

**Company Registration No 2746616**

**Reed Elsevier Group plc**

**Annual Report and Financial Statements**

**For the year ended 31 December 2013**

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## **OFFICERS AND AUDITOR**

### **Directors**

The following served as directors during the year

A Habgood*	- Chairman
E Engstrom	- Chief Executive Officer
D J Palmer	- Chief Financial Officer
M W Elliott*	- (retired 25 April 2013)
W Hauser*	- (appointed 25 April 2013)
A Hennah*	
L Hook*	
R B Polet*	
Sir David Reid*	- (retired 25 April 2013)
L Sanford*	
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

## STRATEGIC REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2013. Pages 2 to 25 comprise the Strategic Report and pages 26 to 28 comprise the Directors' Report in accordance with The (UK) Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013.

Reed Elsevier Group plc is a world leading provider of information solutions for professional customers across industries. We help scientists make new discoveries, lawyers win cases, doctors save lives, corporations build commercial relationships, insurance companies assess risk, and governments and financial institutions detect fraud.

We achieve this by using our deep customer understanding to combine high-quality content & data with analytics & technology in global platforms. These solutions often account for about 1% of our customers' total cost base but can have a significant, positive impact on the economics of the remaining 99%. We seek to build leading positions in long term-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 in this direction, primarily through organic development, by investing in the transformation of our assets and building out new products and solutions in adjacent markets and geographies. We are supplementing organic growth with selective acquisitions that can accelerate our strategy with good returns. We continue to divest assets that we are unable to align in this direction, or where we do not see significant future value creation.

Reed Elsevier Group plc operates across a number of market segments. In Scientific, Technical & Medical markets, we provide information and tools to help customers improve scientific and healthcare outcomes. In Risk Solutions & Business Information, we provide data, analytics and insight that enable customers to evaluate and manage risks, and develop market intelligence, supporting more confident decisions, improved economic outcomes, and enhanced operational efficiency. In Legal markets, we are a world leading provider of legal, regulatory and news & business information and analysis to legal, corporate, government and academic customers. In Exhibitions, we are the world's leading events business with almost 500 events in over 30 countries.

## BUSINESS REVIEW

### *Scientific, Technical & Medical*

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

Revenues for the year ended 31 December 2013 were £2,103m. 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 6,500 employees.

Approximately 38% of revenue by destination in 2013 was derived from North America, 30% from Europe and the remaining 32% from the rest of the world.

Elsevier serves the needs of the science, technology & medical 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 'educators', 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 2013, over 1m research papers were submitted to Elsevier. Over 10,000 editors managed the peer review and selection of these papers, resulting in the publication of more than 350,000 articles in over 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 more than 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 12m pieces of content, and 26,000 full text e-books. Flagship journals include *Cell* and *The Lancet* families of titles.

## STRATEGIC REPORT

In 2013 Elsevier acquired Mendeley, an innovative research management and social collaboration platform. Researchers use Mendeley's desktop and cloud-based tools to manage and annotate documents, create citations and bibliographies, collaborate on research projects and network with fellow academics.

Elsevier is also a global leader in the scientific, technical & 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. Flagship titles include works such as *Gray's Anatomy*, *Nelson's Pediatrics* and *Netter's Atlas of Human Anatomy*.

Elsevier launched *ClinicalKey* in 2012, providing physicians with access to leading Elsevier and third-party reference and evidence-based medical content in a single, fully integrated site. Since launch *ClinicalKey* has grown rapidly, and currently serves over 1,000 institutions.

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, *Evolve*, an online suite of solutions designed to help students of nursing and allied health professions, had over 4m registered users in 2013.

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*, *Reaxys*, and *Knovel*. *Scopus* is the largest abstract and citation database of research literature in the world, with over 50m abstract and bibliographic information records from more than 20,000 peer reviewed journals and 5,000 international publishers. *Reaxys* is a leading solution for synthetic chemists, integrating chemical reaction and compound data searching with synthesis planning.

*Knovel* provides a range of web-based 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.

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.

### Market opportunities

Scientific, technical & 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, technology and 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, strives for excellence in content, service and execution, constantly adapts and revitalises its products, business models and technology, and leverages its institutional skills, assets and resources to promote innovation and efficiency.

Elsevier's strategic priorities are to continue to increase content volume and quality, to expand content coverage, building out integrated solutions combining Elsevier, third-party and customer data, to increase content utility, using 'Smart Content' to enable new e-solutions, to combine content with analytics and technology, focused on measurably improving productivity and outcomes for customers, and to continue to drive operational efficiency and effectiveness.

## STRATEGIC REPORT

In the primary research market, Elsevier aims to grow volume through new journal launches, expansion of author-pays journals and growth from emerging markets, to enhance quality by building on our premium brands, and to add value to core platforms by implementing new capabilities such as advanced recommendations on *ScienceDirect* and social collaboration through Mendeley

In clinical reference markets, priorities are to expand content coverage, including licensing high-quality third-party content for *ClinicalKey*, as well as ensuring consistent tagging to link content assets across products

### **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 '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 1,600 of Elsevier's journals now offer the option of funding research publishing and distribution via a sponsored article fee. In addition, Elsevier now publishes more than 50 open access 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

### **2013 financial performance**

Strong volume growth in primary research submissions and usage, and in databases & tools, across the scientific, technical and medical segments. Electronic revenues, which now account for 72% of the total, grew strongly across all segments. Print book sales and pharma promotion continued to decline

Underlying revenues grew 2% and underlying adjusted operating profits grew 3%

In primary research, growth in article submissions and usage remained strong across the scientific, technical and medical segments, and journal quality, as measured by Impact Factor, continued to improve. Revenue growth was driven by solid subscription renewals and new sales. 'Author-pays' or 'author's-funder-pays' article volumes continued to grow strongly from a small base. Good growth in scientific databases & tools and electronic clinical solutions was also supported by strong new sales

Print book sales and pharma promotion continued to decline reflecting a combination of format migration and structural changes in the pharmaceutical industry

Portfolio development continued in 2013. Disposals included Elsevier Business Intelligence and a number of small print and pharma focused assets. We supported our organic growth strategy with small targeted acquisitions, including Mendeley, an online reference management and collaboration solution

### **2014 Outlook**

The customer environment remains broadly unchanged on last year, with variations by geography and customer segment. We expect continued volume growth and strong demand for electronic products and solutions, and continued declines in print book and pharma promotion revenues. Overall we expect another year of modest underlying revenue growth in 2014

## STRATEGIC REPORT

### *LexisNexis Risk Solutions*

#### **Risk Solutions**

LexisNexis Risk Solutions is a leading provider of solutions that combine proprietary, public and third-party information, with advanced technology and analytics, and are powered by High Performance Computing Cluster (HPCC) Systems. 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 2013 were £933m. LexisNexis Risk Solutions, headquartered in Alpharetta, Georgia, has principal operations in Georgia, Florida, and Ohio, and has 3,300 employees.

LexisNexis Risk Solutions is organised around market-facing industry/sector groups: insurance, business services (including the financial services, receivables management and corporate groups), government, and healthcare. The largest 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, personal and commercial lines insurance carriers 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 most comprehensive US 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 LexisNexis *Data Prefill*, which provides critical information on customers, potential customers and their auto, property and life policy information directly into the insurance workflow, and LexisNexis *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 (AML) 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.

**Health Care Solutions** provides identity, fraud, and clinical analytics solutions across key stages of the healthcare workflow to enable intelligent decision making for payers and providers.

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 existing business segments and selected adjacent markets and geographies. In 2013, this strategy was reinforced with a number of focused acquisitions.

In the Insurance business, Risk Solutions acquired Mapflow, an industry-leading geographic risk assessment technology company based in Dublin, Ireland. Mapflow's technology combined with Risk Solutions' comprehensive data, advanced analytics, supercomputing platform (HPCC Systems) and linking capabilities help commercial and home insurers better understand property-level geographic peril risk to make more informed underwriting decisions.

In Business Services, Risk Solutions acquired the remaining stake in WorldCompliance, a leading provider of customer and vendor screening content, to complement existing AML and compliance solutions. Risk Solutions also acquired RSA Security's consumer Knowledge Based Authentication technology to drive further innovation and strengthen leadership position in identity management. In Health Care, the acquisition of Enclarity supplements the existing identity and fraud, waste, and abuse solutions with the most comprehensive provider information available. The transition of MEDai from Elsevier to Risk Solutions' Health Care business was announced, enabling the combination of MEDai's clinical expertise with Risk Solutions' analytics, data, and HPCC technology to create leading clinical analytics solutions.

## STRATEGIC REPORT

The identity management and risk evaluation solutions provided by Risk Solutions utilise comprehensive database platforms of public records and proprietary information with more than 2 petabytes 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 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 February 2013, Risk Solutions completed the sale of its Screening business. This allows 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 and privacy 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 growth in insurance quoting and policy switching, 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. In Health Care, there are numerous growth drivers for fraud and analytics solutions including the expansion of insurance coverage under the Affordable Care Act and the focus on cost containment and better patient outcomes.

### 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, which in many cases address different activities in these segments as well.

### 2013 financial performance

All business segments achieved strong growth in 2013. The improvement in adjusted operating margin largely reflects the impact of portfolio changes, as underlying cost growth was in line with underlying revenue growth, reflecting continued new product development.

Underlying revenues grew 8% and underlying adjusted operating profits grew 8%.

Revenue growth in the insurance segment was driven by good take up of new products and services across the insurance workflow, expansion into adjacent market verticals, and volume growth in the core underwriting business. The expansion into international markets is progressing well, although the absolute revenue contribution remains small relative to Risk Solutions overall.

## STRATEGIC REPORT

Business Services growth reflected strong demand for identity authentication and fraud detection solutions across markets. The US mortgage refinancing market did slow down in the second half as expected, but the impact of this was largely offset by continued good growth elsewhere.

New product sales drove strong growth in government revenues for the year, somewhat tempered by a slowdown in federal markets in the fourth quarter.

The 2013 results reflect the impact of portfolio changes, including the disposal of the pre-employment screening business in the first half, and some small acquisitions, including Mapflow and Enclarity. Taken together, portfolio changes had the effect of reducing reported revenues but increasing the adjusted operating profit margin, with underlying cost growth broadly matching revenue growth.

### 2014 Outlook

The outlook for the federal government segment and mortgage refinancing market is uncertain, but the fundamental growth drivers of the Risk Solutions business remain strong. We will continue to invest in new products that leverage our leading content and analytics expertise, and to extend our services in new verticals and geographies. Overall we expect good underlying revenue growth across market segments.

### Business Information

Reed Business Information (RBI) provides information and online data services to business professionals worldwide. RBI provides its customers with high-value industry critical data services, information and tools as well as producing conferences, websites and business magazines. It has many strong global brands with market-leading positions across a wide range of industry sectors.

Revenues for the year ended 31 December 2013 were £547m. RBI is a global business with principal operations in London, Amsterdam, Chicago, Atlanta and Shanghai. RBI has 3,900 employees worldwide. Approximately 28% of revenue in 2013 came from North America, 20% from the United Kingdom, 39% from Continental Europe and 13% from the rest of the world.

RBI's customers use its data and online services to help make key strategic decisions, to improve productivity and performance, to identify new business opportunities and to reduce risk. 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 marketing-leading data services include *ICIS*, an information and data service in chemicals, fertilisers and energy, *Accuity*, a provider of services and solutions to the banking and corporate sectors focused on payment efficiency, Know Your Customer (KYC), anti-money laundering (AML) and compliance, *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 other leading brands include *Flightglobal*, *New Scientist*, *Farmers Weekly*, *Estates Gazette*, *Elsevier* and *Boerderij*.

In 2013, RBI continued to reshape its portfolio, exiting areas not core to its paid content strategy. As part of this strategy RBI has continued to exit its Marketing Solutions businesses. Approved Index was sold in 2013, *BuyerZone* has been sold since year end and the sale process of *emedia* is ongoing. In addition RBI completed its exit of its publishing businesses in Australia, France, Spain and Italy. *ICIS* made a small acquisition in the carbon trading information space, *Tschach Solutions*.

### Market opportunities

The growing need for high-quality industry data and information and insight is driving demand for online subscription data services and providing new opportunities.

### 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 advertising-driven portfolio and focusing other products on paid content, and driving further organisational effectiveness.



## STRATEGIC REPORT

### **Business model, distribution channels and competition**

Across the RBI portfolio, user and subscription revenues now account for 78% of the total business with the remaining 22% derived from print and online advertising and lead generation. RBI electronic revenue streams now account for 60% 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 revenues are sold directly or through agents.

RBI's products compete with a number of information providers on a service and title-by-title basis including IHS, 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, search engines and social media.

### **2013 financial performance**

Underlying revenue growth accelerated in 2013 reflecting continued good growth in data services and modest growth elsewhere. Focus on process innovation drove a further improvement in adjusted operating profit margin.

Underlying revenues grew 4%, and underlying adjusted operating profits grew 14%.

Major Data Services, which now accounts for over 50% of continuing portfolio revenue, achieved strong growth in 2013 driven by *Accuity*, *ICIS* and *XpertHR*.

Leading Brands and Other Business Magazines & Services achieved modest growth, despite weak print advertising markets, with solid results from data solutions and the agricultural segments.

The improvement in adjusted operating profit margin in the year was entirely the result of the continued organic transformation of the business.

In 2013 we continued to exit from businesses that no longer fit our strategy, with disposals during the period including RBI Australia, Italy, and France. Since the beginning of 2014 we have also divested BuyerZone in the Marketing Services segment.

Since bringing the management structure of Business Information and Risk Solutions more closely together at the end of 2012 we have made good initial progress on leveraging Risk Solutions' strength in data, analytics and technology across Business Information's broader geographic footprint.

### **2014 Outlook**

We expect continued good underlying growth in Major Data Services and stable Leading Brands and Other Businesses Magazines & Services.

### ***LexisNexis Legal & Professional***

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 2013 were £1,567m. 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 10,000 employees worldwide. Approximately 68% of revenue by destination in 2013 was derived from North America, 21% from Europe and the remaining 11% from the rest of the world.

LexisNexis Legal & Professional is organised in market-facing groups. These are supported by global shared services organisations providing platform and product development, operational and distribution services, and other support functions.

In the US, 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.

## STRATEGIC REPORT

In 2013, LexisNexis continued to release new versions 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 outreach 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.

New workflow and analytical tools and content sets are regularly introduced on *Lexis Advance*. For example, in 2013 LexisNexis launched *MedMal Navigator*, a workflow tool that integrates medical and legal research with case facts, assisting attorneys in determining their course of action. Also, LexisNexis launched new modules for *Lexis Practice Advisor*, a web-based practical guidance product tailored for attorneys who handle transactional matters. Additionally, LexisNexis strengthened its core content offering through the acquisitions of Sheshunoff and A S Pratt and analytical titles from Oxford University Press – providing attorneys with enhanced information in online and ebooks format.

In litigation solutions, LexisNexis launched its web-enabled Early Data Analyzer which enables users to determine the nature and amount of relevant data in a lawsuit at its source location. Additionally, LexisNexis released a new version of *Concordance Evolution* supporting the direct import of files from *LAW PreDiscovery* - reducing time, costs and storage needs by streamlining electronic discovery workflow.

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 August 2013, LexisNexis Martindale-Hubbell and Internet Brands announced the set-up of a joint venture, bringing together *Martindale-Hubbell lawyer directory*, including *Lawyers.com*, with Internet Brands' online marketing services for lawyers.

In International markets outside the US, 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 60% 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* and *Butterworths*. The content is delivered through multiple formats - from print to online to mobile apps and embedded in customers' workflow.

In 2013, LexisNexis launched additional modules for the UK *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. Similar practical guidance services were launched in Canada, South Africa and Australia.

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 2013, LexisNexis France continued to enhance *Lexis 360*, the first semantic search online tool combining legal information, practical content and results from the web by providing tailored solutions for the notary market.

Following the success of *Lexis for Microsoft Office* (LMO) in the US and Canadian markets, an Australian version was launched in 2013. LMO enables customers to access LexisNexis content and services via add-ins/toolbars within Microsoft Word and Outlook.

## STRATEGIC REPORT

In 2013, LexisNexis Legal & Professional strengthened its positions in Asia through acquisitions and enhanced products created specifically for legal professionals and practitioners, corporate counsels, legal researchers and government institutions in markets including India, China and Japan. In China, LexisNexis acquired *LegalStudio*, a leading provider of model contracts and practical guidance, strengthening its position in high-growing Corporate and Intellectual Property practice areas.

### 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 multiple products and solutions. Over the next few years progressive product introductions, often based on the New Lexis platform, leveraging big data HPC 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 2014, LexisNexis will continue 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) and CCH (Wolters Kluwer). In news and business information they are Bloomberg and Factiva (News Corporation). Competitors in litigation solutions also include software companies. Significant international competitors include Thomson Reuters, Wolters Kluwer and Factiva.

### 2013 financial performance

Positive underlying revenue growth was maintained in 2013 despite subdued market conditions in the US and Europe. Electronic revenues continued to show good growth, largely offset by print declines.

Underlying revenues grew 1%, and underlying operating profits grew 5%.

In the US and in our major European markets, conditions remained subdued, with growth in online solutions largely offset by continued print declines. Other international markets achieved good growth.

The roll out of new product releases continued, with 73% of US legal customers activated on the New Lexis platform at period end, and new product usage progressing well.

Ongoing process innovation and some initial decommissioning of old infrastructure more than offset inflation and higher depreciation, contributing to a 0.7 percentage point margin improvement in 2013.

## STRATEGIC REPORT

The 2013 results reflect the impact of portfolio reshaping over the last 18 months, including the disposal of the US document retrieval and filing business in late 2012 and other small print assets early in 2013. In the second half of 2013 LexisNexis *Marundale-Hubbell*, the US lawyer directory, was spun out into a joint venture with Internet Brands, a broad-based internet marketing firm.

### 2014 Outlook

We will continue the roll out of our new technology platforms and products in 2014, and will maintain our focus on process improvement. Our customer markets remain subdued, however, limiting the scope for underlying revenue growth.

### Exhibitions

Reed Exhibitions' portfolio of exhibitions and conferences serves 43 industry sectors across the globe. In 2013, Reed Exhibitions brought together over 6m event participants from around the world, generating billions of dollars of business and facilitating entry into new markets for its customers and boosting the local economies where the events are hosted.

Revenues for the year ended 31 December 2013 were £862m. Reed Exhibitions is a global business headquartered in London and has principal offices in Paris, Vienna, Norwalk (Connecticut), Sao Paulo, Abu Dhabi, Beijing, Moscow, Tokyo, and Sydney. Reed Exhibitions has 3,400 employees worldwide. In 2013, approximately 16% of Exhibitions' revenue came from North America, 43% from Europe and the remaining 41% from the rest of the world on an event location basis.

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 higher growth sectors provide additional opportunities for Reed Exhibitions. 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 understand and respond to its customers' evolving needs and objectives better than its competition through deep knowledge of its customers and the markets they serve.

Reed Exhibitions delivers a platform for industry communities to conduct business, to network and to learn through a range of market-leading events in growth sectors, especially in higher growth geographies, enabling exhibitors to target and reach new customers quickly and cost effectively.

Organic growth will be achieved by continuing to generate greater customer value through the intelligent application of customer knowledge, by developing new events, and by building out technology platforms to ensure the rapid deployment of innovation and best practices across the organisation. Reed Exhibitions is also shaping its portfolio through a combination of strategic partnerships and acquisitions in high-growth sectors and geographies as well as by withdrawing from markets and industries with lower long-term growth prospects.

Reed Exhibitions is committed to continually improving customer solutions and experience. By providing a variety of services, including its integrated web platform, the company continues to drive customer satisfaction. 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 2013 Reed Exhibitions launched 37 new events. These included events which extended the geographical footprint of the luxury travel brand, ILTM, to Africa and the art brand, Paris Photo, to Los Angeles. Reed Exhibitions Japan responded again to customer demand by replicating its Tokyo-based World Smart Energy Week in Osaka. The UK-based event, Oceanology International, was successfully launched in China through a collaborative effort between the Chinese and UK teams. Regional strategies remain a key element of building business in China and Brazil, taking more events to China's second tier cities and cloning events from Sao Paulo to Recife in Brazil's fast developing north east. Reed Exhibitions now organises nearly 200 events in emerging markets.

## STRATEGIC REPORT

A number of targeted acquisitions were completed during 2013. These included the Capsule portfolio of contemporary fashion events, located mainly in North America, Travelweek Sao Paulo, a high-end travel event servicing premium buyers across Latin America, and Expo Ferreteria, the leading hardware event in Mexico. Elsewhere, acquisitions were made to expand Reed Exhibitions' footprint in China and its global position in the advanced materials sector. Reed Exhibitions also entered into a partnership with Thebe Exhibitions, one of the leading events companies in South Africa, to form Thebe Reed Exhibitions, which will run a number of events, primarily in the travel and interior design sectors.

### **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. Increasingly, Reed Exhibitions is offering visitors and exhibitors the opportunity to interact before and after the show through the use of online tools such as directories and matchmaking.

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

### **2013 financial performance**

In 2013 Exhibitions maintained strong underlying revenue growth of 7% excluding the effect of biennial show cycling. While growth in Europe was modest, the US, Japan, Brazil and other markets all grew well.

Underlying revenues grew 2% (7% excluding biennial cycling), and underlying adjusted operating profits grew 4%.

The US and Japan achieved strong revenue growth for the year. US shows reported good growth in visitor numbers, and growth in Japan was supported by leadership of the alternative energy sector and new launches. Brazil and China continued to generate strong growth.

In Europe good growth in international events more than offset softness in some domestic continental European events, resulting in modest overall growth.

In 2013 we launched 37 new events, primarily in high-growth geographies and sectors, including the highly successful launch of World Travel Market Latin America, building on a global franchise.

We undertook a number of portfolio changes during the year, with acquisitions including Expo Ferreteria in Mexico, IPSA in Russia, Travelweek Sao Paulo in Brazil and Capsule in the US. Disposals include a number of Spanish events as well as some smaller events across geographies.

The impact of biennial exhibition cycling has steadily been reduced from 10% in 2011 through 8% in 2012, to 5% in 2013.

### **2014 Outlook**

We expect good underlying growth in the US and Japan, and limited growth in Europe. In other markets we expect growth to remain strong, albeit at a slightly lower rate than in 2013. In 2014, which is a 'cycling-in' year, we expect the impact of cycling to be further reduced to around 2 percentage points of growth.

## STRATEGIC REPORT

### 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, governments, and communities in which we operate, 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.

#### 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 access to justice.

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, we provide core and cutting-edge scientific information to researchers in more than 100 developing countries. As a founding partner, we contribute 25% of the content available in Research4Life, encompassing all *ScienceDirect* content, including approximately 3,000 Elsevier journals and 12,000 books. In the year, there were more than 3m Research4Life article downloads from *ScienceDirect*. Research undertaken by Elsevier in 2013 shows African authors have nearly doubled their output of research articles over the past decade, aided by programmes like Research4Life. In addition to support for ongoing projects, the Elsevier Foundation committed \$700,000 to libraries, new scholars, and nurses, including a grant to the Mariners' Polytechnic Colleges Foundation of the Philippines.

LexisNexis Risk Solutions tools and resources help protect society. During the year, it launched *Social Media Monitor*, a new capability within its Accurint for Law Enforcement platform, to assist law enforcement officials with investigations into critical incidents such as gang violence, drug dealing, crimes against children, and human trafficking. *Social Media Monitor* allows law enforcement personnel to identify posts and tweets by keyword and geographic location as an additional resource alongside traditional public records data. The business unit's analytic technology also helps governments fight fraud. In the year, LexisNexis Risk Solutions partnered with investigators, Tax Management Associates, Inc., to help Greenville County, South Carolina recover nearly \$3m in revenue by detecting fraudulent tax exemption filings, including individuals receiving exemptions under the names of deceased property owners. A study commissioned in 2013 by LexisNexis Risk Solutions using its Fraud Multiplier tool, calculated the actual cost of US fraud – retailers lost \$279 for every \$100 of fraud, attributable to fees and interest owed to financial institutions, charge-backs, and other replacement costs. The study advocated greater awareness of the wide range of fraud schemes, particularly those associated with online purchases.

Reed Business Information (RBI) uses the power of its brands to aid communities. In 2013, RBI's *Community Care* drew attention to shortcomings in England's mental health provision in a joint investigation with the BBC. This led the UK government's Care Services Minister to pledge an end to 'institutional bias against mental health' in the National Health Service. ICIS, an RBI service providing news and market intelligence to the chemicals, energy, and fertiliser sectors, held its 10th Innovation Awards in 2013 to reward industry innovation. Boston-based Cabot Corporation was chosen overall winner and winner of the Innovation with Best Environmental Benefit award for its aerogel building insulation technology (lightweight, silica materials consisting of 90% air which prevent heat transfer) which increases energy efficiency and cost savings, and reduces carbon footprints.

LexisNexis Legal & Professional promotes justice through its products and services. In 2013, in association with the Atlantic Council, it launched a draft set of Global Rule of Law Business Principles to help businesses, law firms, non-governmental organisations, and other institutions promote and uphold the rule of law. In conjunction with the launch, the first-ever LexisNexis Rule of Law Awards were awarded to UN Secretary-General Ban Ki-moon, former President of Ireland, Mary Robinson, and former President of the American Bar Association, Laurel Bellows, all of whom have each made significant contributions to the rule of law around the world. Aung San Su Kyi, Chair of the National League for Democracy and Parliamentary Rule of Law and Tranquility Committee (Pyithu Hluttaw), also received an inaugural award and accepted from Myanmar. LexisNexis Legal & Professional will be working with the UN to refine and advance the Principles in the year ahead. In 2013, staff in South Africa launched the Human Trafficking Awareness Index, building on a tool developed by UK colleagues.

## STRATEGIC REPORT

in 2012. It uses the business unit's Nexis news service to highlight emerging trends within and across national borders to aid campaigners and the South African Police Service in their efforts to combat trafficking.

Reed Exhibitions' trade shows provide platforms for supporting our corporate responsibility focus areas. During the 2013 PSI Trade Show, the leading European show for the promotional products industry, Reed Exhibitions, with the European Promotional Products Association (EPPA), launched the EPPA Certification Program for CSR. The aim is to help industry companies comply with laws and regulations and International Labor Organization standards. At the 2013 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 50,000 attendees on topics ranging from poverty reduction to wildlife protection and reducing greenhouse gas emissions. Over the past 10 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.

Drawing on expertise in alternative energy across Reed Elsevier Group plc, in 2013, we launched the Alternative Energy Roundtable to facilitate cross-business understanding of our products and new developments in alternative energy. At meetings held during the year, more than 30 colleagues from our business units discussed topics such as emerging markets, R&D, and customer engagement. In addition, it was the theme of our 2013 CR Forum Stakeholder Session with internal and external specialists, including Jan Paul Grolle, Elsevier's Managing Director of Alternative Energy, Richard Sobelsohn, LexisNexis Legal & Professional's Director of Content and Product Initiatives, Blaine Collison, Director of the US Environmental Protection Agency's Green Power Partnership, and Professor Jinyue Yan, Director of Future Energy at Sweden's Royal Institute of Technology.

During the year, we progressed our collaboration with UNICEF on the report, *Social protection, Disaster Risk Reduction, and Climate Change Adaptation in East Asia and the Pacific*, providing access to content and subject experts, and editorial assistance. The report, featuring in-depth case studies from Thailand and the Philippines, was profiled at a workshop for corporate peers and NGOs to advance awareness of climate change resilience. A follow-up workshop will be held in 2014 for academics, practitioners, and policymakers to explore translating the report's findings into programming and policy for children in East Asia and the Pacific.

### Governance

The Reed Elsevier Group plc Code of Ethics and Business Conduct (The Code) is disseminated to every employee, setting the standard for our corporate and individual conduct. It covers topics such as fair competition, anti-bribery, conflicts of interest, employment practices, and protecting intellectual property. It also encourages the reporting of violations, and prohibits retaliation. The Code makes clear our commitment to human rights, incorporating the principles of the United Nations Global Compact (UNGC). In accordance with the UN's Guiding Principles on Business and Human Rights, we have considered where and how we operate and have concluded that there is low human rights risk in our direct employment activities (for more information on human rights see Supply Chain).

All employees complete training on the Code, both as part of their new hire induction and at regular intervals, to update their understanding and acknowledgement of the Code. We also provide mandatory online training on anti-bribery, competition laws, protecting data, and preventing workplace harassment, supplemented by in-person training for higher risk roles. We achieve 100% completion rates for all courses within six months of issuance.

In 2013, we remained diligent in our ongoing efforts to ensure compliance with applicable bribery laws, including the UK Bribery Act and US Foreign Corrupt Practices Act, through intermediary due diligence and monitoring, strict limits on gifts, hospitality and gratuities, and employee awareness efforts, among other steps. Also this year, we developed employee training on intellectual property and using social media, and enhanced internal investigation procedures and training of investigators for all types of alleged employee misconduct. We also translated our Record Management Policy, Record Retention Schedule, and related resources for non-English-speaking employees to help them properly manage company records.

As a signatory to UNGC and its principles, encompassing labour, environment, anti-corruption, as well as human rights, we demonstrated leadership in 2013 by serving on the UNGC Advisory Group for the UK and the UNGC Supply Chain Advisory Group. We were also part of the UNGC's CEO Water Mandate Steering Group and represented the initiative on the board of the Alliance for Water Stewardship. A member of the UNGC Caring for Climate Advisory Group, we participated in the Caring for Climate Business Forum in Warsaw, held during the UN Climate Change Conference (COP 19), to support innovation and collaboration on climate action. The UNGC judged our 2013 Communication on Progress, required of signatories each year, to have attained Advanced Level. In the year, we provided content for the UNGC Lawyers as Leaders video series, and hosted UNGC meetings in London and New York.

## STRATEGIC REPORT

### People

Our 28,000 people are our strength. Our workforce is 53% female and 47% male, with an average length of service of eight years. There were 44% female and 56% male managers and 30% female and 70% male senior operational managers.

The Reed Elsevier Group plc Nominations Committee considers the knowledge, experience and background of individual Board directors. By year end 2013, women made up 22% of the members of the Reed Elsevier Group plc Board. The two Executive Directors of the Board, who constitute senior management, are male.

The Reed Elsevier Group plc Diversity and Inclusion (D&I) Statement ([www.reedelsevier.com/go/Diversity](http://www.reedelsevier.com/go/Diversity)), 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. We expanded D&I training in the year, with in-person sessions for Elsevier managers in six US cities, online training for LexisNexis Risk Solutions US managers, in-person sessions for LexisNexis Legal & Professional UK managers, and Reed Elsevier Group plc head office managers. Course content includes making the business case for D&I on ethical, economic, regulatory, and reputational grounds. We encourage both affinity groups, such as women's forums, which provide support and mentoring, and community involvement.

In 2012, we conducted a global Employee Opinion Survey (EOS) to understand how our people view Reed Elsevier Group plc. We donated \$1 for every completed survey to our global fundraising effort for Plan UK focused on education for girls in Peru and pre-school education for ethnic minority children in China, and had 77% EOS participation. 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. Local action plans led by managers have been undertaken in all business units, at LexisNexis Risk Solutions for example, follow-up has included focus groups and manager coaching, and senior leaders have key performance objectives to improve EOS and pulse survey (shorter, more frequent staff polling) results.

Our employees have the right to a healthy and safe workplace as outlined in the Reed Elsevier Group plc Global 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 manual handling, 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. The number of lost time reportable cases decreased in the year (36 in 2013 vs 49 in 2012).

In the US, where we have our largest concentration of employees, the REACH programme promotes workplace wellbeing through health screenings, online assessments, stress awareness training, and weight loss and smoking cessation programmes, with financial incentives for participation. In 2013, we have launched a health coach programme to provide personalised support, available to all US employees. Of them, 226 have made contact with a coach for help with issues such as diet, exercise, and smoking cessation, and 2,808 calls were made to Care Connect, a health concierge service.

Our annual re fit2win global wellbeing competition encourages employees to establish fitness teams to compete for cash prizes for the charities of their choice. Across Reed Elsevier Group plc 79 teams took part and ran, walked, cycled and swam a total of 73,382 miles/118,097 kilometres, with an increase of 50 miles/80 kilometres per person over 2012.

### Customers

In 2013, we surveyed approximately 500,000 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 operational managers and communicated to staff, highlight where we are doing well and where we must do better. To aid colleagues who work with customers, during the year, we have worked to incorporate CR into customer-facing staff training with outreach to key sales and marketing teams. We have updated our intranet resource, CR as a Sales Tool, created a CR Fast Facts document for distribution across the business, and developed new CR Sales Academy content.

In the year, we shared the Reed Elsevier Group plc Editorial Policy with all employees in an email from the Chief Legal Officer and Company Secretary highlighting its importance and key provisions, including our responsibility to make clear distinctions between fact and opinion and user-generated or other content. With help from our cross-



## STRATEGIC REPORT

business Editorial Policy Working Group, we created a new section of our global intranet with input from our editors and others who have shared what the principles mean to them and their businesses

We are committed to improving access to our products and services for all users, regardless of physical ability In 2013, we consulted on a new Reed Elsevier Group plc Accessibility Policy that aims to lead the industry in providing accessibility solutions to customers, while contributing to international standards with products that are operable, understandable, and robust The Accessibility Policy was formally launched to all managers before the close of the year, with a launch in early 2014 to all employees by the Chief Strategy Officer In 2013, members of the Accessibility Working Group logged over 80 accessibility projects and Elsevier's Global Books Digital Archive fulfilled more than 4,000 disability requests, 60% 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' paid leave per year for their own community work We donated £2.5m in cash (including through matching gifts) and the equivalent of £3.1m in products, services, and staff time in 2013 31% of employees were engaged in volunteering through RE Cares and we reached more than 17,000 disadvantaged young people through time, in-kind, and cash donations In the year, we spotlighted the benefit of skills-based volunteering through awareness-raising campaigns, RE Cares on the global intranet, and the involvement of 172 cross-business RE Cares Champions

Each September, we hold RE Cares Month to celebrate our community activities and in 2013, 56% of Reed Elsevier Group plc locations around the world were involved Among them, LexisNexis Legal & Professional New Zealand ran a Live Below the Line Challenge, staff attempted to live on \$2.25 per day (the extreme poverty line) for a week, with funds they would have spent on food donated to Habitat for Humanity to aid poor families Reed Elsevier Group plc Philippines held a science fair for 51 students at their office

During RE Cares Month, we held our annual global book drive yielding more than 9,200 books for local and developing world readers, and announced the winners of the third 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 spent a week with Afrikids, a child rights organisation working to raise standards for children in Northern Africa, which Reed Elsevier Group plc has supported for 10 years The trip was led by one of Reed Elsevier Group plc's senior leaders, Youngsuk 'YS' Chi, Director of Corporate Affairs Among the winning teams was the Amsterdam Slootermeer School Project Group, comprised of 30 Elsevier, RBI, and LexisNexis Legal & Professional volunteers who help children with reading skills on a weekly basis, and the RBI Skokie, Illinois Accuity in Action Team, which over a 12 month period organised 22 volunteer programmes to benefit staff and the local community

### Supply chain

We require our suppliers to meet the high standards we set for ourselves Our Supplier Code of Conduct stipulates adherence to all laws and best practice in areas such as human rights, labour, and the environment Through our Socially Responsible Supplier (SRS) database, in 2013, we tracked 613 critical, preferred and strategic suppliers, and those we deem high risk according to criteria encompassing the Corporate Executive Board's Global Country Analysis Support Tool, human trafficking data from the US State Department, and 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 2013 with 51% of suppliers on the SRS tracking list as signatories to the Supplier Code and reached 79% 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 an additional 2,784 suppliers have signed up

Specialist supply chain auditors undertook 56 external audits of high-risk suppliers in 2013 Any incidence of non-compliance with the Supplier Code identified in the audit process triggers a corrective action plan with supplier remediation required on all issues In the year, we began using our external audit partner's Workplace Conditions Assessment template to benchmark high-risk supplier audit performance

We developed a new US Supplier Diversity Plan in 2013 to identify and create opportunities for diverse suppliers Among its provisions is providing successful and non-awarded diverse suppliers with feedback after competitive bidding and capacity building opportunities

## STRATEGIC REPORT

### Environment

Our targets reflect our performance and key issues and can be found along with full details in the 2013 Corporate Responsibility Report at [www.reedelsevier.com/go/CRReport](http://www.reedelsevier.com/go/CRReport)

We attained 40% of our electricity from renewable sources in the year and were ranked among the top FTSE 350 companies for disclosure and performance in the 2013 CDP Leadership Index, representing 722 investors with assets of \$87,000bn

Our Environmental Champions network, employee-led Green Teams, and engagement through networks such as Publishers database for Responsible Ethical Paper Sourcing, inform how we 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 2013, 77 sites (64% of key locations) achieved five or more standards attaining green status. Reed Elsevier Group plc's Chief Financial Officer 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 40% of the total market, and 81% in energy and fuels. In the year, we mapped the range of Reed Elsevier Group plc environmental products and services which includes 490 products encompassing topics such as ocean and coastal management, forestry, environmental law, waste management, and trade shows on environmental engineering, renewable energy, and water.

## STRATEGIC REPORT

### FINANCIAL REVIEW

Underlying revenue growth was 2%, or 3% excluding biennial exhibition cycling. Reported revenue for the year was £6,012m (2012 £6,061m), down 1%.

The overall impact of disposals in 2013 was to reduce revenues by 6%, partially offset by a 1% increase from acquisitions. There have been disposals in each of the businesses, but the effect is most significant in Risk Solutions, where the pre-employment screening business was sold, in Business Information where a number of disposals were made, and in Legal where Martindale-Hubbell, the US legal directory business, was spun out into a joint venture. Disposals made throughout 2013 will continue to impact reported revenues and operating profit growth rates in 2014.

Comparative financial information has been restated following the adoption of IAS19 Employee Benefits (revised), as described in the accounting policies on page 20.

Interest expense was £435m (2012 £488m). The reduction primarily reflects the benefit of term debt refinancing at lower rates.

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. 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 2012 full year and hedge exchange rates. Adjusted operating profit was £1,710m (2012 £1,631m), up 5%. At constant currencies, adjusted operating profit was up 1%. Underlying growth was 5%.

The net pension expense, excluding the net pension financing charge, was £61m (2012 £89m), including settlement and past service credits of £59m (2012 £20m) mainly arising from benefits changes in the US, which will reduce future costs for the US businesses.

The weighted average applicable tax rate for the year was 28% (2012 restated 27%). This increase is caused by a change in the relative profitability of 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.

The application of tax law and practice is subject to some uncertainty and amounts are provided in respect of this. Discussions with tax authorities relating to cross border transactions and other matters are ongoing. Although the outcome of these discussions cannot be predicted, no significant impact on the financial position of Reed Elsevier Group plc is expected.

Reported operating profit, after amortisation of acquired intangibles and acquisition related costs, was £1,336m (2012 £1,288m).

The amortisation charge in respect of acquired intangible assets, including the share of amortisation in joint ventures, amounted to £319m (2012 £317m). Acquisition related costs were £43m (2012 £21m), including a charge for certain deferred consideration payments required to be expensed under IFRS.

The reported profit before tax was £918m (2012 £845m).

Reported net finance costs include a charge of £19m (2012 £11m) in respect of the defined benefit pension schemes. Net pre-tax disposal gains were £17m (2012 £45m) arising largely from the sale of Risk Solutions' pre-employment screening business. These were offset by a related tax charge of £34m (2012 £58m credit).

The reported tax charge was £91m (2012 £89m). 2012 included an exceptional tax credit of £96m resulting from the resolution of a number of significant prior year tax matters. 2013 includes a deferred tax credit of £195m arising on the alignment of certain business assets with their global management structure. The reported net profit attributable to equity shareholders was £822m (2012 £751m).

During the year the company paid dividends to Reed Elsevier PLC on the "R" ordinary shares of nil (2012 £300m) and preference dividends of £7,500 (2012 £7,500). No dividends were paid by subsidiary undertakings to Reed Elsevier NV (2012 nil).

## STRATEGIC REPORT

### Cash flows

Cash generated from operations was £1,900m (2012 £1,806m), up 5% compared with the prior year, principally reflecting good cash conversion and improved operating profit. After net interest payments of £437m (2012 £484m) and net tax paid of £345m (2012 £200m), net cash from operating activities was £1,118m (2012 £1,122m).

Capital expenditure was £308m (2012 £333m), including £251m (2012 £263m) 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. Depreciation and the amortisation of capitalised development costs was £249m (2012 £226m).

Payments made in respect of acquisition related costs amounted to £28m (2012 £37m). Payments for exceptional restructuring programmes from prior years were £12m (2012 £25m), principally relating to property costs.

Cash spent on acquisitions was £214m (2012 £553m) including deferred consideration of £21m (2012 £30m) on past acquisitions. Spend on venture capital investments was £10m (2012 £6m).

Total consideration from disposal transactions closed in 2013 was £334m, including £6m in respect of freehold properties. The net cash received in the calendar year from business disposals, after timing effects and separation and translation costs was £198m (2012 £160m).

Ordinary dividends of nil (2012 £300m) were paid in the year by the company to shareholders and no dividends were paid by subsidiary undertakings to Reed Elsevier NV (2012 nil).

### Debt

Net borrowings at 31 December 2013 were £8,638m (2012 £9,496m), a decrease of £858m since 31 December 2012. The decrease principally reflects the benefit of free cash flow and disposal proceeds less acquisition spend. Excluding currency translation effects net debt decreased by £789m.

Net borrowings from shareholders and affiliated undertakings at 31 December 2013 amounted to £6,835m (2012 £7,928m). Other borrowings amounted to £1,896m (2012 £2,186m) and the fair value of related derivative assets was £19m (2012 £36m). Cash balances totalled £74m (2012 £582m).

Net pension obligations, i.e. pension obligations less pension assets, at 31 December 2013 were £379m (31 December 2012 £466m), including a net deficit of £219m (31 December 2012 £306m) in respect of funded schemes which were on average 95% funded at the end of the year on an IFRS basis. The lower deficit reflects improvements in scheme asset values during 2013 and benefits changes in the US.

### Liquidity

At 31 December 2013, the Reed Elsevier Group plc group had access, along with other affiliated companies, to a \$2,000m committed bank facility maturing in July 2018, which was undrawn. This backup facility provides security of funding for short-term debt.

After taking account of committed bank facilities and available cash resources, no third party borrowings mature within three years (2012 nil), 41% of third party borrowings mature in the fourth and fifth years (2012 29%), 46% in the sixth to tenth years (2012 49%), and 13% beyond the tenth year (2012 22%).

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totalling £5,551m (2012 £5,889m) of which 28% mature in the next year (2012 27%), 17% in the second year (2012 12%), 19% in the third year (2012 17%), 34% in the fourth and fifth years (2012 34%), and 2% in the sixth to tenth years (2012 10%). Reed Elsevier Group plc has net borrowings due within one year of £1,284m (2012 £2,039m) from the parent companies, Reed Elsevier PLC and Reed Elsevier NV, and other affiliated undertakings.

## STRATEGIC REPORT

### 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 57 to 64. The accounting policies and estimates which require the most significant judgement relate to the valuation of goodwill and intangible assets, the capitalisation of development costs and taxation. Further detail is provided in the accounting policies on pages 62 to 63.

#### Amendments to IAS19 – Employee Benefits

With effect from 1 January 2013, IAS19 Employee Benefits (revised) inter alia changed the methodology 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 calculated by reference to the discount rate of high-quality corporate bonds (being also the discount rate applied in the calculation of pension obligations) and are no longer based on the expected returns on scheme assets. The effect is to reduce the asset returns recognised in the income statement.

Adoption of IAS19 (revised) has had no impact on Reed Elsevier Group plc's consolidated statement of financial position and statement of cash flows. The net pension financing credit or charge is now presented within net finance costs in Reed Elsevier Group plc's consolidated income statement, rather than within operating profit as previously reported. Given that the revised standard may introduce greater volatility to the income statement, the net pension financing credit or charge has been excluded from the adjusted figures used by Reed Elsevier Group plc as additional performance measures.

As required under the revised standard, comparative figures have been restated. For the year ended 31 December 2012, operating profits are £25m lower and net finance costs are £11m higher than previously reported. On an adjusted basis, profit before tax is £25m lower.

#### 2014 REVISED METHODOLOGY FOR ALLOCATION OF CORPORATE AND SHARED COSTS

Following a review of activities, assets and costs across the business, Reed Elsevier Group plc will introduce a new method for the allocation of corporate and shared costs from January 2014. Previously unallocated items will be attributed to the business areas, as will costs relating to shared activities and resources, on the basis of benefits accrued. This new allocation reflects an increased level of shared resources and capitalised costs. Had this new method of allocation been applied during 2013, it would have resulted in the adjusted operating profit figures shown below.

**As at 31 December**

	New method 2013 £m	Old method 2013 £m
<b>Adjusted operating profit</b>		
Scientific, Technical & Medical	755	787
Risk Solutions	401	414
Business Information	106	107
Legal	250	238
Exhibitions	202	205
Unallocated items	(4)	(41)
<b>Total</b>	<b>1,710</b>	<b>1,710</b>

## STRATEGIC REPORT

### 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 while maintaining appropriate leverage to ensure an efficient capital structure.

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 cost effective sources of borrowing.

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 cycle 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. Consistent with the significance of Reed Elsevier Group plc's US operations 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 aims to reduce the exposure of the consolidated businesses to changes in interest rates at efficient cost. To achieve this Reed Elsevier Group plc uses fixed rate term debt, interest rate swaps, forward rate agreements and interest rate options. Interest rate derivatives are used only to hedge an underlying risk and no net market positions are held.

At 31 December 2013, 83% of gross borrowings were either fixed or had been fixed through the use of interest rate swaps, forward rate agreements and options, or were non-interest bearing.

#### 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. Some of these exposures are offset by denominating borrowings in 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 2013, the amount of outstanding foreign exchange cover against future transactions was £1.3bn (2012: £1.2bn).

#### 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 treasury policies 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 2013, cash and cash equivalents totalled £74m, of which 85% was held with banks rated A-/A3 or better.

## STRATEGIC REPORT

### 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 the separate Corporate Responsibility section of the Directors' Report. Important specific risks identified include:

EXTERNAL RISKS		
Risk	Description and impact	Mitigation
<b>Economy and market conditions</b>	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 long-term global growth markets through organic new launches supported by the selective acquisition of small content and data sets. We continue to dispose of businesses that no longer fit our strategy.
<b>Intellectual property rights</b>	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. Our subscription contracts with customers contain provisions regarding the use of proprietary content. We are vigilant as to the use of our content and, as appropriate, take legal action to challenge illegal distribution sources.
<b>Data resources</b>	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, either because of changes in the law or because data suppliers decide not to supply them, could adversely affect our products and services.	We seek as far as possible to have proprietary content. Where content is supplied to us by third parties, we aim 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.

## STRATEGIC REPORT

<b>Paid subscriptions</b>	Our scientific, technical and medical (STM) primary publications, like those of most of our competitors, are published largely on a paid subscription basis. There is 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 or authors' funders and/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.
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### STRATEGIC RISKS

<b>Risk</b>	<b>Description and impact</b>	<b>Mitigation</b>
<b>Customer acceptance of products</b>	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.
<b>Competition</b>	Our businesses operate in highly competitive markets, which continue to evolve 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.	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, the potential application of new technologies and business models, and the actions of competitors. These insights inform our market strategies and operational priorities.
<b>Acquisitions</b>	We regularly make small acquisitions 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.	Acquisitions are made within the framework of our overall strategy, which emphasises 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 criteria. We closely monitor the integration and performance of acquisitions.



## STRATEGIC REPORT

OPERATIONAL RISKS		
Risk	Description and impact	Mitigation
<b>Technology failure</b>	Our businesses are dependent on electronic platforms and networks, primarily the internet, for delivery of products and services. These could be adversely affected if our electronic delivery platforms or 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.
<b>Data Security</b>	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.
<b>Supply chain dependencies</b>	Our organisational and operational structures are dependent 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 developed business continuity plans to reduce disruption in the event of a major failure by a vendor.
<b>Talent</b>	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. An 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
<b>Pensions</b>	We operate a number of pension schemes around the world. Historically, the largest schemes have been local versions of the defined benefit type in the UK, the US and the Netherlands. The assets and obligations associated with those pension schemes are sensitive to changes in the market values of assets and the market related assumptions used to value scheme liabilities. Adverse changes to interest rates, 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 appropriate.


## STRATEGIC REPORT

<b>Tax</b>	Our businesses operate globally 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.
<b>Treasury</b>	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 page 21. The approach to the management of financial risks is described in note 18 to the consolidated financial statements.

### REPUTATIONAL RISKS

<b>Risk</b>	<b>Description and impact</b>	<b>Mitigation</b>
<b>Ethics</b>	As a world leading provider of professional information solutions to the scientific, technical & medical, risk solutions & 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 encourages open and principled behaviour. We have well established processes for reporting and investigating instances of unethical conduct. Our major suppliers are required to adopt our Supplier Code of Conduct.
<b>Environmental</b>	Our businesses have an impact on the environment, principally through the use of energy and water, waste generation and, in our supply chain, through paper use and print and production technologies. Failure to manage our environmental impact could adversely affect our reputation.	We are committed to reducing these environmental impacts by limiting resource use and efficiently employing sustainable materials and technologies. We require our major suppliers and contractors to meet the same objectives. We seek to ensure that all Reed Elsevier Group plc's businesses are compliant with relevant environmental regulation.

The Strategic Report, as set out on pages 2 to 25, has been approved by the Board

  
By order of the Board  
Henry Udow  
Company Secretary  
26 February 2014

Registered Office  
1-3 Strand  
London  
WC2N 5JR

## **DIRECTORS' REPORT**

### **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.

### **DIRECTORS**

Following the changes referred to below, the Reed Elsevier Group plc Board consisted of two executive directors, Erik Engstrom – Chief Executive Officer and Duncan Palmer – Chief Financial Officer, and seven non-executive directors: Anthony Habgood (Chairman), Wolfhart Hauser, Adrian Hennah, Lisa Hook, Robert Polet, Linda Sanford and Ben van der Veer.

#### **Board changes**

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

Mark Elliott and Sir David Reid retired from the Board of Reed Elsevier Group plc following the conclusion of the Annual General Meeting in April 2013. Wolfhart Hauser was elected to the Board in April 2013 and succeeded Mark Elliott as Chairman of the Remuneration Committee.

In September 2013, Duncan Palmer gave notice of his resignation as Chief Financial Officer effective as of 25 September 2014, or such other earlier date as the Board of Reed Elsevier Group plc may designate.

Following a recommendation from the Nominations Committee, Nick Luff will be appointed as Chief Financial Officer to be effective in 2014 at a date to be confirmed but is expected to be no later than 15 December 2014.

#### **Board Committee**

In accordance with the principles of good corporate governance, the Board has established an Audit Committee and a Remuneration Committee. These committees have written terms of reference, which are published on the Reed Elsevier website, [www.reedelsevier.com](http://www.reedelsevier.com). Membership of each committee, attendance during the year and a description of their responsibilities are set out in the 2013 Reed Elsevier Annual Report and Financial Statements.

A Directors' Remuneration Report, which has been approved by the Board of Reed Elsevier Group plc, appears on pages 29 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](http://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 22 to 25.

The major risks facing the Reed Elsevier Group plc businesses are regularly reported to and considered by the Board and Audit Committee. With the close involvement of business management and the central functions, the risk management and control procedures 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.

## **DIRECTORS' REPORT**

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.

### **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.

Having taken into account all the matters considered by the Board and brought to the attention of the Board, the Directors are satisfied that the Annual Report and Accounts, taken as a whole, is fair balanced and understandable, and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

### **DIVIDENDS**

Dividends paid during the year are set out on page 18 of the Strategic Report.

### **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 2013 financial statements. In reaching this conclusion, the Directors have had due regard to the financial position as at 31 December 2013, 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 2013 is set out in the Directors' 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 Directors' 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 Directors' Report.

### **DISCLOSURE OF INFORMATION TO AUDITORS**

As part of the process of approving the company's 2013 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.

## **DIRECTORS' REPORT**

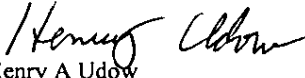
### **POLITICAL DONATIONS**

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 £48,000 (2012 £57,201) to political organisations. In line with US law, these donations were not made at federal level, but only to candidates and political parties at the state and local levels.

### **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  
26 February 2014

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 in accordance with the UK Corporate Governance Code, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the new UK Regulations)

This Report has been approved by the board of Reed Elsevier Group plc

The audited sections of the Report are clearly marked

### REMUNERATION POLICY REPORT

Set out in this section is the company's remuneration policy for Directors which will apply from the conclusion of the Reed Elsevier PLC Annual General meeting to be held on 24 April 2014

#### Remuneration policy table – Executive Directors

All footnotes to the policy table can be found on page 33

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#### ANNUAL BASE SALARY

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##### Purpose and link to strategy

To recruit and retain the best executive talent globally to execute our strategic objectives at appropriate cost

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##### Operation

Salaries for Executive Directors are set and reviewed annually by the Remuneration Committee (the Committee) with changes typically taking effect on 1 January. In exceptional circumstances, the Committee may review more frequently. The following factors are considered:

- The executive's role and sustained value to the company in terms of skill, experience and overall contribution
- Competitiveness with companies which are comparable in respect of industry, size, international scope and complexity. Examples of global peers include Thomson Reuters, WPP, Pearson, John Wiley, Wolters Kluwer, Experian, McGraw-Hill and Equifax
- The company's guidelines for salaries for all employees for the year

For the last two years, Executive Directors' salary increases have been 2.5% per annum

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##### Maximum value

Salary increases to Executive Directors are within the range of increases for the wider employee population. However, the Committee has discretion to exceed this to take account of individual circumstances such as change in responsibility, increases in scale or complexity of the business, inflation or alignment to market level

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##### Performance framework

n/a

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##### Recovery of sums paid

No provision

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#### RETIREMENT BENEFITS

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##### Purpose and link to strategy

Retirement plans are part of remuneration packages designed to recruit and retain the best executive talent at appropriate cost

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##### Operation

Our policy is to offer competitive long-term sustainable defined contribution plans. Any amount above applicable limits, for example HMRC's annual allowance in the UK, will be paid in cash and will be subject to tax and social security deductions. In certain circumstances, executives can take cash instead of pension contributions.

The UK defined benefit scheme is closed to new hires. Continued membership of legacy defined benefit schemes requires annual increases to contributions or participation fees from all members, who have a choice to switch to the defined contribution plan at any time.

The CEO is a member of a UK legacy defined benefit pension arrangement, accruing 1/30th of final year pensionable earnings (base salary) for each year (pro-rated for part years) of service, with a normal retirement age of 60. The CEO contributes 7% of salary up to the scheme earnings cap. In line with all UK defined benefit scheme members, the CEO's contributions will increase to 8% from April 2014 and then by a further 1% each year to a rate of 11% in April 2017. In addition, the CEO currently pays a participation fee equal to 1% of the amount of his base salary in excess of the scheme earnings cap. On 1 April 2014, and each April thereafter, this fee will increase by 2% of the amount of his base salary in excess of the scheme earnings cap.

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## DIRECTORS' REMUNERATION REPORT

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### Maximum value

Defined benefit scheme – accrual of 1/30th of salary for every year of service up to a maximum of 2/3rds of salary

Defined contribution plan – maximum company contribution of 30% of salary per annum or equivalent cash in lieu

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### Performance framework

n/a

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### Recovery of sums paid

No provision

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## OTHER BENEFITS

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### Purpose and link to strategy

To provide competitive benefits at appropriate cost

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### Operation

Other benefits, subject to periodic review, may include private medical and dental cover, life assurance, tax return preparation costs, car benefits, directors' and officers' liability insurance, relocation benefits and expatriate allowances and other benefits available to employees generally, including, where appropriate, the tax on such benefits

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### Maximum value

Over the past three years, ongoing benefits for Executive Directors (excluding relocation benefits) have amounted to between 3% and 5% of salary, in line with our policy that the maximum payable should not exceed 5% of salary. However, the Committee may provide reasonable benefits beyond this amount in unexpected situations, such as a change in the individual's circumstances caused by the company, or if there is a significant increase in the cost of the benefit

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### Performance framework

n/a

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### Recovery of sums paid

No provision

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## AIP (ANNUAL INCENTIVE PLAN)

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### Purpose and link to strategy

Provides focus on the delivery of annual financial targets and the achievement of annual objectives and milestones which are chosen to align with the company's strategy and create a platform for sustainable future performance

### Why performance measures are chosen and how targets are set

Performance measures include a balanced set of financial targets and Key Performance Objectives (KPOs), which are appropriately weighted and which support current strategy and incentivise the Executive Directors to achieve the desired outcomes without undue risk of focusing on any one financial measure

The targets are designed to be challenging. They are set with reference to the previous year's performance and internal and external forecasts for the following year

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### Operation

The Committee reviews and sets the financial targets and KPOs annually, taking into account internal forecasts and strategic plans. It approves four to six KPOs for each Executive Director, reflecting critical business priorities for which each is accountable. At least one KPO will relate to the achievement of sustainability targets

Following year end, the Committee compares actual performance with the financial targets and assesses the achievement of individual KPOs

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### Maximum value

The maximum potential annual incentive for Executive Directors is 150% of annual base salary

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## DIRECTORS' REMUNERATION REPORT

### Performance framework

The measures include financial targets, which have a weighting of at least 70%, and individual KPOs, with each element assessed separately

- The minimum payout is zero
- If the financial measure with the lowest payout at threshold pays out at threshold and the others do not pay out at all, the overall payout for financial measures is 5% of salary. If threshold is reached for each of the financial measures, the overall payout for the financial measures is 26% of salary. There is no threshold level for KPOs
- Payout for target performance (financial measures and KPOs) is 100% of salary

Following an assessment of achievement and scoring of KPOs, the Committee agrees the overall payout level for each Executive Director

Committee discretion applies <sup>1 2</sup>

### Recovery of sums paid

Claw-back applies <sup>3</sup>

## CURRENT MULTI-YEAR INCENTIVE PLANS

### Purpose and link to strategy

The multi-year incentive plans are the main component of Executive Directors' pay. They are designed to provide long-term incentives for Executive Directors to achieve the key performance measures that support the company's strategy, and to align their interests with shareholders. The BIP encourages annual personal investment in Reed Elsevier shares.

### Why performance measures are chosen and how targets are set

Our strategic focus is on transforming the core business through organic investment and the build out of new products into adjacent markets and geographies, supplemented by selective portfolio acquisitions and divestments. The performance measures in the multi-year incentives are chosen to support this strategy by focusing on return on capital, returns to shareholders and sustained earnings growth.

Targets are set with regard to previous results and internal and external forecasts for the performance period. They are designed to provide exceptional reward for exceptional performance, whilst allowing a reasonable expectation that reward at the lower end of the scale is attainable, subject to robust performance.

BIP (BONUS INVESTMENT PLAN)	LTIP (LONG-TERM INCENTIVE PLAN)	ESOS (EXECUTIVE SHARE OPTION SCHEME)
<b>Operation</b> Annually, Executive Directors may use up to an amount equal to their AIP target for investment in Reed Elsevier shares. In return, they receive a matching award which vests subject to: <ul style="list-style-type: none"> <li>• performance measured over three financial years,</li> <li>• continued employment, and</li> <li>• retention of the underlying investment shares.</li> </ul> Dividend equivalents accrued during the performance period are payable in respect of the matching shares that vest.           Vesting may be accelerated on a change of control <sup>4</sup> .	Annual awards of performance shares, with vesting subject to: <ul style="list-style-type: none"> <li>• performance measured over three financial years,</li> <li>• continued employment, and</li> <li>• meeting shareholding requirements.</li> </ul> Executive Directors are required to retain their net vested shares for a period of at least six months after release.           Dividend equivalents accrued during the performance period are payable in respect of the performance shares that vest.           Vesting may be accelerated on a change of control <sup>4</sup> .	Annual awards of market value options that vest, subject to performance measured over three financial years, and remain exercisable, subject to continued employment, until the tenth anniversary of grant.           Vesting may be accelerated on a change of control <sup>4</sup> .



## DIRECTORS' REMUNERATION REPORT

### Maximum value

Up to 100% of the amount invested	The maximum grant in any year is up to 250% of base salary for the CEO and up to 200% of base salary for other Executive Directors	The maximum grant in any year is up to 250% of base salary for the CEO and up to 200% of base salary for other Executive Directors
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### Performance framework

<p>The performance measures are earnings per share (EPS) and return on invested capital (ROIC), weighted equally and assessed independently, such that a payout can be received under either one of the measures</p> <ul style="list-style-type: none"> <li>• The minimum payout is zero</li> <li>• If one measure pays out at threshold and the other does not pay out at all, the overall payout is 25% If both measures pay out at threshold, the overall payout is 50%</li> <li>• Payout in line with expectations is 67%</li> </ul> <p>Dividend equivalents are not taken into account in the above payout levels</p> <p>Committee discretion applies <sup>1 2</sup></p>	<p>The performance measures are relative Total Shareholder Return (TSR), EPS and ROIC weighted equally and assessed independently, such that a payout can be received under any one of the measures (or, for TSR, in respect of one of the three comparator groups)</p> <ul style="list-style-type: none"> <li>• The minimum payout is zero</li> <li>• If the measure with the lowest payout at threshold pays out at threshold and the others do not pay out at all, the overall payout is 3% If each of the measures pays out at threshold, the overall payout is 32%</li> <li>• Payout in line with expectations is 50%</li> </ul> <p>Dividend equivalents are not taken into account in the above payout levels</p> <p>Committee discretion applies <sup>1 2</sup></p>	<p>The vesting of options is subject to EPS measured over three years</p> <ul style="list-style-type: none"> <li>• The minimum payout is zero</li> <li>• Payout at threshold performance is 33%</li> <li>• Payout in line with expectations is 80%</li> </ul> <p>Committee discretion applies <sup>1 2</sup></p>
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### Recovery of sums paid

Claw-back applies <sup>3</sup>	Claw-back applies <sup>3</sup>	Claw-back applies <sup>3</sup>
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### DISCONTINUED/ONE-OFF MULTI-YEAR INCENTIVE PLAN REGP (REED ELSEVIER GROWTH PLAN)

#### Purpose and link to strategy

The REGP was introduced in 2010 during a challenging and volatile business environment following the appointment of the current CEO. It was designed as a one-off, five-year plan for the Executive Directors instead of LTIP grants in 2010, 2011 and 2012.

#### Operation

The only current participant is the CEO and no further awards will be granted under this plan.

The CEO must retain a personal shareholding in the REGP of 300% of salary (in addition to shares held under the BIP) until vesting in H1 2015.

Initial performance share awards vested, based on performance measured over 2010-2012, at 66.8%. 50% of the vested shares were released (along with a cash dividend equivalent) and 50% were deferred and will only be released in H1 2015. The full 66.8% has been included in the 2012 Single Total Figure on page 38. Matching awards, equal to the number of personal shares and deferred performance shares, were granted in 2013 and vest, subject to performance, in H1 2015.

Dividend equivalents will be payable in respect of the matching awards and deferred performance shares which vest in H1 2015.

Vesting will be accelerated on a change of control <sup>4</sup>

## DIRECTORS' REMUNERATION REPORT

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### Maximum value

The maximum vesting over the five-year period (2010 -14) of the plan (including what has already vested after year three) is 150% of the shares comprised in the original performance share award (of 600% of 2010 base salary)

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### Performance framework

Matching awards – TSR, EPS and ROIC, weighted equally and assessed independently, such that a payout can be received under any one of the measures (or, for TSR, in respect of one of the three comparator groups) TSR is measured over the five-year period 2010-2014, EPS is measured over the two-year period 2013-2014 and ROIC is measured at the end of 2014

- The minimum payout is zero
- If the measure with the lowest payout at threshold pays out at threshold and the others do not pay out at all, the overall payout is 3% If each of the measures pays out at threshold, the overall payout is 50%
- Payout in line with expectations is 50%

Committee discretion applies <sup>1 2</sup>

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### Recovery of sums paid/withholding

Claw-back applies <sup>3</sup>

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- 1 Discretion in respect of annual and multi-year incentive plan payout levels** In determining the level of payout under the AIP and vesting under the multi-year incentives, the Committee takes into account Reed Elsevier Group plc's overall business performance and value created for shareholders over the period in review and other relevant factors. It has discretion to adjust the vesting and payout levels if it believes this would result in a fairer outcome. This discretion will only be used in exceptional circumstances and the Committee will explain in the next remuneration report the extent to which it has been exercised and the reasons for doing so.
- 2 Discretion to vary performance measures applying to existing annual and multi-year incentives** The Committee may vary the financial measures applying to a current annual incentive year and performance measures for multi-year incentives if a change in circumstances leads it to believe that the arrangement is no longer a fair measure of performance. Any new measures will not be materially less, or more, challenging than the original ones.
- 3 Application of claw-back to annual and multi-year incentives** The Committee has discretion to apply claw-back if the payout was calculated on the basis of materially misstated financial or other data, in which case it can seek to recover the difference in value between the incorrect award and the amount that would have been paid had the correct data been used. In respect of multi-year incentives, the Committee also has discretion to apply claw-back if a participant breaches post-termination restrictive covenants, in which case it may require repayment of gains arising during a specified period.
- 4 Multi-year incentives –change of control** Under the BIP 2010, LTIP 2013 and ESOS 2013, the default position is that awards vest on a change of control on a pro-rated basis, subject to an assessment of performance against targets at that time. Alternatively, the Committee may determine that awards will not vest and will instead be exchanged for equivalent awards in the acquiring company. Under the REGP, awards vest within 30 days of the change of control on a pro-rated basis subject to performance.
- 5 Explanation of differences between the company's policy on Directors' remuneration and the policy for other employees** A larger percentage of Executive Directors' remuneration is performance related than that of other employees. All managers participate in an annual incentive plan, but participation levels, measures and targets vary according to their role and local business priorities. Approximately 100 senior executives participate in BIP and LTIP and about 1,000 in ESOS. Grant levels under all plans vary according to role. All participants in BIP and LTIP (including the Executive Directors) are subject to the same performance measures. Under ESOS, performance measures apply only to the Executive Directors and all other participants can choose restricted shares instead of options on the basis of a pre-determined exchange ratio. The range and level of benefits provided vary according to role and local market practice.

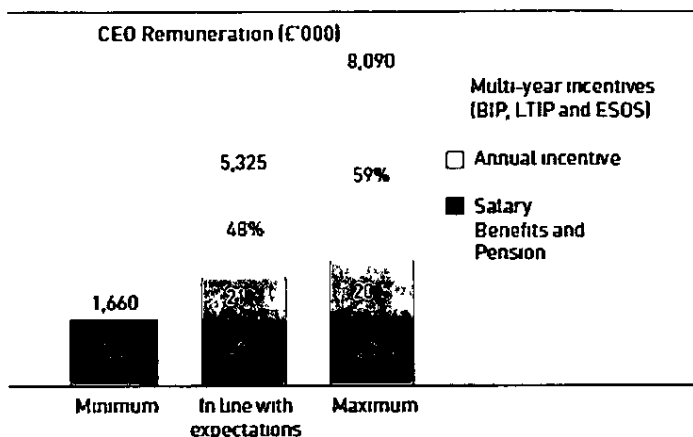
### Remuneration outcomes in different performance scenarios

The Committee considers the level of remuneration that may be paid in the context of the performance delivered and value added for shareholders. The chart is an illustration of how the CEO's regular annual remuneration could vary under different performance scenarios. The salary, benefits and pension levels are the same in all three scenarios and are based on 2014 salary, the 2013 benefits figure from the Single Total Figure table and the 2013 pension disclosure (consistent with prior disclosure). Annual and multi-year incentives (BIP, LTIP and ESOS) are based on the policy table and 2014 salary. Given the one-off nature of the REGP (see above and page 32 for further details), potential final payouts in H1 2015 are not reflected in this chart. The performance assumptions which have been used are as follows: Minimum means no AIP payout and no multi-year incentives vesting. In line with expectations means AIP payout at 100% of salary, BIP vesting at 67% of the award, LTIP vesting at 50% of the award and ESOS vesting at 80% of the award. Maximum means AIP payout at 150% of salary and multi-year incentives vesting at 100% of the awards.

No share price movement is assumed and dividend equivalents payable in respect of the BIP and LTIP are not included. For options vesting in line with expectations, a valuation factor of 20% of the face value of the award at grant has been applied. This is our internal valuation assumption for options, based on the exchange ratio applied to participants in ESOS below Board level who can choose options or shares at a ratio of 5:1. For options vesting at maximum, a higher valuation factor (to reflect the higher performance achievement) of 33% of the face value of the award at grant has been applied. This is in line with the report on pay and performance published in March 2013 by the Financial Reporting Council, an independent UK regulator.

## DIRECTORS' REMUNERATION REPORT

We have not included a chart for the CFO role as Duncan Palmer is leaving the company in 2014. His salary, regular ongoing benefits (excluding relocation expenses) and pension will continue in line with 2013 levels (see Single Total Figure table on page 38) until his leaving date. As he is not eligible for a pro-rated AIP in respect of time employed in 2014, and his BIP, LTIP and ESOS awards have lapsed, his remuneration for 2014 is not variable according to performance. Duncan Palmer's successor will join the company at a date which is still to be determined.



### Approach to recruitment remuneration – Executive Directors

When agreeing the components of a remuneration package on the appointment of a new Executive Director, or an internal promotion to the Board, the Committee would seek to align the package with the remuneration policy stated in the policy table. However, on an internal promotion to the Board, any existing contractual obligations and commitments may continue to be honoured, even if not consistent with the prevailing policy. For example, if the individual is a member of the legacy defined benefit pension plan, the Committee will consider the pension arrangements in the context of the package as a whole and may allow continued participation.

The Committee's general principle on recruitment is to offer a competitive remuneration package to attract high-caliber candidates from a global talent pool. The various components and the company's approach are as follows:

### Standard package on recruitment\*

To offer remuneration in line with the policy table (including the limits), taking into account the principles set out above.

### Compensation for forfeited entitlements

The Committee may make awards and payments on hiring an external candidate to compensate him or her for entitlements forfeited on leaving the previous employer. If such a decision is made, the Committee will attempt to reflect previous entitlements as closely as possible using a variety of tools, including cash, share awards and options. Claw-back provisions will apply where appropriate. If necessary to facilitate the grant of awards, the Committee may rely on the one person exemption in the UK Listing Rules.

### Relocation allowances and expenses

The type and size of relocation allowances and expenses will be determined by the specific circumstances of the new recruit.

\* The standard package comprises annual base salary, AIP, other benefits, annual awards under BIP, LTIP and ESOS and retirement benefits.

### Shareholding requirement

The Executive Directors are subject to shareholding requirements. These are a minimum of 300% of annual base salary for the CEO and 200% of annual base salary for the CFO. On joining or promotion to the Board, Executive Directors are given a period of time to build up to their requirement.

### Policy on payments for loss of office

In line with the company's policy, the service contracts of the existing Executive Directors contain 12-month notice periods.

The circumstances in which an Executive Director's employment is terminated will affect the Committee's determination of any payment for loss of office, but it expects to apply the principles outlined in the table on the next page.

## DIRECTORS' REMUNERATION REPORT

### Policy on payments for loss of office (continued)

The Committee reserves the right to depart from these principles where appropriate in light of any taxation requirements to which the company or the Executive Director is subject (including, without limitation, section 409A of the US Internal Revenue Code), or other legal obligations

Restricted shares were granted to Duncan Palmer on his recruitment in 2012 as compensation for forfeited entitlements from his former employer. This award has been pro-rated for service to the date of notice of resignation, with the result that 74,042 PLC ordinary shares and 51,378 NV ordinary shares will vest on leaving. As the pro-rated shares will only be released upon his yet to be determined leaving date, rather than the original vesting dates, a cash adjustment may be paid to him if required to ensure that the value of the pro-rated award received on leaving is equivalent to that which would have been received under the original arrangements. Dividend equivalents on the shares will be paid on vesting.

### GENERAL<sup>1</sup>

### MULTI-YEAR INCENTIVES

#### Mutually agreed termination/termination by the company other than for cause<sup>2</sup>

The Executive Director would be entitled to salary, benefits and other contractual payments in the normal way up to the termination date (including any unpaid annual incentive for any prior year) and would be paid for any accrued but untaken holiday.

*Salary* Payment of up to 12 months' salary.

*Annual Incentive* Any unpaid annual incentive for the previous year and a pro-rata payment in respect of the part of the financial year up to the termination date would generally be payable, with the amount being determined by reference to the original performance criteria. However, the Committee has discretion to decide otherwise depending on the reason for termination and other specific circumstances. The company would not pay any annual incentive in respect of any part of the financial year following the termination date (e.g. for any part of unserved notice). The annual incentive claw-back provisions would apply.

*Other Benefits* Where possible, benefits would be continued for up to the duration of the unserved notice period (not exceeding the maximum stated in the policy table) or, the Executive Director would receive a cash payment (not exceeding the cost to the company of providing those benefits).

*Pension* Deferred or immediate pension in accordance with scheme rules, with a credit in respect of, or payment for up to, the full period of any unworked period of notice. There is provision under the defined benefit pension arrangements for members leaving company service by reason of permanent incapacity to make an application to the scheme trustee for early payment of their pension.

*Other* The company may pay compensation in respect of any statutory employment rights and may make other appropriate and customary payments.

The company would have due regard to principles of mitigation of loss. Reductions would be applied to reflect any portion of the notice period that is worked and/or spent on gardening leave.

On injury, disability, ill health or death, the Committee reserves the right to vary the treatment outlined in this section.

*BIP 2010, LTIP 2013 and ESOS 2013* The default position is that unvested awards will be pro-rated to reflect time employed and will vest subject to performance measured at the end of the relevant performance period. Options are typically exercisable for a period of two years following vesting. In respect of the BIP, a pro-rata number of investment shares will remain in the plan, with the balance being released on cessation of employment.

The Committee has discretion to allow unvested awards to vest earlier and to adjust the application of time pro-rating, performance conditions and exercise periods subject to the rules of the respective plans.

*REGP* The default position is that unvested matching shares will be pro-rated to reflect time employed and will vest subject to performance measured at the end of the 2013-14 performance period. A pro-rata number of personal shares and deferred performance shares will remain in the plan, with the balance being released on cessation of employment. The Committee has discretion to allow the matching shares to vest earlier.

*ESOS 2003* The default position is that options will typically become exercisable for a six-month period (two years on retirement) from the termination date, subject to time pro-rating and performance conditions. The Committee may adjust the application of time pro-rating, performance conditions and exercise periods, subject to the rules of the plan.

## DIRECTORS' REMUNERATION REPORT

### Policy on payments for loss of office (continued)

#### Employee instigated resignation

The Executive Director would not receive any payments for loss of office. The Executive Director would be entitled to salary, benefits and other contractual payments in the normal way up to the termination date and would be paid for any accrued but untaken holiday. An Executive Director will be entitled to receive an annual incentive for a completed previous year, but not a pro-rated annual incentive in respect of a part year up to the termination date, unless the Committee decides otherwise in the specific circumstances. Annual incentive claw-back provisions would apply. A deferred or immediate pension would be payable in accordance with the scheme rules.

All outstanding awards lapse on date of notice. Any related personal or investment shares (e.g. under the REGP and the BIP) will be released.

#### Dismissal for cause

The Executive Director would not receive any payments for loss of office. A deferred or immediate pension would be payable in accordance with the scheme rules.

All outstanding awards lapse on date of dismissal. Any related personal or investment shares (e.g. under the REGP and the BIP) will be released.

- 1 In addition to what is set out in the table, on termination for any reason, Erik Engstrom will be entitled to payment of amounts held in his "Retirement Account". Before he joined the company's UK defined benefit arrangement, he was not a member of any company pension scheme and Reed Elsevier Group plc made annual contributions of 19.5% of base salary to a deferred compensation plan. Contributions to this Retirement Account ceased when he became a member of the UK defined benefit arrangement.
- 2 As outlined in the multi-year incentives column, in cases where the approved leaver treatment applies, the multi-year incentive plans have a default position as well as giving the Committee discretion to adjust the default treatment within certain parameters. The Committee would expect to exercise such discretion where the Committee believes the personal circumstances of the Executive Director so require.

### Non-Executive Directors

#### Remuneration policy table – Non-Executive Directors

##### FEES

#### Purpose and link to strategy

To enable Reed Elsevier Group plc to recruit Non-Executive Directors with the right balance of personal skills and experience to make a major contribution to the Board and Committees of a dual-listed global business.

#### Operation

*Reed Elsevier Chairman* Receives an aggregate annual fee with no additional fees, e.g. Committee Chairman fees. In respect of Reed Elsevier PLC and Reed Elsevier Group plc, the Committee determines, on the advice of the Senior Independent Director, the Chairman's fees. In respect of Reed Elsevier NV, the Committee makes a recommendation, on the advice of the Senior Independent Director, to the Board of Reed Elsevier NV, which determines the Chairman's fee.

*Other Non-Executive Directors* Receive an aggregate annual fee in respect of their memberships of the Boards of Reed Elsevier plc, Reed Elsevier NV and Reed Elsevier Group plc. Additional fees are payable to the Senior Independent Director and Committee Chairmen. Since 1 January 2014, fees are also payable for membership of Board Committees. In future, attendance fees may be paid. The Boards determine the level of fees, subject to applicable law.

Fees may be reviewed annually, although in practice they have changed on a less frequent basis. When reviewing fees, consideration is given to the time commitment required, the complexity of the role and the calibre of the individual. Comparative market data is also reviewed, the primary source for which is the practice of FTSE 30 companies, with reference also to the NYSE Euronext Amsterdam (AEX) index and US-listed companies.

#### Maximum value

The fees paid to the Chairman and the Non-Executive Directors are in respect of their memberships of the Boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc. The shareholders of Reed Elsevier PLC and Reed Elsevier Group plc have approved a maximum annual fee limit of £500,000 and £700,000 respectively (excluding additional fees for membership of or chairing Board Committees and assuming additional responsibilities such as acting as Senior Independent Director, all of which are not subject to a maximum limit).

## DIRECTORS' REMUNERATION REPORT

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### OTHER BENEFITS

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#### Purpose and link to strategy

To provide customary benefits at an appropriate cost

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#### Operation

Other benefits for Non-Executive Directors are reviewed periodically and may include private medical cover, tax return preparation costs, secretarial benefits and car benefits, including, where appropriate, the tax on such benefits

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#### Maximum value

There is no prescribed maximum amount

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\* The fees paid to a Non-Executive Director who serves only on the Board of Reed Elsevier NV reflect the time commitment to that company and to other companies within the Reed Elsevier Group plc consolidated businesses

#### Approach to recruitment remuneration – Non-Executive Directors

Following recruitment, a new Non-Executive Director will be entitled to fees and other benefits in accordance with the company's remuneration policy. No additional remuneration is paid on recruitment. However, any reasonable expenses incurred during the recruitment process will be reimbursed.

#### Policy on payments for loss of office – Non-Executive Directors

In addition to unpaid accrued fees, the Non-Executive Directors are entitled to receive one month's fees for loss of office if their appointment is terminated before the end of its term.

#### Service contracts and letters of appointment

There are no further obligations in the Directors' service contracts and letters of appointment which are not otherwise disclosed in this Report which could give rise to a remuneration payment or loss of office payment. All Directors' service contracts and letters of appointment are available for inspection at the company's registered office. The Executive Directors' service contracts do not have a fixed expiry date.

#### Consideration of employment conditions elsewhere in the company

When the Committee reviews the Executive Directors' salaries annually, it takes into account the company's guidelines for salaries for all employees for the forthcoming year. We do not currently use any other remuneration comparison metrics when determining the quantum and structure of Directors' pay. We do not think it is appropriate to consult with employees in connection with our policy on Directors' remuneration.

#### Consideration of shareholder views

Our practice is to consult shareholders and consider their views when formulating, or changing, our policy. For example, in early 2013 we consulted with a number of shareholders in connection with the proposals for a new LTIP and the renewal of the ESOS. The feedback helped shape the design of the plans.

#### Prior commitments

The Committee reserves the right to make any remuneration or loss of office payments if the terms were agreed prior to an individual being appointed as a Director or prior to the approval of the policy.

## DIRECTORS' REMUNERATION REPORT

### ANNUAL REMUNERATION REPORT

#### Single Total Figure of Remuneration – Executive Directors (audited)

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		Short-term employee benefits			Share-based awards			Pension			Total		
						Dutch Civil Code basis <sup>2</sup>	Consistent with prior disclosure <sup>3</sup>		Dutch Civil Code basis <sup>2</sup>	Consistent with prior disclosure <sup>3</sup>		Dutch Civil Code basis <sup>2</sup>	Consistent with prior disclosure <sup>3</sup>
£'000		Salary	Benefits <sup>5</sup>	Annual incentive	New UK basis <sup>1</sup>			New UK basis <sup>1</sup>			New UK basis <sup>1</sup>		
Erik Engstrom	2013	1,077	28	1,134	2,467	3,300	1,301	719	528	528	5,425	6,067	4,068
	2012	1,051	28	1,150	8,302	2,744	5,312	614	470	470	11,145	5,443	8,011
Duncan Palmer <sup>6</sup>	2013	600	232	609	0	598	0	114	114	114	1,555	2,153	1,555
	2012	214	10	230	867	268	914	41	41	41	1,362	763	1,409

- New UK basis (columns (d), (g) and (j))** These figures are calculated in accordance with the methodology set out in the new UK Regulations. They include, for performance related share-based awards, the value attributable to share price appreciation since the date the award was granted. In the case of the CEO's figures, the amount included that relates to share price appreciation is £3m for 2012 and £1.2m for 2013.
- Dutch Civil Code basis (columns (e), (h) and (k))** These figures comply with the requirements of the Dutch Civil Code. The figures for share-based awards comprise the multi-year incentives charges in accordance with IFRS2 – Share-Based Payment. These IFRS2 charges do not reflect the actual value received on vesting. The figures for pensions reflect the cost of pension provision which comprises (i) for defined benefit schemes, the transfer value of the increase in accrued pension during the year (net of inflation, Directors' contributions and participation fee) and (ii) for defined contribution schemes, payments made to the scheme or to the Executive Director in lieu of pension.
- Consistent with prior disclosure (columns (f), (i) and (l))** We believe including these figures is helpful for our non-UK shareholders as the calculation methodology for share-based awards and defined benefit pensions is consistent with what has been used in previous reports (although we have reflected amounts in the same year as required by the New UK basis to facilitate comparison). Accordingly, values are calculated as follows: (i) for share-based awards, the value of the vested award at grant excluding any subsequent share price movement (as shown in the share-based award tables in prior reports) and including dividend equivalents if applicable, (ii) for options, 20% of face value at grant (based on our previously disclosed 5:1 exchange ratio for options to shares applicable to ESOS participants below the Board, as described in the 2013 Notices of Annual General Meetings), (iii) for defined benefit pension, the transfer value of the increase in accrued pension during the year (net of inflation, Directors' contributions and participation fee) and (iv) for defined contribution pension schemes, payments made to the scheme or to the Executive Director in lieu of pension.
- Share-based awards for Erik Engstrom (columns (d) and (f))** The 2012 figures reflect the vesting of tranche 1 of the REGP and the 2010 BIP, both measured over the 2010-12 period. The vesting percentages under these plans were determined on 25 April 2013 and are in line with estimates in the 2012 Remuneration Report (pages 31-33). The figures include the related dividend equivalent payments paid out in cash in 2013 in respect of both plans. The 2012 REGP figures reflect the entire amount that was performance tested over the 2010-12 period, including the 50% of shares deferred until 2015 in accordance with the plan rules. The 2013 figures represent the 2011-13 cycle of the BIP and ESOS. As the BIP vests after the approval date of the Report, and the ESOS vests in May 2014, the average share prices for the last quarter of 2013 have been used to arrive at an estimated figure under the New UK basis in respect of both awards. The proportion of the value of the CEO's share-based awards under the New UK basis that relates to share price appreciation between the dates of grant and vesting is 36% (or £3m) for 2012 and 47% (or £1.2m) for 2013 using, as required, the average share prices for the last quarter of 2013.
- Benefits** Each Executive Director receives a car allowance, private medical/dental insurance and the company meets the cost of tax return preparation. In 2013, Duncan Palmer received a one-off cash relocation allowance of £500,000 which was paid to him in May 2013 in recognition of him and his family being required to relocate to the UK from the US (see page 43 of last year's report). As a result of his resignation, Duncan Palmer became required to repay this to the company through payroll deductions, by deduction from his 2013 annual incentive payment, so it has not been included in column (b). He also received reimbursement of direct relocation expenses, under Reed Elsevier Group plc's relocation policy, amounting to £200,907, which is included.
- Duncan Palmer's 2012 figures** Columns (a) to (c), (g) and (i) reflect the amount Duncan Palmer received from his date of joining Reed Elsevier Group plc (24 August 2012) until the end of the year. The 2012 share-based award figures in columns (d) and (f) relate to the restricted shares granted to compensate him for the forfeiture of awards from his former employer (as disclosed in last year's report), reduced to reflect time served up to the point of giving notice of resignation. The figure in column (f) includes estimated dividend equivalents of £46,977.

#### 2013 Annual Incentive

Reed Elsevier Group plc continued to deliver on its long term strategic and financial priorities in 2013. Underlying revenue growth was 2% (3% excluding the cycling effect of biennial exhibitions), with underlying revenue growth across all five major business areas. Improved profitability was driven by process innovation and portfolio development. Underlying adjusted operating profit grew ahead of revenue at 5%.

## DIRECTORS' REMUNERATION REPORT

Set out below is a summary of performance against each financial measure and the resulting annual incentive payments for 2013 (payable in March 2014)

<i>Performance measure</i>	<i>Relative weighting</i>	<i>Achievement versus target</i>		<i>Payout as % of salary Erik Engstrom</i>	<i>Payout as % of salary Duncan Palmer</i>
Revenue	30%	At target		Close to 30%	Close to 30%
Adjusted profit after tax	30%	Just above target		Just above 30%	Just above 30%
Cash flow conversion rate	10%	Just above target		Just above 10%	Just above 10%
Key Performance Objectives (KPOs)	30%	CEO Substantially all objectives met	CFO Most objectives met	Close to 30%	Just below 30%
				105.3%	101.4%
				£1,134,235	£608,550

We do not disclose our annual financial targets or details of the individual KPO targets. The Board believes that these are commercially sensitive and that disclosing them would give competitors an unfair insight into our strategic direction and annual execution plans.

### *Multi-year incentives*

Awards were granted to Erik Engstrom under the BIP and the ESOS in May 2011. The Committee assessed the performance measures for these awards and the outcome is summarised below.

#### *BIP 2011-13 cycle performance outcome*

<i>Performance measure</i>	<i>Weighting</i>	<i>Performance range and vesting levels set at grant <sup>1</sup></i>		<i>Achievement against the performance range</i>	<i>Resulting vesting percentage</i>
Average growth in adjusted EPS over the three-year performance period <sup>2</sup>	50%	below 4% p a 4% p a 6.5% p a 9% p a or above	0% 50% 75% 100%	7.1% p a	81%
ROIC in the third year of the performance period <sup>2</sup>	50%	below 10.4% 10.4% 10.9% 11.4% or above	0% 50% 75% 100%	11.7%	100%
Total vesting percentage					90.5%

<sup>1</sup> Calculated on a straight-line basis for performance between the minimum and maximum levels.

<sup>2</sup> The calculation methodology for EPS and ROIC is set out in the 2010 Notices of Annual General Meetings, which can be found on the company's website.

#### *ESOS 2011-13 cycle performance outcome*

<i>Performance measure</i>	<i>Weighting</i>	<i>Performance range and vesting levels set at grant</i>		<i>Achievement against the performance range</i>	<i>Resulting vesting percentage</i>
Average growth in adjusted EPS over the three-year performance period	100%	below 6% p a 6% p a or above	0% 100%	above 6% p a	100%



## DIRECTORS' REMUNERATION REPORT

### Single Total Figure of Remuneration – Non-Executive Directors (audited)

	Total fee		Benefits <sup>1</sup>		Total	
	2013	2012	2013	2012	2013	2012
Anthony Habgood	£550,000	£550,000	£1,900	£1,689	£551,900	£551,689
Mark Elliott (until 25 April 2013)	£21,250	£85,000	£1,000	£300	£22,250	£85,300
Wolfhart Hauser (from 25 April 2013)	£65,058	-	-	-	£65,058	-
Adrian Hennah	£65,000	£65,000	£500	£300	£65,500	£65,300
Lisa Hook <sup>2</sup>	£80,462	£65,000	£1,000	£300	£81,462	£65,300
Robert Polet	£65,000	£65,000	£500	£300	£65,500	£65,300
Sir David Reid (until 25 April 2013)	£21,250	£85,000	£500	£300	£21,750	£85,300
Linda Sanford (from 4 December 2012)	£65,000	£5,416	£1,000	-	£66,000	£5,416
Ben van der Veer <sup>3</sup>	£93,220	£89,431	£500	£300	£93,720	£89,731

- 1 Benefits comprise the notional benefit of tax filing support provided to Non-Executive Directors for filings outside their home country resulting from their directorships with Reed Elsevier Group plc. The incremental assessable benefit charge per tax return has been agreed by PwC for 2013 to amount to £500. Anthony Habgood's benefits also include £1,400 (£1,389 in 2012)) in respect of private medical insurance.
- 2 Lisa Hook became Senior Independent Director on 23 April 2013 and received additional fees for this role from that date.
- 3 The fees for Ben van der Veer were paid in euros and were €110,000 for 2013. For reporting purposes they were converted into pounds sterling at the average exchange rate for 2013. The 2012 figures were converted into pounds sterling at the average exchange rate for 2012.

### 2013 Non-Executive Directors' fees

The fees in the Single Total Figure table for Non-Executive Directors reflect the following fees in 2013 (unchanged from 2012)

	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

### Total pension entitlements (audited)

Erik Engstrom is a member of the UK Reed Elsevier Group plc defined benefit pension arrangements. Further details are provided in the Policy Report on pages 29-30 and below.

#### Pension – Standard information

Age at December 2013	Normal retirement age	Director's contributions	Participation fee
50	60	£9,807	£2,340

Since October 2013, the CEO pays a participation fee equal to 1% of the amount of his base salary which exceeds the UK earnings cap. On 1 April 2014, and each April thereafter, this fee will increase by 2% of base salary which exceeds the UK earnings cap.

#### Pension – New UK Regulations

Accrued annual pension at 31 December 2012 adjusted for inflation	Accrued annual pension at 31 December 2013	Single figure pension value
£184,940	£221,383	£719,053

#### Pension – Consistent with prior disclosure

Increase in accrued pension during the year (net of inflation)	Transfer value <sup>1</sup> at 31.12.13 of increase in accrued pension during the year (net of inflation and Directors' contributions)
£34,814	£530,417/£528,077 <sup>2</sup>

- 1 The transfer value represents a liability in respect of Directors' pension entitlements, and is not an amount paid or payable to the Director.
- 2 After deducting Erik Engstrom's participation fee.

## DIRECTORS' REMUNERATION REPORT

### Scheme interests awarded during the financial year (audited)

#### CURRENT MULTI-YEAR INCENTIVE PLANS

	Basis on which award is made	Face value of award at grant <sup>1</sup>	Value of awards if vest in line with expectations <sup>2</sup>	Percentage of maximum that would be received if threshold performance achieved <sup>3</sup>	End of performance period
<b>BIP – matching share awards</b>					
Erik Engstrom	Opportunity to invest cash and/or shares up to value of target bonus opportunity and receive 1 for 1 matching award	£1,050,606	£703,906	If one measure pays out at threshold, the overall payout is 25% If both measures pay out at threshold, the overall payout is 50%	31 December 2015
Duncan Palmer		£599,984 <sup>4</sup>	£0 <sup>4</sup>		
<b>LTIP – performance share awards</b>					
Erik Engstrom	250% of salary	£2,626,557	£1,313,279	If the measure with the lowest payout at threshold pays out at threshold, the overall payout is 3% If each measure pays out at threshold, the overall payout is 32%	31 December 2015
Duncan Palmer	200% of salary	£1,199,998 <sup>4</sup>	£0 <sup>4</sup>		
<b>ESOS – market value options</b>					
Erik Engstrom	250% of salary	£2,626,557	£420,249	33%	31 December 2015
Duncan Palmer	200% of salary	£1,199,998 <sup>4</sup>	£0 <sup>4</sup>		
<b>DISCONTINUED/ONE-OFF MULTI-YEAR INCENTIVE PLAN</b>					
<b>REGP – matching share awards</b>					
Erik Engstrom	In accordance with the REGP plan rules <sup>5</sup>	£7,546,000	£3,773,000	If the measure with the lowest payout at threshold pays out at threshold, the overall payout is 3% If each measure pays out a threshold, the overall payout is 50%	31 December 2014

- 1 The face value of the LTIP and ESOS awards is calculated using the middle market quotation of PLC ordinary shares (£7 345), the closing price of NV ordinary shares (€12 530) and the exchange rate on the day before grant (8 May 2013). These share prices are used to determine the number of awards granted, as well as to set option exercise prices. The face value of the ESOS options shown in this column has not been reduced to reflect the fact that the aggregate option price is payable on exercise. The face value of the BIP awards is calculated using the average price of participants' investment shares purchased by the trustee, between 9 and 13 May 2013, the price for NV ADRs (which is the security which the Executive Directors invested in) being \$33 251. The face values for BIP, LTIP and REGP do not take into account the dividend equivalents relating to those awards. The face value of REGP matching share awards has been determined using the applicable middle market quotations, closing prices and exchange rates on the date of grant (25 April 2013).
- 2 For BIP, LTIP and ESOS, vesting in line with expectations is as per the performance scenario chart on page 34. For the REGP, it is as per the policy table on pages 32-33.
- 3 Threshold payout levels for each measure have been included. Where there are multiple measures, it is possible to achieve threshold, and hence payout, in respect of just one of the measures (or, for TSR, in respect of one of the three TSR comparator groups). A summary of the performance measures and targets for awards granted in 2013 under each of the plans is set out on pages 42-43.
- 4 These awards lapsed on the date Duncan Palmer gave his notice of resignation.
- 5 The number of shares comprised in Erik Engstrom's REGP matching award was determined in accordance with the plan rules and equals the number of deferred performance shares and personal shares held in the plan at the date of the matching award grant (25 April 2013).

## DIRECTORS' REMUNERATION REPORT

The following targets and vesting scales apply to awards granted in 2013

### *BIP 2013-15 cycle*

Matched earned on personal investment	Average growth in adjusted EPS over the three-year performance period <sup>*</sup>	ROIC in the third year of the performance period <sup>*</sup>
0%	below 4% p a	below 11.2%
50%	4% p a	11.2%
75%	6.5% p a	11.7%
100%	9% p a or above	12.2% or above

<sup>\*</sup> EPS and ROIC have equal weighting and straight-line vesting applies to performance between the points

### *LTIP 2013-15 cycle*

Vesting is dependent on three separate performance measures of equal weighting: a TSR measure, an EPS measure and a ROIC measure<sup>1</sup>

Vesting percentage of each third of the TSR tranche <sup>2</sup>	TSR ranking within the relevant TSR comparator group
0%	Below median
30%	Median
100%	Upper quartile

1 The calculation methodology for TSR, EPS and ROIC, and the components of the TSR comparator groups, are set out in the 2013 Notices of Annual General Meetings, which can be found on the company's website

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

The three TSR comparator groups (Sterling, Euro and US Dollar) reflect the fact that Reed Elsevier Group plc's parent companies access equity capital markets through three exchanges – London, Amsterdam and New York – in three currency zones. Reed Elsevier Group plc's TSR performance is measured separately against each comparator group and each ranking achieved will produce a payout, if any, in respect of one-third of the TSR measure. The proportion of the TSR measure that vests will be the sum of the three payouts.

Each comparator group comprises approximately 40 companies, selected on the following basis for the 2013-15 LTIP cycle:

- (a) they were in a relevant market index or are the largest listed companies on the relevant exchanges at the end of the year before the start of the performance period: the FTSE 100 for the Sterling group, AEX, NYSE Euronext and the Frankfurt Stock Exchange for the Euro group, and the S&P 500 for the US Dollar group,
- (b) certain companies were then excluded:
  - those 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)
- (c) the remaining companies were then ranked by market capitalisation and, for each comparator group, the 20 companies above and below Reed Elsevier Group plc were taken,
- (d) relevant listed global peers operating in businesses similar to those of Reed Elsevier Group plc but not otherwise included were added.

Vesting percentage of EPS and ROIC tranches <sup>*</sup>	Average growth in adjusted EPS over the three-year performance period	ROIC in the third year of the performance period
0%	below 5% p a	below 11.2%
33%	5% p a	11.2%
52.5%	6% p a	11.45%
65%	7% p a	11.7%
75%	8% p a	11.95%
85%	9% p a	12.2%
92.5%	10% p a	12.45%
100%	11% p a or above	12.7% or above

<sup>\*</sup> Vesting is on a straight-line basis for performance between the stated average adjusted EPS growth/ROIC percentages

## DIRECTORS' REMUNERATION REPORT

### *ESOS 2013-2015 cycle*

Proportion of the award vesting	Average growth in adjusted EPS over the three-year performance period*
0%	below 4% p a
33%	4% p a
80%	6% p a
100%	8% p a or above

\* Vesting is on a straight-line basis for performance between the stated average adjusted EPS growth percentages

### *REGP matching awards*

As disclosed in previous reports, vesting is dependent on three separate performance measures of equal weighting a TSR measure, an EPS measure and a ROIC measure

Vesting percentage of each third of the TSR tranche*	TSR ranking within the relevant TSR comparator group
0%	Below median
30%	Median
100%	Upper quartile

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

Vesting percentage of EPS and ROIC tranches*	Average growth in adjusted EPS over the two-year performance period*	ROIC in the second year of the performance period*
0%	below 7% p a	below 10.7%
60%	7% p a	10.7%
100%	13% p a or above	12.7% or above

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

### **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 CEO (or the Chairman only in the case of the CEO), serve as Non-Executive Directors on the boards of up to two non-associated companies (of which only one may be a major company) and they may retain remuneration arising from such appointments.

Duncan Palmer is a Non-Executive Director of Oshkosh Corporation and received fees of £63,141 for 2013.

### **Payments to past Directors and payments for loss of office (audited)**

There have been no payments to past Directors or payments for loss of office in 2013.

### **Statement of Directors' shareholdings and other share interests (audited)**

#### *Shareholding requirement*

The Committee believes that a closer alignment of interests can be created between senior management and shareholders if executives build 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. Shares that count for this purpose are any type of Reed Elsevier security owned outright by the individual and their spouse, civil partner or dependent child.

Meeting the shareholding requirement is both a vesting condition for awards granted and a requirement to maintain eligibility for future awards. Shareholding requirements fall away on leaving the company.

## DIRECTORS' REMUNERATION REPORT

On 31 December 2013, the Executive Directors' shareholdings were as follows (valued using the middle market closing prices of Reed Elsevier securities)

	Shareholding requirement (% of 31 December 2013 annual base salary)	Actual shareholding as at 31 December 2013 (% of 31 December 2013 annual base salary)
Erk Engstrom	300%	734%
Duncan Palmer*	200%	69%

Duncan Palmer had been given until 31 December 2015 to build up to his required level of shareholding, which meant retaining net shares earned from incentive plans until he reached this level. On resignation, he forfeited his regular annual multi-year incentive awards and will not fulfil the requirement, which will cease to apply on leaving.

### Share interests

	Reed Elsevier PLC ordinary shares		Reed Elsevier NV ordinary shares	
	1 January 2013	31 December 2013	1 January 2013	31 December 2013
Erk Engstrom	107,040	114,552	509,556	513,765
Anthony Habgood	50,000	50,000	25,000	25,000
Wolfhart Hauser*				750
Adrian Hennah	5,163	5,163		
Lisa Hook			4,800	4,800
Duncan Palmer		88		30,022
Robert Polet	1,000	1,000		
Linda Sanford		3,600		
Ben van der Veer			5,000	5,000

\* Wolfhart Hauser was appointed on 25 April 2013

There have been no changes in these share interests at the date of this Report

### Multi-year incentive interests (audited)

All outstanding unvested options and share awards in the tables below and on page 45 are subject to performance conditions, except for the deferred 50% of Erik Engstrom's already performance-tested 2010 REGP performance share award (see pages 32-33) and the RSP award granted to Duncan Palmer on joining Reed Elsevier Group plc (see page 35). For disclosure purposes, any PLC and NV ADRs awarded under the BIP or the REGP have been converted into ordinary share equivalents. Between 31 December 2013 and the date of this Report, there have been no changes in the options or share awards held by Executive Directors.

### Erik Engstrom

Options		No of options held on 1 Jan 2013	No of options granted during 2013	Option price	No of options exercised during 2013	Market price per share at exercise	No of options held on 31 Dec 2013	Unvested options vesting on	Options exercisable until
ESOS	2004	PLC ord	63,460	£4 780	63,460	£7 531			
		NV ord	43,866	€10 300	43,866	€12 810			
	2005	PLC ord	154,517	£5 335	154,517	£8 774			
		NV ord	105,412	€11 310	105,412	€15 277			
	2006	PLC ord	178,895	£5 305			178,895		13 May 16
		NV ord	120,198	€11 470			120,198		13 May 16
	2011	PLC ord	139,146	£5 390			139,146	05 May 14	05 May 21
		NV ord	92,953	€8 969			92,953	05 May 14	05 May 21
	2012	PLC ord	198,836	£5 155			198,836	02 May 15	02 May 22
		NV ord	139,742	€9 030			139,742	02 May 15	02 May 22
	2013	PLC ord		£7 345			178,799	09 May 16	09 May 23
		NV ord		€12 530			124,337	09 May 16	09 May 23
LTIP	2004	PLC ord	325,163	£4 780	325,163	£7 531			
		NV ord	224,766	€10 300	224,766	€12 810			
Total PLC ords			1,060,017		543,140		695,676		
Total NV ords			726,937		374,044		477,230		

## DIRECTORS' REMUNERATION REPORT

### Erik Engstrom (continued)

Shares			No of unvested shares held on 1 Jan 2013	No of shares awarded during 2013	Market price per share at award	No of shares vested/ performance tested during 2013	Market price per share at vesting/ performance testing	No of unvested/non- performance tested shares held on 31 Dec 2013	End of performance period	Date of release
BIP	2010	NV ord	140,378		€8 310	125,638	€13 100		Dec 2012	H1 2013
	2011 <sup>1</sup>	NV ord	122,352		€8 969			122,352	Dec 2013	H1 2014
	2012	NV ord	136,950		€9 030			136,950	Dec 2014	H1 2015
	2013	NV ord		96,830	€12 530			96,830	Dec 2015	H1 2016
LTIP	2013	PLC ord		178,799	€7 345			178,799	Dec 2015	H1 2016
		NV ord		124,337	€12 530			124,337	Dec 2015	H1 2016
REGP	2010	PLC ord	643,086		€4 665	429,710 <sup>2</sup>	€7 774		Dec 2012	50% H1 2013
										50% H1 2015
		NV ord	422,310		€8 310	282,187 <sup>2</sup>	€13 100		Dec 2012	50% H1 2013
										50% H1 2015
	2013	PLC ord		321,895	€7 760			321,895	Dec 2014	H1 2015
		NV ord		450,494	€13 150			450,494	Dec 2014	H1 2015
Total PLC ords			643,086	500,694		429,710		500,694		
Total NV ords			821,990	671,661		407,825		930,963		

<sup>1</sup> The performance outcome for the BIP 2011 is set out on page 39

<sup>2</sup> The number of shares shown represents the entire amount which was performance tested in H1 2013. 50% of this has been deferred and is subject to release in H1 2015

### Duncan Palmer

Options			No of options held on 1 Jan 2013	No of options granted during 2013	Option price	No of options exercised during 2013	Market price per share at exercise	No of options held on 31 Dec 2013	Unvested options vesting on	Options exercisable until
ESOS	2012	PLC ord	67,331		€6 015					
		NV ord	48,018		€10 560					
	2013	PLC ord		81,688	€7 345					
		NV ord		56,806	€12 530					
Total PLC ords			67,331	81,688						
Total NV ords			48,018	56,806						

Shares			No of unvested shares held on 1 Jan 2013	No of shares awarded during 2013	Market price per share at award	No of shares vested/ performance tested during 2013	Market price per share at vesting/ performance testing	No of unvested/non- performance tested shares held on 31 Dec 2013	End of performance period	Date of release
BIP	2013	NV ord		55,298	€12 530					
PSP	2012	PLC ord	179,551		€6 015					
LTIP	2013	PLC ord		81,688	€7 345					
		NV ord		56,806	€12 530					
RSP*	2012	PLC ord	249,376		€6 015			72,042		Termination date
		NV ord						51,378		
Total PLC ords			428,927	81,688				72,042		
Total NV ords				112,104				51,378		

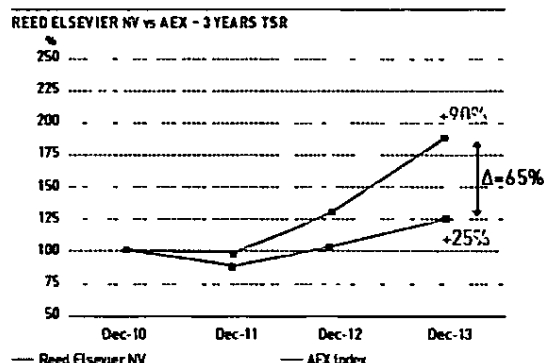
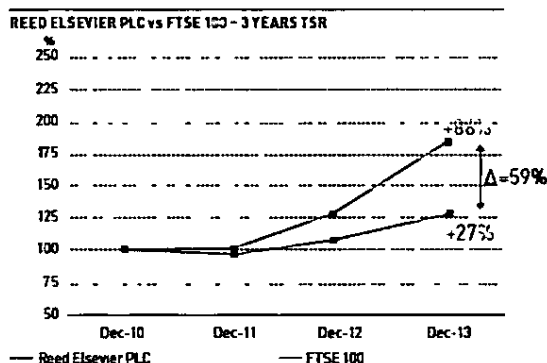
\* Duncan Palmer's RSP award has been subject to time pro-rating following his resignation. The number of unvested shares held on 31 December 2013 is the number that will vest on termination. In accordance with the terms of the award, half of it is being settled with Reed Elsevier NV ordinary shares.

## DIRECTORS' REMUNERATION REPORT

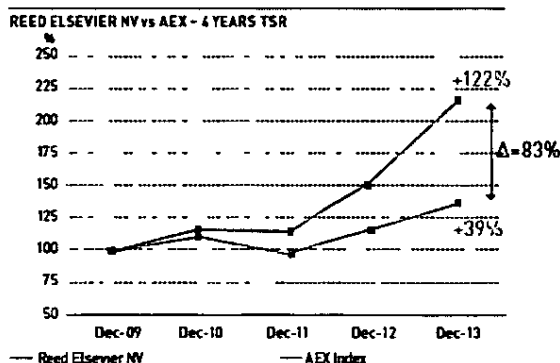
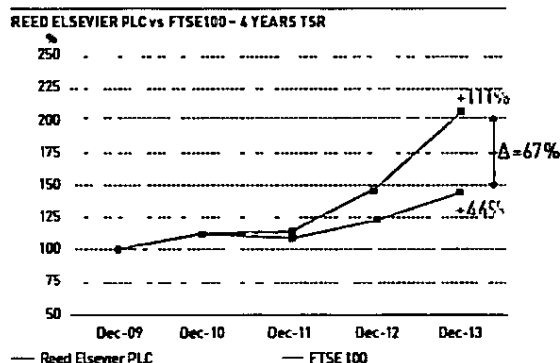
### Performance graphs and CEO historic pay table

The graphs below show total shareholder returns for Reed Elsevier PLC and Reed Elsevier NV, calculated on the basis of the average share price in the 30 trading days before the respective year end and assuming dividends were reinvested. Reed Elsevier PLC's performance is compared with the FTSE 100 and Reed Elsevier NV with the AEX Index (to reflect their respective memberships of those indices), over the five years from 31 December 2008 to 31 December 2013. Charts showing performance over a four-year period are included to reflect the current CEO's tenure and the launch of the one-off REGP in 2010. The three-year charts cover the performance period of the 2011-2013 cycles of BIP and ESOS.

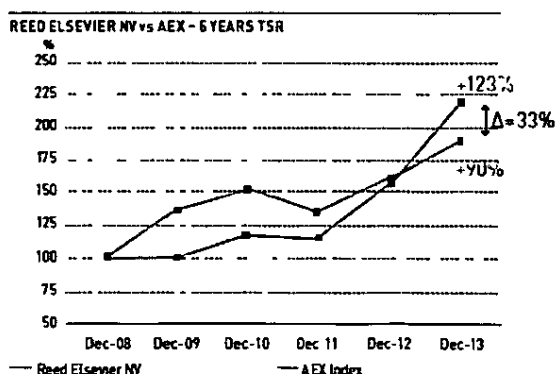
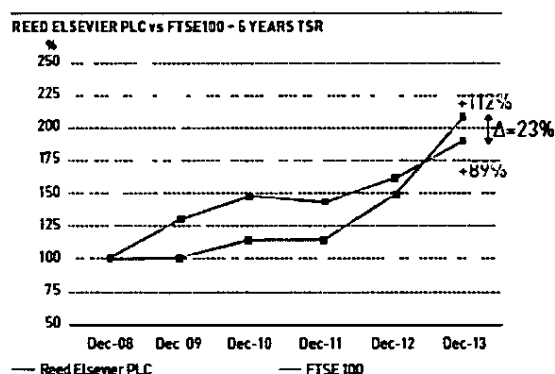
#### 3 years



#### 4 years



#### 5 years



## DIRECTORS' REMUNERATION REPORT

### Performance graphs and CEO historic pay table (continued)

The table below shows the historic CEO pay over a six-year period. 2008 has been included to show the pre-2009 position, as 2009 was a transition year with three CEO incumbents.

£'000	2008	2009 <sup>1</sup>			2010	2011	2012	2013
CEO	Sir Crispin Davis	Sir Crispin Davis	Ian Smith	Enk Engstrom	Enk Engstrom	Enk Engstrom	Enk Engstrom	Enk Engstrom
Annualised base salary	1,181	1,181	900	1,000	1,000	1,025	1,051	1,077
Annual incentive payout as a % of maximum	61%	30%	37%	71%	67%	66%	73%	70%
Multi-year incentive vesting as a % of maximum	100%	0%	0%	0%	0%	0%	70% <sup>5</sup>	96% <sup>5</sup>
CEO total (New UK basis) <sup>1</sup>	7,193	706	1,033	426	3,140	2,738	11,145 <sup>6</sup>	5,425
CEO total (Dutch Civil Code basis) <sup>2</sup>	6,631	(514)	1,033	431	2,675	5,045	5,443	6,067
CEO total (Consistent with prior disclosure) <sup>3</sup>	7,673	693	1,033	378	2,737	2,535	8,011 <sup>6</sup>	4,068

1 **New UK basis** This is described in footnote 1 to the Single Total Figure Table on page 38.

2 **Dutch Civil Code basis** This is described in footnote 2 to the Single Total Figure Table on page 38.

3 **Consistent with prior disclosure** This is described in footnote 3 to the Single Total Figure Table on page 38.

4 Sir Crispin Davis was CEO from 1 January to 31 March, Ian Smith was CEO from 1 April to 10 November and Erik Engstrom was CEO from 11 November to 31 December.

5 The 2012 percentage reflects BIP and REGP and the 2013 percentage reflects BIP and ESOS.

6 The 2012 figure for Erik Engstrom reflects the vesting of tranche 1 of the REGP and the 2010 BIP, both measured over the 2010-12 period. The REGP figure reflects the entire amount that was performance tested over the 2010-12 period, including the 50% of shares deferred until 2015 in accordance with the plan rules.

### Comparison of change in CEO pay with change in employee pay

The table below shows the percentage change in remuneration (salary, benefits and annual incentive) from 2012 to 2013 for the CEO compared with the average employee.

	% change from 2012 to 2013	
	CEO	Average employee*
Salary	2.5%	2.5%
Benefits	-1.5%	2.5%
Annual incentive	-1.4%	2.5%

\* This reflects a substantial proportion of our global employee population.

### Relative importance of spend on pay

The following table sets out the total employee costs for all employees.

	2013 (£m)	2012 (£m)	% change
Employee costs*	1,775	1,845	-4%

\* Employee costs include wages and salaries, social security costs, pensions and share-based and related remuneration.

### Implementation of remuneration policy in 2014

**Salary** The Committee has awarded a salary increase of 2.5% to Erik Engstrom, which means that, from 1 January 2014, his salary rose to £1,103,813. This is within the guidelines agreed for employees in Reed Elsevier Group plc's most significant locations globally for 2014. There was no increase to Duncan Palmer's salary.

**AIP** The operation of the AIP in 2014 remains the same as in 2013, with the exception of the introduction of claw-back provisions. Annual financial targets and KPOs are not disclosed as the Board believes that these are commercially sensitive and that disclosing them would give competitors an unfair insight into our strategic direction and annual execution plans. The targets are designed to be challenging relative to the 2014 execution plan.



## DIRECTORS' REMUNERATION REPORT

*Multi-year incentives* The award levels (% of salary) for 2014 are

	CEO	CFO
BIP opportunity	100%	100%
LTIP	250%	200%
ESOS	250%	200%

The targets and vesting scales for the multi-year incentive awards granted in 2014 are as follows

*BIP 2014-16 cycle*

Match earned on personal investment	Average growth in adjusted EPS over the three-year performance period*	ROIC in the third year of the performance period*
0%	below 4% p a	below 11.6%
50%	4% p a	11.6%
75%	6.5% p a	12.1%
100%	9% p a or above	12.6% or above

\* EPS and ROIC have equal weighting and straight-line vesting applies to performance between the points

*LTIP 2014-16 cycle*

Vesting is dependent on three separate performance measures of equal weighting: a TSR measure, an EPS measure and a ROIC measure<sup>1</sup>

Vesting percentage of each third of the TSR tranche <sup>2</sup>	TSR ranking within the relevant TSR comparator group
0%	Below median
30%	Median
100%	Upper quartile

<sup>1</sup> The calculation methodology for TSR, EPS and ROIC is set out in the 2013 Notices of Annual General Meetings, which can be found on the company's website. The methodology for selecting the TSR comparator group companies is unchanged from 2013 (see page 42)

<sup>2</sup> Vesting is on a straight-line basis for performance between the minimum and maximum levels

Vesting percentage of EPS and ROIC tranches*	Average growth in adjusted EPS over the three-year performance period	ROIC in the third year of the performance period
0%	below 5% p a	below 11.6%
33%	5% p a	11.6%
52.5%	6% p a	11.85%
65%	7% p a	12.1%
75%	8% p a	12.35%
85%	9% p a	12.6%
92.5%	10% p a	12.85%
100%	11% p a or above	13.1% or above

\* Vesting is on a straight-line basis for performance between the stated average adjusted EPS growth/ROIC percentages

*ESOS 2014-2016 cycle*

Proportion of the award vesting	Average growth in adjusted EPS over the three-year performance period*
0%	below 4% p a
33%	4% p a
80%	6% p a
100%	8% p a or above

\* Vesting is on a straight-line basis for performance between the stated average adjusted EPS growth percentages

## DIRECTORS' REMUNERATION REPORT

*Non-Executive Directors' fees* Changes to Non-Executive Director fee levels, from 1 January 2014, are as follows

- Fees for the Senior Independent Director and the Remuneration Committee Chairman will be increased from £20,000 to £25,000, and
- The following Committee membership fees apply
  - Audit Committee member £12,500 per annum
  - Remuneration Committee member £12,500 per annum
  - Nominations Committee member £7,500/£9,000 per annum

### Remuneration Committee advice

The Committee consists of independent Non-Executive Directors and the Chairman of Reed Elsevier Group plc. The Chief Legal Officer and Company Secretary attends meetings as secretary to the Committee. At the invitation of the Chairman of the Committee, 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 about his remuneration.

The Human Resources Director advised the Committee during the year.

Towers Watson is the external adviser, appointed by the Committee through a competitive process. Towers Watson also provided actuarial and other human resources consultancy services to some Reed Elsevier Group plc companies during the year. The Committee is satisfied that the firm's advice continues to be objective and independent, and that no conflict of interest exists. The individual consultants who work with the Committee do not provide advice to the Executive Directors, or act on their behalf. Towers Watson is a member of the Remuneration Consultants' Group and conducts its work in line with the UK Code of Conduct for executive remuneration consulting. During 2013, Towers Watson received fees of £58,172 for advice given to the Committee, charged on a time and expense basis.

### Shareholder Vote at 2013 Annual General Meetings

At the Annual General Meeting of Reed Elsevier NV, on 24 April 2013, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes For	% For	Votes Against	% Against	Total votes cast	Votes Withheld
Amendment to remuneration policy (approval)	458,169,301	97.49%	11,809,279	2.51%	469,978,580	2,019,615
New LTIP 2013 (approval)	458,632,132	97.42%	12,147,289	2.58%	470,779,421	1,218,774
Renewal of ESOS 2013 (approval)	437,897,046	93.02%	32,880,775	6.98%	470,777,821	1,220,374

At the Annual General Meeting of Reed Elsevier PLC, on 25 April 2013, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes For	% For	Votes Against	% Against	Total votes cast	Votes Withheld
Remuneration Report (advisory)	756,447,901	84.99%	133,639,746	15.01%	890,087,647	32,006,721
New LTIP 2013 (approval)	816,986,538	91.78%	73,127,112	8.22%	890,113,650	31,981,467
Renewal of ESOS 2013 (approval)	826,736,423	89.84%	93,459,084	10.16%	920,195,507	1,899,610

Approved by the Board of Reed Elsevier Group plc on 26 February 2014

Signed on behalf of the Remuneration Committee by Wolfhart Hauser, Director



## **INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

### **To the members of Reed Elsevier Group plc**

We have audited the financial statements of Reed Elsevier Group plc for the year ended 31 December 2013 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 consolidated accounting policies and related notes 1 to 30, the parent company balance sheet, the parent company statement of total recognised gains and losses, the parent company reconciliation of shareholders' funds and the parent company accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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' Report, the directors are responsible for preparation of the 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 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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended, and
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

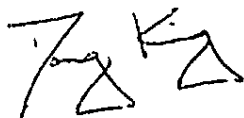
## INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the members of Reed Elsevier Group plc

### Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Douglas King (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
26 February 2014

**CONSOLIDATED INCOME STATEMENT**  
**For the year ended 31 December 2013**

	Note	2013 £m	Restated 2012 £m
<b>Revenue</b>	1	<b>6,012</b>	6,061
Cost of sales		(2,107)	(2,122)
		<hr/>	<hr/>
Gross profit		3,905	3,939
Selling and distribution costs		(1,002)	(1,015)
Administration and other expenses		(1,596)	(1,660)
		<hr/>	<hr/>
Operating profit before joint ventures		1,307	1,264
Share of results of joint ventures		29	24
		<hr/>	<hr/>
<b>Operating profit</b>	2	<b>1,336</b>	1,288
		<hr/>	<hr/>
Finance income	7	6	9
Finance costs	7	(441)	(497)
		<hr/>	<hr/>
Net finance costs		(435)	(488)
		<hr/>	<hr/>
Disposals and other non operating items	8	17	45
		<hr/>	<hr/>
<b>Profit before tax</b>		<b>918</b>	845
Current tax		(338)	(142)
Deferred tax		247	53
		<hr/>	<hr/>
Tax expense	9	(91)	(89)
		<hr/>	<hr/>
<b>Net profit for the year</b>		<b>827</b>	756
		<hr/>	<hr/>
Attributable to			
Equity shareholders		822	751
Non-controlling interests		5	5
		<hr/>	<hr/>
<b>Net profit for the year</b>		<b>827</b>	756
		<hr/>	<hr/>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2013**

	Note	2013 £m	Restated 2012 £m
<b>Net profit for the year</b>		<b>827</b>	<b>756</b>
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gains/(losses) on defined benefit pension schemes	5	<b>40</b>	(293)
Tax on items that will not be reclassified to profit or loss		<b>(24)</b>	96
<b>Total items that will not be reclassified to profit or loss</b>		<b>16</b>	<b>(197)</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange difference on translation of foreign operations		<b>(35)</b>	107
Fair value movements on available for sale investments		<b>45</b>	29
Transfer to net profit on disposal of available for sale investments		-	11
Fair value movements on cash flow hedge		<b>64</b>	72
Transfer to net profit from cash flow hedge reserve (net of tax)	18	<b>(3)</b>	10
Tax recognised on items that may be reclassified to profit or loss	9	<b>(15)</b>	(19)
<b>Total items that may be reclassified to profit or loss</b>		<b>56</b>	<b>210</b>
<b>Other comprehensive income for the year</b>		<b>72</b>	<b>13</b>
<b>Total comprehensive income for the year</b>		<b>899</b>	<b>769</b>
Attributable to			
Equity shareholders		<b>894</b>	764
Non-controlling interests		<b>5</b>	5
<b>Total comprehensive income for the year</b>		<b>899</b>	<b>769</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2013**

	Note	2013 £m	2012 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	11	1,900	1,806
Interest paid		(157)	(170)
Interest received		4	8
Net interest paid to Reed Elsevier NV		(16)	(8)
Net interest paid to Reed Elsevier PLC		(10)	(1)
Net interest paid to the Elsevier Reed Finance BV group		(258)	(313)
Tax paid (net)		(345)	(200)
<b>Net cash from operating activities</b>		<b>1,118</b>	<b>1,122</b>
<b>Cash flows from investing activities</b>			
Acquisitions	11	(214)	(553)
Purchases of property, plant and equipment		(57)	(70)
Expenditure on internally developed intangible assets		(251)	(263)
Purchase of investments		(10)	(6)
Proceeds from disposals of property, plant and equipment		6	7
Gross proceeds from business disposals		314	235
Payments on business disposals		(116)	(82)
Dividends received from joint ventures		22	20
<b>Net cash used in investing activities</b>		<b>(306)</b>	<b>(712)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to parent companies		-	(300)
Distributions to non-controlling interests		(6)	(4)
(Decrease)/increase in net borrowings from shareholders and fellow affiliates		(1,025)	360
Increase/(decrease) in short term bank loans, overdrafts and commercial paper		51	(238)
Issuance of term debt		-	157
Repayment of term debt		(322)	(346)
Repayment of finance leases		(10)	(4)
Disposal of non-controlling interests		-	7
<b>Net cash used in financing activities</b>		<b>(1,312)</b>	<b>(368)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	11	<b>(500)</b>	<b>42</b>
<b>Movement in cash and cash equivalents</b>			
At start of year		582	560
(Decrease)/increase in cash and cash equivalents		(500)	42
Exchange translation differences		(8)	(20)
<b>At end of year</b>		<b>74</b>	<b>582</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2013**

	Note	2013 £m	2012 £m
<b>Non-current assets</b>			
Goodwill	14	4,608	4,576
Intangible assets	15	3,261	3,416
Investments in joint ventures	16	125	100
Other investments	16	247	229
Property, plant and equipment	17	236	263
Deferred tax assets	19	437	71
Derivative financial instruments		59	64
		<u>8,973</u>	<u>8,719</u>
<b>Current assets</b>			
Inventories and pre-publication costs	20	139	154
Trade and other receivables	21	1,404	1,363
Derivative financial instruments		56	23
Amounts owed by Reed Elsevier PLC		814	366
Amounts owed by the Elsevier Reed Finance BV group		83	57
Cash and cash equivalents	11	74	582
		<u>2,570</u>	<u>2,545</u>
<b>Assets held for sale</b>	22	<u>21</u>	<u>299</u>
<b>Total assets</b>		<u>11,564</u>	<u>11,563</u>
<b>Current liabilities</b>			
Trade and other payables	23	2,565	2,509
Derivative financial instruments		4	9
Borrowings	24	97	44
Amounts owed to Reed Elsevier NV	24	856	1,137
Amounts owed to Reed Elsevier PLC	24	1,318	1,318
Amounts owed to Reed Holding BV	24	7	7
Amounts owed to the Elsevier Reed Finance BV group	24	1,531	1,594
Taxation		526	540
Provisions	26	17	30
		<u>6,921</u>	<u>7,188</u>
<b>Non-current liabilities</b>			
Derivative financial instruments		4	-
Borrowings	24	1,799	2,142
Amounts owed to the Elsevier Reed Finance BV group	24	4,020	4,295
Deferred tax liabilities	19	1,125	941
Net pension obligations	5	379	466
Provisions	26	116	139
		<u>7,443</u>	<u>7,983</u>
<b>Liabilities associated with assets held for sale</b>	22	<u>3</u>	<u>96</u>
<b>Total liabilities</b>		<u>14,367</u>	<u>15,267</u>
<b>Net liabilities</b>		<u>(2,803)</u>	<u>(3,704)</u>
<b>Capital and reserves</b>			
Share capital		-	-
Share premium		2,430	2,430
Translation reserve		(723)	(688)
Other reserves	28	(4,543)	(5,480)
<b>Consolidated shareholders' deficit</b>		<u>(2,836)</u>	<u>(3,738)</u>
Non-controlling interests		33	34
<b>Total deficit</b>		<u>(2,803)</u>	<u>(3,704)</u>

The financial statements of Reed Elsevier Group plc, registered number 2746616, were approved by the board of directors and authorised for issue on 26 February 2014

D J Palmer

Chief Financial Officer





**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2013**

	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)
Increase in share based remuneration reserve		–	–	–	31	31	–	31
Settlement of share awards		–	–	–	(7)	(7)	–	(7)
Acquisitions		–	–	–	–	–	9	9
Disposals of non-controlling interests		–	–	–	6	6	1	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)

	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 2013		–	2,430	(688)	(5,480)	(3,738)	34	(3,704)
Total comprehensive income for the year		–	–	(35)	929	894	5	899
Dividends paid	13	–	–	–	–	–	(6)	(6)
Increase in share based remuneration reserve (net of tax)		–	–	–	48	48	–	48
Settlement of share awards		–	–	–	(40)	(40)	–	(40)
Balance at 31 December 2013		–	2,430	(723)	(4,543)	(2,836)	33	(2,803)

## 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.

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, transactional – on despatch or occurrence of the transaction and advertising – on publication or over the period of online display.

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.

## ACCOUNTING POLICIES

### 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 at the earlier of when plan amendments or curtailments occur and when related restructuring costs or termination benefits are recognised. Settlements are recognised when they occur.

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

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside profit or loss (either in other comprehensive income, directly in equity, or through a business combination) in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the date of the statement of financial position. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## ACCOUNTING POLICIES

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

### 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 when there is an indicator that the asset may be impaired and 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 on a straight line basis 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 arrangements 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 in disposals and other non operating items in 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 arrangements and associates, are reported as disposals and other non operating items.

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

## ACCOUNTING POLICIES

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

All of Reed Elsevier Group plc's joint arrangements are classified as joint ventures. 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, the carrying amounts of tangible and intangible assets and goodwill are reviewed 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. Fair value is based upon anticipated disposal proceeds, typically derived from firm or indicative offers from potential acquirers. 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, borrowings and derivative financial instruments.

## ACCOUNTING POLICIES

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 typically classified as either Level 1 or 2 in the IFRS13 fair value hierarchy.) The fair value of such investments is based on either quoted market prices or other observable market inputs.

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 and payables are recorded initially at fair value and subsequently carried at amortised cost (other than fixed rate borrowings in designated hedging relationships for which the carrying amount of the hedged portion of the borrowings is subsequently adjusted for the gain or loss attributable to the hedged risk).

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 IFRS13 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, capitalisation of development spend and taxation

#### *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 forecast period of up to five years, 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 11.1% for Scientific, Technical & Medical, 11.6% for Risk Solutions, 11.5-12.8% for Business Information, 10.9-12.5% for Legal and 9.5-13.0% for Exhibitions. The nominal long term growth rates, which are based on historical growth rates and the growth prospects for businesses is 3%. There were no charges for impairment of acquired intangible assets and goodwill in 2013 (2012: 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 impairment charges resulting from these scenarios individually would be less than £5m. Further information is provided in note 14 to the consolidated financial statements.

#### *Development spend*

Development spend embraces investment in new products and other initiatives, ranging from the building of online delivery platforms, to launch costs of new services, to building new infrastructure applications. Launch costs and other ongoing operating expenses of new products and services are expensed as incurred. The costs of building product applications, platforms and infrastructure are capitalised as intangible assets, where the investment they represent has demonstrable value and the technical and commercial feasibility is assured. Costs eligible for capitalisation must be incremental, clearly identified and directly attributable to a particular project. The resulting assets are amortised over their estimated useful lives. Impairment reviews are carried out at least annually. Judgement is required in the assessment of the potential value of a development project, the identification of costs eligible for capitalisation and the selection of appropriate asset lives.

#### *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 these discussions 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 the 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.

## ACCOUNTING POLICIES

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.

### *Other significant accounting policies*

The accounting policies in respect of revenue recognition, pre-publications costs, property provisioning and pensions 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.

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 nil (2012 £62m) relating to surplus property arising on the restructuring, sale and closure of Business Information businesses and includes expected losses on sub leases entered into during 2013 and an estimate of vacancy periods and future market conditions. Further information is provided in note 26 to the consolidated financial statements.

Accounting for defined benefit pension schemes involves judgement about uncertain events, including the life expectancy of the members, salary and pension increases, inflation and the rate at which the future pension payments are discounted. Estimates 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. Details of key assumptions and sensitivity analysis are provided in note 5 to the consolidated financial statements.

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

With effect from 1 January 2013, IAS19 Employee Benefits (revised) *inter alia* changes the methodology 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 calculated by reference to the discount rate of high quality corporate bonds (being also the discount rate applied in the calculation of pension obligations) and are no longer based on the expected returns on scheme assets. The effect is to reduce the asset returns recognised in the income statement.

Adoption of IAS19 (revised) has had no impact on Reed Elsevier Group plc's consolidated statement of financial position and statement of cash flows. The net pension financing credit or charge is now presented within net finance costs in Reed Elsevier Group plc's consolidated income statement, rather than within operating profit as previously reported. Given that the revised standard may introduce greater volatility to the income statement, the net pension financing credit or charge will be excluded from the adjusted figures used by Reed Elsevier Group plc as additional performance measures.

As required under the revised standard, comparative figures have been restated. For the year ended 31 December 2012, operating profits are £25m lower and net finance costs are £11m higher than previously reported. On an adjusted basis, profit before tax is £25m lower.

With effect from 1 January 2013, Reed Elsevier Group plc adopted IAS1 - Presentation of Items of Other Comprehensive Income (amendments to IAS1). The standard amends the grouping of items presented in the statement of comprehensive income into items that may be reclassified to the profit or loss in a future period and items that will never be reclassified.



## ACCOUNTING POLICIES

With effect from 1 January 2013, Reed Elsevier Group plc also adopted IFRS10 Consolidated Financial Statements, IFRS11 Joint Arrangements, IFRS12 Disclosure of Interests in Other Entities, and IFRS13 Fair Value Measurement, in addition to amendments to IAS27 Consolidated and Separate Financial Statements and IAS28 Investments in Associates. Adoption of these new accounting standards and amendments has not had a significant impact on Reed Elsevier Group plc's accounting policies or reporting. With the exception of IFRS13, these standards and amendments have been early adopted for the purposes of Reed Elsevier Group plc's application of IFRS as adopted by the EU.

### **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.

**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.

**Amendments to IAS 36 – Impairment of Assets** (effective for the 2014 financial year) These amendments require disclosure of the recoverable amounts for the assets or CGUs for which an impairment loss has been recognised or reversed during the reporting period and are effective retrospectively. Adoption of the standard is not expected to have a significant impact on disclosure in the consolidated financial statements.

Additionally, a number of amendments and 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 2013**

**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. Adjusted operating profit is reconciled to operating profit in note 10

**Analysis by business segment**

	Revenue		Operating profit		Adjusted operating profit	
	2013 £m	2012 £m	2013 £m	Restated 2012 £m	2013 £m	Restated 2012 £m
Scientific, Technical & Medical	2,103	2,008	702	658	787	721
Risk Solutions	933	926	312	281	414	392
Business Information	547	663	71	76	107	119
Legal	1,567	1,610	139	146	238	234
Exhibitions	862	854	153	165	205	203
Sub-total	6,012	6,061	1,377	1,326	1,751	1,669
Corporate costs	-	-	(41)	(38)	(41)	(38)
<b>Total</b>	<b>6,012</b>	<b>6,061</b>	<b>1,336</b>	<b>1,288</b>	<b>1,710</b>	<b>1,631</b>

Share of post-tax results of joint ventures of £29m (2012: £24m) included in operating profit comprises £6m (2012: £2m) relating to Legal and £23m (2012: £22m) relating to Exhibitions

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**1. Segment analysis (continued)**

<b>Analysis of revenue by geographical origin</b>	<b>2013 £m</b>	<b>2012 £m</b>
North America	3,103	3,122
United Kingdom	985	966
The Netherlands	656	611
Rest of Europe	698	761
Rest of world	570	601
<b>Total</b>	<b>6,012</b>	<b>6,061</b>

<b>Analysis of revenue by geographical market</b>	<b>2013 £m</b>	<b>2012 £m</b>
North America	3,082	3,143
United Kingdom	443	441
The Netherlands	166	165
Rest of Europe	1,074	1,170
Rest of world	1,247	1,142
<b>Total</b>	<b>6,012</b>	<b>6,061</b>

<b>Analysis of revenue by format</b>	<b>2013 £m</b>	<b>2012 £m</b>
Electronic	3,971	3,896
Print	1,145	1,250
Face to face	896	915
<b>Total</b>	<b>6,012</b>	<b>6,061</b>

<b>Analysis of revenue by type</b>	<b>2013 £m</b>	<b>2012 £m</b>
Subscriptions	3,112	2,978
Transactional	2,660	2,733
Advertising	240	350
<b>Total</b>	<b>6,012</b>	<b>6,061</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**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	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Scientific, Technical & Medical	49	397	93	106	77	56	95	81
Risk Solutions	164	15	25	21	97	109	22	23
Business Information	5	-	18	17	31	37	10	14
Legal	9	80	170	173	74	83	108	92
Exhibitions	56	178	15	25	40	32	14	16
<b>Total</b>	<b>283</b>	<b>670</b>	<b>321</b>	<b>342</b>	<b>319</b>	<b>317</b>	<b>249</b>	<b>226</b>

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 (2012: £1m) in Exhibitions. Other than the depreciation and amortisation above, non cash items include £31m (2012: £31m) relating to the recognition of share based remuneration, comprising £6m (2012: £5m) in Scientific, Technical & Medical, £3m (2012: nil) in Risk Solutions, £2m (2012: £3m) in Business Information, £6m (2012: £7m) in Legal, £4m (2012: £4m) in Exhibitions and £10m (2012: £12m) in Corporate.

**Analysis of non-current assets by geographical location**

	2013 £m	2012 £m
North America	6,283	6,511
United Kingdom	738	674
The Netherlands	127	121
Rest of Europe	929	904
Rest of world	400	374
<b>Total</b>	<b>8,477</b>	<b>8,584</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**2. Operating profit**

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

	Note	2013 £m	Restated 2012 £m
<b>Staff costs</b>			
Wages and salaries		1,500	1,532
Social security costs		173	185
Pensions	5	61	89
Share based remuneration		31	26
<b>Total staff costs</b>		<b>1,765</b>	<b>1,832</b>
<b>Depreciation and amortisation</b>			
Amortisation of acquired intangible assets	15	318	316
Share of joint ventures' amortisation of acquired intangible assets		1	1
Amortisation of internally developed intangible assets	15	160	150
Depreciation of property, plant and equipment	17	89	76
<b>Total depreciation and amortisation</b>		<b>568</b>	<b>543</b>
<b>Other expenses and income</b>			
Pre-publication costs, inventory expenses and other cost of sales		2,107	2,122
Royalties payable to the Elsevier Reed Finance BV group		45	37
Operating lease rentals expense		108	112
Operating lease rentals income		(10)	(10)

The amortisation of acquired intangible assets is included within administration and other expenses

**3 Auditor's remuneration**

	2013 £m	2012 £m
<b>Auditor's remuneration</b>		
Payable to the auditors of the parent company	0.4	0.1
Payable to the auditors of the operating and financing businesses	4.3	4.6
<b>For audit services</b>	<b>4.7</b>	<b>4.7</b>
Audit related assurance services	0.4	0.7
Tax services	1.8	0.8
Due diligence and other transaction related services	-	0.1
<b>For non audit services</b>	<b>2.2</b>	<b>1.6</b>
<b>Total auditor's remuneration</b>	<b>6.9</b>	<b>6.3</b>

Amounts payable to the auditors of the operating and financing businesses include amounts for the review and testing of internal controls over financial reporting in accordance with the US Sarbanes-Oxley Act. Non audit services performed in the Netherlands or by Deloitte B.V. are limited to audit related assurance services.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**4 Personnel**

**Number of people employed**

	At 31 December		Average during the year	
	2013	2012	2013	2012
<b>Business segment</b>				
Scientific, Technical & Medical	6,500	6,800	6,700	6,800
Risk Solutions	3,300	4,100	3,500	4,000
Business Information	3,900	4,800	4,200	5,200
Legal	10,000	10,400	10,400	10,400
Exhibitions	3,400	3,200	3,300	3,000
<b>Sub-total</b>	<b>27,100</b>	<b>29,300</b>	<b>28,100</b>	<b>29,400</b>
Corporate/shared functions	900	900	900	900
<b>Total</b>	<b>28,000</b>	<b>30,200</b>	<b>29,000</b>	<b>30,300</b>
<b>Geographical location</b>				
North America	13,900	15,700	14,800	15,900
United Kingdom	4,100	4,100	4,100	4,200
The Netherlands	1,600	1,600	1,600	1,600
Rest of Europe	2,700	3,500	3,000	3,600
Rest of world	5,700	5,300	5,500	5,000
<b>Total</b>	<b>28,000</b>	<b>30,200</b>	<b>29,000</b>	<b>30,300</b>

**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.

The UK scheme is a final salary scheme and is closed to new hires. Members accrue a portion of their final pensionable earnings based on the number of years of service. The US scheme is a cash balance scheme and is closed to new hires. Members earn pay credits dependent on age and years of service which are added to an account balance that accrues interest at a minimum rate of 4% per annum. The Netherlands scheme is a career average salary scheme and remains open to new hires. Members accrue a portion of their current salary at a rate calculated to enable them to reach a pension level based on their average salary.

Each of the major defined benefit schemes is administered by a separate fund that is legally separated from Reed Elsevier Group plc. The trustees of the pension funds in the UK and the Netherlands and plan fiduciaries of the US scheme are required by law to act in the interest of the funds' beneficiaries. In the UK and in the Netherlands the trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund. The boards of trustees consist of an equal number of Reed Elsevier Group plc appointed and member nominated directors. In the US, the fiduciary duties for the scheme are allocated between committees which are staffed by senior employees of Reed Elsevier Group plc, the investment committee has the primary responsibility for the investment and management of plan assets.

The funding of Reed Elsevier Group plc's major schemes reflects the different rules within each jurisdiction.

In the UK the level of funding is determined by statutory triennial actuarial valuations in accordance with pensions legislation. Where the scheme falls below 100% funded status, Reed Elsevier Group plc and the scheme trustees must agree on how the deficit is to be remedied. The UK Pensions Regulator has significant powers and sets out in codes and guidance the parameters for scheme funding.

The US scheme has an annual statutory valuation which forms the basis for establishing the employer contribution each year (subject to ERISA and IRS minimums). Should the statutory funded status fall to below 100%, the US Pensions Protection Act requires the deficit to be rectified with additional contributions over a 7 year period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**5. Pension schemes (continued)**

In the Netherlands, the scheme funding level is determined by an annual actuarial valuation as prescribed by the Dutch Pension Act. If the funding level falls below the statutory minimum a short term recovery plan is negotiated between the plan trustees and filed with the Dutch Central Bank (DCB). An evaluation of the recovery plan is required to be filed at the DCB annually.

Total regular employer contributions to defined benefit pension schemes in respect of 2014 are expected to be approximately £46m.

The pension expense recognised within operating expense is

	2013 £m	Restated 2012 £m
Defined benefit pension expense	14	43
Defined contribution pension expense	47	46
<b>Total</b>	<b>61</b>	<b>89</b>

The amounts recognised in the income statement in respect of defined benefit pension schemes during the year are presented by major scheme as follows

	2013				Restated 2012			
	UK £m	US £m	NL £m	Total £m	UK £m	US £m	NL £m	Total £m
Service cost	29	29	15	73	27	28	8	63
Settlement, past service and curtailment credits	-	(51)	(8)	(59)	(1)	(19)	-	(20)
<b>Defined benefit pension expense</b>	<b>29</b>	<b>(22)</b>	<b>7</b>	<b>14</b>	<b>26</b>	<b>9</b>	<b>8</b>	<b>43</b>
Net interest on net defined benefit obligations	6	9	4	19	5	7	(1)	11
<b>Net defined benefit pension expense</b>	<b>35</b>	<b>(13)</b>	<b>11</b>	<b>33</b>	<b>31</b>	<b>16</b>	<b>7</b>	<b>54</b>

Net interest on defined benefit pension scheme liabilities is presented within net finance costs in the income statement. Service cost, including settlements, past service credits and curtailments is presented within operating expenses.

Settlements and past service credits in 2013 principally relate to plan design changes and the transfer out of certain deferred members in the US scheme and a reduction in accrued benefits in respect of the scheme in the Netherlands. Settlements and curtailments recognised in 2012 were a result of changes to plan design and staff reductions.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**5. Pension schemes (continued)**

The significant valuation assumptions, determined for each major scheme in conjunction with the respective independent actuaries are presented below. The defined benefit pension expense for each year is based on the assumptions and scheme valuations set at 31 December of the prior year.

	2013			2012		
	UK	US	NL	UK	US	NL
<b>As at 31 December</b>						
Discount rate	<b>4.60%</b>	<b>5.05%</b>	<b>3.60%</b>	4.65%	4.25%	3.50%
Inflation	<b>3.25%</b>	<b>3.00%</b>	<b>2.00%</b>	2.85%	3.00%	2.00%

The discount rates are set by reference to AA corporate bond yields.

Mortality assumptions make allowance for future improvements in longevity and have been determined by reference to applicable mortality statistics. The average life expectancy assumptions are set out below.

	2013			2012		
	UK	US	NL	UK	US	NL
<b>Male average life expectancy (at 31 December)</b>						
Members currently aged 60 years	<b>90</b>	<b>84</b>	<b>86</b>	90	84	86
Members currently aged 45 years	<b>92</b>	<b>83</b>	<b>87</b>	92	83	87

	2013			2012		
	UK	US	NL	UK	US	NL
<b>Female average life expectancy (at 31 December)</b>						
Members currently aged 60 years	<b>89</b>	<b>86</b>	<b>89</b>	89	86	89
Members currently aged 45 years	<b>91</b>	<b>85</b>	<b>89</b>	91	85	89



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**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

	2013				Restated 2012			
	UK £m	US £m	NL £m	Total £m	UK £m	US £m	NL £m	Total £m
<b>Defined benefit obligation</b>								
At start of year	(2,654)	(922)	(696)	(4,272)	(2,479)	(858)	(539)	(3,876)
Service cost	(29)	(29)	(15)	(73)	(27)	(28)	(8)	(63)
Settlements, past service and curtailment credits	-	51	8	59	1	19	-	20
Interest on pension scheme liabilities	(122)	(41)	(25)	(188)	(124)	(44)	(30)	(198)
Actuarial (loss)/gain on financial assumptions	(173)	86	18	(69)	(92)	(145)	(145)	(382)
Actuarial (loss)/gain arising from experience assumptions	8	(10)	(3)	(5)	(15)	(18)	1	(32)
Contributions by employees	(6)	-	(5)	(11)	(7)	-	(4)	(11)
Benefits paid	94	93	19	206	89	112	15	216
Exchange translation differences	-	10	(17)	(7)	-	40	14	54
<b>At end of year</b>	<b>(2,882)</b>	<b>(762)</b>	<b>(716)</b>	<b>(4,360)</b>	<b>(2,654)</b>	<b>(922)</b>	<b>(696)</b>	<b>(4,272)</b>
<b>Fair value of scheme assets</b>								
At start of year	2,516	710	580	3,806	2,371	726	537	3,634
Interest income on plan assets	116	32	21	169	119	37	31	187
Return on scheme assets excluding amounts included in interest income	111	4	(1)	114	45	53	23	121
Contributions by employer	36	33	14	83	63	38	15	116
Contributions by employees	6	-	5	11	7	-	4	11
Benefits paid*	(94)	(93)	(19)	(206)	(89)	(112)	(15)	(216)
Exchange translation differences	-	(10)	14	4	-	(32)	(15)	(47)
<b>At end of year</b>	<b>2,691</b>	<b>676</b>	<b>614</b>	<b>3,981</b>	<b>2,516</b>	<b>710</b>	<b>580</b>	<b>3,806</b>
<b>Net defined benefit obligation</b>	<b>(191)</b>	<b>(86)</b>	<b>(102)</b>	<b>(379)</b>	<b>(138)</b>	<b>(212)</b>	<b>(116)</b>	<b>(466)</b>

\* included in benefits paid are settlements of £52m (2012 £75m)

As at 31 December 2013 the defined benefit obligations comprise £4,200m (2012 £4,112m) in relation to funded schemes and £160m (2012 £160m) in relation to unfunded schemes

The weighted average duration of defined benefit scheme liabilities for 2013 and 2012 is 19 years in the UK, 16 years in the US and 21 years in the Netherlands. Deferred tax assets of £104m (2012 £153m) are recognised in respect of the pension scheme deficits

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**5 Pension schemes (continued)**

Amounts recognised in the statement of comprehensive income are set out below

	2013 £m	Restated 2012 £m
Gains and losses arising during the year		
Experience losses on scheme liabilities	(5)	(32)
Experience gains on scheme assets	114	121
Actuarial gains/(losses) arising on the present value of scheme liabilities due to changes in		
- discount rates	78	(552)
- inflation	(171)	74
- other actuarial assumptions	24	96
	<u>40</u>	<u>(293)</u>
Net cumulative losses at start of year	(515)	(222)
<b>Net cumulative losses at end of year</b>	<u><b>(475)</b></u>	<u><b>(515)</b></u>

The major categories and fair values of scheme assets at the end of the reporting period are as follows

	2013				2012			
Fair value of scheme assets	UK £m	US £m	NL £m	Total £m	UK £m	US £m	NL £m	Total £m
Equities	1,351	174	222	1,747	1,207	409	169	1,785
Government bonds	1,089	68	358	1,515	1,088	164	376	1,628
Corporate bonds	-	411	-	411	-	88	-	88
Cash	87	4	-	91	106	1	-	107
Other	164	19	34	217	115	48	35	198
<b>Total</b>	<u><b>2,691</b></u>	<u><b>676</b></u>	<u><b>614</b></u>	<u><b>3,981</b></u>	<u><b>2,516</b></u>	<u><b>710</b></u>	<u><b>580</b></u>	<u><b>3,806</b></u>

The actual return on scheme assets for the year ended 31 December 2013 was £283m (2012 £308m)

Assets and obligations associated with the schemes are sensitive to changes in the market values of assets and the market related assumptions used to value scheme liabilities. In particular, adverse changes to asset values, discount rates or inflation could increase future pension costs and funding requirements.

Typically Reed Elsevier Group plc schemes are exposed to investment risks, whereby actual returns on plan assets may be below those rates used to determine the defined benefit obligations and interest rate risks whereby scheme deficits may increase if bond yields in the UK, US and the Netherlands decline and are not offset by returns in government and corporate bond portfolios. The schemes are also exposed to other risks such as unanticipated future increases in member mortality patterns, inflation, and future salaries, all potentially leading to an increase in scheme liabilities (particularly in the Netherlands which is the only major scheme which remains open to new members).

Investment policies of each scheme are intended to ensure continuous payment of defined pensions in the short term and long term. Efforts are made to limit risks on marketable securities by adopting investment policies that diversify assets among equities, government, corporate bonds and cash. Asset allocations are dependent on a variety of factors including duration of scheme liabilities and the statutory funded status of the plan.

All equities and government and corporate bonds have quoted prices in active markets. The majority of other assets are investments in property funds which have quoted prices in active markets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**5. Pension schemes (continued)**

**Sensitivity analysis**

The valuation of the Reed Elsevier Group plc group's pension scheme liabilities involves significant actuarial assumptions, being the life expectancy of the members, inflation and the rate at which the future pension payments are discounted. 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 that are reasonably possible would have the following approximate effects on the defined benefit pension obligations:

	<u>£m</u>
Increase/decrease of 0.25% in discount rate	191
Increase/decrease of 0.25% in the expected inflation rate	113
Increase/decrease of one year in assumed life expectancy	<u>108</u>

The above analysis has been calculated on the same basis used to determine the defined benefit obligation recognised in the statement of financial position. There has been no change in the methods used to prepare the analysis compared with prior years. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in the above assumptions would occur in isolation of one another as some of the assumptions may be correlated.

**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 between 2010 and 2013 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 2011, 2012 and 2013 and REGP grants are also variable subject to the achievement of a total shareholder return performance target.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**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 £
<b>2013 grants</b>				
Share options				
- ESOS	1,521	1.12	1,058	1.52
- Other	645	1.29	257	1.10
<b>Total share options</b>	<b>2,166</b>	<b>1.17</b>	<b>1,315</b>	<b>1.44</b>
Conditional shares				
- ESOS	524	6.51	365	9.28
- LTIP	1,338	6.14	930	8.90
- RSP	10	7.35	7	10.65
- REGP	322	6.49	450	9.34
- BIP	987	7.40	615	10.69
<b>Total conditional shares</b>	<b>3,181</b>	<b>6.63</b>	<b>2,367</b>	<b>9.51</b>
<b>2012 grants</b>				
Share options				
- ESOS	1,801	0.90	1,263	1.20
- Other	702	1.04	293	0.95
<b>Total share options</b>	<b>2,503</b>	<b>0.94</b>	<b>1,556</b>	<b>1.15</b>
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
<b>Total conditional shares</b>	<b>4,402</b>	<b>4.83</b>	<b>2,405</b>	<b>6.57</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**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	
	2013	2012	2013	2012
Weighted average share price at date of grant				
- ESOS	£7.35	£5 19	€12 53	€9 07
- LTIP	£7.35	£5 25	€12 54	€8 91
- RSP	£7.35	£6 00	€12 53	€9 65
- REGP	£7.76	-	€13 15	-
- BIP	£7.39	£5 20	€12 53	€9 15
- Other	£7.45	£5 49	€11 89	€9 63
Expected share price volatility	28%	30%	28%	30%
Expected option life	4 years	4 years	4 years	4 years
Expected dividend yield	4 1%	3 9%	4.7%	4 5%
Risk free interest rate	0 5%	0 8%	0 4%	0 9%
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 2013, in respect of both Reed Elsevier PLC and Reed Elsevier NV ordinary shares, are set out below

	In respect of Reed Elsevier PLC ordinary shares		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 (€)
<b>Share Options</b>				
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 1 January 2013	19,335	529	15,582	10 63
Granted	2,166	694	1,315	12 41
Exercised	(9,102)	542	(7,628)	10 72
Forfeited	(112)	535	(167)	11 30
Expired	(560)	537	(462)	11 30
<b>Outstanding at 31 December 2013</b>	<b>11,727</b>	<b>549</b>	<b>8,640</b>	<b>10.77</b>
Exercisable at 31 December 2012	12,573	553	12,329	11 12
<b>Exercisable at 31 December 2013</b>	<b>5,150</b>	<b>537</b>	<b>5,535</b>	<b>11 09</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**6 Share based remuneration (continued)**

<b>Conditional shares</b>	<b>In respect of Reed Elsevier PLC ordinary shares</b>	<b>In respect of Reed Elsevier NV ordinary shares</b>
	<b>Number of shares '000</b>	<b>Number of shares '000</b>
Outstanding at 1 January 2012	13,896	8,267
Granted	4,402	2,405
Vested	(601)	(391)
Forfeited/lapsed	(5,885)	(3,575)
Outstanding at 1 January 2013	11,812	6,706
Granted	3,181	2,367
Vested	(3,256)	(1,966)
Forfeited/lapsed	(1,395)	(923)
<b>Outstanding at 31 December 2013</b>	<b>10,342</b>	<b>6,184</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**6 Share based remuneration (continued)**

The weighted average share price at the date of exercise of share options and vesting of conditional shares during 2013 was 761p (2012 593p) for Reed Elsevier PLC ordinary shares and €13.15 (2012 €10.43) for Reed Elsevier NV ordinary shares

	2013		2012	
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)
<b>Reed Elsevier PLC ordinary shares (pence)</b>				
401-450	1,772	1.9	1,925	2.8
451-500	1,161	4.2	4,415	3.5
501-550	5,284	5.6	8,981	5.7
551-600	695	3.9	189	5.4
601-650	1,338	4.0	3,825	4.8
701-750	1,462	9.4	-	-
801-850	10	9.6	-	-
851-900	2	9.9	-	-
901-950	3	9.0	-	-
<b>Total</b>	<b>11,727</b>	<b>5.1</b>	<b>19,335</b>	<b>4.7</b>
<b>Reed Elsevier NV ordinary shares (euro)</b>				
7.01-8.00	41	5.0	58	6.1
8.01-9.00	1,834	6.8	2,736	7.7
9.01-10.00	1,813	7.2	3,142	6.9
10.01-11.00	619	1.4	2,697	1.6
11.01-12.00	1,670	2.3	3,982	2.6
12.01-13.00	1,864	7.1	1,806	5.1
13.01-14.00	134	4.7	118	4.1
14.01-15.00	663	3.1	1,043	4.1
15.01-16.00	2	9.9	-	-
<b>Total</b>	<b>8,640</b>	<b>5.4</b>	<b>15,582</b>	<b>4.6</b>

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**7 Net finance costs**

	2013 £m	Restated 2012 £m
Interest on short term bank loans, overdrafts and commercial paper	(4)	(12)
Interest on term debt	(137)	(146)
Interest payable to Reed Elsevier NV	(16)	(7)
Interest payable to Reed Elsevier PLC	(10)	(1)
Interest payable to the Elsevier Reed Finance BV group	(251)	(313)
Interest on obligations under finance leases	(1)	(1)
	<u>(419)</u>	<u>(480)</u>
Total borrowing costs	(419)	(480)
Losses on loans and derivatives not designated as hedges	(3)	(6)
Net financing charge on defined benefit pension schemes	(19)	(11)
	<u>(441)</u>	<u>(497)</u>
<b>Finance costs</b>	<b>(441)</b>	<b>(497)</b>
Interest on bank deposits	4	6
Gains on loans and derivatives not designated as hedges	-	1
Dividends received from Reed Elsevier NV	2	2
	<u>6</u>	<u>9</u>
<b>Finance income</b>	<b>6</b>	<b>9</b>
<b>Net finance costs</b>	<b>(435)</b>	<b>(488)</b>

Finance costs include £2m (2012 £4m) transferred from the hedge reserve

**8 Disposals and other non operating items**

	2013 £m	2012 £m
Revaluation of held for trading investments	5	19
Property provisions on disposed businesses	-	(60)
Gain on disposal of businesses and assets held for sale	12	86
	<u>17</u>	<u>45</u>
<b>Net gain on disposals and other non operating items</b>	<b>17</b>	<b>45</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**9. Taxation**

	2013 £m	Restated 2012 £m
Current tax		
United Kingdom	(46)	(80)
The Netherlands	(77)	(67)
Rest of world	(215)	5
Total current tax charge	(338)	(142)
Deferred tax	247	53
<b>Tax expense</b>	<b>(91)</b>	<b>(89)</b>

The increase in the deferred tax credit in 2013 principally relates to the alignment of certain business assets within their global management structure. It does not affect cash tax paid of £345m in 2013. The decrease in UK current tax in 2013 reflects the settlement of prior year tax matters.

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:

	2013 £m	Restated 2012 £m
<b>Profit before tax</b>	<b>918</b>	<b>845</b>
Tax at average applicable rates	(260)	(227)
Tax on share of results of joint ventures	10	7
Expenses not deductible for tax purposes and US state taxes	(40)	(33)
Non-taxable costs of share based remuneration	3	3
(Non-deductible)/non-taxable disposal related gains and losses	(22)	69
Tax losses of the period not recognised	(4)	(6)
Recognition and utilisation of tax losses that arose in prior years	9	6
Exceptional prior year credit	-	96
Deferred tax credit on the alignment of business assets	195	-
Other adjustments in respect of prior periods	22	(3)
Deferred tax effect of changes in tax rates	(4)	(1)
<b>Tax expense</b>	<b>(91)</b>	<b>(89)</b>

The weighted average applicable tax rate for the year was 28% (2012 restated 27%). This increase is caused by a change in the relative profitability of 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 2013, Reed Elsevier Group plc aligned certain business assets with their global management structure. As a result of this alignment the tax deductible value of these assets was updated to market value. As at 31 December 2013, Reed Elsevier Group plc has recognised a deferred tax credit of £195m in respect of these assets which have been excluded from adjusted earnings.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**9. Taxation (continued)**

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

	2013 £m	Restated 2012 £m
<b>Tax on items that will not be reclassified to profit or loss</b>		
Tax on actuarial movements on defined benefit pension schemes	(24)	91
Tax credit on other items	-	5
	<u>(24)</u>	<u>96</u>
<b>Tax on items that may be reclassified to profit or loss</b>		
Tax on fair value movements on cash flow hedges	(15)	(19)
	<u>(39)</u>	<u>77</u>
<b>Net tax (debit)/credit recognised in other comprehensive income</b>	<u>20</u>	<u>-</u>
Tax credit on share based remuneration recognised directly in equity		

A number of changes to the UK corporation tax system, including reductions of the main rate of corporation tax from 23% to 21% with effect from 1 April 2014, and from 21% to 20% with effect from 1 April 2015, were substantively enacted on 2 July 2013. Reed Elsevier Group plc has therefore remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 20%, which has resulted in recognition of a deferred tax debit of £4m in the income statement.

**10 Adjusted operating profit**

The Reed Elsevier Group plc group uses adjusted operating profit as an additional performance measure. Adjusted operating profit excludes amortisation of acquired intangible assets, acquisition related costs and the share of taxes in joint ventures. Acquisition related costs relate to acquisition integration, transaction related fees, and those elements of deferred and contingent consideration required to be expensed under IFRS.

	2013 £m	Restated 2012 £m
Operating profit	1,336	1,288
Adjustments		
Amortisation of acquired intangible assets	319	317
Acquisition related costs	43	21
Reclassification of tax in joint ventures	12	5
<b>Adjusted operating profit</b>	<u>1,710</u>	<u>1,631</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**11 Statement of cash flows**

<b>Reconciliation of operating profit before joint ventures to cash generated from operations</b>	<b>2013 £m</b>	<b>Restated 2012 £m</b>
Operating profit before joint ventures	1,307	1,264
Amortisation of acquired intangible assets	318	316
Amortisation of internally developed intangible assets	160	150
Depreciation of property, plant and equipment	89	76
Share based remuneration	31	31
<b>Total non cash items</b>	<b>598</b>	<b>573</b>
Decrease in inventories and pre-publication costs	10	21
Decrease in receivables	2	8
Decrease in payables	(17)	(60)
<b>Increase in working capital</b>	<b>(5)</b>	<b>(31)</b>
<b>Cash generated from operations</b>	<b>1,900</b>	<b>1,806</b>
<b>Cash flow on acquisitions</b>	<b>2013 £m</b>	<b>2012 £m</b>
	Note	
Purchase of businesses	12	(187)
Investment in joint ventures		(6)
Deferred payments relating to prior year acquisitions		(21)
<b>Total</b>		<b>(214)</b>
		<b>(553)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**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	2013 £m	2012 £m
At start of year	582	(2,186)	36	(7,928)	(9,496)	(9,959)
(Decrease)/increase in cash and cash equivalents	(500)	-	-	-	(500)	42
Net movement in short term bank loans, overdrafts and commercial paper	-	(51)	-	-	(51)	238
Issuance of term debt	-	-	-	-	-	(157)
Repayment of term debt	-	322	-	-	322	346
Repayment of finance leases	-	10	-	-	10	4
Net movement in borrowings from shareholders and fellow affiliates	-	-	-	1,025	1,025	(360)
<b>Change in net borrowings resulting from cash flows</b>	<b>(500)</b>	<b>281</b>	<b>-</b>	<b>1,025</b>	<b>806</b>	<b>113</b>
Receivables in acquired businesses	-	-	-	-	-	6
Inception of finance leases	-	(12)	-	-	(12)	(13)
Fair value and other adjustments to borrowings and related derivatives	-	12	(17)	-	(5)	2
Exchange translation differences	(8)	9	-	68	69	355
<b>At end of year</b>	<b>74</b>	<b>(1,896)</b>	<b>19</b>	<b>(6,835)</b>	<b>(8,638)</b>	<b>(9,496)</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**12 Acquisitions**

During the year a number of acquisitions were made for a total consideration of £232m (2012 £578m), after taking account of net cash acquired of £14m (2012 £20m). 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 2013 £m	Fair value 2012 £m
Goodwill	157	196
Intangible assets	126	474
Property, plant and equipment	-	1
Current assets	9	21
Current liabilities	(21)	(73)
Borrowings	-	6
Deferred tax	(39)	(47)
<b>Net assets acquired</b>	<b>232</b>	<b>578</b>
<b>Consideration (after taking account of £14m (2012 £20m) net cash acquired)</b>	<b>232</b>	<b>578</b>
Less: consideration deferred to future years	(36)	(23)
Less: acquisition date fair value of equity interest	(9)	(42)
<b>Net cash flow</b>	<b>187</b>	<b>513</b>

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 2014 consolidated financial statements. There were no significant adjustments to the provisional fair values of prior year acquisitions established in 2012.

The businesses acquired in 2013 contributed £27m to revenue, increased adjusted operating profit by £8m, decreased net profit by £1m, and contributed a net cash outflow of £3m 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 net profit attributable to equity shareholders for the year would have been £6,044m, £1,712m and £824m respectively before taking account of acquisition financing costs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**13 Equity dividends**

	£ per share		£m	
	2013	2012	2013	2012
<b>Dividends declared in the year</b>				
Dividends declared by Reed Elsevier Group plc				
Interim to "E" ordinary shareholders	-	-	-	-
Interim to "R" ordinary shareholders	-	16,317.65	-	300
<b>Total</b>			-	300

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**

	2013 £m	2012 £m
At start of year	4,576	4,731
Acquisitions	157	196
Disposals/reclassified as held for sale	(46)	(154)
Exchange translation differences	(79)	(197)
<b>At end of year</b>	<b>4,608</b>	<b>4,576</b>

The carrying amount of goodwill is after cumulative amortisation of £1,154m (2012: £1,180m) which was charged prior to the adoption of IFRS and £9m (2012: £20m) of subsequent impairment charges recorded in prior years.

**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 25 CGUs (2012: 22 CGUs). CGUs which are not individually significant have been aggregated for presentation purposes. Typically, acquisitions are fully integrated into existing business units, and the goodwill arising is allocated to the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition.

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

<b>Goodwill</b>	2013 £m	2012 £m
Scientific, Technical & Medical	1,083	1,057
Risk Solutions	1,604	1,559
Business Information	374	408
Legal	1,121	1,150
Exhibitions	426	402
<b>Total</b>	<b>4,608</b>	<b>4,576</b>

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 62 to 63.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**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
<b>Cost</b>					
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 1 January 2013	2,816	3,158	5,974	1,514	7,488
Acquisitions	42	84	126	-	126
Additions	-	-	-	251	251
Disposals/reclassified as held for sale	(55)	(216)	(271)	(27)	(298)
Exchange translation differences	(63)	(15)	(78)	(25)	(103)
<b>At 31 December 2013</b>	<b>2,740</b>	<b>3,011</b>	<b>5,751</b>	<b>1,713</b>	<b>7,464</b>
<b>Accumulated amortisation</b>					
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 1 January 2013	870	2,334	3,204	868	4,072
Charge for the year	178	140	318	160	478
Disposals/reclassified as held for sale	(54)	(216)	(270)	(22)	(292)
Exchange translation differences	(27)	(17)	(44)	(11)	(55)
<b>At 31 December 2013</b>	<b>967</b>	<b>2,241</b>	<b>3,208</b>	<b>995</b>	<b>4,203</b>
<b>Net book amount</b>					
At 31 December 2012	1,946	824	2,770	646	3,416
<b>At 31 December 2013</b>	<b>1,773</b>	<b>770</b>	<b>2,543</b>	<b>718</b>	<b>3,261</b>

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 £353m (2012: £431m) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**15 Intangible assets (continued)**

Included in market and customer related intangible assets are £347m (2012 £354m) 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 62 to 63.

Also included in market and customer related intangible assets are £952m (2012 £1,037m) of customer relationship assets arising on the acquisition of ChoicePoint in 2008 with a remaining useful life of approximately 15 years.

**16. Investments**

	2013 £m	2012 £m
Investments in joint ventures	125	100
Available for sale investments	2	3
Shares in Reed Elsevier NV and Reed Elsevier PLC	155	150
Venture capital investments held for trading	90	76
<b>Total</b>	<b>372</b>	<b>329</b>

At 31 December 2013, the Reed Elsevier Group plc Employee Benefit Trust (EBT) held 10,120,537 (2012 13,451,468) Reed Elsevier PLC ordinary shares and 4,992,360 (2012 6,990,101) 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 £12m (2012 £27m) 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**16 Investments (continued)**

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

	2013 £m	2012 £m
At start of year	100	124
Share of results of joint ventures	29	24
Dividends received from joint ventures	(22)	(20)
Disposals and transfers	(3)	(33)
Additions	21	10
Exchange translation differences	-	(5)
<b>At end of year</b>	<b>125</b>	<b>100</b>

The principal joint ventures at 31 December 2013 are exhibition joint ventures within Exhibitions and Giuffrè and Martindale 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	
	2013 £m	2012 £m	2013 £m	2012 £m
Revenue	225	187	110	91
Net profit for the year	57	45	29	24
Total assets	246	227	117	104
Total liabilities	(134)	(126)	(64)	(59)
<b>Net assets</b>	<b>112</b>	<b>101</b>	<b>53</b>	<b>45</b>
Goodwill			72	55
<b>Total</b>			<b>125</b>	<b>100</b>

Reed Elsevier Group plc's consolidated other comprehensive income includes nil (2012: nil) relating to joint ventures

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**17 Property, plant and equipment**

	2013			2012		
	Land and buildings £m	Fixtures and equipment £m	Total £m	Land and buildings £m	Fixtures and equipment £m	Total £m
<b>Cost</b>						
At start of year	218	534	752	238	579	817
Acquisitions	-	-	-	-	1	1
Capital expenditure	4	66	70	10	70	80
Disposals/reclassified as held for sale	(8)	(33)	(41)	(21)	(97)	(118)
Exchange translation differences	(4)	(11)	(15)	(9)	(19)	(28)
<b>At end of year</b>	<b>210</b>	<b>556</b>	<b>766</b>	<b>218</b>	<b>534</b>	<b>752</b>
<b>Accumulated depreciation</b>						
At start of year	116	373	489	118	412	530
Disposals/reclassified as held for sale	(6)	(31)	(37)	(5)	(94)	(99)
Charge for the year	9	80	89	8	68	76
Exchange translation differences	(2)	(9)	(11)	(5)	(13)	(18)
<b>At end of year</b>	<b>117</b>	<b>413</b>	<b>530</b>	<b>116</b>	<b>373</b>	<b>489</b>
<b>Net book amount</b>	<b>93</b>	<b>143</b>	<b>236</b>	<b>102</b>	<b>161</b>	<b>263</b>

No depreciation is provided on freehold land of £14m (2012 £15m). The net book amount of property, plant and equipment at 31 December 2013 includes £17m (2012 £11m) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**18 Financial instruments (continued)**

	Contractual cash flow							
	Carrying amount £m	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>At 31 December 2013</b>								
<b>Borrowings</b>								
Fixed rate borrowings owing to								
Third parties	(1,808)	(117)	(113)	(510)	(385)	(64)	(1,429)	(2,618)
Elsevier Reed Finance BV group	(5,213)	(1,601)	(863)	(1,186)	(1,227)	(753)	(96)	(5,726)
Floating rate borrowings owing to								
Third parties	(88)	(88)	-	-	-	-	-	(88)
Elsevier Reed Finance BV group	(338)	(116)	(230)	-	-	-	-	(346)
Reed Elsevier NV	(856)	(856)	-	-	-	-	-	(856)
Reed Elsevier PLC	(1,318)	(1,318)	-	-	-	-	-	(1,318)
Reed Holding BV	(7)	(7)	-	-	-	-	-	(7)
<b>Derivative financial liabilities</b>								
Forward foreign exchange contracts	(8)	(535)	(402)	(222)	-	-	-	(1,159)
<b>Derivative financial assets</b>								
Interest rate derivatives	19	8	7	4	1	-	-	20
Forward foreign exchange contracts	96	583	431	233	-	-	-	1,247
<b>Total</b>	<b>(9,521)</b>	<b>(4,047)</b>	<b>(1,170)</b>	<b>(1,681)</b>	<b>(1,611)</b>	<b>(817)</b>	<b>(1,525)</b>	<b>(10,851)</b>

		Contractual cash flow						
	Carrying amount £m	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>At 31 December 2012</b>								
<b>Borrowings</b>								
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)
<b>Derivative financial liabilities</b>								
Forward foreign exchange contracts	(9)	(537)	(433)	(194)	-	-	-	(1,164)
<b>Derivative financial assets</b>								
Interest rate derivatives	36	8	8	8	7	6	-	37
Forward foreign exchange contracts	51	554	450	202	-	-	-	1,206
<b>Total</b>	<b>(10,459)</b>	<b>(4,456)</b>	<b>(1,303)</b>	<b>(1,212)</b>	<b>(1,685)</b>	<b>(1,344)</b>	<b>(2,054)</b>	<b>(12,054)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**18. Financial instruments (continued)**

The carrying amount of derivative financial liabilities comprises £8m (2012 £7m) in relation to cash flow hedges and nil (2012 £2m) not designated as hedging instruments. The carrying amount of derivative financial assets comprises £19m (2012 £36m) in relation to fair value hedges, £86m (2012 £46m) in relation to cash flow hedges and £10m (2012 £5m) not designated as hedging instruments.

At 31 December 2013, the Reed Elsevier Group plc group had access, along with other affiliated companies, to a \$2,000m committed bank facility maturing in July 2018, which was undrawn.

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2013, and after utilising available cash resources, no third party borrowings mature within three years (2012 nil), 41% of third party borrowings mature in the fourth and fifth years (2012 29%), 46% in the sixth to tenth years (2012 49%), and 13% beyond the tenth year (2012 22%).

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totalling £5,551m (2012 £5,889m) of which 28% mature in the next year (2012 27%), 17% in the second year (2012 12%), 19% in the third year (2012 17%), 34% in the fourth and fifth years (2012 34%), and 2% in the sixth to tenth years (2012 10%). Reed Elsevier Group plc has net borrowings due within one year of £1,284m (2012 £2,039m) 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 2013, 83% 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 £14m (2012 £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 2013. A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £14m (2012 £13m).

The impact on net equity of a theoretical change in interest rates as at 31 December 2013 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 2013. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**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. Some of these exposures are offset by denominating borrowings in US dollars (see note 24).

A theoretical weakening of all currencies by 10% against sterling at 31 December 2013 would decrease the carrying value of net assets, excluding net borrowings, by £501m (2012 £496m). This would be more than offset by a decrease in net borrowings of £744m (2012 £822m). A strengthening of all currencies by 10% against sterling at 31 December 2013 would increase the carrying value of net assets, excluding net borrowings, by £501m (2012 £496m) and increase net borrowings by £744m (2012 £822m).

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 £67m (2012 £52m). A 10% strengthening of all foreign currencies against sterling on this basis would increase net profit for the year by £67m (2012 £52m).

**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 £156m (2012 £147m), past due two to three months £76m (2012 £57m), past due four to six months £26m (2012 £14m), and past due greater than six months £7m (2012 £1m). 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 and foreign currency movements which could affect the income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**18 Financial instruments (continued)**

Interest rate derivatives with a principal amount of £300m (2012 £300m) were in place at 31 December 2013 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 related derivatives designated as fair value hedges, which are included in the income statement, for the two years ended 31 December 2013, were as follows

<b>Gains/(losses) on borrowings and related derivatives</b>	<b>1 January 2012</b>	<b>Fair value movement gain/(loss)</b>	<b>1 January 2013</b>	<b>Fair value movement gain/(loss)</b>	<b>31 December 2013</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
GBP debt	(30)	(6)	(36)	17	(19)
Related interest rate swaps	30	6	36	(17)	19
Net gain	-	-	-	-	-

All fair value hedges were highly effective throughout the two years ended 31 December 2013

Gross borrowings as at 31 December 2013 included £30m (2012 £33m) 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 (2012 £3m) 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) Debt hedges comprising 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) Revenue hedges comprising forward foreign exchange contracts 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 2012 and 2013, including gains and losses on cash flow hedging instruments, were as follows

	<b>Debt hedges</b>	<b>Revenue hedges</b>	<b>Total hedge reserve pre-tax</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
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 1 January 2013 (losses)/gains deferred	(2)	37	35
Gains arising in 2013	-	64	64
Amounts recognised in income statement	2	(6)	(4)
Exchange translation differences	-	(1)	(1)
<b>Hedge reserve at 31 December 2013. gains deferred</b>	<b>-</b>	<b>94</b>	<b>94</b>

All cash flow hedges were highly effective throughout the two years ended 31 December 2013

A tax charge of £22m (2012 £9m) in respect of the above gains and losses at 31 December 2013 was also deferred in the hedge reserve

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**18 Financial instruments (continued)**

Of the amounts recognised in the income statement in the year, gains of £6m (2012 losses of £10m) were recognised in revenue and losses of £2m (2012 £4m) were recognised in finance costs. A tax charge of £1m (2012 credit of £4m) was recognised in relation to these items.

The deferred gains and losses on cash flow hedges at 31 December 2013 are currently expected to be recognised in the income statement in future years as follows:

	Revenue hedges £m	Total hedge reserve pre-tax £m
2014	38	38
2015	37	37
2016	17	17
2017	2	2
2018	-	-
<b>Gains deferred in hedge reserve at end of year</b>	<b>94</b>	<b>94</b>

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**19 Deferred tax**

	2013 £m	2012 £m
Deferred tax assets	437	71
Deferred tax liabilities	(1,125)	(941)
<b>Total</b>	<b>(688)</b>	<b>(870)</b>

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	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 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/other comprehensive income	-	-	(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)
(Charge)/credit to profit	(138)	70	(105)	349	(8)	(26)	105	247
(Charge)/credit to equity/other comprehensive income	-	-	(6)	-	-	(24)	12	(18)
Acquisitions	-	(39)	-	-	-	-	-	(39)
Disposals/ reclassified as held for sale	(3)	(18)	(9)	-	-	-	-	(30)
Exchange translation differences	12	11	5	(8)	-	1	1	22
Deferred tax (liability)/asset at 31 December 2013	(352)	(778)	(215)	344	14	104	195	(688)

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

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 £84m (2012 £129m) carried forward at the year end. The deferred tax asset not recognised in respect of these losses is approximately £20m (2012 £34m). Of the unrecognised losses, £56m (2012 £47m) will expire if not utilised within 10 years, and £28m (2012 £82m) will expire after more than 10 years.

Deferred tax assets of approximately £14m (2012 £9m) have not been recognised in respect of tax losses and other temporary differences carried forward of £69m (2012 £41m) which can only be used to offset future capital gains.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**20 Inventories and pre-publication costs**

	2013 £m	2012 £m
Raw materials	3	3
Pre-publication costs	90	99
Finished goods	46	52
<b>Total</b>	<b>139</b>	<b>154</b>

**21. Trade and other receivables**

	2013 £m	2012 £m
Trade receivables	1,291	1,245
Allowance for doubtful debts	(57)	(51)
	1,234	1,194
Prepayments and accrued income	170	169
<b>Total</b>	<b>1,404</b>	<b>1,363</b>

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

	2013 £m	2012 £m
At start of year	51	63
Charge for the year	17	13
Trade receivables written off	(11)	(18)
Disposals	-	(6)
Exchange translation difference	-	(1)
<b>At end of year</b>	<b>57</b>	<b>51</b>

**22 Assets and liabilities held for sale**

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

	2013 £m	2012 £m
Goodwill	16	137
Intangible assets	-	83
Property, plant and equipment	-	3
Deferred tax assets	-	4
Inventories	-	1
Trade and other receivables	5	71
<b>Total assets held for sale</b>	<b>21</b>	<b>299</b>
Trade and other payables	3	69
Deferred tax liabilities	-	27
<b>Total liabilities associated with assets held for sale</b>	<b>3</b>	<b>96</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**23. Trade and other payables**

	2013 £m	2012 £m
Payables and accruals	1,162	1,115
Deferred income	1,403	1,394
<b>Total</b>	<b>2,565</b>	<b>2,509</b>

The carrying amount of trade and other payables approximates to their fair value

**24 Borrowings**

	2013			2012		
	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	1,531	4,020	5,551	1,594	4,295	5,889
Amounts owed to shareholders and other affiliates	2,181	-	2,181	2,462	-	2,462
Short term bank loans, overdrafts and commercial paper	88	-	88	37	-	37
Term debt including finance leases	9	1,150	1,159	7	1,468	1,475
Term debt in fair value hedging relationships	-	319	319	-	336	336
Term debt previously in fair value hedging relationships	-	330	330	-	338	338
<b>Total</b>	<b>3,809</b>	<b>5,819</b>	<b>9,628</b>	<b>4,100</b>	<b>6,437</b>	<b>10,537</b>

In 2013, £186m principal amount of term debt maturing in 2019 was exchanged for £235m principal amount of term debt maturing in 2022 and cash. The exchange is treated as a debt modification for accounting purposes. The premium arising 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 £9,295m (2012: £10,401m). The total fair value of term debt in fair value hedging relationships is £355m (2012: £376m). The total fair value of term debt previously in fair value hedging relationships is £396m (2012: £424m).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**24 Borrowings (continued)**

Analysis by year of repayment	Short term bank loans, overdrafts and commercial paper £m	Term debt including finance leases £m	Amounts owed to Elsevier Reed Finance BV Group £m	Amounts owed to shareholders and other affiliates £m	Total £m
<b>As at 31 December 2013</b>					
Within 1 year	88	9	1,531	2,181	3,809
Within 1 to 2 years	-	5	955	-	960
Within 2 to 3 years	-	402	1,076	-	1,478
Within 3 to 4 years	-	319	1,166	-	1,485
Within 4 to 5 years	-	-	739	-	739
After 5 years	-	1,073	84	-	1,157
<b>After 1 year</b>	-	1,799	4,020	-	5,819
<b>Total</b>	<b>88</b>	<b>1,808</b>	<b>5,551</b>	<b>2,181</b>	<b>9,628</b>
<b>As at 31 December 2012</b>					
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
<b>After 1 year</b>	-	2,142	4,295	-	6,437
<b>Total</b>	<b>37</b>	<b>2,149</b>	<b>5,889</b>	<b>2,462</b>	<b>10,537</b>

Short term bank loans, overdrafts and commercial paper were backed up at 31 December 2013 by a \$2,000m (£1,207m) committed bank facility maturing in July 2018, which was undrawn

Analysis by currency	Short term bank loans, overdrafts and commercial paper £m	Term debt including finance leases £m	Amounts owed to Elsevier Reed Finance BV Group £m	Amounts owed to shareholders and other affiliates £m	Total £m
<b>As at 31 December 2013</b>					
US dollars	19	1,089	4,998	-	6,106
£ sterling	27	719	8	1,318	2,072
Euro	36	-	486	863	1,385
Other currencies	6	-	59	-	65
<b>Total</b>	<b>88</b>	<b>1,808</b>	<b>5,551</b>	<b>2,181</b>	<b>9,628</b>
<b>As at 31 December 2012</b>					
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
<b>Total</b>	<b>37</b>	<b>2,149</b>	<b>5,889</b>	<b>2,462</b>	<b>10,537</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**25. Lease arrangements**

**Finance leases**

At 31 December 2013 future finance lease obligations fall due as follows

	2013 £m	2012 £m
Within one year	9	7
In the second to fifth years inclusive	8	9
	<u>17</u>	<u>16</u>
Less future finance charges	-	-
<b>Total</b>	<u>17</u>	<u>16</u>
Present value of future finance lease obligations payable		
Within one year	9	7
In the second to fifth years inclusive	8	9
<b>Total</b>	<u>17</u>	<u>16</u>

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 2013 outstanding commitments under non-cancellable operating leases fall due as follows

	2013 £m	2012 £m
Within one year	103	117
In the second to fifth years inclusive	275	309
After five years	169	184
<b>Total</b>	<u>547</u>	<u>610</u>

Of the above outstanding commitments, £528m (2012 £577m) 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

	2013 £m	2012 £m
Within one year	16	16
In the second to fifth years inclusive	43	33
After five years	25	17
<b>Total</b>	<u>84</u>	<u>66</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**26 Provisions**

	2013			2012		
	Property £m	Restructuring £m	Total £m	Property £m	Restructuring £m	Total £m
At start of year	164	5	169	109	16	125
Transfers	-	-	-	22	-	22
Charged	-	-	-	62	-	62
Utilised	(32)	(3)	(35)	(24)	(11)	(35)
Exchange translation differences	(1)	-	(1)	(5)	-	(5)
<b>At end of year</b>	<b>131</b>	<b>2</b>	<b>133</b>	<b>164</b>	<b>5</b>	<b>169</b>

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 predominantly relates to property exposures on disposed businesses.

At 31 December 2013 provisions are included within current and non-current liabilities as follows:

	2013 £m	2012 £m
Current liabilities	17	30
Non-current liabilities	116	139
<b>Total</b>	<b>133</b>	<b>169</b>

**27. Contingent liabilities and capital commitments**

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 £100m (2012: £89m) of subsidiary undertakings registered in the Netherlands.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**28 Other reserves**

	Hedge reserve 2013 £m	Other reserves 2013 £m	Total 2013 £m	Total restated 2012 £m
At start of year	26	(5,506)	(5,480)	(5,865)
Profit attributable to parent companies' shareholders	-	822	822	751
Dividends paid	-	-	-	(300)
Actuarial gains/(losses) on defined benefit pension schemes	-	40	40	(293)
Fair value movements on available for sale investments	-	45	45	29
Transfer to net profit on disposal of available for sale	-	-	-	11
Deferred losses on cash flow hedges in acquired businesses	-	-	-	(2)
Fair value movements on cash flow hedges	64	-	64	72
Tax recognised in other comprehensive income	(15)	(24)	(39)	77
Increase in share based remuneration reserve (net of tax)	-	48	48	31
Settlement of share awards	-	(40)	(40)	(7)
Transfer from cash flow hedge reserve to net profit (net of tax)	(3)	-	(3)	10
Disposal of non-controlling interests	-	-	-	6
<b>At end of year</b>	<b>72</b>	<b>(4,615)</b>	<b>(4,543)</b>	<b>(5,480)</b>

Other reserves principally comprise retained earnings and the share based remuneration 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 2013 by Reed Elsevier Group plc and its subsidiaries with its fellow joint ventures amounted to £1,582m (2012 £2,254m)

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 (2012 £1m)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**29 Related party transactions (continued)**

As at 31 December 2013, amounts owed by joint ventures were £7m (2012 £1m) and amounts due to joint ventures were £6m (2012 £1m). Key management personnel are also related parties as defined by IAS24 – Related Party Disclosures and comprise the Executive Directors and Non-Executive Directors of Reed Elsevier Group plc. Transactions with key management personnel are set out below.

	2013 £m	Restated 2012 £m
Salaries, other short term employee benefits and non-executive fees	4	5
Post employment benefits	1	1
Share based remuneration*	4	5
<b>Total</b>	<b>9</b>	<b>11</b>

\*The share based remuneration charge comprises the multi-year incentive scheme charges in accordance with IFRS2 – Share Based Payment, £3.9m (2012 £3.0m) relates to Executive Directors and nil (2012 £2.1m) relates to Mark Armour. These IFRS2 charges do not reflect the actual value received on vesting. Post employment benefits comprises the transfer value of the increase in the accrued pension during the year (net of inflation, Director's contributions and participation fee) for defined benefit schemes and payments made to defined contribution schemes or in lieu of pension. Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 29 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 26 February 2014.

**PARENT COMPANY FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**PARENT COMPANY BALANCE SHEET**  
As at 31 December 2013

	2013 £m	2012 £m
<b>Fixed assets</b>		
Investments		
Shares in subsidiary undertakings		
Cost	3,152	3,100
Provided	(4)	(4)
Net book amount	3,148	3,096
Other investments	111	150
Joint ventures (cost and net book value)	2	2
	<u>3,261</u>	<u>3,248</u>
<b>Current assets</b>		
Trade and other receivables	-	13
Amounts owed by Reed Elsevier PLC	4	4
Amounts owed by subsidiary undertakings	241	272
Tax	83	70
	<u>328</u>	<u>359</u>
<b>Total assets</b>	<u>3,589</u>	<u>3,607</u>
<b>Creditors falling due within one year</b>		
Amounts owed to subsidiary undertakings	(325)	(325)
	<u>(325)</u>	<u>(325)</u>
<b>Net current assets</b>	<u>3</u>	<u>34</u>
<b>Net assets</b>	<u>3,264</u>	<u>3,282</u>
<b>Capital and reserves</b>		
Called up share capital	-	-
Share premium account	2,430	2,430
Profit and loss reserves	834	852
<b>Shareholders' funds</b>	<u>3,264</u>	<u>3,282</u>

Approved by the board of Reed Elsevier Group plc, 26 February 2014



D J Palmer  
Chief Financial Officer



**PARENT COMPANY FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 December 2013**

	2013 £m	2012 £m
(Loss)/profit for the financial year	<u>(18)</u>	<u>448</u>
Total gains and losses relating to the year	<u>(18)</u>	<u>448</u>
Prior year adjustment	<u>-</u>	<u>11</u>
Total gains and losses recognised since last financial statements	<u><u>(18)</u></u>	<u><u>459</u></u>

**PARENT COMPANY FINANCIAL STATEMENTS**  
For the year ended 31 December 2013

**PARENT COMPANY RECONCILIATION OF SHAREHOLDERS' FUNDS**  
For the year ended 31 December 2013

	Share capital £m	Share premium £m	Profit and loss reserve £m	Total £m
At 31 December 2012	-	2,430	404	2,834
Profit attributable to ordinary shareholders	-	-	748	748
Ordinary dividends paid	-	-	(300)	(300)
At 1 January 2013	-	2,430	852	3,282
Profit attributable to ordinary shareholders	-	-	(18)	(18)
At 31 December 2013	-	2,430	834	3,264

**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

**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

## SUPPLEMENTARY INFORMATION

Principal subsidiary undertakings at 31 December 2013\*

### Holding and Corporate Companies

Reed Elsevier (UK) Limited <sup>(1)</sup>	
Reed Elsevier (Holdings) Ltd <sup>(2)</sup>	
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 <sup>(1)</sup>	(USA)
Reed Elsevier Capital Inc	(USA)
Reed Elsevier Properties Inc	(USA)

### Scientific, Technical & Medical

Elsevier Limited	
Elsevier B V	(The Netherlands)
Elsevier Inc	(USA)
AGRM Solutions CV	(The Netherlands)

### 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

### Legal

LexisNexis <sup>(3)</sup>	
LexisNexis <sup>(4)</sup>	(USA)

### Exhibitions

Reed Exhibitions Limited

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) Direct subsidiary undertaking of Reed Elsevier Group plc

(3) Division of Reed Elsevier (UK) Limited

(4) Division of Reed Elsevier Inc

Principal joint ventures at 31 December 2013

### Operating in

Dott A Giuffrè Editore Spa	40%
Martindale LLC	70%

### Principal place of business

Italy, Via Busto Arsizio, Milan
USA

\* A full list of the subsidiaries of Reed Elsevier Group plc will be annexed to the next annual return pursuant to s410(3) of the Companies Act 2006