit by £2m, and contributed £18m to net cash inflow from operating activities 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 pro forma basis the Reed Elsevier Group plc group revenues, adjusted operating profit and reported net profit for the year would have been £6,125m, £1,681m and £797m respectively before taking account of acquisition financing costs

13 Equity dividends

	£ per share		£m	
	2012	2011	**2012**	2011
Dividends declared in the year				
Dividends declared by Reed Elsevier Group plc				
Interim to "E" ordinary shareholders	**-**	-	**-**	-
Interim to "R" ordinary shareholders	**16,317 65**	32,635 30	**300**	600
Total			**300**	600

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

14 Goodwill

	2012 £m	2011 £m
At start of year	**4,731**	4,444
Acquisitions	**196**	299
Disposals/reclassified as held for sale	**(154)**	(26)
Exchange translation differences	**(197)**	14
At end of year	**4,576**	4,731

The carrying amount of goodwill is after cumulative amortisation of £1,180m (2011 £1,332m) which was charged prior to the adoption of IFRS and £20m (2011 £49m) of subsequent impairment charges

Impairment review

Impairment testing of goodwill and indefinite lived intangible assets is performed at least annually based on cash generating units (CGUs) A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets Goodwill impairment testing is performed on the basis of 22 CGUs CGUs which are not individually significant have been aggregated for presentation purposes Typically, when an acquisition is made the acquired business is fully integrated into the relevant business unit and CGU, and the goodwill arising is allocated to the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition

14. Goodwill (continued)

The carrying value of goodwill recorded in the major groups of CGUs is set out below

Goodwill	**2012 £m**	2011 £m
Scientific, Technical & Medical	**1,057**	991
Risk Solutions	**1,559**	1,733
Business Information US	**50**	52
Business Information UK	**335**	352
Business Information NL	**23**	23
Business Information International	**-**	32
Business Information	**408**	459
Legal US	**1,038**	1,070
Legal International	**112**	113
Legal	**1,150**	1,183
Exhibitions Continental Europe	**273**	289
Exhibitions other	**129**	76
Exhibitions	**402**	365
Total	**4,576**	4,731

Reed Elsevier Group plc s goodwill impairment testing methodology, assumptions and sensitivity analysis are disclosed within critical judgements and key sources of estimation uncertainty on pages 61 to 64

15 Intangible assets

	Market and customer related £m	Content, software and other £m	Total acquired intangible assets £m	Internally developed intangible assets £m	Total £m
Cost					
At 1 January 2011	2,631	3,170	5,801	1,200	7,001
Acquisitions	196	108	304	-	304
Additions	-	-	-	270	270
Disposals/reclassified as held for sale	(38)	(189)	(227)	(51)	(278)
Exchange translation differences	13	(9)	4	(1)	3
At 1 January 2012	**2,802**	**3,080**	**5,882**	**1,418**	**7,300**
Acquisitions	**201**	**273**	**474**	**1**	**475**
Additions	-	-	-	**261**	**261**
Disposals/reclassified as held for sale	**(56)**	**(97)**	**(153)**	**(114)**	**(267)**
Exchange translation differences	**(131)**	**(98)**	**(229)**	**(52)**	**(281)**
At 31 December 2012	**2,816**	**3,158**	**5,974**	**1,514**	**7,488**
Accumulated amortisation					
At 1 January 2011	610	2,331	2,941	733	3,674
Charge for the year	160	183	343	131	474
Disposals/reclassified as held for sale	(30)	(149)	(179)	(36)	(215)
Exchange translation differences	4	(7)	(3)	(4)	(7)
At 1 January 2012	**744**	**2,358**	**3,102**	**824**	**3,926**
Charge for the year	**173**	**143**	**316**	**150**	**466**
Disposals/reclassified as held for sale	**(11)**	**(89)**	**(100)**	**(79)**	**(179)**
Exchange translation differences	**(36)**	**(78)**	**(114)**	**(27)**	**(141)**
At 31 December 2012	**870**	**2,334**	**3,204**	**868**	**4,072**
Net book amount					
At 31 December 2011	2,058	722	2,780	594	3,374
At 31 December 2012	**1,946**	**824**	**2,770**	**646**	**3,416**

Also included in market and customer related intangible assets are £1,037m (2011 £1,209m) of customer relationship assets arising on the acquisition of ChoicePoint in 2008 with a remaining useful life of approximately 16 years

15 Intangible assets (continued)

Intangible assets acquired as part of business combinations comprise market related assets (e g trademarks, imprints, brands), customer related assets (e g subscription bases, customer lists, customer relationships), and content, software and other intangible assets (e g editorial content, software and product delivery systems, other publishing rights, exhibition rights and supply contracts) Included in content, software and other acquired intangible assets are assets with a net book value of £431m (2011 £531m) 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 £354m (2011 £370m) of brands and imprints relating to Scientific, Technical & Medical determined to have indefinite lives based on an assessment of their historical longevity and stable market positions Indefinite lived intangibles are tested for impairment at least annually using the same value in use assumptions as set out in critical judgements and key sources of estimation uncertainty on pages 61 to 64

16 Investments

	2012 £m	2011 £m
Investments in joint ventures	**100**	124
Available for sale investments	**3**	8
Shares in Reed Elsevier NV and Reed Elsevier PLC	**150**	129
Venture capital investments held for trading	**76**	56
Total	**329**	317

At 31 December 2012, the Reed Elsevier Group plc Employee Benefit Trust (EBT) held 13,451,468 (2011 14,051,025) Reed Elsevier PLC ordinary shares and 6,990,101 (2011 7,380,906) 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 value of shares in Reed Elsevier PLC and Reed Elsevier NV and of £27m (2011 £17m) of venture capital investments held for trading has been determined by reference to quoted market prices The value of other venture capital investments and available for sale investments has been determined by reference to other observable market inputs

16. Investments (continued)

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

	2012 £m	2011 £m
At start of year	**124**	136
Share of results of joint ventures	**24**	30
Dividends received from joint ventures	**(20)**	(33)
Disposals and transfers	**(33)**	(6)
Additions	**10**	1
Exchange translation differences	**(5)**	(4)
At end of year	**100**	124

The principal joint ventures at 31 December 2012 are exhibition joint ventures within Exhibitions and Giuffre (an Italian legal publisher in which Reed Elsevier Group plc has a 40% shareholding) within Legal 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's share	
	2012 £m	2011 £m	2012 £m	2011 £m
Revenue	**187**	254	**91**	128
Net profit for the year	**45**	62	**24**	30
Total assets	**227**	255	**104**	122
Total liabilities	**(126)**	(137)	**(59)**	(66)
Net assets	**101**	118	**45**	56
Goodwill			**55**	68
Total			**100**	124

17 Property, plant and equipment

	2012			2011		
	Land and buildings £m	Fixtures and equipment £m	Total £m	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost						
At start of year	**238**	**579**	**817**	246	575	821
Acquisitions	**-**	**1**	**1**	-	1	1
Capital expenditure	**10**	**70**	**80**	8	82	90
Disposals/reclassified as held for sale	**(21)**	**(97)**	**(118)**	(16)	(78)	(94)
Exchange translation differences	**(9)**	**(19)**	**(28)**	-	(1)	(1)
At end of year	**218**	**534**	**752**	238	579	817
Accumulated depreciation						
At start of year	**118**	**412**	**530**	115	416	531
Disposals/reclassified as held for sale	**(5)**	**(94)**	**(99)**	(6)	(69)	(75)
Charge for the year	**8**	**68**	**76**	9	66	75
Exchange translation differences	**(5)**	**(13)**	**(18)**	-	(1)	(1)
At end of year	**116**	**373**	**489**	118	412	530
Net book amount	**102**	**161**	**263**	120	167	287

No depreciation is provided on freehold land of £39m (2011 £46m) The net book amount of property, plant and equipment at 31 December 2012 includes £11m (2011 £4m) in respect of assets held under finance leases relating to fixtures and equipment

18 Financial instruments

Details of the objectives, policies and strategies pursued by the Reed Elsevier Group plc group in relation to financial instruments and capital management are set out in the directors' report The main financial risks faced by the Reed Elsevier Group plc group are liquidity risk, 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

18. Financial instruments (continued)

At 31 December 2012	Carrying amount £m	Contractual cash flows 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	(2,149)	(147)	(418)	(121)	(518)	(395)	(1,460)	(3,059)
Elsevier Reed Finance BV group	(5,480)	(1,652)	(905)	(873)	(1,174)	(955)	(594)	(6,153)
Floating rate borrowings owing to								
Third parties	(37)	(37)	-	-	-	-	-	(37)
Elsevier Reed Finance BV group	(409)	(183)	(5)	(234)	-	-	-	(422)
Reed Elsevier NV	(1,137)	(1,137)	-	-	-	-	-	(1,137)
Reed Elsevier PLC	(1,318)	(1,318)	-	-	-	-	-	(1,318)
Reed Holding BV	(7)	(7)	-	-	-	-	-	(7)
Derivative financial liabilities								
Forward foreign exchange contracts	(9)	(537)	(433)	(194)	-	-	-	(1,164)
Derivative financial assets								
Interest rate derivatives	36	8	8	8	7	6	-	37
Forward foreign exchange contracts	51	554	450	202	-	-	-	1,206
Total	(10,459)	(4,456)	(1,303)	(1,212)	(1,685)	(1,344)	(2,054)	(12,054)

At 31 December 2011	Carrying amount £m	Contractual cash flows 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	(2,380)	(449)	(152)	(485)	(123)	(522)	(1,671)	(3,402)
Elsevier Reed Finance BV group	(5,784)	(1,581)	(1,540)	(861)	(663)	(1,137)	(834)	(6,616)
Floating rate borrowings owing to								
Third parties	(299)	(299)	-	-	-	-	-	(299)
Elsevier Reed Finance BV group	(556)	(201)	(16)	(16)	(258)	(12)	(138)	(641)
Reed Elsevier NV	(907)	(907)	-	-	-	-	-	(907)
Reed Elsevier PLC	(1,318)	(1,318)	-	-	-	-	-	(1,318)
Reed Holding BV	(1)	(1)	-	-	-	-	-	(1)
Derivative financial liabilities								
Interest rate derivatives	(1)	(2)	-	-	-	-	-	(2)
Forward foreign exchange contracts	(56)	(521)	(371)	(247)	-	-	-	(1,139)
Derivative financial assets								
Interest rate derivatives	30	6	7	6	6	4	3	32
Forward foreign exchange contracts	12	495	351	236	-	-	-	1,082
Total	(11,260)	(4,778)	(1,721)	(1,367)	(1,038)	(1,667)	(2,640)	(13,211)

18. Financial instruments (continued)

The carrying amount of derivative financial liabilities comprises £7m (2011 £51m) in relation to cash flow hedges and £2m (2011 £6m) not designated as hedging instruments The carrying amount of derivative financial assets comprises £36m (2011 £30m) in relation to fair value hedges, £46m (2011 £10m) in relation to cash flow hedges and £5m (2011 £2m) not designated as hedging instruments

At 31 December 2012, the Reed Elsevier Group plc group had access, along with other affiliated companies, to a $2,000m committed bank facility maturing in June 2015, which was undrawn

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2012, and after utilising available cash resources, no third party borrowings mature within two years (2011 nil), no third party borrowings mature in the third year (2011 18%), 29% in the fourth and fifth years (2011 19%), 49% in the sixth to tenth years (2011 44%), and 22% beyond the tenth year (2011 19%)

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totalling £5,889m (2011 £6,340m) of which 27% mature in the next year (2011 23%), 12% in the second year (2011 21%), 17% in the third year (2011 11%), 34% in the fourth and fifth years (2011 30%), and 10% in the sixth to tenth years (2011 15%) Reed Elsevier Group plc has net borrowings due within one year of £2,039m (2011 £1,530m) from the parent companies, Reed Elsevier PLC and Reed Elsevier NV, and other affiliated undertakings

Market Risk

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 2012, 78% of gross borrowings were either fixed rate or had been fixed through the use of interest rate swaps, forward rate agreements and options, or were non-interest bearing A 100 basis point reduction in interest rates would result in an estimated decrease in net finance costs of £13m (2011 £13m), 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 2012 A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £13m (2011 £13m)

The impact on net equity of a theoretical change in interest rates as at 31 December 2012 would be 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, of which there are none in Reed Elsevier Group plc as at 31 December 2012 There would therefore be no change in net equity from a theoretical change in interest rates The impact of a change in interest rates on the carrying value of fixed rate borrowings in a designated fair value hedge relationship would be offset by the change in carrying value of the related interest rate derivative Fixed rate borrowings not in a designated hedging relationship are carried at amortised cost

18 Financial instruments (continued)

Foreign exchange rate risk
Translation exposures arise on the earnings and net assets of business operations in countries with currencies other than sterling, most particularly in respect of the US businesses These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars (see note 24)

A theoretical weakening of all currencies by 10% against sterling at 31 December 2012 would decrease the carrying value of net assets, excluding net borrowings, by £496m (2011 £528m) This would be more than offset by a decrease in net borrowings of £822m (2011 £876m) A strengthening of all currencies by 10% against sterling at 31 December 2012 would increase the carrying value of net assets, excluding net borrowings, by £496m (2011 £528m) and increase net borrowings by £822m (2011 £876m)

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 £52m (2011 £26m) A 10% strengthening of all foreign currencies against sterling on this basis would increase net profit for the year by £52m (2011 £26m)

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-/A3 by Standard & Poor s, Moody s and Fitch

The Reed Elsevier Group plc group also has credit risk with respect to trade receivables due from its customers that include national and state governments, academic institutions and large and small enterprises including law firms, book stores and wholesalers The concentration of credit risk from trade receivables is limited due to the large and broad customer base Trade receivable exposures are managed locally in the business units 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 statement of financial position

Included within trade receivables are the following amounts which are past due but for which no allowance has been made Past due up to one month £147m (2011 £205m), past due two to three months £57m (2011 £53m), past due four to six months £14m (2011 £20m), and past due greater than six months £1m (2011 £5m) Examples of trade receivables which are past due but for which no allowance has been made include those receivables where there is no concern over the creditworthiness of the customer and where the history of dealings with the customer indicate the amount will be settled

Hedge accounting
The hedging relationships that are designated under IAS39 – Financial Instruments are described below

Fair value hedges
The Reed Elsevier Group plc group has entered into interest rate swaps to hedge the exposure to changes in the fair value of fixed rate borrowings due to interest rate movements which could affect the income statement

18 **Financial instruments (continued)**

Interest rate derivatives with a principal amount of £300m (2011 £300m) were in place at 31 December 2012 swapping a fixed rate term debt issue denominated in sterling to floating rate sterling debt for the whole of its term

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 2012, were as follows

Gains/(losses) on borrowings and related derivatives	1 January 2011 £m	Fair value movement gain/(loss) £m	1 January 2012 £m	Fair value movement gain/(loss) £m	31 December 2012 £m
GBP debt	(7)	(23)	(30)	(6)	(36)
Related interest rate swaps	7	23	30	6	36
Net gain	-	-	-	-	-

All fair value hedges were highly effective throughout the two years ended 31 December 2012

Gross borrowings as at 31 December 2012 included £33m (2011 £37m) in relation to fair value adjustments to borrowings previously designated in a fair value hedge relationship which were de-designated in 2008 The related derivatives were closed out on de-designation with a cash inflow of £51m £3m (2011 £6m) of these fair value adjustments were amortised in the year 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 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 Scientific, Technical & Medical businesses for up to 50 months

Movements in the hedge reserve (pre-tax) in 2011 and 2012, including gains and losses on cash flow hedging instruments, were as follows

	Interest rate hedges £m	Foreign exchange hedges £m	Total hedge reserve pre-tax £m
Hedge reserve at 1 January 2011 losses deferred	(11)	(57)	(68)
Losses arising in 2011	-	(19)	(19)
Amounts recognised in income statement	5	32	37
Hedge reserve at 1 January 2012 losses deferred	(6)	(44)	(50)
Deferred losses in acquired businesses	-	(2)	(2)
Gains arising in 2012	-	72	72
Amounts recognised in income statement	4	10	14
Exchange translation differences	-	1	1
Hedge reserve at 31 December 2012: (losses)/gains deferred	**(2)**	**37**	**35**

All cash flow hedges were highly effective throughout the two years ended 31 December 2012

A deferred tax charge of £9m (2011 £14m credit) in respect of the above gains and losses at 31 December 2012 was also deferred in the hedge reserve

Of the amounts recognised in the income statement in the year, losses of £10m (2011 £32m) were recognised in revenue and losses of £4m (2011 £5m) were recognised in finance costs A tax credit of £4m (2011 £11m) was recognised in relation to these items

18. Financial instruments (continued)

The deferred gains and losses on cash flow hedges at 31 December 2012 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
2013	(2)	7	5
2014	-	16	16
2015	-	11	11
2016	-	3	3
2017	-	-	-
(Losses)/gains deferred in hedge reserve at end of year	(2)	37	35

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

19 Deferred tax

	2012 £m	2011 £m
Deferred tax assets	**71**	202
Deferred tax liabilities	**(941)**	(1,228)
Total	**(870)**	(1,026)

Movements in deferred tax liabilities and assets (before taking into consideration the offsetting of balances within the same jurisdiction) are summarised as follows

	Deferred tax liabilities				Deferred tax assets				
	Excess of tax allowances over amortisation £m	Acquired intangible assets £m	Pensions assets £m	Other temporary differences £m	Excess of amortisation over tax allowances £m	Tax losses carried forward £m	Pensions liabilities £m	Other temporary differences £m	Total £m
Deferred tax (liability)/asset at 1 January 2011	(223)	(944)	(15)	(3)	5	13	78	45	(1,044)
(Charge)/credit to profit	(6)	131	(10)	(94)	3	32	(3)	24	77
Credit to equity	-	-	25	-	-	-	11	6	42
Transfers	-	-	-	-	-	-	-	(17)	(17)
Acquisitions	-	(84)	-	-	-	2	-	5	(77)
Disposals/ reclassified as held for sale	-	-	-	1	-	-	-	(1)	-
Exchange translation differences	(2)	(2)	-	(2)	-	1	-	(2)	(7)
Deferred tax (liability)/asset at 1 January 2012	**(231)**	**(899)**	-	**(98)**	**8**	**48**	**86**	**60**	**(1,026)**
(Charge)/credit to profit	**(6)**	**85**	-	**(8)**	**(2)**	**(20)**	**(32)**	**25**	**42**
(Charge)/credit to equity	-	-	-	**(3)**	-	-	**102**	**(7)**	**92**
Transfers	-	-	-	-	-	-	-	-	-
Acquisitions	**1**	**(41)**	-	-	**(3)**	**(2)**	-	**(2)**	**(47)**
Disposals/ reclassified as held for sale	**2**	**18**	-	**7**	-	**(1)**	-	**(1)**	**25**
Exchange translation differences	**11**	**35**	-	**2**	-	**(3)**	**(3)**	**2**	**44**
Deferred tax (liability)/asset at 31 December 2012	**(223)**	**(802)**	-	**(100)**	**3**	**22**	**153**	**77**	**(870)**

Other deferred tax liabilities includes temporary differences in respect of plant, property and equipment, and capitalised development spend Other deferred tax assets includes temporary differences in respect of share-based remuneration, provisions, and financial instruments

Deferred tax assets in respect of tax losses and other deductible temporary differences have only been recognised to the extent that it is more likely than not that sufficient taxable profits will be available to allow the asset to be recovered Accordingly, no deferred tax asset has been recognised in respect of unused trading losses of approximately £129m (2011 £133m) carried forward at year end The deferred tax asset not recognised in respect of these losses is approximately £34m (2011 £36m) Of the unrecognised losses, £47m (2011 £45m) will expire if not utilised within 10 years, and £82m (2011 £88m) will expire after more than 10 years

Deferred tax assets of approximately £9m (2011 £11m) have not been recognised in respect of tax losses and other temporary differences carried forward of £41m (2011 £44m) which can only be used to offset future capital gains

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

20. Inventories and pre-publication costs

	2012 £m	2011 £m
Raw materials	3	6
Pre-publication costs	99	113
Finished goods	52	65
Total	154	184

21 Trade and other receivables

	2012 £m	2011 £m
Trade receivables	1,245	1,353
Allowance for doubtful debts	(51)	(63)
	1,194	1,290
Prepayments and accrued income	169	181
Total	1,363	1,471

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

	2012 £m	2011 £m
At start of year	63	73
Charge for the year	13	15
Trade receivables written off	(18)	(23)
Disposals	(6)	(1)
Exchange translation difference	(1)	(1)
At end of year	51	63

22. Assets and liabilities held for sale

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

	2012 £m	2011 £m
Goodwill	137	19
Intangible assets	83	7
Property, plant and equipment	3	-
Deferred tax assets	4	1
Inventories	1	1
Trade and other receivables	71	16
Total assets held for sale	299	44
Trade and other payables	69	17
Deferred tax liabilities	27	-
Total liabilities associated with assets held for sale	96	17

23 Trade and other payables

	2012 £m	2011 £m
Payables and accruals	**1,115**	1,201
Deferred income	**1,394**	1,392
Total	**2,509**	2,593

24. Borrowings

	2012			2011		
	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 Elsevier Reed Finance BV Group	**1,594**	**4,295**	**5,889**	1,476	4,864	6,340
Amounts owed to shareholders and other affiliates	**2,462**	**-**	**2,462**	2,226	-	2,226
Short term bank loans, overdrafts and commercial paper	**37**	**-**	**37**	299	-	299
Other loans including finance leases	**7**	**1,468**	**1,475**	292	1,402	1,694
Other loans in fair value hedging relationships	**-**	**336**	**336**	-	330	330
Other loans previously in fair value hedging relationships	**-**	**338**	**338**	-	356	356
Total	**4,100**	**6,437**	**10,537**	4,293	6,952	11,245

In 2012, £184m principal amount of term debt maturing in 2014 and 2019 was exchanged for £191m principal amount of term debt maturing in 2022 and cash payments of £46m The exchange is treated as a debt modification for accounting purposes The premium arising of £53m is offset against the carrying amount of the newly issued term debt maturing in 2022 and will be amortised over its life

The total fair value of financial liabilities measured at amortised cost is £10,401m (2011 £11,111m) The total fair value of other loans in fair value hedging relationships is £376m (2011 £356m) The total fair value of other loans previously in fair value hedging relationships is £424m (2011 £425m)

24 Borrowings (continued)

Analysis by year of repayment	Short term bank loans, overdrafts and commercial paper £m	Other loans including finance leases £m	Amounts owed to Elsevier Reed Finance BV Group £m	Amounts owed to shareholders and other affiliates £m	Total £m
As at 31 December 2012					
Within 1 year	**37**	**7**	**1,594**	**2,462**	**4,100**
Within 1 to 2 years	-	**290**	**716**	-	**1,006**
Within 2 to 3 years	-	**3**	**1,011**	-	**1,014**
Within 3 to 4 years	-	**400**	**1,078**	-	**1,478**
Within 4 to 5 years	-	**336**	**905**	-	**1,241**
After 5 years	-	**1,113**	**585**	-	**1,698**
	-	**2,142**	**4,295**	-	**6,437**
Total	**37**	**2,149**	**5,889**	**2,462**	**10,537**
As at 31 December 2011					
Within 1 year	299	292	1,476	2,226	4,293
Within 1 to 2 years	-	3	1,329	-	1,332
Within 2 to 3 years	-	350	697	-	1,047
Within 3 to 4 years	-	1	839	-	840
Within 4 to 5 years	-	400	1,065	-	1,465
After 5 years	-	1,334	934	-	2,268
	-	2,088	4,864	-	6,952
Total	299	2,380	6,340	2,226	11,245

Short term bank loans, overdrafts and commercial paper were backed up at 31 December 2012 by a $2,000m (£1,231m) committed bank facility maturing in June 2015, which was undrawn

Analysis by currency	Short term bank loans, overdrafts and commercial paper £m	Other loans including finance leases £m	Amounts owed to Elsevier Reed Finance BV Group £m	Amounts owed to shareholders and other affiliates £m	Total £m
As at 31 December 2012					
US dollars	**25**	**1,413**	**5,339**	-	**6,777**
£ sterling	-	**736**	-	**1,318**	**2,054**
Euro	**9**	-	**453**	**1,144**	**1,606**
Other currencies	**3**	-	**97**	-	**100**
Total	**37**	**2,149**	**5,889**	**2,462**	**10,537**
As at 31 December 2011					
US dollars	279	1,650	5,712	-	7,641
£ sterling	-	730	37	1,318	2,085
Euro	-	-	494	908	1,402
Other currencies	20	-	97	-	117
Total	299	2,380	6,340	2,226	11,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

25 Lease arrangements

Finance leases

At 31 December 2012 future finance lease obligations fall due as follows

	2012 £m	2011 £m
Within one year	**7**	2
In the second to fifth years inclusive	**9**	6
	16	8
Less future finance charges	**-**	-
Total	**16**	8
Present value of future finance lease obligations payable		
Within one year	**7**	2
In the second to fifth years inclusive	**9**	6
Total	**16**	8

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 2012 outstanding commitments under non-cancellable operating leases fall due as follows

	2012 £m	2011 £m
Within one year	**117**	129
In the second to fifth years inclusive	**309**	305
After five years	**184**	206
Total	**610**	640

Of the above outstanding commitments, £577m (2011 £604m) 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 due as follows

	2012 £m	2011 £m
Within one year	**16**	21
In the second to fifth years inclusive	**33**	38
After five years	**17**	19
Total	**66**	78

26. Provisions

	2012			2011		
	Property £m	Restructuring £m	Total £m	Property £m	Restructuring £m	Total £m
At start of year	109	16	125	105	53	158
Transfers	22	-	22	-	-	-
Charged	62	-	62	16	-	16
Utilised	(24)	(11)	(35)	(12)	(37)	(49)
Exchange translation differences	(5)	-	(5)	-	-	-
At end of year	**164**	**5**	**169**	109	16	125

Property provisions relate to estimated sub lease shortfalls and guarantees given in respect of certain property leases for various periods up to 2024 The charge in 2012 of £62m (2011 £16m) predominantly relates to property exposures on disposed businesses

At 31 December 2012 provisions are included within current and non-current liabilities as follows

	2012 £m	2011 £m
Current liabilities	30	37
Non-current liabilities	139	88
Total	**169**	125

27. Contingent liabilities and capital commitments

There are contingent liabilities amounting to £11m (2011 £15m) 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 £89m (2011 £87m) of subsidiary undertakings registered in the Netherlands

28. Other reserves

	Hedge reserve 2012 £m	Other reserves 2012 £m	Total 2012 £m	Total 2011 £m
At start of year	(36)	(5,829)	(5,865)	(5,599)
Profit attributable to parent companies shareholders	-	776	776	427
Dividends paid	-	(300)	(300)	(600)
Actuarial losses on defined benefit pension schemes	-	(329)	(329)	(113)
Fair value movements on available for sale investments	-	29	29	(6)
Transfer to net profit on disposal of available for sale investments	-	11	11	-
Deferred losses on cash flow hedges in acquired businesses	(2)	-	(2)	-
Fair value movements on cash flow hedges	72	-	72	(19)
Tax recognised directly in equity	(19)	107	88	42
Increase in share based remuneration reserve	-	31	31	27
Settlement of share awards	-	(7)	(7)	(7)
Transfer from hedge reserve to net profit (net of tax)	10	-	10	26
Disposal/(acquisition) of non-controlling interests	-	6	6	(43)
Exchange translation differences	1	(1)	-	-
At end of year	26	(5,506)	(5,480)	(5,865)

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

29. 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 2012 by Reed Elsevier Group plc and its subsidiaries with its fellow joint ventures amounted to £2,254m (2011 £1,621m)

Transactions between the Reed Elsevier Group plc group's businesses have been eliminated within the consolidated financial statements Transactions with joint ventures were made on normal market terms of trading and comprise sales of goods and services of £1m (2011 £1m)

29 Related party transactions (continued)

As at 31 December 2012, amounts owed by joint ventures were £1m (2011 £3m) and amounts due from joint ventures were £1m (2011 nil) Key management personnel are also related parties and comprise the executive directors of Reed Elsevier Group plc Transactions with key management personnel are set out below

	2012 £m	2011 £m
Salaries and other short term employee benefits	4	3
Post employment benefits	-	-
Share based remuneration*	5	4
Total	9	7

*The share based remuneration charge comprises the multi-year incentive scheme charges in accordance with IFRS2 – Share based payment, relating to executive directors as follows Erik Engstrom £2 7m (2011 £2 5m), Mark Armour £2 1m (2011 £1 5m), and Duncan Palmer £0 3m (2011 nil) These IFRS2 charges do not reflect the actual value received on vesting

Details of the directors' remuneration are set out in the Directors Remuneration Report on pages 30 to 49

30 Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors of Reed Elsevier Group plc on 27 February 2013

PARENT COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2012

PARENT COMPANY BALANCE SHEET
As at 31 December 2012

	2012 £m	2011 £m Restated *
Fixed assets		
Investments		
Shares in subsidiary undertakings		
Cost	3,100	3,094
Provided	(4)	(4)
Net book amount	3,096	3,090
Other investments	150	158
Joint ventures (cost and net book value)	2	2
	3,248	3,250
Current assets		
Trade and other receivables	13	13
Amounts owed by Reed Elsevier PLC	4	3
Amounts owed by subsidiary undertakings	272	-
Tax	70	-
	359	16
Total assets	3,607	3,266
Creditors falling due within one year		
Amounts owed to subsidiary undertakings	(325)	(432)
Trade and other payables	-	-
	(325)	(432)
Net current assets/(liabilities)	34	(416)
Net assets	3,282	2,834
Capital and reserves		
Called up share capital	-	-
Share premium account	2,430	2,430
Profit and loss reserves	852	404
Shareholders' funds	3,282	2,834

*See Parent Company Accounting Policies

Approved by the board of Reed Elsevier Group plc, 27 February 2013

D J Palmer
Chief Financial Officer

PARENT COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2012

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2012

	2012 £m	2011 £m Restated *
Profit for the financial year	**448**	52
Total gains and losses relating to the year	**448**	52
Prior year adjustment	**11**	
Total gains and losses recognised since last financial statements	**459**	

*See Parent Company Accounting Policies

PARENT COMPANY RECONCILIATION OF SHAREHOLDERS' FUNDS
For the year ended 31 December 2012

	Share capital £m	Share premium £m	Profit and loss reserve £m Restated	Total £m Restated
At 31 December 2011 (as previously stated)	-	2,430	393	2,823
Prior year adjustment	-	-	11	11
At 1 January 2012 as restated	-	**2,430**	**404**	**2,834**
Profit attributable to ordinary shareholders	-	-	**748**	**748**
Ordinary dividends paid	-	-	**(300)**	**(300)**
At 31 December 2012	-	**2,430**	**852**	**3,282**

PARENT COMPANY ACCOUNTING POLICIES

Basis of preparation

The parent company financial statements have been prepared under the historical cost convention in accordance with UK Generally Accepted Accounting Practice (UK GAAP) Unless otherwise indicated, all amounts in the financial statements are in millions of pounds

As permitted by Section 408 of the Companies Act 2006, 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, excepted as described below

Change of accounting policy

The directors have reconsidered the accounting policies of the company with respect to the Reed Elsevier Group plc Employee Benefit Trust ("EBT) and consider it appropriate to recognise the EBT's assets and liabilities, which are under the *de facto* control of Reed Elsevier Group plc, in the parent company balance sheet

Comparative figures have been restated to reflect the revised policy Amounts receivable from the EBT of £282m have been eliminated and replaced with other investments of £158m (representing the shares held by the EBT), trade receivables of £13m and capital contributions to Reed Elsevier Group plc subsidiary undertakings of £122m Shareholders funds have increased by £11m as a result of this change

Investments

Fixed asset investments are stated at cost, less provision, if appropriate, for any impairment in value Other investments relate to ordinary shares of Reed Elsevier PLC and Reed Elsevier NV held by the EBT

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

We have audited the parent company financial statements of Reed Elsevier Group plc for the year ended 31 December 2012 ("the company financial statements") which comprise the parent company balance sheet, the parent company reconciliation of shareholders' funds and the parent company accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for preparation of the Annual Report and the parent company financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the parent company's affairs as at 31 December 2012 and of its profit for the year then ended, and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- we have not received all the information and explanations we require for our audit

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

Other matter

We have reported separately on the consolidated financial statements of Reed Elsevier Group plc for the year ended 31 December 2012

Douglas King (Senior statutory auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 February 2013

SUPPLEMENTARY INFORMATION

Principal subsidiary undertakings at 31 December 2012

Holding and Corporate 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)
Scientific, Technical & Medical	
Elsevier Limited	
Elsevier B V	(The Netherlands)
Elsevier Inc	(USA)
Academic Press [2]	(USA)
Elsevier Health Sciences [2]	(USA)
Gold Standard Inc	(USA)
Elsevier Masson SAS	(France)
Elsevier Espana SL	(Spain)
Elsevier Information Systems GmbH	(Germany)
Risk Solutions	
LexisNexis Risk Assets Inc	(USA)
LexisNexis Risk Solutions FL Inc	(USA)
LexisNexis Risk Data Management Inc	(USA)
Business Information	
Reed Business Information Limited	
Reed Business B V	(The Netherlands)
Reed Business Information US [4]	(USA)
Reed Construction Data LLC	(USA)
BuyerZone com LLC	(USA)
Accuity Holdings Inc	(USA)
Ascend Worldwide Group Holdings Ltd	
Legal	
LexisNexis [3]	
LexisNexis [4]	(USA)
Matthew Bender and Company, Inc	(USA)
Martindale-Hubbell [4]	(USA)
LexisNexis SA	(France)
LexisNexis Australia [5]	(Australia)
Exhibitions	
Reed Exhibitions Limited	
Reed Exhibitions [4]	(USA)
Reed Expositions France SAS	(France)
Reed Midem SAS	(France)
Reed Exhibitions Japan KK	(Japan)
Reed Exhibitions Alcantra Machado Ltda	(Brazil)

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

(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 2012

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