Company Number 2746616

Reed Elsevier Group plc

Annual Reports and Financial Statements

For the year ended 31 December 2007

DIRECTORS' REPORT

J Hommen *	- Chairman	
Sir Crispin Davis	- Chief Executive Officer	
M H Armour	- Chief Financial Officer	
G J A van de Aast		
M W Elliott *		
E Engstrom		
L Hook *		
C J A van Lede *		retired 17 April 2007
R B Polet *		appointed 17 April 2007
A Prozes		
D E Reid *		
Lord Sharman of Redlynch OBE*		
R W H Stomberg *		
P J Tierney		retired 30 January 2008
S Zelnick *		resigned 7 December 2007

*Indicates non-executive director

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31 December 2007

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Results and dividends

Revenue from continuing operations for the year was £4,534 million (2006 £4,458 million) and adjusted operating profit (i e before acquisition integration costs, amortisation of acquired intangible assets and the equity share of taxes in joint ventures) from continuing operations was £1,098 million (2006 £1,058 million) The adjusted operating margin was 24 2%, 0 5 percentage points higher than the prior year Operating profit from continuing operations was £850 million (2006 £814 million) Net finance costs were £418 million, up £17 million from the prior year

The group profit before tax from continuing operations of £530 million (2006 £412 million) includes acquisition integration costs of £20 million (2006 £23 million) and gains on disposals and other non operating items amounting to £98 million (2006 £1 million loss) and charges for the amortisation of intangible assets of £220 million (2006 £221 million)

The effective tax rate on profits before acquisition related costs, disposals and other non operating items and amortisation of intangible assets was 26 0% (2006 27 1%)

The net profit from discontinued operations of £309 million (2006 £33m) includes post-tax gains on disposals of £228 million (2006 nil)

The profit attributable to shareholders for the year amounted to £948 million (2006 £371 million)

During the year the company paid dividends of £850 million (2006 £596 million) on the "R" ordinary shares, nil on the "E" ordinary shares (2006 £230 million), and preference dividends of £7,500 (2006 £7,500) and subsidiary undertakings paid a further £966 million (2006 £529 million) to Reed Elsevier NV in respect of its holding of shares with special dividend rights in Reed Elsevier Overseas BV

At 31 December 2007 gross borrowings of £1,902 million (2006 £1,930 million) were offset by cash and cash equivalents of £2,345 million (2006 £322 million) and derivative financial instruments used to hedge the value of borrowings of £162 million (2006 £123 million) In addition, net borrowings from shareholders and from Elsevier Reed Finance BV group amounted to £7,870 million (2006 £6,066 million)

Operating Business review

The results of the businesses are reported in three segments, Elsevier, LexisNexis, and Reed Business, which comprise the continuing operations of the group Following announcement in February 2007 of the planned sale of Harcourt Education, the division is presented as a discontinued operation

Adjusted figures and constant currency growth rates are used by Reed Elsevier as additional performance measures Adjusted operating profit is stated before the amortisation of acquired intangible assets and acquisition integration costs Constant currency growth rates are based on 2006 full year average and hedge exchange rates
Unless otherwise indicated, all percentage movements in the following commentary refer to performance at constant exchange rates Underlying growth rates are calculated at constant currencies, excluding acquisitions and disposals

Elsevier

Revenues and adjusted operating profits were up 6% and 10% respectively at constant currencies before acquisitions and disposals After portfolio effects, most notably the acquisition of the Beilstein chemical compounds database and the sale of the MDL software business, revenues were up 4% and adjusted operating profits up 9% at constant currencies The overall adjusted operating margin improved by 1 1 percentage points, driven by revenue growth and cost efficiency most particularly in production and procurement

The Science & Technology business saw underlying revenue growth of 6%, or 2% at constant currencies after acquisitions and disposals, reflecting journal subscription renewals at record levels and growing online sales with increasing market penetration
ScienceDirect saw widening distribution especially in small academic and emerging markets, and particular success from the further launch of electronic books ScienceDirect online usage was again up over 20% Impact Factors, one of the industry's standard measures of content quality, increased for 65% of our journals, more than for any other major science and medical publisher Good progress was also made in our customer service programmes with positive developments across a wide range of surveyed measures

In March, we acquired the full rights to the Beilstein chemical compounds database, previously operated under licence, which is now being integrated with other resources to deliver content rich and innovative online solutions In October we sold the MDL software services business which increasingly did not fit within Elsevier's strategy

In Health Sciences, revenue growth at constant currencies was 6%, both before and after the impact of acquisitions and disposals, driven by good growth in the nursing and allied health professional sector, and expanding online solutions

The year saw successful publishing and a growing appetite within the healthcare industry for technology enabled information solutions to improve the quality and effectiveness of diagnosis, treatment and care Growth was partly held back by a flat performance in pharma advertising, with share gains compensating for weaker markets

Electronic products, such as the MDConsult clinical reference product, are showing good double digit growth in usage The Evolve digital learning platform had a successful year with a 40% increase in registered users New products were rolled out with very positive market response These included Mosby's Nursing Skills, endorsed by the American Association of Clinical Nurses, which offers detailed interactive guidance in over 500 skills drawn from our leading reference works At the British Medical Awards in September, we won more top awards for our publishing than any other publisher

In addition to investment in new publishing and digital solutions, we continued to expand our businesses in attractive high-growth segments through two highly complementary acquisitions in December Clinical Practice Model Resource Centre (CPMRC), a leading provider of decision support solutions for nurses and healthcare practitioners to improve patient care and safety, and, MEDai, a provider of clinical outcome analytics and risk identification and management for both the payers and providers of healthcare

The outlook for Elsevier is positive Revenue momentum is good with successful publishing, strong renewals and growing digital product in attractive markets The revenue growth and continuous actions to improve cost efficiency is driving good underlying margin improvement We look forward to another successful year in Elsevier in 2008

LexisNexis

Revenues and adjusted operating profits were up 7% and 12% respectively at constant currencies before acquisitions, and 8% and 14% including acquisitions The overall adjusted operating margin improved by 1 3 percentage points, reflecting the strong revenue growth and the actions taken to improve cost efficiency

In US Legal markets, strong subscription renewals and additional online information and solutions sales, partly held back by fewer large sized discovery cases, drove underlying revenue growth of 5%

New Total Solutions products were introduced throughout the year in the core areas of litigation, client development, practice management, and research Total Practice Advantage, with a series of releases in 2007, has seen particular success providing small law firms with practice management and client development tools in one integrated easy to use solution Other Total Solutions are also growing well such as Total Litigator, combining case management tools, document and evidence repositories, discovery tools, file and serve applications, and research

The growth in the attractive Total Solutions markets is being accelerated through acquisition as well as organic investment In July, we acquired Juris, which provides medium sized law firms with time and billing and other practice management solutions, to complement what we have achieved in small law firms with Total Practice Advantage In electronic discovery, we acquired Image Capture Engineering in June to complement the Concordance business acquired last year These businesses are being integrated within Total Litigator to service the majority of electronic discovery needs and are steadily migrating to a subscription model

In US Corporate and Public Markets, underlying revenue growth was 6% Whilst the news and business information business is slower growing, we saw strong demand in risk management and in processing higher volumes for the US patent and trademark office The Risk Information and Analytics business again saw double-digit revenue growth and further good margin expansion driven by the continued strength of the market combined with leading technology and content The business continues to expand its product offerings and build its presence in this attractive sector

The LexisNexis International business outside the US delivered underlying revenue growth of 8% at constant rates, or 10% including acquisitions, and strong margin and profit growth Underlying revenue growth has now been at or around this level for each of the last four years, driven by the growing penetration of online information services across our markets and new publishing Good growth was seen in the UK, France and Southern Africa in particular as well as in emerging markets such as India, Korea, China and Taiwan

To support the penetration of our Total Solutions strategy, we have been realigning and transforming the sales organisation This has involved the integration of multiple sales forces into one in the US, global sales coordination, a substantial upgrade in capabilities and the deployment of our portfolio solution selling methodology, tools and processes This will be extended globally as Total Solutions products are introduced internationally Additionally, we have streamlined and strengthened our organisation by establishing global management responsibilities for solutions development and delivery, unified marketing, production and customer support

The outlook for LexisNexis is positive The Total Solutions strategy, increased penetration of online services internationally and the strong demand for risk information and analytics is driving good revenue momentum LexisNexis has shown meaningful good underlying margin improvement in each of the last seven years and, with good revenue growth and continued action on costs, further strong progress is expected

Reed Business

Revenues and adjusted operating profits were up 6% and 8% respectively at constant currencies before acquisitions and disposals, or 7% and 10% after portfolio changes The overall adjusted operating margin was up 0 5 percentage points, with the cycling out of contribution from biennial joint venture exhibitions reducing margin growth by 0 2 percentage points

Reed Exhibitions saw revenues 13% ahead at constant currencies, or 12% excluding acquisitions and disposals Strong growth was seen across the show portfolio with particular success at the Mipim international property show in Cannes and the JCK jewellery show in Las Vegas Adjusted operating profits were up 11% at constant currencies, or 8% excluding acquisitions and disposals, held back by the cycling out of the contribution from biennial joint venture shows Excluding the cycling of shows, underlying revenue growth and adjusted operating profit growth were 10% and 11% respectively

Thirty new shows were launched in the year, in sectors ranging from personal care to aerospace and from Argentina to China The portfolio was also added to through the acquisition of a joint venture interest in Alcantara Machado, the leading show organiser in Brazil, and of a group of six international aerospace shows The decision was taken to exit the defence sector and a sale process is underway

The Reed Business Information magazine and information businesses saw revenues 4% ahead at constant currencies, or 3% before acquisitions and disposals Continued strong growth in online services of 20% underlying more than compensated for a 2% decline in print as the business migrates online Online revenues now contribute 30% of RBI's revenues Adjusted operating profits were up 10% at constant currencies through continued actions to improve cost efficiency

In the UK, underlying revenues were up 5% reflecting strong growth in online sales, up 19% and which now represent 46% of total RBI UK revenue Totaljobs, the leading UK recruitment site, continued its rapid growth with revenues up 35% The number of market leading job boards increased from 10 to 12 in 2007 with the launch of UK regional sites in Scotland and the North West of England and further launches are planned In the Netherlands and International, underlying revenue growth was 4% with good growth in online products In the Netherlands, Elsevier magazine reached record print circulation levels and received an industry award as the number one magazine for advertisers and media agencies In the US, RBI underlying revenue was flat, with online revenues growing rapidly, offset by the decline in print including discontinued titles Advertising revenues grew rapidly across community sites, up 31% This reflects surging web traffic as these sites increasingly become a starting point on the web for the communities they serve with their mix of professional content, community interaction and online tools proving attractive for both users and advertisers

The growth of online sales in RBI was accelerated by a number of acquisitions, including BuyerZone, a fast growing online service for matching vendors and buyers in procurement tendering, acquired in January 2007 and DoubleTrade, an online tendering service, acquired in April 2007 Both are performing strongly

The outlook for Reed Business is positive The demand for exhibitions remains good and advance bookings, particularly for the important first half of 2008, are encouraging The business magazines and information businesses, whilst seeing some general uncertainty in markets such as property and construction, are seeing no overall shift in market trends with continued strong growth in online services and slow decline in print Continued cost actions are expected to deliver overall margin improvement together with the cycling in of joint venture exhibitions

Discontinued operations-Harcourt Education

Following announcement in February 2007 of the planned sale of Harcourt Education, the division is presented as a discontinued operation On 4 May, the sale of the Harcourt Education International and Harcourt Assessment businesses to Pearson plc was announced, and on 16 July the sale of the Harcourt US K-12 Education businesses to Houghton Mifflin Riverdeep Group was announced The disposals of the UK, Australian and New Zealand businesses of Harcourt Education International completed in May 2007 with the South African business completing in August 2007 The disposal of the Harcourt US K-12 Education businesses completed in December 2007, and the disposal of Harcourt Assessment and the remaining Harcourt Education International businesses completed in January 2008

The reduced revenues and adjusted operating profits reported for Harcourt Education in the year reflect the timing of the business disposals and the seasonality of the businesses

The Harcourt Education US K-12 business saw revenues up 4% at constant currencies for the first eleven months of the year with good growth in the basal publishing businesses partly offset by a weaker supplemental market Harcourt had significant success in the state textbook adoption market and in particular with its new elementary social studies and math programmes and secondary math The secondary business again took by far the largest market share in new textbook adoptions The supplemental market declined as traditional supplemental product gives way to more comprehensive intervention and assessment products and further investment was made in these The new StoryTown elementary reading programme launched in open territories has been very well received which bodes well for the major reading adoptions in 2008

The Assessment business saw revenues 1% lower at constant currencies This reflected the prior year loss of two major state testing contracts, with the business almost making up the gap with new publishing and contract wins and extensions The turnaround in operational performance is also reflected in significantly improved profitability

The sale of the majority of the International business was completed in May 2007 with the remainder completed in August 2007 and January 2008

Future prospects

In the new financial year we have stepped up the momentum with plans to accelerate growth the planned divestment of Reed Business Information trade magazines and information businesses to reduce our exposure to advertising markets and their cyclicality, the agreed £2 1 billion acquisition of Choicepoint Inc in the fast growing risk information and analytics markets, and a major restructuring programme to deliver substantial cost savings over and above our regular annual improvements in costs effectiveness

Going into 2008, conditions remain generally favourable in our markets with strong subscription renewals and good revenue momentum for online information and workflow solutions The business magazines and information businesses, whilst seeing general uncertainty in markets such as property and construction, are seeing no overall shift in market trends

Our focus in 2008 will be on executing against our four strategic priorities delivering authoritative content through leading brands, driving online solutions, improving cost efficiency, and reshaping and strengthening the portfolio Implementation of the restructuring programme, the planned divestment of Reed Business Information and the acquisition and integration of ChoicePoint will be of particular significance

The outlook for Reed Elsevier Group plc is very positive We are well positioned in attractive markets, the momentum in the business is showing through in the good financial performance, and the changes we are making will strengthen the business and accelerate our growth

TREASURY POLICIES

The boards of Reed Elsevier PLC and Reed Elsevier NV have requested that Reed Elsevier Group plc has due regard to the best interests of Reed Elsevier PLC and Reed Elsevier NV shareholders in the formulation of treasury policies

DIRECTORS' REPORT

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

Liquidity

Reed Elsevier Group plc maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates The significance of Reed Elsevier Group plc's US operations means that the majority of third party debt is denominated in US dollars and is raised in the US debt markets A mixture of short term and long term debt is utilised and Reed Elsevier Group plc maintains a maturity profile to facilitate refinancing Reed Elsevier Group plc's policy is that no more than US$1 0bn of term debt issues should mature in any 12-month period In addition, minimum levels of borrowings with maturities over three years and five years are specified, depending on the level of net debt

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2007, and after utilising available cash resources (excluding £1,933m proceeds received from the part disposal of Harcourt Education, which was included in the special distribution to shareholders of the parent companies in January 2008), no third party borrowings mature in the next two years (2006 nil), 9% of borrowings mature in the third year (2006 9%), 38% in the fourth and fifth years (2006 28%), 30% in the sixth to tenth years (2006 42%), and 23% beyond the tenth year (2006 21%)

At 31 December 2007, Reed Elsevier Group plc had access to £1,502m (2006 £1,529m) of committed bank facilities that expire in two to three years, of which £42m (2006 £39m) was drawn These facilities principally provide back up for short term debt but also security of funding for future acquisition spend in the event that commercial paper markets are not available All these committed facilities expire within two to three years (2006 two to three years)

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totaling £5,012m (2006 £4,886m) of which 20% mature in the next year (2006 17%), 23% mature in the second year (2006 13%), 12% mature in the third year (2006 23%), 28% mature in the fourth and fifth years (2006 29%), and 17% mature in the sixth to tenth years (2006 15%)

The US$4 1 billion acquisition of Choicepoint Inc, announced by Reed Elsevier on 21st February 2008, will be financed initially from new bank facilities of up to US$4 65 billion which three major banks have committed to underwrite and arrange This initial funding will be refinanced later through the issuance of term debt

Interest rate exposure management

Reed Elsevier Group plc's interest rate exposure management policy is aimed at reducing the exposure of the business to changes in interest rates The proportion of interest expense that is fixed on net debt is determined by reference to the level of interest cover in Reed Elsevier Group plc, it's subsidiaries and affiliates Reed Elsevier Group plc uses fixed rate term debt, interest rate swaps, forward rate agreements and a range of interest rate options to manage the exposure Interest rate derivatives are used only to hedge an underlying risk and no net market positions are held

Foreign currency exposure management

Translation exposures arise on the earnings and net assets of business operations in countries other than those of Reed Elsevier Group plc These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars

Currency exposures on transactions denominated in a foreign currency are required to be hedged using forward contracts In addition, recurring transactions and future investment exposures may be hedged, within defined limits, in advance of becoming contractual The precise policy differs according to the commercial situation of the individual businesses Expected future net cash flows may be covered for sales expected for up to the next 12 months (50 months for Elsevier science and medical subscription businesses up to limits staggered by duration) Cover takes the form of foreign exchange forward contracts

As at 31 December 2007, the amount of outstanding foreign exchange cover in respect of future transactions was £723m

Capital Management

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

DIRECTORS' REPORT

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

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

The balance of long term debt, short term debt and committed bank facilities is managed to provide security of funding, taking into account the cash generation of the business and the uncertain size and timing of acquisition spend Certain third party debt and committed bank facilities are guaranteed by the parent companies where this results in a lower cost of borrowing

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

DIRECTORS

The Reed Elsevier Group plc board consists of five executive directors Sir Crispin Davis – Chief Executive Officer, Mark Armour – Chief Financial Officer, Gerard van de Aast, Erik Engstrom and Andrew Prozes, and seven independent non-executive directors Jan Hommen (Chairman), Mark Elliott, Lisa Hook, David Reid (senior independent non-executive director), Lord Sharman, Rolf Stomberg and Robert Polet (from 17th April 2007)

During the year Cees van Lede and Strauss Zelnick retired as non-executive directors and following the sale of the Harcourt Education division, Patrick Tierney retired in January 2008 as an executive director The joint Nominations Committee of Reed Elsevier PLC and Reed Elsevier NV recommended Mr Polet as a candidate for election after appointing recruitment consultants to produce a short list of candidates who met the requirements of the board profile (available on www reedelsevier com) which identifies the skills and experience required by the board of potential non-executive directors/supervisory board members

Board attendance

Members	Date of appointment/(cessation) during the year	Reed Elsevier Group plc Number of meeting held whilst a director	Number of meetings attended
Gerard van de Aast		9	9
Mark Armour		9	9
Sir Crispin Davis		9	9
Mark Elliott		9	7
Erik Engstrom		9	9
Jan Hommen		9	9
Lisa Hook		9	9
Cees van Lede	(April 2007)	2	2
Robert Polet	April 2007	7	3
Andrew Prozes		9	9
David Reid		9	7
Lord Sharman		9	6
Rolf Stomberg		9	6
Patrick Tierney		9	8
Strauss Zelnick	(December 2007)	9	6

DIRECTORS' REPORT

At the board meeting to be held on 23 April 2008, Sir Crispin Davis, Andrew Prozes, Lisa Hook and Gerard van de Aast will retire from the board of Reed Elsevier Group plc by rotation The Nominations Committee has recommended to the board the re-appointment of each director and, being eligible, they will each offer themselves for election

All directors have full and timely access to the information required to discharge their responsibilities fully and efficiently They have access to the services of the respective company secretaries, other members of Reed Elsevier's management and staff, and its external advisors Directors may take independent professional advice in the furtherance of their duties, at the relevant company's expense

In addition to scheduled board and board committee meetings held during the year, directors attend many other meetings and site visits Where a director is unable to attend a board or board committee meeting, he or she is provided with all relevant papers and information relating to that meeting and is able to discuss issues arising with the respective chairman and other board members

On appointment and as required, directors receive training appropriate to their level of previous experience This includes the provision of a tailored induction programme so as to provide newly appointed directors with information about the Reed Elsevier Group plc businesses and other relevant information to assist them in performing their duties Non-executive directors are encouraged to visit the Reed Elsevier Group plc businesses to meet management and senior staff

Board Committees

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

Audit Committee

Reed Elsevier Group plc has established an Audit Committee The Committee comprises only non-executive directors, all of whom are independent The Committee is chaired by Lord Sharman, the other members being Lisa Hook and David Reid and Strauss Zelnick (until 7 December 2007)

The main role and responsibilities of the Committee in relation to the respective companies are set out in written terms of reference and include
(i) to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them,
(ii) to review the company's internal financial controls and the company's internal control and risk management systems,
(iii) to monitor and review the effectiveness of the company's internal audit function,
(iv) to make recommendations to the board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor,
(v) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements, and
(vi) to develop and recommend policy on the engagement of the external auditor to supply non audit services, taking into account relevant ethical guidance regarding the provision of non audit services by the external audit firm, and to monitor compliance

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

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

The chief financial officer, group chief accountant, director of internal audit and senior representatives of the external auditors attend meetings of the Audit Committee The Committee met five times during the year Mr Reid was unable to attend one meeting and Mr Zelnick attended three of the four meetings during the period for which he served as a member of the Committee

Remuneration Committee

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

> advising the Chief Executive Officer on the remuneration of members of the Management Committee (other than executive directors) of Reed Elsevier Group plc and of the Company Secretary,
> providing advice to the Chief Executive Officer, as required, on major policy issues affecting the remuneration of executives at a senior level below the board, and
> establishing and amending the rules of all share-based incentive plans for approval by shareholders

Throughout 2007, the Committee consisted of independent non-executive directors as defined by the Combined Code and the Chairman of Reed Elsevier On 4 July 2007 Mark Elliott took over from Rolf Stomberg as Chairman of the Committee The Company Secretary, Stephen Cowden, also attends the meetings in his capacity as secretary to the Committee At the invitation of the Committee Chairman, the Chief Executive Officer attends the meetings of the Committee except when his own remuneration is under consideration

A Directors' Remuneration Report, which has been approved by the board of Reed Elsevier Group plc, appears on pages 12 to 35

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's financial reporting practice

Each division has identified and evaluated its major risks, the controls in place to manage those risks and the level of residual risk accepted Risk management and control procedures are embedded into the operations of the business and include the monitoring of progress in areas for improvement that come to management and board attention The major risks identified include business continuity, protection of IT systems and data, challenges to intellectual property rights, management of strategic and operational change, evaluation and integration of acquisitions, and recruitment and retention of personnel

The major strategic risks facing the Reed Elsevier Group plc businesses are considered by the board Litigation and other legal and regulatory matters are managed by legal directors in Europe and the United States

The Reed Elsevier Group plc Audit Committee receives regular reports on the management of material risks and reviews these reports The Audit Committee also receives regular reports from both internal and external auditors on internal control matters In addition, each division is required, at the end of the financial year, to review the effectiveness of its internal controls 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 of Reed Elsevier Group plc review the effectiveness of the systems of internal control and risk management during the last financial year The objective of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives Accordingly, they can only provide reasonable, but not absolute, assurance against material misstatement or loss

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by English company law to prepare a directors' report and financial statements for each financial period, which give a true and fair view of the state of affairs of the company and the group, and of the profit or loss for that period In preparing those financial statements, the directors ensure that suitable accounting policies, consistently applied and supported by reasonable judgements and estimates, have been used, and applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the law

The directors have general responsibility for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities

DISCLOSURE OF INFORMATION TO AUDITORS

As part of the process of approving the 2007 financial statements, the directors have taken steps pursuant to section 234ZA of the Companies Act 1985 to ensure that they are aware of any relevant audit information and to establish that the company's auditors are aware of that information In that context, so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware

GOING CONCERN

The directors of Reed Elsevier Group plc, having made appropriate enquiries, consider that adequate resources exist for the businesses to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the 2007 financial statements

FORWARD LOOKING STATEMENTS

The Annual Reports and Financial Statements 2007 contain forward looking statements These statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently being anticipated as reflected in such forward looking statements The terms 'expect', 'should be', 'will be', and similar expressions identify forward looking statements Factors which may cause future outcomes to differ from those foreseen in forward looking statements include, but are not limited to general economic conditions and business conditions in Reed Elsevier Group plc's markets, exchange rate fluctuations, customers' acceptance of its products and services, the actions of competitors, legislative, fiscal and regulatory developments, changes in law and legal interpretation affecting Reed Elsevier Group plc's intellectual property rights and internet communications, the impact of technological change, the failure to obtain regulatory approval for the acquisition of Choicepoint Inc of the approval of its shareholders for the proposed merger

CORPORATE SOCIAL RESPONSIBILITY

We believe success means achieving our business goals through responsible and sustainable action We aim to be a leader in our sector recognised for profitable, ethical, innovative, business performance, positive engagement with stakeholders including shareholders, employees, and communities, enhancing the positive impact of what we do and limiting any negative consequences, including on the environment

To make a real contribution to society we work to ensure good governance and spread best practice Accordingly, the Reed Elsevier Corporate Responsibility Forum, chaired by CEO Sir Crispin Davis, with executives representing all major business functions, met mid and end year to review CR policies, objectives and achievements We continued to take proactive steps on CR legislation, consulting with the UK government on its carbon reduction commitment We also participated in Respect Table with leading European companies and Margot Wallström, Vice President of the European Commission, to develop a 'road map' to Copenhagen, where a successor to the Kyoto Protocol climate change agreement will be formulated in 2009

Through HINARI (Health InterNetwork Access to Research Initiative), run by the World Health Organization, we provide institutions in developing countries free or low cost access to 1000 health research journals In 2007, nearly one million downloads were made from Elsevier publications Similarly, with AGORA (Access to Global Online Research in Agriculture), offered by the UN Food and Agricultural Organization, Elsevier gave students, researchers, and academics in 67 developing countries, free or low cost access to 1,175 agricultural and related journals (over 50% of the total journals available through AGORA) Elsevier is also a founding member of OARE (Online Access to Research in the Environment) providing leading environmental science to 375 qualifying institutions

Maintaining the integrity of what we produce is paramount We promote the Reed Elsevier Editorial Policy which maintains our commitment to editorial freedom and original, accurate, fair and timely information Our publications and products regularly receive awards for excellence In 2007, the Periodical Publishers Association awarded Reed Business' Computer Weekly its Editorial Campaign of the Year for a review of the UK government's National Health Service IT investment programme In addition to on-going customer listening, we launched REcommend across the divisions by surveying 100,000 customers to obtain Net Promoter scores, a simple measure of whether our customers will recommend us Action plans have been developed around results and the programme will continue into 2008

We proactively manage our portfolio of Businesses by active stakeholder engagement and Assessment This takes the form of regular meetings with investors, staff, governments, NGOs and Benchmarking surveys (e g , DowJones Sustainability Index and business in the Community CR Index) We continue to advance environmental goals by key facility, gain further understanding of certified sustainable paper used in our products and set targets for improvement, expand phased approach to environmental certification to Reed Elsevier headquarters and develop model for use at other locations
Proactively managing our businesses means listening to stakeholders Their concern over our involvement in organizing defence exhibitions led to our decision in the year to withdraw from the sector

We are passionate about building a sustainable business We are working to limit our impact on the environment through energy and water use, waste generation, business travel, transport, paper, production technologies and in our supply chain As part of our 2007 water reduction campaign, we held a group competition won by Elsevier Oxford They pledged to explore using rain water to maintain their grounds and, by turning off an exterior fountain, they reduced their annual water consumption by 12% There were no breaches of international, national or other environmental regulations in the period

Following the 2006 Global Employee Opinion survey, we conducted a listening tour to understand the keys to success at highscoring locations The research was published as Bright Ideas Creating Great Places to Work, and distributed to all senior managers Common success themes included opportunities for development, clear communication, camaraderie, shared purpose and support, transformational leadership, and humility As one employee noted, her manager "knows everyone by name, he knows little background things about people which shows he genuinely cares"

Our global health and safety awareness week, focused on wellness at the workstation, was launched with a new website, Health REsources, containing data on our health and safety performance, advice and suggestions, and useful links
While advancing training on the Reed Elsevier Code of Ethics, we have also developed specialised courses in important areas like data protection, doing business with governments, harassment awareness and discrimination

We donated £2 3 million in cash donations (including matching gift programmes) and the equivalent of £1 4 million in gifts of products, services and staff time in 2007 During RE Cares Month in September we held a first-ever group book drive resulting in 20,000 books for charities around the world We support key partners like Book Aid International (BAI), and for a fourth year helped to build a reading culture in Namibia The project has encompassed new tools for librarians in their efforts to encourage child reading and the development of in-school libraries to spur literacy and long-term educational opportunities We meet regularly with BAI to brainstorm on how we can advance their priorities In 2007 this included providing funding to repair their warehouse roof, damaged during a summer storm

In 2007 we made the position of running our SRS (Socially Responsible Supplier) programme full time and expanded the SRS database to include new categories like exhibition venues and call centres We established China product safety standards for book production covering ink, varnish, spiral wire, lamination, and glue

We work with suppliers to ensure compliance with the Reed Elsevier Supplier Code of Ethics, driving good practice through internal and external audits If there is noncompliance, we set remediation plans with suppliers In the year, the inability of a printer in Asia to correct issues in their agreed remediation plan led to their suspension as a preferred supplier They are now working to correct problems so as to resume their working relationship with us

POLITICAL DONATIONS

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

PAYMENTS TO SUPPLIERS

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

AUDITORS

Resolutions for the re-appointment of Deloitte & Touche LLP as auditors of the company and authorising the directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting

By Order of the Board

Stephen J Cowden
Secretary
20-Feb-2008

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

DIRECTORS' REMUNERATION REPORT

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

Membership of the Remuneration Committee
Throughout 2007, the Committee consisted of independent non-executive directors as defined by the Combined Code and the Chairman of Reed Elsevier On 4 July 2007 Mark Elliott took over from Rolf Stomberg as Chairman of the Committee At the invitation of the Committee Chairman, the Chief Executive Officer attends the meetings of the Committee except when his own remuneration is under consideration

Remuneration philosophy and policy
The context for Reed Elsevier's remuneration policy and practices is set by the needs of a group of global business divisions, each of which operates internationally by line of business Furthermore, Reed Elsevier's market listings in London and Amsterdam combined with the majority of its employees being based in the US provides a particular set of challenges in the design and operation of remuneration policy

Our remuneration philosophy
Reed Elsevier's guiding remuneration philosophy for senior executives is based on the following precepts

> Performance-related compensation, this underpins Reed Elsevier's demanding performance standards

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

> Competitive remuneration opportunity, this helps Reed Elsevier attract and retain the best executive talent from anywhere in the world

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

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

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

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

> The Committee considers environmental, social and governance matters in making its decisions on remuneration policy, practice, and setting performance targets

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

> Competitiveness will be assessed in terms of total remuneration

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

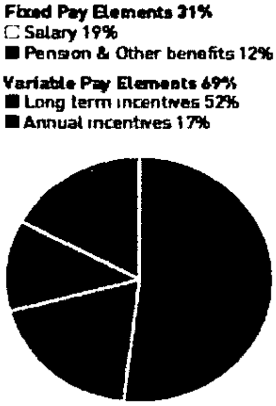
How the performance measures in incentives link to our business strategy
The Committee believes that the main driver of long term shareholder value is sustained growth in profitability The primary measure of profitability that is used by investors is growth in adjusted earnings per share at constant currencies of Reed Elsevier PLC and Reed Elsevier NV (Adjusted EPS) This performance measure has therefore been adopted as the key driver of performance in our longer term incentives

In our Annual Incentive Plan, we reward operational excellence by focusing on the financial measures of revenue growth, profitability and cash generation In addition, a significant portion of the annual bonus is dependent on performance against a set of key business objectives that focus on the delivery of our strategic priorities Performance against these strategic priorities creates the essential platform for growth in longer term profitability

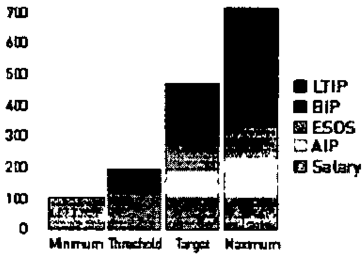
DIRECTORS' REMUNERATION REPORT

In 2006, we introduced a further performance measure into our Long Term Incentive Plan of total shareholder return relative to a focused industry peer group This measure is designed to reflect more directly the returns that we deliver to shareholders via a combination of share price appreciation and dividends Together with significant shareholding requirements as a condition of vesting, this performance measure increases alignment of interest between our senior executives and our shareholders

The balance between fixed and performance related pay
Around two thirds of each executive director's remuneration package is linked to performance The following diagram shows the balance between the fixed and variable elements of the remuneration package assuming that target performance will be achieved in 2008



To illustrate how our levels of compensation vary with performance we have produced the chart below (scale in percent of base salary) This shows the extent to which the remuneration payable to an executive director for 2008 would vary in practice to reflect the level of performance achieved



Our approach to market positioning and benchmarking
During the year, the Committee undertook a review of the benchmarking methodology applied in assessing the competitiveness of the executive directors' total remuneration The market competitiveness of total remuneration (i e salary, short and long term incentives and benefits) will be assessed against a range of relevant comparator groups as follows

> Global peers in the media sector

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

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

> Netherlands listed companies of similar size and international scope

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

> First, the overall competitiveness of the remuneration packages is assessed in terms of total remuneration

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

DIRECTORS' REMUNERATION REPORT

> The appropriate positioning of an individual's total remuneration against the market is determined based on the Committee's judgement of individual performance and potential

> The aim is to target total remuneration normally between the median and upper quartile of the relevant market for median/upper quartile performers respectively

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

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

DIRECTORS' REMUNERATION REPORT

The total remuneration package

Overview of individual remuneration elements

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

Summary of remuneration elements for executive directors

Element	Purpose	Performance period	Performance measure
Salary	Positions the role and individual within the relevant market for executive talent	Not applicable	Reflects the sustained value of the individual in terms of skills, experience and contribution compared with the market
Annual Incentive Plan (AIP)	Provides focus on the delivery of the financial targets set out in the annual budget Motivates the achievement of strategic annual goals and milestones (KPOs) that create a platform for future performance	One year	Award subject to the achievement of annual targets for • Revenue – 30% • Profit – 30% • Cash Flow Conversion Rate – 10% • Key Performance Objectives – 30%
Bonus Investment Plan (BIP)	Encourages personal investment in and ongoing holding of Reed Elsevier shares to develop greater alignment with shareholders Supports the retention of executives	Three years	Matching shares vest after three years subject to continued employment and the achievement of an Adjusted EPS growth hurdle There is no retesting of the performance condition
Executive Share Options Scheme (ESOS)	Provides focus on longer term share price growth Rewards sustained delivery and quality of earnings growth	Three years	On grant – Adjusted EPS growth and individual performance over three-year period prior to grant On vesting – Adjusted EPS growth over the three year performance period post grant There is no retesting of the performance condition
Long Term Incentive Plan (LTIP)	Drives value creation via longer term earnings, share price and dividend growth Motivates and rewards the delivery of a total return to shareholders	Three years	Adjusted EPS growth over the three year performance period Relative Total Shareholder Return (TSR) against a selected group of comparator companies over the three-year performance period There is no retesting of the performance conditions
Retirement benefits	Positioned to ensure broad competitiveness with local country practice	Not applicable	Specific to individual

Each of these remuneration elements are described in greater detail below

Salary

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

Salaries are reviewed annually in the context of the competitiveness of total remuneration Any increases typically take effect on 1 January The table below shows the salaries that took effect on 1 January 2008

	Salary from 1 January 2008	Salary from 1 January 2007
Gerard van de Aast	**£585,996**	£552,825
Mark Armour	**£613,440**	£589,838
Sir Crispin Davis	**£1,181,100**	£1,135,680
Erik Engstrom	**£627,612**	$1,146,600
Andrew Prozes	**$1,215,180**	$1,168,440
Patrick Tierney	**$1,071,200**	$1,071,200

During 2007 Erik Engstrom's total remuneration package was altered to parallel UK remuneration arrangements His base salary was translated from US dollars to Sterling using a conversion rate of £1 00 $1 90 which reflected the average £ $ exchange rate during his period of employment

Following the successful sale of Harcourt Education, Patrick Tierney retired on 30 January 2008 His salary was not increased from 1 January 2008

The annual salary increases made to executive directors with effect from 1 January 2008 were in a range of 4-6% with an average of 4 4% for those executive directors who received an increase This was slightly below UK and US norms

It is important to emphasise that Reed Elsevier uses the same factors relevant pay market, skills, experience and contribution, to determine the levels of increase across all employee populations globally However, Reed Elsevier operates across many diverse countries in terms of their remuneration structures and practices The levels of pay increase awarded to different employee groups in different geographies reflect this diversity and range of practices

Annual Incentive Plan (AIP)

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

How the AIP works

For 2008, directors have a target bonus opportunity of 100% of salary (for 2007 this was 90%) The target bonus opportunity for the financial measures is payable for the achievement of highly stretching financial targets, set in line with the annual budget for the relevant business

The 100% target bonus opportunity is weighted as follows across the performance measures set out below
- Revenue 30%
- Profit* 30%
- Cash Flow Conversion Rate 10%
- Key Performance Objectives (KPOs) 30%

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

The four elements are measured separately, such that there could be a payout on one element and not on others

The KPOs are individual to each executive director Each director is typically set around six KPOs to reflect critical business priorities for which they are accountable Against each objective, a number of measurable 'milestone targets' are set for the year All financial targets and KPOs are approved by the Committee at the beginning of the year

DIRECTORS' REMUNERATION REPORT

For 2008, payment against each financial performance measure will only commence if a threshold of 97 5% of the target is achieved (unchanged from 2007) A maximum bonus of 150% of salary can be earned (unchanged from 2007) for substantial out-performance against the demanding annual budget targets and for the achievement of agreed KPOs to an exceptional standard

AIP Payments for 2007

In assessing the level of bonus payments for 2007, the Committee noted the following underlying performances

	Underlying percentage change over 2006 at constant exchange rates			
Measure	Elsevier	LexisNexis	Reed Business	Reed Elsevier
Revenue	6%	7%	6%	6%
Adjusted operating profits	10%	12%	8%	10%

	Payments made for 2007 (to be paid in March 2008)	% of salary
Gerard van de Aast	£594,563	107.5
Mark Armour	£666,222	112 9
Sir Crispin Davis	£1,267,419	111 6
Erik Engstrom	£592,004	98 1
Andrew Prozes	$1,051,596	90 0
Patrick Tierney	$854,657	79 8

The annual bonuses paid to directors were based on performance against targets set for revenue growth, profit growth, the achievement of the targeted cash flow conversion rate, and performance against key strategic objectives The Harcourt Education sale was treated as a non-recurring item and its positive impact was excluded from the financial results for the purposes of the AIP

The 2007 financial results were very strong, with 6% revenue growth (at constant currencies), underlying margins improved by 100 basis points, and adjusted operating profits were up 10% at constant currencies The quality of earnings was underpinned by excellent cash flow with 97% of adjusted operating profits converting into cash and higher returns on invested capital Overall, earnings at constant currencies grew 12%, Reed Elsevier's strongest growth for ten years There was strong above market revenue growth in Elsevier, LexisNexis and Reed Business and encouraging margin progress in all three businesses

In addition the directors were generally assessed as having delivered well against their KPOs with some exceptional performances noted Individual KPOs were largely focused against execution and delivery of Reed Elsevier's key strategic priorities development of workflow solutions, improving cost efficiency, and strengthening and refocusing of the Reed Elsevier portfolio Overall, this resulted, as shown above, in bonus payments generally above target

Bonus Investment Plan (BIP)

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

How the BIP works

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

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

BIP – new awards made in 2007

In 2007, executive directors invested up to half of their cash bonus received under the AIP for 2006 in shares of Reed Elsevier PLC and/or Reed Elsevier NV Subject to meeting the performance condition, continued employment and their retaining these investment shares during a three-year performance period, the following numbers of matching shares will vest in 2010

	Share type	BIP Matching Shares No of shares
Gerard van de Aast	PLC	–
	NV	29,483
Mark Armour	PLC	19,859
	NV	13,371
Sir Crispin Davis	PLC	74,708
	NV	–
Erik Engstrom	PLC	–
	NV	27,572
Andrew Prozes	PLC	21,548
	NV	14,574
Patrick Tierney	PLC	8,012
	NV	5,420

BIP – awards that vested in 2007

The Adjusted EPS growth hurdle was exceeded for the three-year performance period from 2004-2006 Therefore the following numbers of shares were transferred in 2007 under the terms of the BIP to the following executive directors

	Share type	No of matching shares vested	Market price on date of vesting	Value
Gerard van de Aast	PLC	31,217	£6 05	£188,862
	NV	–	–	–
Mark Armour	PLC	19,225	£6 05	£116,311
	NV	12,842	€13 25	€170,156
Sir Crispin Davis	PLC	39,554	£6 05	£239,301
	NV	26,421	€13 25	€350,078
Andrew Prozes	PLC	20,104	£6 05	£121,629
	NV	13,612	€13 25	€180,359
Patrick Tierney	PLC	19,572	£6 05	£118,410
	NV	13,252	€13 25	€175,589

Erik Engstrom joined Reed Elsevier during 2004 and did not participate in the 2004–2006 BIP cycle

The performance condition which applied to the vesting of the above awards was 6% per annum compound growth in Adjusted EPS over a three-year performance period The same performance condition applies to the unvested 2005, 2006 and 2007 BIP awards

Executive Share Option Scheme (ESOS)

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

How the ESOS works

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

Adjusted EPS growth per annum	Target Grant Pool
Less than 8%	50%
8% or more	75%
10% or more	100%
12% or more	125%
14% or more	150%

ESOS options granted in 2005, 2006 and 2007 were subject to a pre-grant performance condition relating to the Target Grant Pool of 6% to 12% Adjusted EPS growth per annum respectively

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

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

ESOS options granted in 2005, 2006 and 2007 are subject to a post-grant performance hurdle of 6% per annum compound Adjusted EPS growth over three years

Options are exercisable (except for defined categories of approved leavers) between three and ten years from the date of grant In the event of a change of control, the performance test applied under the ESOS for executive directors will be based on an assessment by the Committee of progress against the targets at the time the change of control occurs

ESOS options – new grants made in 2007

	Share type	Option price	No. of options
Gerard van de Aast	PLC	£6 445	122,536
	NV	€14 51	80,928
Mark Armour	PLC	£6 445	130,740
	NV	€14 51	86,347
Sir Crispin Davis	PLC	£6 445	251,730
	NV	€14 51	166,254
Erik Engstrom	PLC	£6 445	130,060
	NV	€14 51	85,897
Andrew Prozes	PLC	£6 445	132,537
	NV	€14.51	87,533
Patrick Tierney	PLC	£6.445	121,628
	NV	€14 51	80,329

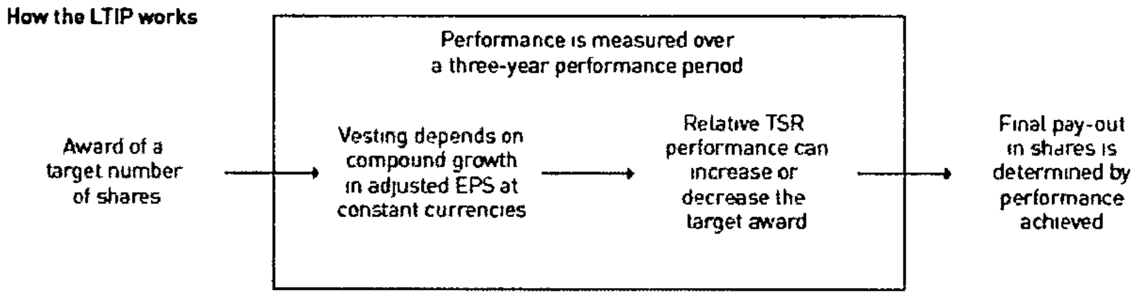
ESOS options – gains made in 2007

The following gains were made by executive directors on the exercise of ESOS options in Reed Elsevier PLC (PLC) and Reed Elsevier NV (NV) during 2007

	Share type	Grant date	No of options exercised	Option price	Market price on date of exercise	Gain
Mark Armour	PLC	21 Apr 1997	52,000	£5 6575	£6 07	£21,450
		2 May 2000	88,202	£4 365	£6 07	£150,384
		21 Feb 2003	104,319	£4 515	£6 07	£162,216
		19 Feb 2004	155,147	£4 8725	£6 07	£185,788
	NV	2 May 2000	61,726	€10 73	€13 27	€156,784
		21 Feb 2003	74,276	€9 34	€13 27	€291,904
		19 Feb 2004	106,536	€10 57	€13 27	€287,647
Patrick Tierney	PLC	21 Feb 2003	371,426	£4 515	£6 3275	£673,209
	NV	21 Feb 2003	266,258	€9 34	€14 08	€1,262,062

Long Term Incentive Plan (LTIP)

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



Executive directors are eligible to receive an annual award of performance shares with a target value of around 135% of salary

The vesting of the award is subject to performance against two measures Adjusted EPS growth and relative TSR performance over the same three-year performance period

How the LTIP performance measures work

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

LTIP Performance Schedule

	TSR ranking			
Adjusted EPS Growth (constant currencies) p.a.	Below median	Median	62 5th percentile	Upper quartile and above
Below 10%	0%	0%	0%	0%
10%	28%	35%	42%	49%
12%	80%	100%	120%	140%
14% and above	108%	135%	162%	189%

The EPS performance condition for LTIP awards granted in 2006 and 2007 ranges from 8% to 12% p a Adjusted EPS growth The Committee considers the above performance conditions to be tougher than normal UK practice because the TSR element can enhance the reward to participants if, but only if, the Adjusted EPS test has first been achieved, as explained below

EPS measure
No payout is made under the LTIP unless Reed Elsevier achieves a compound annual level of Adjusted EPS growth of at least 10% per annum This is irrespective of the associated TSR performance

Maximum vesting (under the EPS component) is achieved for compound growth of 14% per annum or higher

The target award may be increased or decreased by relative TSR performance over three years.
TSR is measured against a group of global media peers
• If TSR performance is below median, this will reduce the target award
• The maximum uplift to the target award will be applied if TSR performance places Reed Elsevier in the upper quartile of the comparator group

For awards made in 2007, the comparator group comprised
The Thomson Corporation, United Business Media, McGraw Hill, Fair Isaac, Reuters Group, John Wiley & Sons, Pearson, DMGT, Wolters Kluwer, Lagardere, ChoicePoint, Dun & Bradstreet, EMAP, WPP, Informa, Taylor Nelson, Dow Jones

The Committee has full discretion to reduce or cancel awards granted to participants based on its assessment as to whether the EPS and TSR performance fairly reflects the progress of the business having regard to underlying revenue growth, cash generation, return on capital and any significant changes in currency and inflation, as well as individual performance

Notional dividends accrue on the award during the vesting period (i e to the extent that the underlying shares vest, notional dividends are paid out as a cash bonus at the end of the three-year performance period)

For the purposes of determining Reed Elsevier's TSR performance over the performance period, the averaging period applied is six months prior to the start of the financial year in which the award is made and the final six months of the third financial year of the performance period The TSR of Reed Elsevier and each of the comparator companies will be calculated in the currency of its primary listing, which the Committee considers to be the fairest test of management's relative performance Reed Elsevier's TSR will be taken as a simple average of the TSR of Reed Elsevier PLC and Reed Elsevier NV

For awards made in 2006, VNU was also a member of the peer group It has been removed for awards made in 2007 as it has become a private company

In addition to achieving appropriate levels of performance against the two measures, the ultimate vesting of the LTIP award is subject to the executive meeting a shareholding requirement (see page 24) In the event of a change of control, the performance test applied under the LTIP will be based on an assessment by the Committee of progress against the EPS and TSR targets at the time the change of control occurs (subject to any rollover that may apply)

LTIP – target awards made in 2007
The target awards made to directors in 2007, and which vest in 2010 depending upon the extent to which the performance criteria are met, subject to continued employment and to meeting the shareholding requirement, are as follows

	Share type	Target award No of shares
Gerard van de Aast	PLC NV	57,898 38,238
Mark Armour	PLC NV	61,775 40,799
Sir Crispin Davis	PLC NV	118,942 78,555
Erik Engstrom	PLC NV	61,453 40,586
Andrew Prozes	PLC NV	62,623 41,359
Patrick Tierney	PLC NV	57,412 37,917

LTIP – awards that vested during 2007

The LTIP awards for the 2004-06 performance period, which vested in March 2007, were fully disclosed on pages 39 and 40 of the Directors' Remuneration Report 2006 and are also disclosed on pages 31 to 35 of this report

For reference, no LTIP awards were made in 2005 and as a result the next LTIP awards that are scheduled to vest will be for the 2006-08 cycle which will be performance tested following the audited results in February 2009

Andrew Prozes has waived his right to participate in the 2009 and 2010 LTIP cycles

Treatment of the special distribution for share-based incentives

In January 2008 a special distribution was paid on ordinary shares in Reed Elsevier PLC and Reed Elsevier NV

The special distribution was not attributed to any unvested share-based awards nor to any vested share options that had been granted under the incentive plans None of these awards was therefore adjusted as a result of the consolidation of share capital in January 2008

Other employee share plans

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

The estimated dilution over a ten-year period from outstanding awards over Reed Elsevier PLC shares under all share-based plans was 6 8% of the Reed Elsevier PLC share capital at 31 December 2007 This estimate was made before the share consolidation which took place in January 2008

Retirement benefits policy

The Committee reviews policy retirement benefit provisions in the context of the total remuneration for each executive director, bearing in mind his age and service and against the background of evolving legislation and practice in Reed Elsevier's major countries of operation Base salary is the only pensionable element of remuneration

Retirement benefits for UK-based executive directors

The UK-based executive directors are provided with conventional UK defined benefit pension arrangements targeting two thirds (Sir Crispin Davis 45%) of salary at a normal retirement age of 60 The targeted pension is provided through a combination of

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

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

Retirement benefits for non UK-based executive directors

The two US-based directors, Andrew Prozes and Patrick Tierney, are covered by a mix of defined benefit and defined contribution arrangements In accordance with US legislation, they have no defined retirement age Patrick Tierney retired on 30 January 2008 and became fully vested in his pension

During 2007, the Committee reviewed Andrew Prozes' pension provision in the context of relevant market data and determined that he will receive an enhancement to his annual pension of $44,651 for each completed year of service between 1 July 2007 and 1 February 2011, applied on a pro-rata basis

Prior to 2007 Reed Elsevier paid an annual contribution of 19 5% of salary to Erik Engstrom's personal pension plan This arrangement ended on 31 October 2007 and with effect from 1 November 2007 he was provided with similar defined benefit pension arrangements as those set out above for UK-based executive directors, targeting two thirds of salary at a normal retirement age of 60

These arrangements are set out in further detail on page 30

Shareholding requirements
Participants in the LTIP are required to build up a significant personal shareholding in Reed Elsevier PLC and/or Reed Elsevier NV

The shareholding requirements were increased in 2006, when the new LTIP cycle for 2006-08 was launched The new higher requirements must be met prior to any payout under that cycle in March 2009 The shareholding requirement for the Reed Elsevier Chief Executive Officer was increased to three times salary (previously two times) and for other executive directors to two times salary (previously one and a half times)

These shareholding requirements are a condition of vesting under the LTIP The executive directors that participated in the 2004 LTIP grant met and exceeded their shareholding requirements in respect of the 2007 vesting of this award Details of directors' shareholdings, as at 31 December 2007, are set out on page 34

Service contracts policy
Executive directors are employed under service contracts that provide for a maximum of one year's notice The contracts neither specify a pre-determined level of severance payment nor contain specific provisions in respect of change in control

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

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

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

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

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

External appointments policy
The Committee believes that the experience gained by allowing executive directors to serve as non-executive directors on the boards of other organisations is of benefit to Reed Elsevier Accordingly, executive directors may, subject to the approval of the Chairman and the Chief Executive Officer, serve as non-executive directors on the boards of up to two non-associated companies (of which only one may be to the board of a major company) and they may retain remuneration arising from such appointments

> Gerard van de Aast became a non-executive director of OCE NV on 1 May 2006 and received a fee of €37,216 (£25,490) during 2007 (€23,342 (£15,879) during 2006)

> Sir Crispin Davis is a non-executive director of GlaxoSmithKline plc and received a fee of £70,000 during 2007 (£70,000 during 2006)

> Andrew Prozes is a non-executive director of the Cott Corporation and received a fee of $62,270 (£31,135) during 2007 ($56,000 (£30,435) during 2006)

DIRECTORS' REMUNERATION REPORT

Non-executive directors

Policy on non-executive directors' fees
Reed Elsevier seeks to recruit non-executive directors with the experience to contribute to the board of a dual-listed global business and with a balance of personal skills that will make a major contribution to the boards and their committee structures With the exception of Dien de Boer-Kruyt, who serves only on the supervisory board of Reed Elsevier NV, non-executive directors, including the Chairman, are appointed to the boards of Reed Elsevier Group plc, Reed Elsevier PLC and the supervisory board of Reed Elsevier NV Non-executive directors' fees reflect the directors' membership of the three Reed Elsevier boards

The primary source for comparative market data is the practice of FTSE50 companies, although reference is also made to AEX and US listed companies

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

Fee levels
Non-executive directors receive one annual fee in respect of their memberships of the boards of Reed Elsevier PLC, Reed Elsevier NV and Reed Elsevier Group plc The fee paid to Dien de Boer-Kruyt, who serves only on the supervisory board of Reed Elsevier NV, reflects her time commitment to that company and to other companies within the Reed Elsevier combined businesses Non-executive directors are reimbursed for expenses incurred in attending meetings They do not receive any performance related bonuses, pension provision, share options or other forms of benefit Fees may be reviewed annually, although in practice they have changed on a less frequent basis

During 2007, a review was conducted of the non-executive director fees in the context of relevant market data This was the first time that non-executive directors' fees had been reviewed since 2003 The fee for the Chairman, which was last reviewed in 2005, was also included in this review The review indicated that fees paid by Reed Elsevier were no longer competitive with those paid by companies of a comparable size and international scope

The new fee levels for the non-executive directors, which are effective from 1 January 2008, were reviewed and recommended by the Reed Elsevier Chairman and the Chief Executive Officer, and were approved by the Reed Elsevier Group plc board, excluding those board members affected by the recommendations The Chairman indicated that his fee should remain unchanged and will therefore remain at €350,000 per annum Annual fee rates applicable to non-executive directors and the Chairman are set out in the following table

	Annual fee 2008	Annual fee 2007
Chairman	**€350,000**	€350,000
Non-executive directors	**£55,000/€75,000**	£45,000/€65,000
Chairman of		
– Audit Committee	**£15,000/€20,000**	£7,000/€12,000
– Remuneration Committee	**£15,000/€20,000**	£7,000/€12,000

As a result of the review, the total annual fee payable to Dien de Boer-Kruyt was increased to €48,000 (from €33,800 in 2007)

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

Non-executive directors' donation matching programme
In 2007 the Reed Elsevier Group plc board had a charity donation matching programme for non-executive directors Under the policy, where a non-executive director donates all or part of their fees to a registered charity, Reed Elsevier may, at its sole discretion, make a matching donation to that charity, provided the charity's objectives are judged to be appropriate and are not political or religious in nature David Reid, Strauss Zelnick, Cees van Lede, Mark Elliott and Jan Hommen each donated a proportion of their fees in respect of 2007 to charity and, in accordance with the programme, matching charitable donations were made of £45,000, £44,325, £13,699, £22,500 and £6,849 respectively This programme will not be operating in 2008

DIRECTORS' REMUNERATION REPORT

Statutory disclosures

Unaudited disclosures

Report authorship

This report has been prepared by the Remuneration Committee of Reed Elsevier Group plc It has been prepared in accordance with Schedule 7A of the Companies Act 1985 and the Dutch Corporate Governance Code issued in December 2003

The resolutions that will be presented at the AGMs

In accordance with Schedule 7A of the UK Companies Act of 1985, this Remuneration Report will be submitted to shareholders for an advisory vote at the Annual General Meeting of Reed Elsevier PLC This Remuneration Report contains the disclosures required under the Dutch Corporate Governance Code and Dutch legislation and resolutions will be submitted for approval to shareholders at the Annual General Meeting of Reed Elsevier NV relating to any policy changes and the change in non-executive directors' fees

Remuneration Committee terms of reference and constitution

The Committee is responsible for

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

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

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

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

A copy of the Terms of Reference of the Committee can be found on the Reed Elsevier website, www ieedelseviei com

Throughout 2007, the Committee consisted of independent non-executive directors as defined by the Combined Code and the Chairman of Reed Elsevier On 4 July 2007 Mark Elliott took over from Rolf Stomberg as Chairman of the Committee The Company Secretary, Stephen Cowden, also attends the meetings in his capacity as secretary to the Committee At the invitation of the Committee Chairman, the Chief Executive Officer attends the meetings of the Committee except when his own remuneration is under consideration

The following table shows the non-executive directors who served as members of the Committee during 2007 The Committee met six times during the year and the members attended meetings as shown below

Members	Appointed to (resigned from) Committee during 2007	Number of meetings held whilst a Committee member	Number of meetings attended by Committee member
Mark Elliott (Chairman from 4 July 2007)	–	6	6
Jan Hommen	–	6	6
Robert Polet	4 July 2007	4	3
Rolf Stomberg (Chairman until 4 July 2007)	–	6	6
Cees van Lede	(18 April 2007)	1	1

Advisors

Towers Perrin acted as advisors to the Committee throughout 2007 and also provided market data and data analysis Towers Perrin also provide actuarial and other human resources consultancy services directly to some Reed Elsevier companies During the year, the Committee also received advice from Kepler Associates relating to the review of the remuneration policy and the benchmarking approach Kepler Associates did not provide any other services to Reed Elsevier

Following a review of its advisors, the Committee re-appointed Towers Perrin as independent advisors to the Committee to support and advise the Committee on all aspects of executive remuneration

The following individuals also provided material advice to the Committee during the year Ian Fraser (Group HR Director) and Philip Wills (Director, Compensation and Benefits)

DIRECTORS' REMUNERATION REPORT

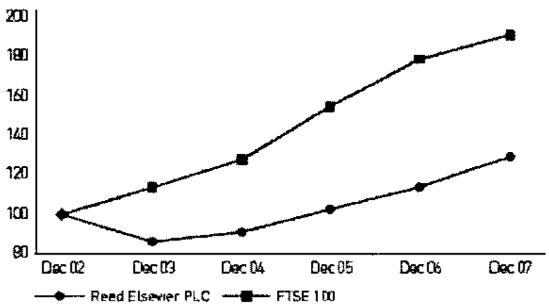
Total Shareholder Return (TSR) graph

As required by Schedule 7A of the Companies Act 1985, the following graphs show the Reed Elsevier PLC and Reed Elsevier NV total shareholder return performance, assuming dividends were reinvested They compare the Reed Elsevier PLC performance with that achieved by the FTSE 100, and the Reed Elsevier NV performance with the performance achieved by the Euronext Amsterdam (AEX) Index, over the five-year period from 31 December 2002 to 31 December 2007

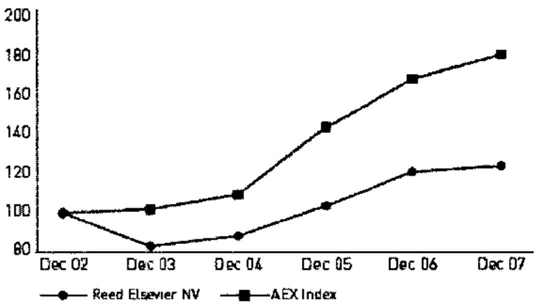
For the five-year period from 31 December 2002, the TSR for Reed Elsevier PLC was 28%, against a FTSE 100 return of 88%

For Reed Elsevier NV during the same period, TSR was 23% against an AEX Index return of 78% As Reed Elsevier PLC and Reed Elsevier NV are members of the FTSE 100 and AEX Index respectively, the Committee considers these indices to be appropriate for comparison purposes

Reed Elsevier PLC v FTSE 100 - 5 years

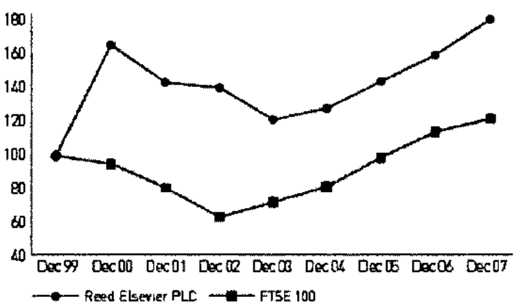


Reed Elsevier NV v AEX - 5 years

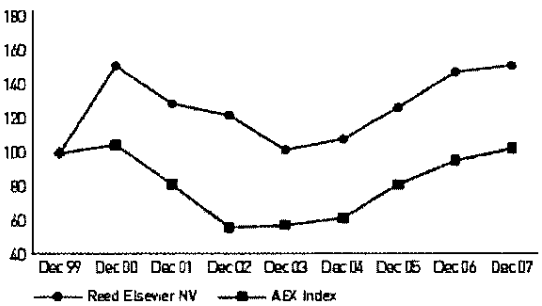


For the eight-year period since 31 December 1999, being the period since Reed Elsevier set out its investment led growth strategy, the TSR for Reed Elsevier PLC was 79%, significantly outperforming the FTSE 100 which showed a return of 22% For Reed Elsevier NV in the same eight-year period TSR was 50%, also significantly outperforming the AEX Index which showed a return of 3%

Reed Elsevier PLC v FTSE 100 - 8 years



Reed Elsevier NV v AEX - 8 years



The total shareholder return set out above is calculated on the basis of the average share price in the 30 trading days prior to the respective year ends and on the assumption that dividends were reinvested

Service contracts

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

	Contract Date	Expiry date (subject to notice period)	Notice period	Subject to
Gerard van de Aast(i)	15 November 2000	17 July 2017	12 months	English law
Mark Armour(i)	7 October 1996	29 July 2014	12 months	English law
Sir Crispin Davis(i)	19 July 1999	19 March 2009	12 months	English law
Erik Engstrom(i)	25 June 2004	14 June 2025	12 months	English law
Andrew Prozes(ii)	5 July 2000	Indefinite	12 months salary payable for termination without cause	New York law
Patrick Tierney(ii)	19 November 2002	Retired on 30 January 2008	–	New York law

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

The Committee reviewed Erik Engstrom's contract and remuneration arrangements during 2007 and altered his terms of employment to parallel UK remuneration arrangements This change was made to reflect the current circumstances of his role

At the request of the Board, Patrick Tierney agreed to defer his planned retirement in early 2007 in order to manage and oversee the sale of Harcourt Education for maximum value In order to secure that deferred retirement, the Committee put special retention and incentive arrangements in place which i) rewarded his continuing commitment to Reed Elsevier and ii) incentivised him to optimise the Harcourt Education sale proceeds Such payments are established practice in the US, and increasingly in Europe

The successful completion of the Harcourt Education sale on 30 January 2008 resulted in aggregate sale proceeds of $4 95 billion and a special distribution of $4 billion was paid to shareholders The Committee consequently awarded Patrick Tierney a sale bonus of $2,917,150 calculated by reference to the excess of the above sale proceeds over a pre-determined target figure Furthermore, the Committee recognised his outstanding management contribution to the Harcourt Education performance in meeting financial targets during the extended sale period, and awarded Patrick Tierney a payment of $1,500,000 under the terms of his retention bonus As required by Schedule 7A, these payments will be disclosed in full in the audited section of the 2008 remuneration report

Patrick Tierney's service contract terminated on 30 January 2008 following his retirement from Reed Elsevier Any outstanding awards under the ESOS, BIP and LTIP have been treated in accordance with the standard retirement rules under those plans Patrick Tierney's shareholding requirements in respect of his share-based awards terminated upon his retirement For the avoidance of doubt, no severance payment has applied and he did not receive an increase in base salary from 1 January 2008 With effect from the date of retirement, he became fully vested in the pension arrangements that have been set out in the current and prior remuneration reports

DIRECTORS' REMUNERATION REPORT

Audited disclosures

Aggregate emoluments

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

	2007 £'000	2006 £'000
Salaries and fees	**4,566**	4,502
Benefits	**117**	126
Annual performance-related bonuses	**4,073**	3,273
Pension contributions	**131**	139
Pension in respect of former director	**203**	221
Total	**9,090**	8,261

No compensation payments have been made for loss of office or termination in 2007

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

Details of long-term share-based incentives which vested and were exercised by the directors over shares in Reed Elsevier PLC and Reed Elsevier NV during the year are shown on pages 31 to 35 The aggregate notional pre-tax gain made by the directors from such incentives during the year was £15,031,942 (2006 £1,408,072) The year on year increase primarily reflects the vesting of the 2004 LTIP award in 2007 as disclosed on pages 31 to 35 of this report

Individual emoluments of executive directors

	Salary £	Benefits £	Bonus £	Total 2007 £	Total 2006 £
Gerard van de Aast	**552,825**	**17,535**	**594,563**	**1,164,923**	1,061,603
Mark Armour	**589,838**	**19,843**	**666,222**	**1,275,903**	1,072,305
Sir Crispin Davis	**1,135,680**	**28,137**	**1,267,419**	**2,431,236**	2,040,008
Erik Engstrom	**578,328**	**18,359**	**592,004**	**1,188,691**	1,153,480
Andrew Prozes	**584,220**	**23,184**	**525,798**	**1,133,202**	1,193,922
Patrick Tierney	**535,600**	**9,714**	**427,329**	**972,643**	805,462
Total	**3,976,491**	**116,772**	**4,073,335**	**8,166,598**	7,326,780

Benefits principally comprise the provision of a company car or car allowance, health and disability insurance

Sir Crispin Davis was the highest paid director in 2007 His aggregate notional pre-tax gain on the vesting of share-based incentives during the year was £3,560,951 (2006 £252,260)

Individual fees of non-executive directors

	2007 £	2006 £
Mark Elliott	**48,500**	45,000
Jan Hommen	**239,726**	238,095
Lisa Hook (from 19 April 2006)	**45,000**	30,000
Cees van Lede (until 18 April 2007)	**11,130**	44,218
Robert Polet (from 17 April 2007)	**31,785**	–
David Reid	**45,000**	45,000
Lord Sharman	**52,000**	52,000
Rolf Stomberg	**48,630**	52,381
Strauss Zelnick (until 7 December 2007)	**45,000**	45,000
Total	**566,771**	551,694

DIRECTORS' REMUNERATION REPORT

Pension benefits

The target pension for Sir Crispin Davis at normal retirement age of 60 is 45% of salary in the 12 months prior to retirement Gerard van de Aast and Mark Armour are provided with pension benefits at an accrual rate of 1/30th of salary for each year of pensionable service, payable at normal retirement age of 60 Prior to 1 November 2007, Erik Engstrom was not a member of any company pension scheme and Reed Elsevier made a contribution to Erik Engstrom's designated retirement account of £93,160, equivalent to 19 5% of his salary for the period 1 January to 31 October 2007 From 1 November 2007 contributions to Erik Engstrom's designated retirement account ceased and he became a member of the Reed Elsevier pension scheme Since 1 November 2007 Erik Engstrom has accrued pension benefits at an accrual rate of 1/30th of salary for each year of pensionable service after 1 November 2007, payable at normal retirement age of 60

On 17 July 2007, Andrew Prozes, a US-based director, vested in an annual pension of US$300,000 His basic pension continues to accrue at a rate of $42,857 per annum for each completed year of service between 17 July 2007 and 1 February 2011 In addition, a lifetime benefit is payable to his surviving spouse equal to 50% of his vested and accrued pension at the time of death The pension will be reduced by the value of any other retirement benefits payable by Reed Elsevier or any former employer (other than those attributable to employee contributions) In addition, Andrew Prozes will be entitled to receive an enhancement to his annual pension unless he resigns or his employment is terminated by Reed Elsevier for cause prior to 1 February 2011 Any such enhancement will be equal to $3,720 93 times the number of completed calendar months between 1 July 2007 and the date of termination or, if earlier, 1 February 2011 For these purposes, his termination date shall be deemed to be 12 months after he ceases employment

Patrick Tierney completed five years of service in November 2007 Following his retirement on 30 January 2008, he became entitled to draw his pension of $440,000 p a

The pension arrangements for all directors include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and a spouse's and/or dependents' pension on death

The increase in the transfer value of the directors' pensions, after deduction of contributions, is shown below

	Age 31 December 2007	Directors contributions £	Transfer value of accrued pension 31 December 2006 £	Transfer value of accrued pension 31 December 2007 £	Increase in transfer value during the period (net of directors contributions) £	Accrued annual pension 31 December 2007 £	Increase in accrued annual pension during the period £	Increase in accrued annual pension during the period (net of inflation) £	Transfer value of increase in accrued annual pension during the period (net of inflation and directors contributions) £
Gerard van de Aast	50	5,587	1,074,289	1,379,993	300,117	130,558	28,342	23,844	246,445
Mark Armour	53	5,587	2,866,803	3,466,035	593,645	253,922	30,824	21,023	281,381
Sir Crispin Davis	58	5,587	7,361,487	9,416,905	2,049,831	446,087	72,218	55,768	1,171,671
Erik Engstrom	44	940	–	28,306	27,366	3,362	3,362	3,362	27,366
Andrew Prozes(i)	61	–	–	2,310,864	2,310,864	170,092	170,092	170,092	2,310,864
Patrick Tierney	62	–	2,089,880	2,502,228	412,348	190,933	22,000	22,000	285,385

(i) The transfer value of Andrew Prozes pension reflects his entitlement to an annual pension of $300,000 which, having completed seven years of service, vested on 17 July 2007 No contractual entitlement to the pension existed prior to the vesting date In addition the transfer value also reflects the pro-rata increase in his pension entitlement since July 2007 up to 31 December 2007 as set out above The latter is subject to reduction in certain circumstances of termination

Transfer values have been calculated in accordance with the guidance note GN11 published by the UK Institute of Actuaries and Faculty of Actuaries

The transfer value in respect of individual directors represents a liability in respect of directors' pensions entitlement, and is not an amount paid or payable to the director

DIRECTORS' REMUNERATION REPORT

Share-based awards in Reed Elsevier

Details of options and restricted shares held by directors in Reed Elsevier PLC and Reed Elsevier NV during the period are shown below Other than in relation to the application of the retirement rules to Patrick Tierney's share-based awards, there have been no changes in the options or restricted shares held by directors at the date of this report

In Reed Elsevier PLC

	1 January 2007	2004-2006 performance adjustment	Granted during the year	Option price	Exercised/ vested during the year	Market price at exercise or vesting date	31 December 2007	Exercisable from	Exercisable until
Gerard van de Aast									
– ESOS	50,940			638 00p			50,940	1 Dec 2003	1 Dec 2010
	49,317			659 00p			49,317	23 Feb 2004	23 Feb 2011
	58,000			600 00p			58,000	22 Feb 2005	22 Feb 2012
	124,956			487 25p			124,956	19 Feb 2007	19 Feb 2014
	120,900			533 50p			120,900	17 Feb 2008	17 Feb 2015
	127,662			530 50p			127,662	13 Mar 2009	13 Mar 2016
			122,536	644 50p			122,536	15 Feb 2010	15 Feb 2017
– BIP	31,217			Nil	31,217	605 00p	–		
	18,633			Nil			18,633	4 Apr 2009	4 Apr 2009
– LTIP (options)	229,087	4,868		487 25p			233,955	19 Feb 2007	19 Feb 2014
– LTIP (shares)	104,130	2,212		Nil	106,342	578 00p	–		
	70,364			Nil			70,364	19 Apr 2009	19 Apr 2009
			57,898	Nil			57,898	15 Feb 2010	15 Feb 2010
Total	985,206	7,080	180,434		137,559		1,035,161		
Mark Armour									
– ESOS	52,000			565 75p	52,000	607 00p	–		
	66,900			523 00p			66,900	17 Aug 2001	17 Aug 2008
	33,600			537 50p			33,600	21 Feb 2003	19 Apr 2009
	88,202			436 50p	88,202	607 00p	–		
	62 974			659 00p			62,974	23 Feb 2004	23 Feb 2011
	74,000			600 00p			74,000	22 Feb 2005	22 Feb 2012
	104,319			451 50p	104,319	607 00p	–		
	155,147			487 25p	155,147	607 00p	–		
	150,422			533 50p			150,422	17 Feb 2008	17 Feb 2015
	158,836			530 50p			158,836	13 Mar 2009	13 Mar 2016
			130,740	644 50p			130,740	15 Feb 2010	15 Feb 2017
– BIP	19,225			Nil	19,225	605 00p	–		
	21,861			Nil			21,861	14 Apr 2008	14 Apr 2008
	21,653			Nil			21,653	4 Apr 2009	4 Apr 2009
			19,859	Nil			19,859	4 Apr 2010	4 Apr 2010
– LTIP (options)	284,437	6,044		487 25p			290,481	19 Feb 2007	19 Feb 2014
– LTIP (shares)	129,289	2,747		Nil	132,036	578 00p	–		
	75,075			Nil			75,075	19 Apr 2009	19 Apr 2009
			61,775	Nil			61,775	15 Feb 2010	15 Feb 2010
– SAYE	4,329			377 60p			4,329	1 Aug 2009	31 Jan 2010
Total	1,502,269	8,791	212,374		550,929		1,172,505		

DIRECTORS' REMUNERATION REPORT

In Reed Elsevier PLC continued

	1 January 2007	2004-2006 performance adjustment	Granted during the year	Option price	Exercised/ vested during the year	Market price at Exercise or vesting date	31 December 2007	Exercisable from	Exercisable until
Sir Crispin Davis									
– ESOS	160,599			467 00p			160,599	21 Feb 2003	1 Sept 2009
	80,300			467 00p			80,300	1 Sept 2003	1 Sept 2009
	80,300			467 00p			80,300	1 Sept 2004	1 Sept 2009
	171,821			436 50p			171,821	2 May 2003	2 May 2010
	122,914			659 00p			122,914	23 Feb 2004	23 Feb 2011
	148,500			600 00p			148,500	22 Feb 2005	22 Feb 2012
	209,192			451 50p			209,192	21 Feb 2006	21 Feb 2013
	305,303			487 25p			305,303	19 Feb 2007	19 Feb 2014
	292,409			533 50p			292,409	17 Feb 2008	17 Feb 2015
	305,824			530 50p			305,824	13 Mar 2009	13 Mar 2016
			251,730	644 50p			251,730	15 Feb 2010	15 Feb 2017
– BIP	39,554			Nil	39,554	605 00p	–		
	86,042			Nil			86,042	14 Apr 2008	14 Apr 2008
	42,092			Nil			42,092	4 Apr 2009	4 Apr 2009
			74,708	Nil			74,708	4 Apr 2010	4 Apr 2010
– LTIP (options)	559,722	11,894		487 25p			571,616	19 Feb 2007	19 Feb 2014
– LTIP (shares)	254,419	5,406		Nil	259,825	578 00p	–		
	144,550			Nil			144,550	19 Apr 2009	19 Apr 2009
			118,942	Nil			118,942	15 Feb 2010	15 Feb 2010
– SAYE	3,793			424 40p			3,793	1 Aug 2011	31 Jan 2012
Total	3,007,334	17,300	445,380		299,379		3,170,635		
Erik Engstrom									
– ESOS	63,460			478 00p			63 460	23 Aug 2007	23 Aug 2014
	154,517			533 50p			154,517	17 Feb 2008	17 Feb 2015
	178,895			530 50p			178,895	13 Mar 2009	13 Mar 2016
			130 060	644 50p			130,060	15 Feb 2010	15 Feb 2017
– BIP	14,020			Nil			14,020	14 Apr 2008	14 Apr 2008
– LTIP (options)	318,398	6,765		478 00p			325,163	23 Aug 2007	23 Aug 2014
– LTIP (shares)	144,726	3 075		Nil	147,801	578 00p	–		
	82,092			Nil			82,092	19 Apr 2009	19 Apr 2009
			61,453	Nil			61,453	15 Feb 2010	15 Feb 2010
– Restricted shares	38,593			Nil	38,593	591 50p	–		
Total	994,701	9,840	191,513		186 394		1 009,660		
Andrew Prozes									
– ESOS	188,281			566 00p			188,281	9 Aug 2003	9 Aug 2010
	83,785			659 00p			83,785	23 Feb 2004	23 Feb 2011
	103,722			600 00p			103,722	22 Feb 2005	22 Feb 2012
	132,142			451 50p			132,142	21 Feb 2006	21 Feb 2013
	162,666			487 25p			162,666	19 Feb 2007	19 Feb 2014
	154,517			533 50p			154,517	17 Feb 2008	17 Feb 2015
	182,303			530 50p			182,303	13 Mar 2009	13 Mar 2016
			132,537	644 50p			132,537	15 Feb 2010	15 Feb 2017
– BIP	20,104			Nil	20,104	605 00p	–		
	23,756			Nil			23,756	14 Apr 2008	14 Apr 2008
	26,400			Nil			26,400	4 Apr 2009	4 Apr 2009
			21,548	Nil			21,548	4 Apr 2010	4 Apr 2010
– LTIP (options)	298,221	6,337		487 25p			304,558	19 Feb 2007	19 Feb 2014
– LTIP (shares)	135,555	2,880		Nil	138,435	578 00p	–		
	83,656			Nil			83,656	19 Apr 2009	19 Apr 2009
			62,623	Nil			62,623	15 Feb 2010	15 Feb 2010
Total	1,595,108	9,217	216,708		158,539		1,662,494		

	1 January 2007	2004-2006 performance adjustment	Granted during the year	Option price	Exercised/ vested during the year	Market price at Exercise or vestingdate	31 December 2007	Exercisable from	Exercisable until
Patrick Tierney									
– ESOS	371,426			451 50p	371,426	632 75p	–		
	162,666			487 25p			162,666	19 Feb 2007	19 Feb 2014
	154,517			533 50p			154,517	17 Feb 2008	17 Feb 2015
	175,488			530 50p			175,488	13 Mar 2009	13 Mar 2016
			121,628	644 50p			121 628	15 Feb 2010	15 Feb 2017
– BIP	19,572			Nil	19,572	605 00p	-		
	24,156			Nil			24,156	14 Apr 2008	14 Apr 2008
	8,124			Nil			8,124	4 Apr 2009	4 Apr 2009
			8,012	Nil			8,012	4 Apr 2010	4 Apr 2010
– LTIP (options)	298,221	(100,259)		487 25p	90,000	636 00p	107,962	19 Feb 2007	19 Feb 2014
– LTIP (shares)	135,555	(45,573)		Nil	89,982	578 00p	-		
	80,528			Nil			80,528	19 Apr 2009	19 Apr 2009
			57,412	Nil			57,412	15 Feb 2010	15 Feb 2010
Total	1,430,253	(145,832)	187,052		570,980		900,493		

The proportion of the target award that may vest in 2009 and 2010 under LTIP is subject to the annual growth in Adjusted EPS and relative TSR measured against a group of competitor companies during the performance period The numbers of LTIP shares included in the above table are calculated by reference to an assumed achievement of 10% per annum averaged compound growth in Adjusted EPS and median TSR, which would result in 100% of the award vesting Depending on actual Adjusted EPS growth and TSR, the proportion of the award that may vest could be lower or higher

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

The middle market price of a Reed Elsevier PLC ordinary share on the date of the 2007 award under BIP and LTIP was 617 00p and 644 50p, respectively

The middle market price of a Reed Elsevier PLC ordinary share during the year was in the range 558 00p to 689 50p and at 31 December 2007 was 679 50p

DIRECTORS' REMUNERATION REPORT

In Reed Elsevier NV

	1 January 2007	2004-2006 performance adjustment	Granted during the year	Option price	Exercised/ vested during the year	Market price at Exercise or vesting date	31 December 2007	Exercisable from	Exercisable until
Gerard van de Aast									
– ESOS	35,866			€14 87			35,866	1 Dec 2003	1 Dec 2010
	35,148			€14 75			35,148	23 Feb 2004	23 Feb 2011
	40,699			€13 94			40,699	22 Feb 2005	22 Feb 2012
	85,805			€10 57			85,805	19 Feb 2007	19 Feb 2014
	82,478			€11 31			82,478	17 Feb 2008	17 Feb 2015
	85,775			€11 47			85,775	13 Mar 2009	13 Mar 2016
			80,928	€14 51			80,928	15 Feb 2010	15 Feb 2017
– BIP	26,347			Nil			26,347	14 Apr 2008	14 Apr 2008
	12,311			Nil			12,311	4 Apr 2009	4 Apr 2009
			29,483	Nil			29,483	4 Apr 2010	4 Apr 2010
– LTIP (options)	157,309	3,342		€10 57			160,651	19 Feb 2007	19 Feb 2014
– LTIP (shares)	71,504	1,519		Nil	73,023	€12 93	–		
	46,332			Nil			46,332	19 Apr 2009	19 Apr 2009
			38,238	Nil			38,238	15 Feb 2010	15 Feb 2010
Total	679,574	4,861	148,649		73,023		760,061		
Mark Armour									
– ESOS	20,244			€13 55			20,244	21 Feb 2003	19 Apr 2009
	61,726			€10 73	61,726	€13 27	–		
	44,882			€14 75			44,882	23 Feb 2004	23 Feb 2011
	51,926			€13 94			51,926	22 Feb 2005	22 Feb 2012
	74,276			€9 34	74,276	€13 27	–		
	106,536			€10 57	106,536	€13 27	–		
	102,618			€11 31			102,618	17 Feb 2008	17 Feb 2015
	106,720			€11 47			106,720	13 Mar 2009	13 Mar 2016
			86,347	€14 51			86,347	15 Feb 2010	15 Feb 2017
– BIP	12,842			Nil	12,842	€13 25	–		
	15,098			Nil			15,098	14 Apr 2008	14 Apr 2008
	14,306			Nil			14,306	4 Apr 2009	4 Apr 2009
			13,371	Nil			13,371	4 Apr 2010	4 Apr 2010
– LTIP (options)	195,317	4,150		€10 57			199,467	19 Feb 2007	19 Feb 2014
– LTIP (shares)	88,780	1,886		Nil	90,666	€12 93	–		
	49,434			Nil			49,434	19 Apr 2009	19 Apr 2009
			40,799	Nil			40,799	15 Feb 2010	15 Feb 2010
Total	944,705	6,036	140 517		346,046		745,212		
Sir Crispin Davis									
– ESOS	95,774			€12 00			95,774	21 Feb 2003	1 Sept 2009
	47,888			€12 00			47,888	1 Sept 2003	1 Sept 2009
	47,888			€12 00			47,888	1 Sept 2004	1 Sept 2009
	120,245			€10 73			120,245	2 May 2003	2 May 2010
	87,601			€14 75			87,601	23 Feb 2004	23 Feb 2011
	104,204			€13 94			104,204	22 Feb 2005	22 Feb 2012
	148,946			€9 34			148,946	21 Feb 2006	21 Feb 2013
	209,645			€10 57			209,645	19 Feb 2007	19 Feb 2014
	199,481			€11 31			199,481	17 Feb 2008	17 Feb 2015
	205,480			€11 47			205,480	13 Mar 2009	13 Mar 2016
			166,254	€14 51			166,254	15 Feb 2010	15 Feb 2017
– BIP	26,421			Nil	26,421	€13 25	–		
	27,810			Nil			27,810	4 Apr 2009	4 Apr 2009
– LTIP (options)	384,349	8,167		€10 57			392,516	19 Feb 2007	19 Feb 2014
– LTIP (shares)	174,704	3,712		Nil	178,416	€12 93	–		
	95,181			Nil			95,181	19 Apr 2009	19 Apr 2009
			78,555	Nil			78,555	15 Feb 2010	15 Feb 2010
Total	1,975,617	11,879	244,809		204,837		2,027,468		

DIRECTORS' REMUNERATION REPORT

	1 January 2007	2004-2006 performance adjustment	Granted during the year	Option price	Exercised/ vested during the year	Market price at Exercise or vesting date	31 December 2007	Exercisable from	Exercisable until
Erik Engstrom									
– ESOS	43,866			€10 30			43,866	23 Aug 2007	23 Aug 2014
	105,412			€11 31			105,412	17 Feb 2008	17 Feb 2015
	120,198			€11 47			120,198	13 Mar 2009	13 Mar 2016
			85,897	€14 51			85,897	15 Feb 2010	15 Feb 2017
– BIP	29,442			Nil			29,442	4 Apr 2009	4 Apr 2009
			27,572	Nil			27,572	4 Apr 2010	4 Apr 2010
– LTIP (options)	220,090	4,676		€10 30			224,766	23 Aug 2007	23 Aug 2014
– LTIP (shares)	100,040	2,125		Nil	102,165	€12 93	–		
	54,055			Nil			54,055	19 Apr 2009	19 Apr 2009
			40,586	Nil			40,586	15 Feb 2010	15 Feb 2010
– Restricted shares	26,677			Nil	26,677	€13 02	–		
Total	699,780	6,801	154,055		128,842		731,794		
Andrew Prozes									
– ESOS	131,062			€13 60			131,062	9 Aug 2003	9 Aug 2010
	59,714			€14 75			59,714	23 Feb 2004	23 Feb 2011
	72 783			€13 94			72,783	22 Feb 2005	22 Feb 2012
	94,086			€9 34			94,086	21 Feb 2006	21 Feb 2013
	111,699			€10 57			111,699	19 Feb 2007	19 Feb 2014
	105,412			€11 31			105,412	17 Feb 2008	17 Feb 2015
	122,487			€11 47			122,487	13 Mar 2009	13 Mar 2016
			87,533	€14 51			87,533	15 Feb 2010	15 Feb 2017
– BIP	13,612			Nil	13,612	€13 25	–		
	16,522			Nil			16,522	14 Apr 2008	14 Apr 2008
	17,636			Nil			17,636	4 Apr 2009	4 Apr 2009
			14,574	Nil			14,574	4 Apr 2010	4 Apr 2010
– LTIP (options)	204,782	4,351		€10 57			209,133	19 Feb 2007	19 Feb 2014
– LTIP (shares)	93,083	1,978		Nil	95,061	€12 93	–		
	55,085			Nil			55,085	19 Apr 2009	19 Apr 2009
			41,359	Nil			41,359	15 Feb 2010	15 Feb 2010
Total	1,097,963	6,329	143,466		108,673		1,139,085		
Patrick Tierney									
– ESOS	266 258			€9 34	266,258	€14 08	–		
	111,699			€10 57			111,699	19 Feb 2007	19 Feb 2014
	105,412			€11 31			105,412	17 Feb 2008	17 Feb 2015
	117,908			€11 47			117,908	13 Mar 2009	13 Mar 2016
			80,329	€14 51			80,329	15 Feb 2010	15 Feb 2017
– BIP	13,252			Nil	13,252	€13 25	–		
	16,800			Nil			16,800	14 Apr 2008	14 Apr 2008
	5,426			Nil			5,426	4 Apr 2009	4 Apr 2009
			5,420	Nil			5,420	4 Apr 2010	4 Apr 2010
– LTIP (options)	204,782	(68,846)		€10 57	60,000	€13 19	75,936	19 Feb 2007	19 Feb 2014
– LTIP (shares)	93,083	(31,295)		Nil	61,788	€12 93	–		
	53,025			Nil			53,025	19 Apr 2009	19 Apr 2009
			37,917	Nil			37,917	15 Feb 2010	15 Feb 2010
Total	987,645	(100,141)	123,666		401,298		609,872		

DIRECTORS' REMUNERATION REPORT

The proportion of the target award that may vest in 2009 and 2010 under LTIP is subject to the annual growth in Adjusted EPS and relative TSR measured against a group of competitor companies during the performance period The numbers of LTIP shares included in the above table are calculated by reference to an assumed achievement of 10% per annum averaged compound growth in Adjusted EPS and median TSR, which would result in 100% of the award vesting Depending on actual Adjusted EPS growth and TSR, the proportion of the award that may vest could be lower or higher

The market price of a Reed Elsevier NV ordinary share on the date of the 2007 award under BIP and LTIP was €13 52 and €14 51, respectively

The market price of a Reed Elsevier NV ordinary share during the year was in the range €11 49 to €14 89 and at 31 December 2007 was €13 65

Shareholdings in Reed Elsevier PLC and Reed Elsevier NV

	Reed Elsevier PLC ordinary shares		Reed Elsevier NV ordinary shares	
	1 January 2007(i)	31 December 2007	1 January 2007(i)	31 December 2007
Gerard van de Aast	39,169	124,287	57,941	120,523
Mark Armour	112,007	112,378	47,150	47,461
Dien de Boer-Kruyt	–	–	–	–
Sir Crispin Davis	567,174	787,577	324,344	445,197
Mark Elliott	–	–	–	–
Erik Engstrom	29,479	79,379	73,415	219,867
Jan Hommen	–	–	–	–
Lisa Hook	–	–	–	–
Robert Polet	–	–	–	–
Andrew Prozes	123,740	230,981	95,954	169,334
David Reid	–	–	–	–
Lord Sharman	–	–	–	–
Rolf Stomberg	–	–	–	–
Patrick Tierney	72,212	37,416	48,090	25,448

(i) On date of appointment if subsequent to 1 January 2007

Employee Benefit Trust

Any ordinary shares required to satisfy entitlements under nil cost restricted share awards are provided by the Employee Benefit Trust (EBT) from market purchases As a potential beneficiary under the EBT in the same way as other employees of Reed Elsevier, each executive director is deemed to be interested in all the shares held by the EBT which, at 31 December 2007, amounted to 18,723,830 Reed Elsevier PLC ordinary shares (1 43% of issued share capital) and 10,100,765 Reed Elsevier NV ordinary shares (1 25% of issued share capital)

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

Approved by the board of Reed Elsevier Group plc on 20 February 2008

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

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the members of Reed Elsevier Group plc

We have audited the consolidated financial statements of Reed Elsevier Group plc for the year ended 31 December 2007 ("the consolidated financial statements") which comprise the consolidated income statement, the consolidated cash flow statement the consolidated balance sheet the consolidated statement of recognised income and expense the consolidated shareholders' equity reconciliation the group accounting policies, and the related notes 1 to 35 These consolidated financial statements have been prepared under the accounting policies set out therein

We have reported separately on the company financial statements of Reed Elsevier Group plc for the year ended 31 December 2007

This report is made solely to the company s members as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company s members those matters we are required to state to them in an auditors report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company s members as a body, for our audit work, for this report or for the opinions we have formed

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the members of Reed Elsevier Group plc

Opinion

In our opinion

* the consolidated financial statements give a true and fair view in accordance with IFRS, as adopted for use in the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended

* the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and

* the information given in the Directors' Report is consistent with the consolidated financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
20 February 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Revenue - continuing operations	1	**4,534**	4,458
Cost of sales		**(1,606)**	(1,587)
Gross profit		**2,928**	2,871
Selling and distribution costs		**(934)**	(921)
Administration and other expenses		**(1,160)**	(1,154)
Operating profit before joint ventures		**834**	796
Share of results of joint ventures		**16**	18
Operating profit - continuing operations	3	**850**	814
Finance income	8	**36**	20
Finance costs	8	**(454)**	(421)
Net finance costs		**(418)**	(401)
Disposals and other non operating items	9	**98**	(1)
Profit before tax - continuing operations	3	**530**	412
Taxation	10	**112**	(72)
Net profit from continuing operations		**642**	340
Net profit from discontinued operations	2	**309**	33
Net profit for the year		**951**	373
Attributable to			
Parent company's shareholders		**948**	371
Minority interests		**3**	2
Net profit for the year		**951**	373

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Cash flow from operating activities - continuing operations			
Cash generated from operations	12	**1,144**	1,183
Interest received		**22**	8
Interest paid		**(115)**	(122)
Net interest paid to Reed Elsevier NV		**(46)**	(6)
Net interest paid by Reed Elsevier PLC		**3**	3
Net interest paid to the Elsevier Reed Finance BV group		**(287)**	(292)
Tax paid		**(184)**	(156)
Net cash from operating activities		**537**	618
Cash flows from investing activities - continuing operations			
Acquisitions	12	**(327)**	(163)
Purchases of property, plant and equipment		**(64)**	(68)
Expenditure on internally developed intangible assets		**(80)**	(99)
Purchases of investments		**(4)**	(9)
Net purchases of shares in Reed Elsevier PLC and Reed Elsevier NV		**(75)**	(67)
Proceeds on disposal of property, plant and equipment		**6**	2
Proceeds from other disposals		**240**	48
Dividends received from joint ventures		**12**	16
Net cash used in investing activities		**(292)**	(340)
Cash flows from financing activities - continuing operations			
Dividends paid to shareholders of the parent company		**(1,816)**	(1,355)
Increase in net borrowings from shareholders and fellow affiliates		**1,709**	966
Net movement in bank loans overdrafts and commercial paper		**15**	52
Issuance of other loans		**-**	407
Repayment of other loans		**(62)**	(308)
Repayment of finance leases		**(12)**	(11)
Net cash used in financing activities		**(166)**	(249)
Net cash from discontinued operations	2	**1,912**	57
Increase in cash and cash equivalents	12	**1,991**	86
Movement in cash and cash equivalents			
At 1 January		**322**	244
Increase in cash and cash equivalents		**1,991**	86
Exchange translation differences		**32**	(8)
At 31 December		**2,345**	322

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 £m	2006 £m
Non-current assets			
Goodwill	15	**2,464**	2,804
Intangible assets	16	**1,950**	2,523
Investments in joint ventures	17	**116**	73
Other investments	17	**340**	210
Property, plant and equipment	18	**238**	298
Net pension assets	6	**183**	20
Deferred tax assets	20	**137**	169
		5,428	6,097
Current assets			
Inventories and pre-publication costs	21	**268**	631
Trade and other receivables	22	**1,134**	1,206
Derivative financial instruments		**194**	161
Amounts owed by Reed Elsevier PLC		**-**	38
Amounts owed by the Elsevier Reed Finance BV group		**55**	131
Cash and cash equivalents		**2,345**	322
		3,996	2,489
Assets held for sale	23	**341**	-
Total assets		**9,765**	8,586
Current liabilities			
Trade and other payables	24	**1,926**	1,913
Derivative financial instruments		**16**	5
Borrowings	25	**554**	232
Amounts owed to Reed Elsevier NV		**1,377**	407
Amounts owed to Reed Elsevier PLC		**1,520**	942
Amounts owed to Reed Holding BV		**16**	-
Amounts owed to the Elsevier Reed Finance BV group		**982**	867
Taxation		**670**	400
		7,061	4,766
Non-current liabilities			
Borrowings	25	**1,348**	1,698
Amounts owed to the Elsevier Reed Finance BV group		**4,030**	4,019
Deferred tax liabilities	20	**689**	823
Net pension obligations	6	**133**	256
Provisions	27	**21**	28
		6,221	6,824
Liabilities associated with assets held for sale	23	**84**	-
Total liabilities		**13,366**	11,590
Net liabilities		**(3,601)**	(3,004)
Capital and reserves			
Share capital	29	**-**	-
Share premium	30	**324**	324
Translation reserve	31	**216**	141
Other reserves	32	**(4,152)**	(3,482)
Consolidated shareholders' equity		**(3,612)**	(3,017)
Minority interests		**11**	13
Total equity		**(3,601)**	(3,004)

Approved by the board of Reed Elsevier Group plc, 20 February 2008

M H Armour
Chief Financial Officer

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Net profit for the year		**951**	373
Exchange difference on translation of foreign operations		**(71)**	264
Actuarial gains on defined benefit pension schemes	6	**224**	139
Fair value movements on available for sale investments		**(6)**	3
Fair value movements on cash flow hedges		**12**	52
Tax recognised directly in equity	10	**(52)**	(60)
Net income recognised directly in equity		**107**	398
Cumulative exchange differences on disposal of foreign operations		**148**	-
Cumulative fair value movements on disposal of available for sale investments		**(7)**	-
Transfer to net profit from hedge reserve (net of tax)		**(21)**	(9)
Total recognised income and expense for the year		**1,178**	762
Attributable to			
Parent company's shareholders		**1,175**	760
Minority interests		**3**	2
Total recognised income and expense for the year		**1,178**	762

CONSOLIDATED SHAREHOLDERS' EQUITY RECONCILIATION

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Total recognised net income attributable to parent company's shareholders		**1,175**	760
Dividends declared and paid	14	**(1,816)**	(1,355)
Increase in share based remuneration reserve		**46**	49
Net decrease in consolidated shareholders' equity		**(595)**	(546)
Consolidated shareholders' equity at 1 January		**(3,017)**	(2,471)
Consolidated shareholders' equity at 31 December		**(3,612)**	(3,017)

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

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

In addition to the figures required to be reported by applicable accounting standards, adjusted profit figures have been presented as an additional performance measure Adjusted figures are shown before the amortisation of acquired intangible assets, acquisition integration costs, disposals and other non operating items Adjusted operating profits are also grossed up to exclude the equity share of taxes in joint ventures

Foreign exchange translation

The consolidated financial statements are presented in pounds sterling

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date Exchange differences arising are recorded in the income statement other than where hedge accounting applies (see Financial Instruments)

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

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

Revenue

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

Revenues are recognised for the various categories of turnover as follows subscriptions – on periodic despatch of subscribed product or rateably over the period of the subscription where performance is not measurable by despatch, circulation – on despatch, advertising – on publication or over the period of online display, exhibitions – on occurrence of the exhibition, educational testing contracts – over the term of the contract on percentage completed against contract milestones

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

Employee benefits

The expense of defined benefit pension schemes and other post-retirement employee benefits is determined using the projected unit credit method and charged in the income statement as an operating expense, based on actuarial assumptions reflecting market conditions at the beginning of the financial year Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur Past service costs are recognised immediately to the extent that benefits have vested, or, if not vested, on a straight line basis over the period until the benefits vest

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

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

Share based remuneration

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

Borrowing costs

All interest on borrowings is expensed as incurred The cost of issuing borrowings is expensed over the life of the borrowings using the effective interest method

Taxation

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

The tax payable on current year taxable profits is calculated using the applicable tax rates that have been enacted, or substantively enacted, by the balance sheet date

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

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

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

Goodwill

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

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

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

Intangible assets

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

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

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

Property, plant and equipment

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

Investments

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

Available for sale investments and venture capital investments held for trading represent investments in listed and unlisted securities The fair value of listed securities is determined based on quoted market prices, and of unlisted securities on management's estimate of fair value based on standard valuation techniques

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

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

Impairment

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

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 and the corresponding liability to pay rentals is shown net of interest in the balance sheet as obligations under finance leases The capitalised value of the assets is depreciated on a straight line basis over the shorter of the periods of the leases or the useful lives of the assets concerned The interest element of the lease payments is allocated so as to produce a constant periodic rate of charge

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short term highly liquid investments and are held in the balance sheet at fair value

Assets held for sale

Assets of businesses that are available for immediate sale in their current condition and for which a sales process has been initiated are classified as assets held for sale, and are carried at the lower of amortised cost and fair value less costs to sell Non-current assets are not depreciated or amortised following their classification as held for sale Liabilities of businesses held for sale are also separately classified on the balance sheet

Discontinued operations

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

Financial instruments

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

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

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

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

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 recognized in equity are included in the initial measurement of the asset or liability For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss Any ineffective portion of hedges is recognised immediately in the income statement

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

Where an effective hedge is in place against changes in the fair value of fixed rate borrowings, the hedged borrowings are adjusted for changes in fair value attributable to the risk being hedged with a corresponding income or expense included in the income statement The offsetting gains or losses from remeasuring the fair value of the related derivatives are also recognised in the income statement

The fair values of interest rate swaps, interest rate options, forward rate agreements and forward foreign exchange contracts represent the replacement costs calculated using market rates of interest and exchange The fair value of long term borrowings is calculated by discounting expected future cash flows at market rates

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

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

Provisions

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

Critical judgments and key sources of estimation uncertainty

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

Standards effective for the year

Adoption of IFRS7 – Financial instruments Disclosures which contains various requirements concerning the disclosure of financial instruments became effective for financial years beginning on or after 1 January 2007 The combined financial statements for the year ended 31 December 2007 have adopted the requirements of IFRS7 for the first time The adoption of this standard has not significantly impacted the presentation of the combined financial statements

ACCOUNTING POLICIES

Adoption of Amendment to IAS1 – Presentation of Financial Statements – Capital Disclosures The amendment to IAS1, which introduces disclosures about an entity's capital and how it is managed, has been adopted for the first time The requirements of the amendment have been addressed on page 6 of the Directors' report

Standards, amendments and interpretations not yet effective

New accounting standards and amendments and their expected impact on the future accounting policies and reporting of Reed Elsevier Group plc are set out below

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

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

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

IFRIC14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for the 2008 financial year) The interpretation clarifies how to assess the limit in IAS19 Employee Benefits on the amount of a defined benefit pension surplus that can be recognised as an asset Adoption of this interpretation is not expected to significantly impact the measurement, presentation or disclosure of employee benefits in the combined financial statements

Amendments to IFRS3 – Business Combinations (effective for the 2010 financial year) The amendments introduce changes that will require acquisition related costs to be expensed, adjustments to contingent consideration to be recognised in income and allows the full goodwill method to be used when accounting for non controlling interests The most significant impact of these amendments will be the recognition of additional expenses related to acquisitions

Amendments to IAS 27 – Consolidated and Separate Financial Statements (effective for the 2010 financial year) The amendments introduce changes to the accounting for partial disposals of subsidiaries, associates and joint ventures Adoption of these amendments is not expected to significantly impact the measurement, presentation or disclosure of future disposals

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

1 SEGMENT ANALYSIS

Reed Elsevier Group plc is a publisher and information provider organised as three business segments Elsevier, comprising scientific, technical and medical publishing businesses, LexisNexis providing legal, tax, regulatory, risk management, information analytics and business information solutions to professional, business and government customers and Reed Business, providing information and marketing solutions to business professionals Internal reporting is consistent with this organisational structure Harcourt Education, which has previously been presented as a separate business segment, has been classified as a discontinued operation and its results are presented in note 2

Adjusted operating profit figures are presented as an additional performance measure They are stated before the amortisation of acquired intangible assets, acquisition integration costs and the equity share of taxes in joint ventures Adjusted operating profit is reconciled to operating profit in note 11

	Revenue		Operating profit		Adjusted operating profit	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Business segment						
Elsevier	**1,457**	1,470	**374**	372	**441**	441
LexisNexis	**1,594**	1,570	**287**	264	**405**	380
Reed Business	**1,483**	1,418	**194**	181	**257**	240
Subtotal	**4,534**	4,458	**855**	817	**1,103**	1,061
Corporate costs	-	-	**(44)**	(37)	**(44)**	(37)
Unallocated net pension credit	-	-	**39**	34	**39**	34
Total	**4,534**	4,458	**850**	814	**1,098**	1,058
Geographical origin						
North America	**2,147**	2,219	**352**	329	**504**	485
United Kingdom	**896**	828	**176**	168	**207**	197
The Netherlands	**505**	497	**175**	170	**178**	173
Rest of Europe	**676**	640	**94**	100	**148**	153
Rest of world	**310**	274	**53**	47	**61**	50
Total	**4,534**	4,458	**850**	814	**1,098**	1,058

Revenue is analysed before the £103m (2006 £108m) share of joint ventures' revenue, of which £21m (2006 £21m) relates to LexisNexis, principally to Giuffre, and £82m (2006 £87m) relates to Reed Business, principally to exhibition joint ventures

Share of post-tax results of joint ventures of £16m (2006 £18m) included in operating profit comprises £3m (2006 £3m) relating to LexisNexis and £13m (2006 £15m) relating to Reed Business

The unallocated net pension credit of £39m (2006 £34m) comprises the expected return on pension scheme assets of £196m (2006 £178m) less interest on pension scheme liabilities of £157m (2006 £144m)

SEGMENT ANALYSIS (CONTINUED)

	2007 £m	2006 £m
Analysis of revenue by geographical market		
North America	**2,227**	2,307
United Kingdom	**601**	530
The Netherlands	**205**	195
Rest of Europe	**881**	850
Rest of world	**620**	576
Total	**4,534**	4,458

	Expenditure on acquired goodwill and intangible assets		Capital expenditure		Amortisation of acquired intangible assets		Depreciation and other amortisation	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Business segment								
Elsevier	**193**	53	**50**	51	**60**	57	**47**	47
LexisNexis	**42**	79	**76**	95	**105**	104	**72**	70
Reed Business	**128**	51	**30**	30	**55**	50	**27**	27
Subtotal	**363**	183	**156**	176	**220**	211	**146**	144
Corporate	-	-	-	2	-	-	**2**	4
Total	**363**	183	**156**	178	**220**	211	**148**	148
Geographical location								
North America	**152**	98	**86**	110				
United Kingdom	**26**	54	**31**	34				
The Netherlands	-	-	**22**	18				
Rest of Europe	**163**	16	**12**	10				
Rest of world	**22**	15	**5**	6				
Total	**363**	183	**156**	178				

Capital expenditure comprises additions to property, plant and equipment and internally developed intangible assets Amortisation of acquired intangible assets includes the share of amortisation in joint ventures of £2m (2006 nil) in Reed Business Other than the depreciation and amortisation above, non cash items of £38m (2006 £44m) relate to the recognition of share based remuneration and comprise £8m (2006 £10m) in Elsevier, £10m (2006 £12m) in LexisNexis, £11m (2006 £14m) in Reed Business and £9m (2006 £8m) in Corporate

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

1 SEGMENT ANALYSIS (CONTINUED)

	Total assets		Total liabilities		Net assets/(liabilities)	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Business segment						
Elsevier	**2,364**	2,331	**715**	700	**1,649**	1,631
LexisNexis	**2,531**	2,593	**415**	387	**2,116**	2,206
Harcourt Education (discontinued)	**-**	1,481	**-**	173	**-**	1,308
Reed Business	**1,343**	1,146	**606**	533	**737**	613
Subtotal	**6,238**	7,551	**1,736**	1,793	**4,502**	5,758
Taxation	**137**	169	**1,359**	1,223	**(1,222)**	(1,054)
Cash/borrowings	**2,345**	322	**1,902**	1,930	**443**	(1,608)
Balances with fellow associated undertakings	**55**	169	**7,925**	6,235	**(7,870)**	(6,066)
Net pension assets/(obligations)	**183**	20	**133**	256	**50**	(236)
Assets and liabilities held for sale	**341**	-	**84**	-	**257**	-
Other assets and liabilities	**466**	355	**227**	153	**239**	202
Total	**9,765**	8,586	**13,366**	11,590	**(3,601)**	(3,004)
Geographical location						
North America	**4,559**	5,628	**7,793**	7,616	**(3,234)**	(1,988)
United Kingdom	**2,349**	1,314	**2,686**	2,048	**(337)**	(734)
The Netherlands	**1,539**	474	**1,748**	883	**(209)**	(409)
Rest of Europe	**1,030**	942	**915**	863	**115**	79
Rest of world	**288**	228	**224**	180	**64**	48
Total	**9,765**	8,586	**13,366**	11,590	**(3,601)**	(3,004)

Investments in joint ventures of £116m (2006 £73m) included in segment assets analysis above comprise £31m (2006 £27m) relating to LexisNexis and £85m (2006 £46m) relating to Reed Business

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

2 DISCONTINUED OPERATIONS

Following announcement in February 2007 of the planned sale of Harcourt Education division, the division is presented as a discontinued operation On 4 May 2007 the sale of the Harcourt Assessment and Harcourt Education International businesses for $950m was announced, and on 16 July 2007 the sale of Harcourt US Schools Education businesses for $4 0bn was announced All disposals had completed by 31 December 2007, with the exception of Harcourt Assessment and certain Harcourt International businesses, the disposal of which completed on 30 January 2008 Those businesses are presented in the balance sheet as assets held for sale

Net profit from discontinued operations	2007 £m	2006 £m
Revenue	**752**	889
Operating costs	**(640)**	(846)
Operating profit and profit before tax	**112**	43
Taxation	**(31)**	(10)
Profit after taxation	**81**	33
Gain on disposals	**611**	-
Tax on disposals	**(383)**	-
Net profit from discontinued operations	**309**	33

Operating profit is stated after amortisation of acquired intangible assets of £9m (2006 £86m) The adjusted operating profit, before amortisation of acquired intangible assets, of the discontinued operations was £121m (2006 £129m)

The gain on disposals of discontinued operations relates to the completed sale of the Harcourt US Schools Education businesses and certain of the Harcourt Education International businesses Net assets disposed comprise £318m of goodwill, £383m intangible assets, £39m of property, plant and equipment, £377m of inventory and £40m of other net assets Tax on disposals is stated before taking account of tax credits of £223m (2006 nil) in respect of previously unrecognised deferred tax assets and capital losses These have been realised as a result of the disposal of discontinued operations, but recognised within continuing operations whence they first arose

Cash flows from discontinued operations	2007 £m	2006 £m
Net cash flow from operating activities	**33**	86
Net cash flow from investing activities	**1,879**	(29)
Net cash flow from financing activities	**-**	-
Net movement in cash and cash equivalents	**1,912**	57

Net cash flow from investing activities includes proceeds on the completed disposals of £1,933m (2006 nil) Cash and cash equivalents diposed was £7m (2006 nil)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

3 OPERATING PROFIT – CONTINUING OPERATIONS

Profit before tax is stated after charging/(crediting) the following

	Note	2007 £m	2006 £m
Staff costs			
Wages and salaries		**1,182**	1,177
Social security costs		**143**	131
Pensions	6	**48**	64
Share based remuneration	7	**38**	44
Total staff costs		**1,411**	1,416
Depreciation and amortisation			
Amortisation of acquired intangible assets	16	**218**	211
Share of joint ventures amortisation		**2**	-
Amortisation of internally developed intangible assets	16	**72**	66
Depreciation of property, plant and equipment	18	**76**	81
Total depreciation and amortisation		**368**	358
Other expenses and income			
Pre-publication costs, inventory expenses and other cost of sales		**1,606**	1,587
Royalties payable to the Elsevier Reed Finance BV group		**22**	5
Operating lease rentals expense		**104**	105
Operating lease rentals income		**(15)**	(16)

Depreciation and amortisation charges are included within administration and other expenses

Staff costs for discontinued operations for the year ended 31 December 2007 were £162m (2006 £197m) for wages and salaries, £10m (2006 £13m) for social security costs, £11m (2006 £15m) for pensions and £8m (2006 £5m) for share based remuneration

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

4 AUDITORS' REMUNERATION

	2007 £m	2006 £m
For audit services	**3.7**	4 6
For non audit services	**1 5**	1 2
Total	**5 2**	5 8

Auditors' remuneration for audit services comprises £0 4m (2006 £0 3m) payable to the auditors of the parent company and £3 3m (2006 £4 2m) payable to auditors of the parent company and their associates for the audit of the financial statements of the operating and businesses including the review and testing of internal controls over financial reporting in accordance with the US Sarbanes-Oxley Act Auditors' remuneration for non-audit services comprises £0 6m (2006 £0 6m) for taxation services, £0 7m (2006 £0 3m) for due diligence and other transaction related services and £0 2m (2006 £0 3m) for other non audit services

5 PERSONNEL

	At 31 December		Average during the year	
Number of people employed	2007	2006	2007	2006
Business segment				
Elsevier	**6,800**	6,900	**7,000**	7,000
LexisNexis	**13,300**	13,800	**13,400**	13,700
Reed Business	**10,800**	10,300	**10,700**	10,300
Subtotal	**30,900**	31,000	**31,100**	31,000
Corporate	**300**	200	**300**	200
Total	**31,200**	31,200	**31,400**	31,200
Geographical location				
North America	**15,500**	15,700	**15,600**	15,600
United Kingdom	**5,300**	5,400	**5,400**	5,300
The Netherlands	**2,400**	2,400	**2,400**	2,500
Rest of Europe	**4,500**	4,500	**4,600**	4,500
Rest of world	**3,500**	3,200	**3,400**	3,300
Total	**31,200**	31,200	**31,400**	31,200

The number of people employed by discontinued operations at 31 December 2007 was 1,300 (2006 5,300) The average number of people employed by discontinued operations during the year was 4,300 (2006 5,300)

6 PENSION SCHEMES

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

The principal assumptions, for the purpose of valuation under IAS19 Employee Benefits, are determined for each scheme in conjunction with the respective schemes' independent actuaries and are presented below as the weighted average of the various defined benefit pension schemes

	2007	2006
Discount rate	**5.9%**	5 3%
Expected rate of return on scheme assets	**7 1%**	7 0%
Expected rate of salary increases	**4 4%**	4 2%
Inflation	**3 1%**	2 9%
Future pension increases	**3 2%**	2 9%

The expected rates of return on individual categories of scheme assets are determined by reference to relevant market indices The overall expected rate of return on scheme assets is based on the weighted average of each asset category

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

6 PENSION SCHEMES (CONTINUED)

Mortality assumptions used in assessing defined benefit obligations make allowance for future improvements in longevity and have been determined by reference to applicable mortality statistics and the actuaries' expectation for each scheme The average life expectancies assumed in the valuation of the defined benefit obligations are set out below

	2007		2006	
	Male	Female	Male	Female
Average life expectancy (at 31 December)	years	years	years	years
Member currently aged 60	86	87	86	87
Member currently aged 45	86	87	86	87

The defined benefit pension expense recognised within the income statement comprises

	2007	2006
	£m	£m
Service cost (including curtailment credits of £19m (2006 £11m)	**78**	94
Interest on pension scheme liabilities	**157**	144
Expected return on scheme assets	**(196)**	(178)
Net defined benefit pension cost	**39**	60

The service cost includes £8m (2006 £12m) in respect of discontinued operations A total of £21m (2006 £20m) was recognised as an expense in relation to defined contribution pension schemes including £3m in respect of discontinued operations (2006 £3m) Included in gains on disposal of discontinued operations are £11m (2006 nil) of pension curtailment credits

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

	2007			2006		
	Defined benefit obligation	Fair value of scheme assets	Net pension obligation	Defined benefit obligation	Fair value of scheme assets	Net pension obligation
	£m	£m	£m	£m	£m	£m
At start of year	**(3,008)**	**2,772**	**(236)**	(2,980)	2,575	(405)
Service cost (including curtailment credits of £19m (2006 £11m))	**(78)**	**-**	**(78)**	(94)	-	(94)
Interest on pension scheme liabilities	**(157)**	**-**	**(157)**	(144)	-	(144)
Expected return on scheme assets	**-**	**196**	**196**	-	178	178
Actuarial gain	**190**	**34**	**224**	40	99	139
Contributions by employer	**-**	**83**	**83**	-	61	61
Contributions by employees	**(13)**	**13**	**-**	(13)	13	-
Benefits paid	**114**	**(110)**	**4**	106	(102)	4
Curtailment on disposal of operations	**11**	**-**	**11**	-	-	-
Exchange translation differences	**(27)**	**30**	**3**	77	(52)	25
At end of year	**(2,968)**	**3,018**	**50**	(3,008)	2,772	(236)

The net pension surplus of £50m at 31 December 2007 comprise schemes in surplus with net pension assets of £183m (2006 £20m) and schemes in deficit with net pension obligations of £133m (2006 £256m)

6 PENSION SCHEMES (CONTINUED)

As at 31 December 2007 the defined benefit obligations comprise £2,877m (2006 £2,921m) in relation to funded schemes and £91m (2006 £87m) in relation to unfunded schemes The weighted average duration of defined benefit scheme liabilities is 19 years (2006 19 years) Deferred tax liabilities of £51m (2006 £6m) and deferred tax assets of £52m (2006 £92m) are recognised in respect of the pension scheme surpluses and deficits respectively

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

	2007			2006		
	Expected rate of return on scheme assets	Fair value of scheme assets £m	Proportion of total scheme assets	Expected rate of return on scheme assets	Fair value of scheme assets £m	Proportion of total scheme assets
Equities	**8.3%**	**1,904**	**63%**	8 0%	1,857	67%
Bonds	**4 6%**	**970**	**32%**	4 4%	777	28%
Other	**5 3%**	**144**	**5%**	5 0%	138	5%
Total	**7.1%**	**3,018**	**100%**	7 0%	2,772	100%

The actual return on scheme assets for the year ended 31 December 2007 was £230m (2006 £277m)

A summary of pension balances for the four years ended 31 December 2007 is set out below

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

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

	2007 £m	2006 £m	2005 £m	2004 £m
Gains and losses arising during the year				
Experience losses on scheme liabilities	**(28)**	(30)	(25)	(18)
Experience gains on scheme assets	**34**	99	230	66
Actuarial gains/(losses) arising on the present value of scheme liabilities due to changes in				
- discount rates	**367**	198	(217)	(113)
- inflation	**(152)**	(77)	-	-
- life expectancy and other actuarial assumptions	**3**	(51)	(25)	(9)
	224	139	(37)	(74)
Net cumulative gains/(losses) at start of year	**28**	(111)	(74)	0
Net cumulative gains/(losses) at end of year	**252**	28	(111)	(74)

Regular contributions to defined benefit pension schemes in 2008 are expected to be approximately £61m

6 PENSION SCHEMES (CONTINUED)

Sensitivity analysis

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

	£m
Increase/decrease of 0 25% in the discount rate	
Decrease/increase in annual net pension expense	6
Decrease/increase in defined benefit pension obligations	133
Increase/decrease of one year in assumed life expectancy	
Increase/decrease in annual net pension expense	7
Increase/decrease in defined benefit pension obligations	96
Increase/decrease of 0 25% in the expected inflation rate	
Increase/decrease in annual net pension expense	5
Increase/decrease in defined benefit pension obligations	106

Additionally, the annual net pension expense includes an expected return on scheme assets A 5% increase/decrease in the market value of investments held by the defined benefit pension schemes would, absent any change in their expected long term rate of return, increase/decrease the amount of the expected return on scheme assets by £8m and decrease/increase the amount of the net pension surplus by £95m

7 SHARE BASED REMUNERATION

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

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

7 SHARE BASED REMUNERATION (CONTINUED)

The estimated fair value of grants made in the two years ended 31 December 2007 are set out below The fair values of grants are recognised in the income statement over the vesting period, typically three years

	In respect of Reed Elsevier PLC ordinary shares			In respect of Reed Elsevier NV ordinary shares			Total fair value
	Number of shares	Weighted average fair value per award	Fair value	Number of shares	Weighted average fair value per award	Fair value	
2007 grants	'000	£	£m	000	£	£m	£m
Share options							
- ESOS	**4,246**	**1.30**	**5**	**2,802**	**1.66**	**5**	**10**
- Other	**1,058**	**1.78**	**2**	**423**	**0.99**	**-**	**2**
Total share options	**5,304**	**1.40**	**7**	**3,225**	**1 57**	**5**	**12**
Conditional shares							
- ESOS	**775**	**5 94**	**5**	**510**	**8 96**	**5**	**10**
- LTIP	**1,584**	**7 14**	**11**	**1,047**	**10 92**	**11**	**22**
- RSP	**78**	**5.50**	**-**	**53**	**7 78**	**-**	**-**
- BIP	**662**	**5.67**	**4**	**308**	**8.20**	**3**	**7**
Total conditional shares	**3,099**	**6 48**	**20**	**1,918**	**9 88**	**19**	**39**
Total			**27**			**24**	**51**

2006 grants							
Share options							
- ESOS	4,731	1 00	4	3,169	1 27	4	8
- LTIP	3	1 00	-	2	1 30	-	-
- Other	1,168	1 48	2	243	1 48	-	2
Total share options	5,902	1 05	6	3,414	1 31	4	10
Conditional shares							
- ESOS	1,202	4 92	6	806	7 15	6	12
- LTIP	2,003	5 43	11	1,318	8 14	11	22
- BIP	683	5 07	4	280	7 29	2	6
Total conditional shares	3,888	4 87	21	2,404	7 04	19	40
Total			27			23	50

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

7 SHARE BASED REMUNERATION (CONTINUED)

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

	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
Assumptions for grants made during the year	2007	2006	2007	2006
Weighted average share price at date of grant				
- ESOS	**£6 42**	£5 32	**€14.41**	€11 51
- LTIP	**£6 43**	£5 36	**€14 45**	€11 81
- RSP	**£6.39**	-	**€14 31**	-
- BIP	**£6 15**	£5 48	**€13.37**	€11 74
- Other	**£6.01**	£5 30	**€13 44**	€12 05
Expected share price volatility	**22%**	22%	**22%**	22%
Expected option life	**4 years**	4 years	**4 years**	4 years
Expected dividend yield	**2.7%**	2 6%	**3 2%**	3 1%
Risk free interest rate	**5 6%**	4 6%	**4 2%**	3 5%
Expected lapse rate	**3-5%**	3-5%	**3-5%**	3-5%

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

The share based remuneration awards outstanding as at 31 December 2007, in respect to both Reed Elsevier PLC and Reed Elsevier NV ordinary shares are set out below

	ESOS		LTIP		Other		Total	
Share options Reed Elsevier I	Number of shares '000	Weighted average exercise price	Number of shares '000	Weighted average exercise price	Number of shares '000	Weighted average exercise price	Number of shares '000	Weighted average exercise price
Outstanding at 1 January 2006	57,740	£5 14	5,281	£4 88	3,518	£4 16	66,539	£5 07
Granted	4,731	£5 32	3	£5 35	1,168	£4 24	5,902	£5 10
Exercised	(9,691)	£4 61	-	-	(792)	£4 11	(10,483)	£4 57
Forfeited	(4,088)	£5 43	(267)	£4 87	(299)	£4 13	(4,654)	£5 32
Expired	(500)	£5 84	-	-	(222)	£5 07	(722)	£5 61
Outstanding at 1 January 2007	**48,192**	**£5.23**	**5,017**	**£4.88**	**3,373**	**£4.14**	**56,582**	**£5.13**
Granted	**4,246**	**£6.42**	-	-	**1,058**	**£4.80**	**5,304**	**£6.10**
Exercised	**(16,724)**	**£4.97**	**(2,145)**	**£4.87**	**(771)**	**£4.11**	**(19,640)**	**£4.93**
Forfeited	**(1,105)**	**£5.64**	-	-	**(476)**	**£4.31**	**(1,581)**	**£5.24**
Expired	**(542)**	**£5.71**	-	-	**(74)**	**£4.15**	**(616)**	**£5.52**
Outstanding at 31 December 20(	**34,067**	**£5.47**	**2,872**	**£4.89**	**3,110**	**£4.34**	**40,049**	**£5 34**
Exercisable at 31 December 200	22,121	£5 37	105	£4 87	91	£4 25	22,317	£5 37
Exercisable at 31 December 2(	**19,704**	**£5.36**	**2,872**	**£4.89**	**50**	**£4.25**	**22,626**	**£5.30**

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

7 SHARE BASED REMUNERATION (CONTINUED)

	ESOS		LTIP		Other		Total	
Share options Reed Elsevier ľ	Number of shares '000	Weighted average exercise price	Number of shares '000	Weighted average exercise price	Number of shares '000	Weighted average exercise price	Number of shares '000	Weighted average exercise price
Outstanding at 1 January 2006	39,252	€ 11 33	3,626	€ 10 58	1,881	€ 12 05	44,759	€ 11 30
Granted	3,169	€ 11 51	2	€ 11 76	243	€ 12 05	3,414	€ 11 55
Exercised	(6,666)	€ 9 98	-	-	(243)	€ 10 76	(6,909)	€ 10 01
Forfeited	(2,799)	€ 12 13	(183)	€ 10 57	(35)	€ 12 83	(3,017)	€ 12 04
Expired	-	-	-	-	-	-	-	-
Outstanding at 1 January 2007	**32,956**	**€ 11.55**	**3,445**	**€ 10.58**	**1,846**	**€ 12.21**	**38,247**	**€ 11.50**
Granted	**2,802**	**€ 14 41**	**-**	**-**	**423**	**€ 13.45**	**3,225**	**€ 14 28**
Exercised	**(10,737)**	**€ 10 73**	**(1,527)**	**€ 10.57**	**(202)**	**€ 11.50**	**(12,466)**	**€ 10.73**
Forfeited	**(738)**	**€ 12 29**	**-**	**-**	**(23)**	**€ 13.89**	**(761)**	**€ 12.34**
Expired	**(390)**	**€ 13.28**	**-**	**-**	**-**	**-**	**(390)**	**€ 13.28**
Outstanding at 31 December 20(	**23,893**	**€ 12.16**	**1,918**	**€ 10 60**	**2,044**	**€ 12.54**	**27,855**	**€ 12.08**
Exercisable at 31 December 200	15,055	€ 12 24	72	€ 10 57	1,846	€ 12 21	16,973	€ 12 23
Exercisable at 31 December 2(	**14,266**	**€ 12 16**	**1,918**	**€ 10.60**	**2,044**	**€ 12.54**	**18,228**	**€ 12.04**

	Number of shares '000				
Conditional shares: Reed Elsevier PLC	ESOS	LTIP	RSP	BIP	Total
Outstanding at 1 January 2006	-	2,413	2,132	1,379	5,924
Granted	1,202	2,003	-	683	3,888
Exercised	(4)	-	(54)	(221)	(279)
Forfeited	(49)	(172)	(246)	(108)	(575)
Outstanding at 1 January 2007	**1,149**	**4,244**	**1,832**	**1,733**	**8,958**
Granted	**775**	**1,584**	**78**	**662**	**3,099**
Exercised	**(112)**	**(2,226)**	**(1,698)**	**(457)**	**(4,493)**
Forfeited	**(156)**	**(170)**	**(67)**	**(95)**	**(488)**
Outstanding at 31 December 2007	**1,656**	**3,432**	**145**	**1,843**	**7,076**

7 SHARE BASED REMUNERATION (CONTINUED)

	Number of shares '000				
Conditional shares: Reed Elsevier NV	ESOS	LTIP	RSP	BIP	Total
Outstanding at 1 January 2006	-	1,657	1,463	515	3,635
Granted	806	1,318	-	280	2,404
Exercised	(3)	-	(36)	(101)	(140)
Forfeited	(33)	(117)	(149)	(45)	(344)
Outstanding at 1 January 2007	**770**	**2,858**	**1,278**	**649**	**5,555**
Granted	**510**	**1,047**	**53**	**308**	**1,918**
Exercised	**(71)**	**(1,523)**	**(1,165)**	**(199)**	**(2,958)**
Forfeited	**(151)**	**(151)**	**(68)**	**(34)**	**(404)**
Outstanding at 31 December 2007	**1,058**	**2,231**	**98**	**724**	**4,111**

The weighted average share price at the date of exercise of share options and conditional shares during 2007 was £6 21 (2006 £5 64) for Reed Elsevier PLC ordinary shares and €13 76 (2006 €12 34) for Reed Elsevier NV ordinary shares

	2007		2006	
Range of exercise prices for outstanding share options	Number of share options under option '000	Weighted average remaining period till expiry (years)	Number of share options under option '000	Weighted average remaining period till expiry (years)
Reed Elsevier PLC ordinary shares (pence)				
351-400	**668**	**1.6**	1,345	1 4
401-450	**2,652**	**2 4**	4,733	3 0
451-500	**12,356**	**4.8**	23,953	5 5
501-550	**12,716**	**7.1**	15,462	7 8
551-600	**4,331**	**4.3**	6,639	4 7
601-650	**4,280**	**8.8**	852	2 8
651-700	**3,046**	**3.2**	3,598	4 1
Total	**40,049**	**4.8**	56,582	5 6
Reed Elsevier NV ordinary shares (euros)				
9 01-10 00	**1,954**	**5 1**	4,146	6 2
10 01-11 00	**6,791**	**5.8**	14,595	5 1
11 01-12 00	**8,912**	**7.2**	10,589	8 0
12 01-13 00	**402**	**5.3**	307	5 6
13 01-14 00	**4,269**	**4.6**	5,163	4 8
14 01-15 00	**5,041**	**6.5**	2,896	4 2
15 01-16 00	**486**	**2.3**	551	2 7
Total	**27,855**	**6.0**	38,247	5 9

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

8 NET FINANCE COSTS

	2007 £m	2006 £m
Interest on bank loans, overdrafts and commercial paper	**(21)**	(27)
Interest on other loans	**(97)**	(93)
Interest payable to Reed Elsevier NV	**(48)**	(3)
Interest payable to Reed Elsevier PLC	**-**	-
Interest payable to the Elsevier Reed Finance BV group	**(284)**	(293)
Interest on obligations under finance leases	**(1)**	(1)
Total borrowing costs	**(451)**	(417)
Losses on derivatives not designated as hedges	**(2)**	(2)
Fair value losses on interest rate derivatives formerly designated as cash flow hedges transferred from equity	**(1)**	(2)
Finance costs	**(454)**	(421)
Interest on bank deposits	**26**	10
Gains on loans and derivatives not designated as hedges	**5**	5
Interest receivable and similar income from Reed Elsevier PLC	**5**	4
Interest receivable from the Elsevier Reed Finance BV group	**-**	1
Finance income	**36**	20
Net finance costs	**(418)**	(401)

Finance costs include £1m (2006 £2m) transferred from the hedge reserve

9 DISPOSALS AND OTHER NON OPERATING ITEMS

	2007 £m	2006 £m
Revaluation of held for trading investments	**(2)**	1
Gain/(loss) on disposal of businesses and other assets	**100**	(2)
Gain/(loss) on disposals and other non operating items	**98**	(1)

The gain on disposal of businesses in 2007 relates principally to the disposal of MDL Information Systems by Elsevier and certain intangible assets by Reed Exhibitions and Elsevier to the Elsevier Reed Finance BV Group Proceeds received in respect of disposals of businesses and other assets were £240m (2006 £48m)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

10 TAXATION

	2007 £m	2006 £m
Current tax		
United Kingdom	**40**	78
The Netherlands	**28**	49
Rest of world	**(134)**	(22)
Total current tax (credit)/charge	**(66)**	105
Deferred tax		
Origination and reversal of timing differences	**(46)**	(33)
Total taxation (credit)/charge on profit from continuing operations	**(112)**	72

The current tax (credit)/charge includes credits of £223m (2006 nil) in respect of previously unrecognised deferred tax assets and capital losses that have been realised as a result of the disposal of discontinued operations and nil (2006 £65m) in respect of prior year disposals

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

	2007 £m	2006 £m
Profit before tax	**530**	412
Tax at average applicable rates	**158**	137
Tax on share of results of joint ventures	**(5)**	(6)
Adjustments relating to prior year taxable profits	**-**	(65)
Capital gains benefits on disposals	**(251)**	-
Non deductible amounts and other items	**(14)**	6
Tax expense	**(112)**	72
Tax expense as a percentage of profit before tax	**-21%**	17%

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

	2007 £m	2006 £m
Tax on actuarial movements on defined benefit pension schemes	**(65)**	(45)
Tax on fair value movements on cash flow hedges	**(4)**	(18)
Deferred tax credits on share based remuneration	**17**	3
Net tax charge recognised directly in equity	**(52)**	(60)

During 2007, a tax charge of £9m was transferred to net profit from the hedge reserve (2006 £3m)

11 ADJUSTED PROFIT

The Reed Elsevier Group plc group uses adjusted operating profit as an additional performance measure Adjusted operating profit is stated before amortisation of acquired intangible assets, acquisition integration costs, and is grossed up to exclude the equity share of taxes in joint ventures

	Note	2007 £m	2006 £m
Operating profit		**850**	814
Adjustments (post tax)			
Amortisation of acquired intangible assets	16	**220**	211
Acquisition integration costs		**20**	23
Reclassification of tax on joint ventures		**8**	10
Adjusted operating profit		**1,098**	1,058

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

12 CASH FLOW STATEMENT

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

	Note	2007 £m	2006 £m
Operating profit before joint ventures		**834**	796
Amortisation of acquired intangible assets	16	**218**	211
Amortisation of internally developed intangible assets	16	**72**	67
Depreciation of property, plant and equipment	18	**76**	81
Share based remuneration	7	**38**	44
Total non cash items		**404**	403
Increase in inventories and pre-publication costs		**(11)**	(1)
Increase in receivables		**(42)**	(45)
(Decrease)/increase in payables		**(41)**	30
Increase in working capital		**(94)**	(16)
Cash generated from operations		**1,144**	1,183

Cash flow on acquisitions

	Note	2007 £m	2006 £m
Purchase of businesses	13	**(293)**	(149)
Investment in joint ventures		**(24)**	(1)
Deferred payments relating to prior year acquisitions		**(10)**	(13)
Total		**(327)**	(163)

Reconciliation of net borrowings	Cash & cash equivalents £m	Borrowings £m	Related derivative financial instruments £m	Net borrowings from shareholders and fellow affiliates £m	2007 £m	2006 £m
At 1 January	**322**	**(1,930)**	**123**	**(6,066)**	**(7,551)**	(7,314)
Increase in cash and cash equivalents	**1,991**	**-**	**-**	**-**	**1,991**	86
Net movement in bank loans overdrafts and commercial paper	**-**	**(15)**	**-**	**-**	**(15)**	(51)
Issuance of other loans	**-**	**-**	**-**	**-**	**-**	(407)
Repayment of other loans	**-**	**62**	**-**	**-**	**62**	306
Repayment of finance leases	**-**	**12**	**-**	**-**	**12**	12
Net movement in borrowings from shareholders and the Elsevier Reed Finance BV group	**-**	**-**	**-**	**(1,709)**	**(1,709)**	(966)
Change in net borrowings resulting from cash flows	**1,991**	**59**	**-**	**(1,709)**	**341**	(1,020)
Inception of finance leases	**-**	**(11)**	**-**	**-**	**(11)**	(9)
Fair value adjustments to borrowings and related	**-**	**(41)**	**41**	**-**	**-**	3
Exchange translation differences	**32**	**21**	**(2)**	**(95)**	**(44)**	789
At 31 December	**2,345**	**(1,902)**	**162**	**(7,870)**	**(7,265)**	(7,551)

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

13 ACQUISITIONS

During the year a number of acquisitions were made for a total consideration amounting to £319m, after taking account of net cash acquired of £11m, the most significant of which were the Beilstein chemical compound database and BuyerZone Inc

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

	Note	Book value on acquisition £m	Fair value adjustments £m	Fair value £m	Fair value £m
Goodwill	15	-	**101**	**101**	102
Intangible assets	16	-	**262**	**262**	87
Property, plant and equipment		-	-	-	1
Current assets		7	-	7	9
Current liabilities		(14)	-	(14)	(17)
Deferred tax		(2)	(35)	(37)	(11)
Net assets acquired		(9)	328	319	171
Consideration (after taking account of £11m net cash acquired)				319	171
Less consideration deferred to future years				(26)	(22)
Net cash flow				293	149

The fair value adjustments in relation to the acquisitions made in 2007 relate principally to the valuation of intangible assets 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 skilled workforces and acquisition synergies that are specific to the Reed Elsevier Group plc group 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 businesses acquired in 2007 contributed £51m to turnover, £17m to adjusted operating profit, increased net profit by £1m and contributed £1m to net cash inflow from operating activities and for the part year under Reed Elsevier Group plc ownership Had the business been acquired at the beginning of the year, the Reed Elsevier Group plc group's revenues, adjusted operating profit and net profit for the year would have been £4,542m, £1,099m and £950m respectively

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

14 EQUITY DIVIDENDS

Dividends declared during the year

	£ per share		£ million	
	2007	2006	2007	2006
Dividends declared by subsidiary undertakings to Reed Elsevier NV			**966**	529
Dividends declared by Reed Elsevier Group plc				
Interim to "E" ordinary shareholders	-	22,996	-	230
Interim to "R" ordinary shareholders	**85,000**	59,600	**850**	596
Total			**1,816**	1,355

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

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

15 GOODWILL

	2007 £m	2006 £m
At 1 January	**2,804**	3,032
Acquisitions	**101**	102
Disposals	**(323)**	(20)
Reclassified as held for sale	**(117)**	-
Exchange translation differences	**(1)**	(310)
At 31 December	**2,464**	2,804

The carrying amount of goodwill is after cumulative amortisation of £1,313m (2006 £1,644m) which was charged prior to the adoption of IFRS

For the purposes of impairment testing, goodwill is recorded in the cash generating units that are expected to benefit from each acquisition The carrying value of goodwill recorded in each of the major groups of cash generating units is set out below

Goodwill	2007 £m	2006 £m
Elsevier	**767**	743
LexisNexis US	**1,058**	1,077
LexisNexis International	**118**	120
Harcourt Schools US	**-**	302
Reed Exhibitions	**302**	264
Other	**219**	298
Total	**2,464**	2,804

The carrying value of each cash generating unit is compared with its estimated value in use, which is determined to be its recoverable amount Value in use is calculated based on estimated future cash flows, discounted to their present value The pre-tax discount rates used are between 10-12%, including a risk premium appropriate to the unit being reviewed Estimated future cash flows are determined by reference to latest budgets and forecasts for the next five years, with a 3% long term nominal growth rate assumed thereafter

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

16 INTANGIBLE ASSETS

	Market and customer related	Content, software and other	Total acquired intangible assets	Internally developed intangible assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2006	1,489	3,072	4,561	645	5,206
Acquisitions	43	44	87	-	87
Additions	-	-	-	108	108
Disposals	(2)	(16)	(18)	(72)	(90)
Exchange translation differences	(175)	(238)	(413)	(49)	(462)
At 1 January 2007	**1,355**	**2,862**	**4,217**	**632**	**4,849**
Acquisitions	**63**	**199**	**262**	-	**262**
Additions	-		-	**80**	**80**
Disposals	**(544)**	**(254)**	**(798)**	**(60)**	**(858)**
Reclassified as held for sale	**(29)**	**(116)**	**(145)**	**(33)**	**(178)**
Exchange translation differences	**(27)**	**23**	**(4)**	**16**	**12**
At 31 December 2007	**818**	**2,714**	**3,532**	**635**	**4,167**
Amortisation					
At 1 January 2006	201	1,673	1,874	355	2,229
Charge for the year	106	191	297	71	368
Disposals	(1)	(16)	(17)	(63)	(80)
Exchange translation differences	(30)	(136)	(166)	(25)	(191)
At 1 January 2007	**276**	**1,712**	**1,988**	**338**	**2,326**
Charge for the year	**52**	**166**	**218**	**72**	**290**
Disposals	**(166)**	**(107)**	**(273)**	**(52)**	**(325)**
Reclassified as held for sale	**(2)**	**(77)**	**(79)**	**(9)**	**(88)**
Exchange translation differences	**(9)**	**12**	**3**	**11**	**14**
At 31 December 2007	**151**	**1,706**	**1,857**	**360**	**2,217**
Net book amount					
At 31 December 2006	1,079	1,150	2,229	294	2,523
At 31 December 2007	**667**	**1,008**	**1,675**	**275**	**1,950**

Intangible assets acquired as a part of business combinations comprise market related assets (e g trade marks, imprints, brands), customer related assets (e g subscription bases, customer lists, customer relationships), and content, software and other intangible assets (e g editorial content, software and product delivery systems, other publishing rights, exhibition rights and supply contracts) Included in content, software and other acquired intangible assets are assets with net book value of £817m (2006 £935m) that arose on acquisitions completed prior to the adoption of IFRS that have not been allocated to specific categories of intangible assets Internally developed intangible assets typically comprise software and systems development where an identifiable asset is created that is probable to generate future economic benefits

Included in market and customer related intangible assets are £288m (2006 £293m) of brands and imprints relating to Elsevier determined to have indefinite lives based on an assessment of their historical longevity and stable market positions

The amortisation charge includes £10m (2006 £91m) in relation to discontinued operations

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

17 INVESTMENTS

	2007	2006
	£m	£m
Investments in joint ventures	**116**	73
Available for sale investments	**90**	25
Shares in Reed Elsevier NV and Reed Elsevier PLC	**229**	160
Venture capital investments held for trading	**21**	25
Total	**456**	283

At 31 December 2007, the Reed Elsevier Group plc Employee Benefit Trust ("EBT") held 18,723,830 (2006 17,167,145) Reed Elsevier PLC ordinary shares and 10,100,765 (2006 9,242,214) 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

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

	2007	2006
	£m	£m
At 1 January	**73**	71
Share of results of joint ventures	**16**	18
Dividends received from joint ventures	**(12)**	(16)
Additions	**30**	1
Transfers	**-**	-
Exchange translation differences	**9**	(1)
At 31 December	**116**	73

The principal joint ventures at 31 December 2007 are exhibition joint ventures within Reed Business and Giuffrè (an Italian legal publisher in which Reed Elsevier Group plc has a 40% shareholding)

Summarised aggregate information in respect of joint ventures and the group's share is set out below

	Total joint ventures		Reed Elsevier Group plc share	
	2007	2006	2007	2006
	£m	£m	£m	£m
Revenue	**214**	222	**103**	108
Net profit for the year	**36**	36	**16**	18
Total assets	**302**	215	**143**	99
Total liabilities	**(165)**	(121)	**(76)**	(55)
Net assets	**137**	94	**67**	44
Goodwill			**49**	29
Total			**116**	73

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

18 PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Land and buildings £m	Fixtures and equipment £m	Total £m	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost						
At 1 January	**179**	**665**	**844**	192	690	882
Acquisitions	**-**	**1**	**1**	-	2	2
Capital expenditure	**6**	**70**	**76**	9	89	98
Disposals	**(26)**	**(184)**	**(210)**	(3)	(53)	(56)
Reclassified as held for sale	**(2)**	**(45)**	**(47)**	-	-	-
Exchange translation differences	**-**	**-**	**-**	(19)	(63)	(82)
At 31 December	**157**	**507**	**664**	179	665	844
Accumulated depreciation						
At 1 January	**82**	**464**	**546**	84	485	569
Acquisitions	**-**	**1**	**1**	-	1	1
Disposals	**(18)**	**(148)**	**(166)**	(3)	(53)	(56)
Reclassified as held for sale	**(1)**	**(30)**	**(31)**	-	-	-
Charge for the year	**8**	**68**	**76**	8	83	91
Exchange translation differences	**-**	**-**	**-**	(7)	(52)	(59)
At 31 December	**71**	**355**	**426**	82	464	546
Net book amount at 31 December	**86**	**152**	**238**	97	201	298

At 31 December 2007 and 2006, all assets were included at cost No depreciation is provided on freehold land The net book amount of tangible fixed assets includes £17m (2006 £16m) in respect of assets held under finance leases relating to fixtures and equipment

The depreciation charge includes £1m (2006 £10m) in relation to discontinued operations

19 FINANCIAL INSTRUMENTS

Details of the objectives, policies and strategies pursued by the Reed Elsevier Group plc group in relation to financial instruments are set out in the Directors' Report The main financial risks faced by the Reed Elsevier Group plc group are liquidity risk and market risk - comprising interest rate risk and foreign exchange risk Financial instruments are used to finance the group's businesses and to hedge interest rate and foreign exchange risks The group's businesses do not enter into speculative derivative transactions Details of financial instruments subject to liquidity, market and credit risks are described below

Liquidity risk

The Reed Elsevier Group plc group maintains a range of borrowing facilities and debt programmes to fund its requirements, at short notice and at competitive rates The remaining contractual maturities for borrowings and derivative financial instruments are shown in the table below The table shows undiscounted principal and interest cash flows and includes contractual gross cash flows to be exchanged as part of cross currency interest rate swaps and forward foreign exchange contracts where there is a legal right of set off

19 FINANCIAL INSTRUMENTS (CONTINUED)

		Contractual cash flows						
	Carrying amount	Within 1 year	1-2 years	2 3 years	3-4 years	4 5 years	More than 5 years	Total
At 31 December 2007	£m	£m	£m	£m	£m	£m	£m	£m
Borrowings								
Fixed rate borrowings owing to								
Third parties	**(1,598)**	**(469)**	**(77)**	**(76)**	**(349)**	**(275)**	**(1,210)**	**(2,456)**
Elsevier Reed Finance BV grou	**(4,748)**	**(991)**	**(1,376)**	**(807)**	**(972)**	**(635)**	**(917)**	**(5,698)**
Floating rate borrowings owing to								
Third parties	**(304)**	**(185)**	**(4)**	**(128)**	-	-	-	**(317)**
Elsevier Reed Finance BV grou	**(264)**	**(264)**	-	-	-	-	-	**(264)**
Reed Elsevier NV	**(1,377)**	**(1,377)**	-	-	-	-	-	**(1,377)**
Reed Elsevier PLC	**(1,520)**	**(1,520)**	-	-	-	-	-	**(1,520)**
Derivative financial liabilities								
Interest rate derivatives	**(3)**	**(1)**	**(2)**	-	-	-	**(4)**	**(7)**
Cross currency interest rate swa	-	**(233)**	-	-	-	-	-	**(233)**
Forward foreign exchange contr	**(13)**	**(459)**	**(265)**	**(118)**	-	-	-	**(842)**
Derivative financial assets								
Interest rate derivatives	**13**	**2**	**5**	**4**	**2**	**2**	**3**	**18**
Cross currency interest rate swa	**149**	**390**	-	-	-	-	-	**390**
Forward foreign exchange contr	**32**	**480**	**276**	**120**	-	-	-	**876**
Total	**(9,633)**	**(4,627)**	**(1,443)**	**(1,005)**	**(1,319)**	**(908)**	**(2,128)**	**(11,430)**

At 31 December 2006	£m	£m	£m	£m	£m	£m	£m	£m
Borrowings								
Fixed rate borrowings owing to								
Third parties	(1,641)	(175)	(433)	(77)	(75)	(355)	(1,502)	(2,617)
Elsevier Reed Finance BV grou	(4,838)	(1,858)	(1,235)	(2,429)	(1,807)	(1,421)	(1,587)	(10,337)
Floating rate borrowings owing to								
Third parties	(289)	(7)	(6)	(6)	(131)	-	-	(150)
Elsevier Reed Finance BV grou	(48)	(48)	-	-	-	-	-	(48)
Reed Elsevier NV	(407)	(407)	-	-	-	-	-	(407)
Reed Elsevier PLC	(942)	(942)	-	-	-	-	-	(942)
Derivative financial liabilities								
Interest rate derivatives	(4)	(1)	(1)	(1)	-	-	(4)	(7)
Cross currency interest rate swa	-	(14)	(238)	-	-	-	-	(252)
Forward foreign exchange contr	(1)	(289)	(207)	(101)	-	-	-	(597)
Derivative financial assets								
Interest rate derivatives	10	5	2	1	1	1	3	13
Cross currency interest rate swa	117	19	355	-	-	-	-	374
Forward foreign exchange contr	34	311	222	105	-	-	-	638
Total	(8,009)	(3,406)	(1,541)	(2,508)	(2,012)	(1,775)	(3,090)	(14,332)

19 FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amount of derivative financial liabilities comprises nil (2006 £3m) in relation to fair value hedges, £10m (2006 £1m) in relation to cash flow hedges and £6m (2006 £1m) in relation to held for trading The carrying amount of derivative financial assets comprises £162m (2006 £126m) in relation to fair value hedges, £27m (2006 £34m) in relation to cash flow hedges and £5m (2006 £1m) in relation to held for trading

At 31 December 2007, the group had access to £1,502m (2006 £1,529m) of committed bank facilities that expire in two to three years, of which £42m (2006 £39m) was drawn These facilities principally provide back up for short term borrowings

After taking account of the maturity of committed bank facilities that back short term borrowings at 31 December 2007, and after utilising available cash resources (excluding £1,933m proceeds received from the part disposal of Harcourt Education, which was included in the special distribution to shareholders of the parent companies in January 2008), no third party borrowings mature in the next two years (2006 nil), 9% of borrowings mature in the third year (2006 9%), 38% in the fourth and fifth years (2006 28%), 30% in the sixth to tenth years (2006 42%), and 23% beyond the tenth year (2006 21%)

The Reed Elsevier Group plc group also has borrowings from its affiliate Elsevier Finance SA totaling £5,012m (2006 £4,886m) of which 20% mature in the next year (2006 17%), 23% mature in the second year (2006 13%), 12% mature in the third year (2006 23%), 28% mature in the fourth and fifth years (2006 29%), and 17% mature in the sixth to tenth years (2006 15%)

Market Risks

The Reed Elsevier Group plc group's primary market risk exposures are to interest rate fluctuations and exchange rate movements Derivatives are used to hedge or reduce the risks of interest rate or 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 2007, after adjusting for £1,933m of cash received from the part disposal of Harcourt Education, which was included in the special distribution to shareholders of the parent companies in January 2008, 65% of net borrowings are either fixed rate or have been fixed through the use of interest rate swaps, forward rate agreements and options A 100 basis point reduction in interest rates would result in an estimated decrease in net finance costs of £33m (2006 £11m), 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 2007 A 100 basis point rise in interest rates would result in an estimated increase in net finance costs of £33m (2006 £11m) The range of changes represents the group's view of the changes that are reasonably possible over a one year period

The impact on net equity of a theoretical change in interest rates as at 31 December 2007 is restricted to the change in carrying value of floating rate to undesignated interest rate derivatives A 100 basis point reduction in interest rates would result in an estimated reduction in net equity of £2m (2006 £2m) and a 100 basis point increase in interest rates would increase net equity by an estimated £2m (2006 £2m) The impact of a change in interest rates on the carrying value of fixed rate borrowings in a designated fair value hedge relationship would be offset by the change in carrying value of the related interest rate derivative Fixed rate borrowings not in a designated hedging relationship are carried at amortised cost

Foreign exchange rate risk

Translation exposures arise on the earnings and net assets of business operations in countries with currencies other than sterling, most particularly in respect of the US businesses These exposures are hedged, to a significant extent, by a policy of denominating borrowings in currencies where significant translation exposures exist, most notably US dollars (see note 22)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

19 FINANCIAL INSTRUMENTS (CONTINUED)

A theoretical weakening of all currencies against sterling by 10% at 31 December 2007 would decrease the carrying value of net assets, excluding net borrowings, by £265m (2006 £376m) This would be more than offset by a decrease in net borrowings of £591m (2006 £590m) A strengthening of all currencies against sterling by 10% at 31 December 2007 would increase the carrying value of net assets, excluding net borrowings, by £332m (2006 £461m) but increase net borrowings by £722m (2006 £722m)

A retranslation of the group's net profit for the year assuming a 10% weakening of all foreign currencies against sterling but excluding transactional exposures would reduce profit by £82m (2006 £9m) A 10% strengthening of all currencies against sterling on this basis would increase net profit for the year by £101m (2006 £13m)

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 counter parties 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 of the amounts outstanding with each of them

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

The Reed Elsevier Group plc group has credit risk with respect to trade receivables due from its customers that include national and state governments, academic institutions and large and small enterprises including law firms, book stores and wholesalers The concentration of credit risk from trade receivables is limited due to the large and broad customer base Trade receivable exposures are managed locally in the business units in which they arise Where appropriate, business units seek to minimise this exposure by taking payment in advance and through management of credit terms Allowance is made for bad and doubtful debts based on management's assessment of the risk, taking into account the ageing profile, experience and circumstance The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, recorded in the balance sheet

Included within trade receivables are amounts which are past due but for which no allowance is made Past due up to one month £232m (2006 £327m), past due two to three months £77m (2006 £109m), past due four to six months £26m (2006 £46m) and past due greater than six months £20m (2006 £25m) 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

19 FINANCIAL INSTRUMENTS (CONTINUED)

Hedge accounting

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

Fair value hedges

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

Interest rate derivatives (including cross currency interest rate swaps) with a principal amount of £471m, were in place at 31 December 2007 (2006 £479m) swapping fixed rate term debt issues denominated in United States dollars (USD) and euros to floating rate USD debt for the whole or part of their term

The gains and losses on the borrowings and derivatives designated as fair value hedges for the year ended 31 December 2007 and the prior year, which are included in the income statement were

	At 1 January 2006	Fair value movement gain/(loss)	Exchange gain/(loss)	At 31 December 2006	Fair value movement gain/(loss)	Exchange gain/(loss)	At 31 December 2007
	£m	£m	£m	£m	£m	£m	£m
USD debt	(20)	12	1	(7)	**(6)**	**-**	**(13)**
Related interest rate swaps	19	(12)	(1)	6	**7**	**-**	**13**
	(1)	-	-	(1)	**1**	**-**	**-**
Euro debt	(104)	(26)	14	(116)	**(35)**	**2**	**(149)**
Related Euro to USD cross-currency interest rate swaps	105	26	(14)	117	**34**	**(2)**	**149**
	1	-	-	1	**(1)**	**-**	**-**
Total	-	-	-	-	**-**	**-**	**-**

All fair value hedges were highly effective throughout the two years ended 31 December 2007

During 2007, no (2006 £3m) fair value losses recognised on adoption of IAS39 – Financial Instruments were included in finance income

Cash flow hedges

The Reed Elsevier Group plc group enters into foreign exchange derivatives which fix the exchange rate on a portion of future foreign currency subscription revenues forecast by the Elsevier science and medical business for up to 50 months

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

19 FINANCIAL INSTRUMENTS (CONTINUED)

Movements in the hedge reserve (pre-tax) in 2007 and 2006, including gains and losses on cash flow hedging instruments were as follows

	Transition loss	Foreign exchange hedges	Total pre-tax hedge reserve
	£m	£m	£m
Hedge reserve at 1 January 2006 (losses)/gains deferred	(4)	12	8
Gains arising in 2006	-	52	52
Amounts recognised in income statement	2	(14)	(12)
Exchange translation differences	-	-	-
Hedge reserve at 31 December 2006 (losses)/gains deferred	(2)	50	48
Gains arising in 2007	-	**12**	**12**
Amounts recognised in income statement	**1**	**(31)**	**(30)**
Exchange translation differences	-	**2**	**2**
Hedge reserve at 31 December 2007 (losses)/gains deferred -	**(1)**	**33**	**32**

All cash flow hedges were highly effective throughout the two years ended 31 December 2007

A tax charge of £9m (2006 £14m) in respect of the above gains and losses deferred in the hedge reserve at 31 December 2007 was also deferred in the hedge reserve

Of the amounts recognised in the income statement in the year, gains of £31m (2006 £14m) were recognised in revenue and losses of £1m (2006 £6m) were recognised in finance costs A deferred tax charge of £9m (2006 £3m) was recognised in relation to these items

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

The deferred gains and losses on cash flow hedges at 31 December 2007 are currently expected to be recognised in the income statement in future years as follows

	Transition loss	Foreign exchange hedges	Total pre-tax hedge reserve
	£m	£m	£m
2008	**(1)**	**24**	**23**
2009	-	**9**	**9**
2010	-	**1**	**1**
2011	-	**(1)**	**(1)**
(Losses)/gains deferred in hedge reserve at 31 December 2007	**(1)**	**33**	**32**

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

20 DEFERRED TAX

	2007 £m	2006 £m
Deferred tax assets	**137**	169
Deferred tax liabilities	**(689)**	(823)
Total	**(552)**	(654)

Movements in deferred tax liabilities and assets are summarised as follows

	Deferred tax liabilities				Deferred tax assets			
	Excess of tax allowances over amortisation £m	Acquired intangible assets £m	Pensions liabilities £m	Other temporary differences liabilities £m	Tax losses carried forward £m	Pensions assets £m	Other temporary differences - assets £m	Total £m
Deferred tax (liability)/asset at 1 January 2006	(115)	(799)	-	(12)	54	133	77	(662)
(Charge)/credit to profit	(27)	87	(4)	(15)	(47)	5	(4)	(5)
(Charge)/credit to equity	-	-	(6)	(20)	-	(39)	5	(60)
Transfers	(4)	5	4	1	3	2	(4)	7
Acquisitions	-	(11)	-	-	-	-	-	(11)
Exchange translation differences	13	76	-	4	(3)	(9)	(4)	77
Deferred tax (liability)/asset at 31 December 2006	(133)	(642)	(6)	(42)	7	92	70	(654)
(Charge)/credit to profit	**(29)**	**63**	**-**	**14**	**(3)**	**(15)**	**16**	**46**
(Charge)/credit to equity	**-**	**-**	**(44)**	**(2)**	**-**	**(21)**	**16**	**(51)**
Acquisitions	**-**	**(38)**	**-**	**-**	**1**	**-**	**-**	**(37)**
Disposals	**34**	**95**	**(1)**	**-**	**-**	**(3)**	**(24)**	**101**
Reclassified as held for sale	**1**	**24**	**-**	**15**		**-**	**-**	**40**
Exchange translation differences	**2**	**-**	**-**	**-**	**-**	**(1)**	**2**	**3**
Deferred tax (liability)/asset at 31 December 2007	**(125)**	**(498)**	**(51)**	**(15)**	**5**	**52**	**80**	**(552)**

At 31 December 2006, there were potential deferred tax assets of £193m not recognised due to uncertainties over availability and timing of relevant taxable income, in relation to tax deductions carried forward of £483m These deductions were utilised in 2007 as a result of the disposal of Harcourt Education

21 INVENTORIES AND PRE-PUBLICATION COSTS

	2007 £m	2006 £m
Raw materials	**9**	16
Pre-publication costs	**153**	403
Finished goods	**106**	212
Total	**268**	631

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

22 TRADE AND OTHER RECEIVABLES

	Note	2007 £m	2006 £m
Trade receivables		**1,047**	1,093
Less amounts provided for doubtful debts		**(48)**	(50)
Trade receivables		**999**	1,043
Prepayments and accrued income		**135**	163
Total		**1,134**	1,206

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

Movements in amounts provided for doubtful debts	2007 £m	2006 £m
At 1 January	**50**	65
Charged to income	**19**	10
Trade receivables written off	**(17)**	(20)
Reclassified as held for sale	**(5)**	-
Exchange translation differences	**1**	(5)
At 31 December	**48**	50

23 ASSETS AND LIABILITIES HELD FOR SALE

The major classes of assets and liabilities of operations classified as held for sale, principally in respect of Harcourt Assessment, are as follows

	2007 £m	2006 £m
Goodwill	**118**	-
Intangible assets	**89**	-
Property, plant and equipment	**16**	-
Inventories and pre-publication costs	**54**	-
Trade and other receivables	**64**	-
Total assets held for sale	**341**	-
Trade and other payables	**44**	-
Deferred tax liabilities	**40**	
Total liabilities associated with assets held for sale	**84**	-

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

24 TRADE AND OTHER PAYABLES

	Note	2007 £m	2006 £m
Payables and accruals		**976**	964
Deferred income		**950**	949
Total		**1,926**	1,913

25 BORROWINGS

	2007 Falling due within 1 year £m	2007 Falling due after 1 year £m	2007 Total £m	2006 Falling due within 1 year £m	2006 Falling due after 1 year £m	2006 Total £m
Financial liabilities measured at amortised cost						
Bank loans, overdrafts and commercial paper	**180**	**-**	**180**	162	-	162
Finance leases	**5**	**6**	**11**	6	6	12
Other loans	**-**	**1,081**	**1,081**	64	1,094	1,158
Other loans in fair value hedging relationships	**369**	**261**	**630**	-	598	598
Amounts owed to the ERF BV Group	**981**	**4,031**	**5,012**	867	4,019	4,886
Total	**1,535**	**5,379**	**6,914**	1,099	5,717	6,816

The total fair value of financial liabilities measured at amortised cost is £1,336m (2006 £1,378m) The total fair value of other loans in fair value hedging relationships is £685m (2006 £653m)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

25 BORROWINGS (CONTINUED)

Analysis by year of repayment	2007 Bank loans, overdrafts and commercial paper	2007 Other loans	2007 Amounts owed to ERF BV Group	2007 Finance leases	2007 Total	2006 Bank loans, overdrafts and commercial paper	2006 Other loans	2006 Amounts owed to ERF BV Group	2006 Finance leases	2006 Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Within 1 year	**180**	**369**	**981**	**5**	**1,535**	162	64	867	6	1,099
Within 1 to 2 years	-	-	**1,140**	**3**	**1,143**	-	340	628	3	971
Within 2 to 3 years	-	**125**	**632**	**3**	**760**	-	-	1,152	2	1,154
Within 3 to 4 years	-	**276**	**843**	-	**1,119**	-	127	630	1	758
Within 4 to 5 years	-	**225**	**561**	-	**786**	-	280	847	-	1,127
After 5 years	-	**716**	**855**	-	**1,571**	-	945	762	-	1,707
	-	**1,342**	**4,031**	**6**	**5,379**	-	1,692	4,019	6	5,717
Total	**180**	**1,711**	**5,012**	**11**	**6,914**	162	1,756	4,886	12	6,816

Analysis by currency	2007 Bank loans overdrafts and commercial paper	2007 Other loans	2007 Amounts owed to ERF BV Group	2007 Finance leases	2007 Total	2006 Bank loans, overdrafts and commercial paper	2006 Other loans	2006 Amounts owed to ERF BV Group	2006 Finance leases	2006 Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
US Dollars	**108**	**1,311**	**4,341**	**11**	**5,771**	94	1,356	4,284	12	5,746
£ Sterling	**7**	**400**	**16**		**423**	20	400	1	-	421
Euro	-	-	**605**	-	**605**	-	-	558	-	558
Other currencies	**65**	-	**50**	-	**115**	48	-	43	-	91
Total	**180**	**1,711**	**5,012**	**11**	**6,914**	162	1,756	4,886	12	6,816

Included in the US dollar amounts for other loans above is £369m (2006 £340m) of debt denominated in euros (€500m), that was swapped into US dollars on issuance and against which there are related derivative financial instruments included within trade and other receivables, which, as at 31 December 2007, had a fair value of £149m (2006 £117m)

26 LEASE ARRANGEMENTS

Finance leases

At 31 December 2007 future finance lease obligations fall due as follows

	2007 £m	2006 £m
Within one year	**5**	6
In the second to fifth years inclusive	**7**	7
	12	13
Less future finance charges	**(1)**	(1)
Total	**11**	12

	2007 £m	2006 £m
Present value of future finance lease obligations payable		
Within one year	**5**	6
In the second to fifth years inclusive	**6**	6
Total	**11**	12

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 various terms and renewal rights that are typical to the territory in which they are located

At 31 December 2007 outstanding commitments under non-cancellable operating leases fall due as follows

	2007 £m	2006 £m
Within one year	**104**	115
In the second to fifth years inclusive	**318**	353
After five years	**273**	356
Total	**695**	824

Of the outstanding commitments, £677m (2006 £800m) relates to land and buildings

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

	2007 £m	2006 £m
Within one year	**14**	15
In the second to fifth years inclusive	**42**	47
After five years	**11**	21
Total	**67**	83

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

27 PROVISIONS

	2007 £m	2006 £m
At 1 January	**28**	44
Utilised	**(6)**	(11)
Exchange translation differences	**(1)**	(5)
At 31 December	**21**	28

The provisions are for property lease obligations which relate to estimated sub-lease shortfall and guarantees given in respect of certain property leases for various periods up to 2016

28 CONTINGENT LIABILITIES

There are contingent liabilities amounting to £28m (2006 £36m) in respect of property lease guarantees

The Company has accepted, in accordance with clause 403 Book 2 of the Dutch Civil Code, responsibilities for the liabilities, including trade creditors and external borrowings, totalling £95m (2006 £76m) of subsidiary undertakings registered in the Netherlands

29 SHARE CAPITAL

£ and no shares	Authorised 31 Dec 2006 and	Called up issued and fully paid 31 Dec 2006 and 2007
Preference shares (cumulative) of £1 each		
- Irredeemable 7 50%	100,000	100,000
Ordinary shares of £1 each		
- "R" ordinary shares	10,000	10,000
- "E" ordinary shares	10,000	10,000
Total	120,000	120,000

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

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

30 SHARE PREMIUM

	2007 £m	2006 £m
At 1 January and 31 December	**324**	324

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

31 TRANSLATION RESERVE

	2007 £m	2006 £m
At 1 January	**141**	(122)
Exchange translation differences of foreign operations	**(71)**	264
Cumulative exchange differences on disposal of foreign operations	**148**	-
Other exchange translation differences	**(2)**	(1)
At 31 December	**216**	141

32 OTHER RESERVES

	Hedge reserve 2007 £m	Other reserves 2007 £m	Total 2007 £m	Total 2006 £m
At 1 January	**34**	**(3,516)**	**(3,482)**	(2,673)
Profit attributable to parent company's shareholders	**-**	**948**	**948**	371
Dividends declared	**-**	**(1,816)**	**(1,816)**	(1,355)
Actuarial gains on defined benefit pension schemes	**-**	**224**	**224**	139
Fair value movements on available for sale investments	**-**	**(6)**	**(6)**	3
Cumulative fair value movements on disposals of available for sale investments	**-**	**(7)**	**(7)**	-
Fair value movements on cash flow hedges	**12**	**-**	**12**	52
Tax recognised directly in equity	**(4)**	**(48)**	**(52)**	(60)
Increase in share based remuneration reserve	**-**	**46**	**46**	49
Transfers from hedge reserve to net profit (net of tax)	**(21)**	**-**	**(21)**	(9)
Exchange translation differences	**2**	**-**	**2**	1
At 31 December	**23**	**(4,175)**	**(4,152)**	(3,482)

33 RELATED PARTY TRANSACTIONS

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

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

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

Foreign exchange contracts entered into during 2007 by Reed Elsevier Group plc and its subsidiaries with its fellow joint ventures amounted to £4,428m (2006 £1,116m)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

33 RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions between the Reed Elsevier Group plc group's businesses have been eliminated within the financial statements

Transactions with joint ventures were made on normal market terms of trading and comprise sales of goods and services of £6m (2006 £6m) As at 31 December 2007, amounts owed by joint ventures were £7m (2006 £3m)

Key management personnel are also related parties and comprise the executive directors of Reed Elsevier PLC and Reed Elsevier NV Transactions with key management personnel are set out below

	2007 £m	2006 £m
Salaries and other short term employee benefits	**8**	7
Post employment benefits	**1**	1
Share based remuneration	**9**	7
Total	**18**	15

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

34 POST BALANCE SHEET EVENTS

On 30 January 2008 the sale of the Harcourt Assessment business and remaining Harcourt International businesses, first announced in May 2007, completed following receipt of regulatory clearance in the United States Proceeds received on disposal were £330m

On 20 February 2008, a dividend of £981m was paid by Reed Elsevier Overseas BV, a subsidiary of Reed Elsevier Group plc, to Reed Elsevier NV

On 20 February 2008, Reed Elsevier approved a plan to divest Reed Business Information In the year to 31 December 2007, Reed Business Information reported revenues of £906m, operating profit of £89m and adjusted operating profits of £119m

On 20 February 2008, Reed Elsevier entered into a definitive merger agreement with ChoicePoint, Inc to acquire the company for cash Taking into account ChoicePoint's estimated net debt of $0 6bn, the total value of the transaction is $4 1bn The ChoicePoint board will convene a meeting of ChoicePoint shareholders to approve the merger and is unanimous in its recommendation of the merger The merger is subject to customary regulatory approvals and is expected to be completed later in the year The transaction will be financed initially through committed new bank facilities, to be later refinanced through the issuance of term debt

ChoicePoint provides unique information and analytics to support underwriting decisions within the property and casualty insurance sector, screening and authentication services for employment, real estate leasing and customer enrolment, and public information solutions primarily to banking, professional services and government customers In 2007 ChoicePoint reported revenues of £491m, operating income (before goodwill and asset writedowns) of £112m and earnings before interest, tax, depreciation and amortisation of £144m

35 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of Reed Elsevier Group plc on 20 February 2008

PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2007

PARENT COMPANY BALANCE SHEET
As at 31 December 2007

	2007 £m	2006 £m
Fixed assets		
Investments		
Shares in subsidiary undertakings		
Cost	**866**	897
Provided	**(4)**	(4)
Net book amount	**862**	893
Joint ventures	**29**	29
	891	922
Current assets		
Amounts owed by Reed Elsevier PLC	**2**	2
Amounts owed by subsidiary undertakings	**420**	160
	422	162
Total assets	**1,313**	1,084
Current liabilities		
Amounts owed to subsidiary undertakings	**(325)**	(278)
Trade and other payables	**(1)**	(1)
	(326)	(279)
Net assets	**987**	805
Capital and reserves		
Called up share capital	**-**	-
Share premium account	**324**	324
Revenue reserves	**663**	481
Shareholders' funds	**987**	805

Approved by the board of Reed Elsevier Group plc, 20 February 2008

M H Armour

M H Armour

Chief Financial Officer

PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2007

PARENT COMPANY RECONCILIATION OF SHAREHOLDERS' FUNDS

For the year ended 31 December 2007

	Share capital £m	Share premium £m	Profit and loss reserve £m
At 1 January 2006	-	324	825
Profit attributable to ordinary shareholders	-	-	482
Ordinary dividends paid	-	-	(826)
At 31 December 2006	-	**324**	**481**
Profit attributable to ordinary shareholders	-	-	**1,032**
Ordinary dividends paid	-	-	**(850)**
At 31 December 2007	-	324	663

ACCOUNTING POLICIES

Basis of preparation

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

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account

The Reed Elsevier Group plc accounting policies under UK GAAP are set out below

Investments

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

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

Foreign exchange translation

Transactions entered into in foreign currencies are recorded at the exchange rates applicable at the time of the transaction

Taxation

Deferred taxation is provided in full for timing differences using the liability method Deferred tax assets are only recognised to the extent that they are considered recoverable in the short term Deferred taxation balances are not discounted

INDEPENDENT AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

To the members of Reed Elsevier Group plc

We have audited the individual parent company financial statements of Reed Elsevier Group plc for the year ended 31 December 2007 ("the company financial statements") which comprise the parent company balance sheet, the parent company reconciliation of shareholders' funds and the parent company accounting policies These company financial statements have been prepared under the accounting policies set out therein

We have reported separately on the group financial statements of Reed Elsevier Group plc for the year ended 31 December 2007

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

To the members of Reed Elsevier Group plc

Opinion

In our opinion

* the company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007,
* the company financial statements have been properly prepared in accordance with the Companies Act 1985, and
* the information given in the Directors' Report is consistent with the company financial statements

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
20 February 2008

SUPPLEMENTARY INFORMATION

Principal Subsidiary Undertakings at 31 December 2007

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

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

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

SUPPLEMENTARY INFORMATION

Principal joint ventures at 31 December 2007

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