Company Registration No. 5810043

Reed Elsevier (Investments) plc

Directors' Report and Financial Statements

For the year ended 31 December 2010

Company Registration No. 5810043

OFFICERS AND PROFESSIONAL ADVISERS

Directors
M Armour
S Cowden
A Joseph
P Richardson

Secretary
L Dixon (retired 31 March 2011)
S Cowden (appointed 31 March 2011)

Registered Office
1-3 Strand
London
WC2N 5JR

Auditors
Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

Company Registration No. 5810043

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

The company has taken advantage of the exemption granted under s417 of the Companies Act 2006 and has not produced an Enhanced Business Review The company has prepared accounts in accordance with s415(2) of the Companies Act 2006

Results and dividends

The profit before taxation for the year was £793,000 (2009 £815,000) No dividends were paid during the year (2009 nil) and the retained profit of £793,000 (2009 £815,000) has been taken to reserves

Principal activities and future developments

The company's principal activities are the funding of the activities of Reed Elsevier Group plc The directors do not anticipate any change in these activities in the foreseeable future The company was a wholly-owned subsidiary throughout the year

Financial risks

The company is exposed to financial risk through its financial assets and liabilities The key financial risks are credit risk and liquidity risk Interest rate risk is mitigated by issuing borrowings at fixed rates of interest, or, where borrowings have been swapped to floating rates through the use of interest rate derivatives, by lending to the holding company and fellow subsidiary undertakings at floating rates of interest

Credit risk is attributable to amounts owed by the holding company and by fellow subsidiary undertakings, and is not considered to be significant Liquidity risk is not considered to be significant as the company's borrowings are largely matched by amounts receivable from the holding company

Directors

The directors who served during the year and those holding office are shown on page 1

Directors' indemnity insurance has been taken out by the company on the directors' behalf

Directors' responsibilities statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

DIRECTORS' REPORT (Continued)

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Auditors

Deloitte LLP were appointed as auditors for the company and have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting

By Order of the Board
1-3 Strand
London WC2N 5JR

S J Cowden
Secretary
29 June 2011

Company Registration No. 5810043

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REED ELSEVIER (INVESTMENTS) PLC

We have audited the financial statements of Reed Elsevier (Investments) plc for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the 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 company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or
- the 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, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report

K. J. Houldsworth

Kate J Houldsworth (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
29th June 2011

Company Registration No 5810043

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Operating profit	2	-	-
Interest receivable and similar income	5	40,576	40,296
Interest payable and similar charges	6	(39,783)	(39,481)
Profit on ordinary activities before taxation		793	815
Tax on profit on ordinary activities	7	-	-
Profit on ordinary activities after taxation for the financial year	13	793	815

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

The activities of the company are derived from continuing operations

The company had no recognised gains or losses this year or during the prior year other than those reflected in the profit and loss account Consequently, a separate statement of total recognised gains and losses is not provided

The notes on pages 7 to 11 form part of these accounts

Company Registration No 5810043

BALANCE SHEET
As at 31 December 2010

	Note	2010 £'000	2009 £ 000
Current assets			
Debtors (amounts falling due within one year)	9	**1,020,514**	972,989
Current liabilities			
Creditors (amounts falling due within one year)	10	**(268,447)**	(239,053)
Net current assets		**752,067**	733,936
Non-current liabilities			
Borrowings	11	**(699,746)**	(682,408)
Net assets		**52,321**	51,528
Capital and reserves			
Called up share capital	12	**50**	50
Share premium	13	**50,000**	50,000
Profit and loss account	13	**2,271**	1,478
Shareholders' funds		**52,321**	51,528

The notes on pages 7 to 11 form part of these accounts

Approved by the board of directors and signed on behalf of Reed Elsevier (Investments) plc

S Cowden
Director
29 June 2011

NOTES TO THE ACCOUNTS
For the year ended 31 December 2010

1. Accounting policies

Compliance with accounting standards

These financial statements have been prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards The accounting policies adopted below have been consistently applied in the current and prior year

Going concern

The entity principally provides funding for the activities of Reed Elsevier Group plc for which management has assessed the relevant factors surrounding going concern and concludes that there are no material events or uncertainties that may cast significant doubt about the ability of the company to continue as a going concern Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts

Debtors

Debtors are stated net of provisions for doubtful debts, returns and other allowances

Interest receivable/payable

All interest receivable/payable is recognised on an accruals basis

Borrowing costs

Debt issuance costs are charged to the profit and loss account over the life of the related borrowings so as to produce a constant periodic rate of charge

Taxation

The current tax expense represents the sum of the tax payable on the current year taxable profits, and the movements on deferred tax that are recognised in the profit and loss account The tax payable on current year taxable profits is calculated using the applicable tax rates that have been enacted, or substantively enacted, by the balance sheet date Deferred 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

Financial instruments

Financial instruments comprise debtors, cash, creditors and accruals, provisions, borrowings and derivative financial instruments

Borrowings (other than fixed rate borrowings in designated hedging relationships and for which the carrying value is adjusted to reflect changes in the fair value of the hedged risk), creditors, accruals and provisions are recorded initially at fair value, less directly attributable issuance costs if applicable, and subsequently at amortised cost Derivative financial instruments are used to hedge interest rate risk

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 profit and loss account within interest. The offsetting gains or losses from remeasuring the fair value of the related derivatives are also recognised in the profit and loss account within interest 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 profit and loss account over the period to maturity of the borrowing using the effective interest method Any ineffective portion of hedges is recognised immediately in the profit and loss account

The fair values of interest rate swaps represent the replacement costs calculated using observable market rates of interest The fair value of long term borrowings is calculated by discounting expected future cash flows at observable market rates

NOTES TO THE ACCOUNTS
For the year ended 31 December 2010

2. Operating profit

The directors received no emoluments (2009 nil) in respect of their services to the company

3. Auditor's remuneration

Auditor's remuneration for the audit of the company's annual accounts was £1,000 (2009 £1,000) and was borne and not recharged by another group company for the current and preceding year

4. Staff costs

The company has no employees (2009 nil)

5. Interest receivable and similar income

	2010 £'000	2009 £ 000
Interest due from parent company	**40,544**	40,296
Exchange gains	**32**	-
	40,576	40,296

6. Interest payable and similar charges

	2010 £'000	2009 £'000
On loans repayable after five years	**36,986**	34,887
On other borrowings repayable within 5 years not by instalments	**363**	958
Guarantee fees payable to Reed Elsevier PLC	**222**	196
Guarantee fees payable to Reed Elsevier NV	**222**	196
Fair value losses on designated fair value hedge relationships	**2**	31
Interest payable to fellow subsidiary undertakings	**1,988**	3,213
	39,783	39,481

7. Tax on profit on ordinary activities

	2010 £'000	2009 £'000
United Kingdom corporation tax	**-**	-

The rate of current tax for the year and prior period is 28% based on the UK standard rate of corporation tax

A reconciliation of the notional current tax charge based on the standard rate to the actual current tax charge is as follows

	2010 £'000	2009 £ 000
Profit on ordinary activities before taxation	**793**	815
Tax charge at the standard rate	**222**	228
Group relief received for nil consideration	**(222)**	(228)
Current tax charge	**-**	-

NOTES TO THE ACCOUNTS
For the year ended 31 December 2010

8. Financial Instruments

Hedge accounting

The hedging relationships that are designated under FRS26 – Financial Instruments are described below

Fair value hedges

The company has entered into interest rate swaps to hedge the exposure to changes in the fair value of fixed rate borrowings due to interest rate movements which could affect the profit and loss account

Interest rate derivatives with a principal amount of £300 million were in place at 31 December 2010 (2009 £300 million) swapping a fixed rate term debt issue to floating rate 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 profit and loss account, for the year ended 31 December 2010 were as follows

Gains/(losses) on borrowings and related derivatives	1 January 2010 £'000	Fair value movement gain/(loss) £'000	31 December 2010 £'000
Debt	9,191	(16,205)	(7,014)
Related interest rate swaps	(9,222)	16,203	6,981
	(31)	(2)	(33)

All fair value hedges were highly effective from inception to 31 December 2010

9. Debtors (falling due within one year)

	2010 £'000	2009 £ 000
Amounts owed by parent company	1,013,533	972,989
Designated interest rate derivative	6,981	-
	1,020,514	972,989

10. Creditors (falling due within one year)

	2010 £'000	2009 £ 000
Amounts owed to fellow subsidiary undertakings	262,301	223,887
Amounts owed to Reed Elsevier PLC	719	500
Amounts owed to Reed Elsevier NV	219	196
Interest payable on borrowings	5,208	5,248
Designated interest rate derivative	-	9,222
	268,447	239,053

NOTES TO THE ACCOUNTS
For the year ended 31 December 2010

11. Borrowings – unsecured (falling due after one year)

	2010 £'000	2009 £ 000
5 625% Public Notes 2016 – measured at amortised cost	**396,926**	396,396
7 00% Public Notes 2017 – in fair value hedging relationships	**302,820**	286,012
	699,746	682,408

In March 2009 the company issued term debt of £300 million paying a coupon of 7% and maturing in 2017

The total fair value of borrowings measured at amortised cost is £438 million (2009 £424 million) The total fair value of borrowings in fair value hedging relationships is £351 million (2009 £344 million)

12. Share capital

	Authorised		Called up, issued and fully paid	
	Number	£	Number	£
Ordinary shares of £1 each				
At 1 January and 31 December 2010	**50,000**	**50,000**	**50,000**	**50,000**

13. Shareholders' funds

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 1 January 2010	50	50,000	1,478	**51,528**
Retained profit for the financial year	-	-	793	**793**
At 31 December 2010	**50**	**50,000**	**2,271**	**52,321**

14 Cash flow statement

A cash flow statement is not required under Financial Reporting Standard 1(Revised) (Cash Flow Statements) as the ultimate parent undertaking prepares group accounts which are publicly available

15. Ultimate parent company

The company's ultimate parent undertaking and controlling entity is Reed Elsevier Group plc, a company incorporated in Great Britain The smallest and largest group into which the accounts of the company for the year ended 31 December 2010 are consolidated is Reed Elsevier Group plc Copies of the consolidated accounts of Reed Elsevier Group plc may be obtained from its registered office at 1-3 Strand, London, WC2N 5JR Reed Elsevier Group plc is jointly owned by Reed Elsevier PLC (a company incorporated in Great Britain) and Reed Elsevier NV (a company incorporated in the Netherlands)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2010

16 Related party transactions

The company has taken advantage of the exemption granted under paragraph 3(c) of Financial Reporting Standard 8 (Related Party Disclosures) not to disclose transactions with entities that are part of Reed Elsevier Group plc as the consolidated financial statements of Reed Elsevier Group plc, in which the company is included, are publicly available