

Company Registration No 2746621

Reed Elsevier (UK) Limited

Directors' Report and Financial Statements

For the year ended 31 December 2012



OFFICERS AND PROFESSIONAL ADVISERS

Directors

M H Armour (resigned 31 December 2012)

K Bayazit (appointed 19 November 2012)

H Udow

A J Joseph

P Richardson (resigned 1 March 2013)

Secretary

S Mitchley (resigned 30 June 2012)

A W McCulloch (appointed 26 June 2012)

Registered Office

1-3 Strand

London

WC2N 5JR

Auditors

Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

DIRECTORS' REPORT

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

Trading results and dividends

The loss on ordinary activities before taxation for the year was £50,655,000 (2011 £148,867,000 profit), including £1,388,000 (2011 £143,270,000) of dividends received from the accumulated reserves of subsidiary undertakings and participating interests, and impairment of fixed asset investments of nil (2011 £6,767,000). The loss on ordinary activities after tax for the financial year was £26,577,000 (2011 £142,939,000 profit). The retained loss of £26,577,000 (2011 £142,939,000 profit) has been taken from reserves. Dividends of £500,000,000 (2011 nil) were paid during the year.

Principal activities and future developments

The company's principal activities include providing services to its subsidiaries and other companies in the Reed Elsevier Group plc group, and professional publishing through the LexisNexis UK business. The directors do not anticipate any changes in these activities in the foreseeable future.

The company was a wholly owned subsidiary of Reed Elsevier Group plc throughout the year and accordingly group accounts have not been prepared.

Review of operations

LexisNexis is the UK's leading provider of legal, regulatory and news & business information and analysis to legal, corporate, government and academic customers.

In the UK, 60,000 organisations use LexisNexis services. The company trains tax advisors on the law, and judges on how to use online services. All UK universities benefit from the company's products, as well as more than 10,000 civil servants. LexisNexis products and services are used by the top law and accountancy firms, and almost all the local authorities in the UK, and Whitehall departments.

LexisNexis draws on a heritage of almost 200 years. In the UK, LexisNexis offers an unrivalled collection of primary and secondary legislation, case law, expert commentary, and forms and precedents. Its extensive portfolio includes a number of heritage brands: *Halsbury's*, *Tolleys*, *Butterworths*. The content is delivered through multiple formats – from print to online, to mobile apps and embedded in customers' workflow.

In 2012, LexisNexis launched additional modules of the *LexisPSL* product suite, which provides lawyers a single destination for their practical legal information needs with direct links to the relevant cases, legislation, precedents, forms, practical guidance and expert commentary. The ability to drive measurable customer value was recognised by the British Legal Awards, which has named LexisNexis UK '2012 Supplier of the Year' for its innovation, authority and understanding of law firms' needs.

LexisNexis UK has expanded its portfolio of products and services, and workflow solutions tools are increasingly key to the company's strategy. Workflow solutions consist of software tools that improve efficiency and compliance in legal firms and other corporate and public sector organisations. A portfolio of workflow applications have been designed to meet customer needs in the key areas of client development, research and compliance.

Turnover decreased by 3% reflecting a decline in print revenues largely offset by robust growth in the online Library offering and the new practical guidance tool PSL. Gross profit was 10% lower than last year reflecting continued investment in next generation legal offerings and technology. Legal markets remain stable but subdued, however, limiting the scope for revenue and profit growth.

The company has continued to provide services to Reed Elsevier Group plc group companies and other companies, generating income of £38,112,000 (2011 £37,266,000).

The company's financial position at the end of the year showed net assets of £832,722,000 (2011 £1,347,432,000). The movement in net assets is primarily due to dividends of £500,000,000 paid during the year.

The strategy of the businesses of Reed Elsevier is determined on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the LexisNexis division of Reed Elsevier, which includes the LexisNexis UK business, is discussed in the Reed Elsevier Annual Reports and Financial Statements 2012 (available on www.reedelsevier.com) which does not form part of this report.

DIRECTORS' REPORT (continued)

Principal risks and uncertainties

The company 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 general economic and market conditions, changes in law and legal interpretations affecting our intellectual property rights, the availability of third party content and data, demand for our products and services, competitive factors in the industry in which the company operates, the realisation of anticipated benefits from acquisitions, technology failure, data security, supply chain dependencies and availability of appropriately skilled talent, breach of generally accepted ethical business standards and failure to manage our environmental impact.

The company takes out forward exchange contracts with the Elsevier Reed Finance BV group to match the anticipated timing of foreign currency payments and receipts. Forward exchange contracts are not entered into on a speculative basis. The company is financed by other companies in the Reed Elsevier Group plc group and has no third party debt. It therefore has no material interest rate exposure.

The major strategic risks facing the company are considered by the board. Litigation and other legal and regulatory matters are managed by legal directors.

Important specific risks affecting Reed Elsevier are discussed in the Reed Elsevier Annual Reports and Financial Statements 2012 (available on www.reedelsevier.com) which does not form part of this report.

Employee relations

The company is fully committed to the concept of employee involvement and participation. Where appropriate, major announcements are communicated to employees through internal briefing. Information on performance, development, organisational changes and other matters of interest is communicated through briefings and electronic bulletins. The Reed Elsevier Group plc Save As You Earn Share Option Scheme enables employees to participate in the future prosperity of the company. The company is an equal opportunity employer. It does not discriminate on the grounds of race, sex, religion, physical handicap or marital status in its recruitment or employment policies. All judgements about people for the purpose of recruitment, development and promotion are made solely on the basis of their ability and potential in relation to the needs of the job.

Disabled persons

It is the policy of the company to consider the skills and aptitudes of disabled persons fully and fairly at all times in recruitment, career development, training and promotion. In pursuing this policy, and having special concern for employees who become disabled, all practical measures are taken to ensure that disabled persons are placed in jobs suited to their individual circumstances.

Donations

Donations made during the year for charitable purposes in the UK amounted to £426,000 (2011: £477,000). There were no donations for political purposes (2011: nil).

Directors

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

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

DIRECTORS' REPORT (continued)

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business. More detail is given in Note 1 to the financial statements

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

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

Creditor payment policy

The company agrees terms and conditions for business transactions with suppliers, including the terms of payment. The company does not operate a standard code in respect of payments to suppliers. The average time taken to pay suppliers during the year was between 30 and 45 days (2011: between 30 and 45 days).

Disclosure of information to auditors

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

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

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

Auditors

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

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



A McCulloch
Secretary

25 June 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REED ELSEVIER (UK) LIMITED

We have audited the financial statements of Reed Elsevier (UK) Limited for the year ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

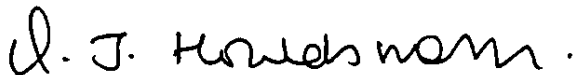
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



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

25 June

2013

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover	2	190,371	196,790
Cost of sales		(71,594)	(66,184)
Gross profit		118,777	130,606
Distribution and selling costs		(32,194)	(25,711)
Administrative expenses (including amortisation of intangible assets and goodwill)		(142,185)	(136,532)
Other operating income	3	38,112	37,266
Divestment gain	7	-	865
Impairment of fixed asset investments	15	-	(6,767)
Income from shares in group undertakings		1,388	138,759
Income from participating interests		-	4,511
Operating (loss)/profit	4	(16,102)	142,997
Interest receivable and similar income	5	3,490	4,799
Interest payable and similar charges	6	(3,865)	(3,798)
(Loss)/gain on disposals	7	(34,178)	4,869
(Loss)/profit on ordinary activities before taxation		(50,655)	148,867
Tax on (loss)/profit on ordinary activities	8	24,078	(5,928)
(Loss)/profit on ordinary activities after taxation for the financial year		(26,577)	142,939

All results relate to continuing operations

The notes on pages 9 to 27 form part of these accounts

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

	Note	2012 £'000	2011 £'000
(Loss)/profit on ordinary activities after taxation for the financial year		(26,577)	142,939
Actuarial loss on defined benefit pension scheme	11	(797)	(400)
Deferred tax credit on actuarial loss on defined benefit pension scheme	23	195	106
Total recognised gains and losses for the financial year		<u>(27,179)</u>	<u>142,645</u>

BALANCE SHEET
As at 31 December 2012

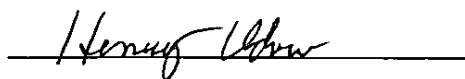
	Note	2012 £'000	2011 £'000
Fixed assets			
Intangible assets and goodwill	13	157,566	149,018
Tangible assets	14	2,774	3,267
Investments in subsidiary undertakings	15	1,611,453	1,611,453
Other investments	16	27,007	27,007
		<u>1,798,800</u>	<u>1,790,745</u>
Current assets			
Stocks	17	6,196	5,187
Debtors (amounts falling due within one year)	18	1,653,396	1,454,842
Debtors (amounts falling due after one year)	19	14,196	5,455
Short-term investments	20	419,250	173,201
Cash at bank and in hand		1,058	-
		<u>2,094,096</u>	<u>1,638,685</u>
Creditors (amounts falling due within one year)	21	<u>(3,056,933)</u>	<u>(2,077,089)</u>
Net current liabilities		<u>(962,837)</u>	<u>(438,404)</u>
Provisions for liabilities	22	(1,694)	(3,891)
Net pension obligation	11	(1,547)	(1,018)
Net assets		<u>832,722</u>	<u>1,347,432</u>
Capital and reserves			
Share capital	24	1,161	1,161
Share premium	25	383,899	383,899
Profit and loss account	25	447,662	962,372
Shareholders' funds	25	<u>832,722</u>	<u>1,347,432</u>

Approved by the Board of Directors on

25 June

2013

Signed on behalf of the Board of Directors



H Udow

Director

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

1 Accounting policies

Compliance with law and accounting standards

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

Going concern

This entity principally provides services to its subsidiaries and other companies in the Reed Elsevier Group plc group, and professional publishing through the LexisNexis UK business. Management has assessed the relevant factors surrounding going concern, including financing available from other companies in the Reed Elsevier Group plc group, and considers the basis of accounting preparation appropriate. The directors have received written confirmation that the ultimate parent company of this entity is fully prepared and able to support the company as necessary. As such, the directors continue to adopt the going concern basis in preparing the accounts.

Translation of foreign currencies into Sterling

Profit and loss items are translated at the exchange rates ruling at transaction date. Monetary assets and liabilities are translated at rates ruling at the balance sheet dates or contracted rates where applicable.

Turnover

Turnover represents the invoiced value of sales less anticipated returns on transactions completed by performance, excluding VAT. Revenues are recognised for the various categories as follows: subscriptions – on periodic despatch of subscribed product or ratably over the period of subscription where performance is not measurable by despatch, circulation and transactional – on despatch or occurrence of the transaction, advertising – on publication or period of online display. Where sales consist of two or more independent components, revenue is recognised on each component, as it is completed by performance, based on attribution of relative value.

Share based remuneration

The fair value of share based remuneration is determined at the date of grant and recognised as an expense in the profit and loss account 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. The company's share based remuneration is equity settled by the ultimate holding companies, Reed Elsevier PLC and Reed Elsevier NV, and is accounted for as if equity settled by the company.

Taxation

The current tax expense represents the sum of the tax payable on the current year taxable profits, and the movements on deferred tax that are recognised in the profit and loss account. The tax payable on current year taxable profits is calculated using the applicable tax rates that have been enacted, or substantively enacted, by the balance sheet date. Deferred taxation is provided in full for timing differences using the liability method. Deferred tax assets are only recognised to the extent that they are considered recoverable in the short-term. Deferred taxation balances are not discounted.

Goodwill and intangible assets

On the acquisition of a 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 and intangible assets are stated in the balance sheet at their fair value as at the acquisition date, less accumulated amortisation and impairment losses. Intangible assets comprise publishing rights and titles, databases and other intangible assets. Acquired goodwill and intangible assets are amortised systematically over their estimated useful lives, up to a maximum of 20 years. Goodwill and intangible assets are reviewed for impairment at least annually, and any impairment losses are immediately charged to the profit and loss account.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

1 Accounting policies (continued)

Internally generated intangible assets are stated in the balance sheet at the directly attributable cost of creation of the asset less accumulated amortisation and typically comprise software and systems development where an identifiable asset is created that is probable to generate future economic benefit. Internally generated intangible assets are amortised systematically over their estimated useful lives between 3 to 10 years.

Tangible fixed assets

Depreciation is provided on cost at the following annual rates on a straight line basis intended to write off the assets over their estimated useful lives:

Land and buildings	2%
Plant and equipment	20%

Short leasehold property and improvements are amortised over the period of the lease. No depreciation is provided on freehold land.

Interest receivable/payable

All interest receivable/payable is recognised on an accruals basis.

Investments

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

Stocks

Stocks and work in progress are stated at the lower of cost, including attributable overheads, and estimated net realisable value.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Debtors

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

Pensions

The Reed Elsevier Pension Scheme (a defined benefit scheme) is administered on a Reed Elsevier Group plc basis and total contributions are assessed by a qualified actuary, based on the cost of providing pensions across all participating Reed Elsevier Group plc companies. Costs are not determined separately for each participating company, hence contributions are charged to the profit and loss account in the period on the basis of amounts payable. The expense in respect of the Reed Elsevier Group plc Group Personal Pension Plan, a defined contribution scheme, is charged to the profit and loss as incurred.

For the Axxia Systems Limited staff pension scheme (which covers certain employees only), the asset or liability recorded in the balance sheet is the difference between the fair value of the scheme's assets and the present value of the defined obligation at that date. The defined benefit obligation is calculated on an annual basis by an independent actuary using the projected unit credit method. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. Current and past service costs, along with the impact of settlements or curtailments, are charged to the profit and loss account. Interest on the pension scheme liabilities is recognised within finance income in the profit and loss account.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

2 Turnover

	2012 £'000	2011 £'000
Analysis of sales by geographical market		
Continuing operations		
United Kingdom	168,545	169,894
North America	5,974	7,710
Europe	7,236	8,690
Rest of world	8,616	10,496
	<u>190,371</u>	<u>196,790</u>

3. Other operating income

	2012 £'000	2011 £'000
Other operating income comprises.		
Service fee income	<u>38,112</u>	<u>37,266</u>

4 Operating (loss)/profit

	2012 £'000	2011 £'000
<u>Operating (loss)/profit is stated after charging the following</u>		
Impairment of fixed asset investments	-	6,767
Depreciation of tangible fixed assets	1,237	1,215
Amortisation of intangible assets and goodwill	26,265	24,357
Auditors' remuneration – audit	217	280
Auditors' remuneration – non-audit services	28	11
Rental under operating leases		
Other operating lease rentals	5,549	7,303

Auditors' remuneration for audit services comprises £217,000 (2011 £280,000) payable to the auditors for the audit of the financial statements, 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 nil for audit related services and £28,000 for other non audit services (2011 £11,000 for other non audit services)

5 Interest receivable and similar income

	2012 £'000	2011 £'000
Interest receivable		
On amounts due from fellow subsidiary undertakings	2,694	2,547
On amounts due from the Elsevier Reed Finance BV group	9	26
On cash deposits and short-term investments	787	902
Foreign exchange gains	-	1,324
	<u>3,490</u>	<u>4,799</u>

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

6 Interest payable and similar charges

	2012 £'000	2011 £'000
Interest payable		
On amounts due to fellow subsidiary undertakings	2,109	1,621
On all other borrowings	645	898
Net return on pension scheme (note 11)	99	22
Foreign exchange losses	1,012	1,257
	<u>3,865</u>	<u>3,798</u>

7 Exceptional items reported after operating profit

Loss on disposals of £34,178,000 (2011 £4,869,000 profit) primarily relates to the settlement of pension liabilities arising on disposal of subsidiaries

8 Tax on (loss)/profit on ordinary activities

	2012 £'000	2011 £'000
Current tax		
UK corporation tax charge	3,154	9,282
Adjustments in respect of prior years	(18,537)	(4,197)
Total current tax charge	<u>(15,383)</u>	<u>5,085</u>
Deferred tax (note 23)		
Origination and reversal of timing differences	(9,323)	333
Impact of tax rate reduction	935	459
Prior year adjustments	(307)	51
Total tax (credit)/charge	<u>(24,078)</u>	<u>5,928</u>

The rate of current tax for the year is 24.5% (2011 26.5%) based on the UK standard rate of corporation tax

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

8 Tax on (loss)/profit on ordinary activities (continued)

A reconciliation of the notional tax charge based on average applicable rates of tax to the actual total tax expense is set out below

	2012 £'000	2011 £'000
(Loss)/profit on ordinary activities before taxation	(50,655)	148,867
Tax at standard rate	(12,410)	39,450
Provision against investment in subsidiaries	-	1,793
Non tax deductible amortisation of goodwill and intangible assets	4,785	5,163
Non taxable dividend and other income	(375)	(37,966)
Permanent differences and other items	1,939	2,429
Net impact of taxable notional interest expense	-	(2,611)
Group relief surrendered of nil consideration	587	-
Non deductible share based payment charges	2,142	1,357
Origination and reversal of timing differences	6,486	(333)
Adjustments in respect of prior years	(18,537)	(4,197)
Current tax (credit)/charge for the year	(15,383)	5,085

A number of changes to the UK corporation tax system, including reductions of the main rate of corporation tax from 26% to 24% with effect from 1 April 2012, and from 24% to 23% with effect from 1 April 2013, were substantively enacted on 3 July 2012. Reed Elsevier (UK) Limited has therefore remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 23%, which has resulted in recognition of a deferred tax debit of £873,000 in the income statement. The UK government has also announced an intention to reduce the rate of corporation tax to 21% by 1 April 2014 and to 20% by 1 April 2015, but as these changes had not been substantively enacted at the date of the statement of financial position, the effect on deferred tax has not been recognised in these financial statements. It is not currently anticipated that the proposed reduction in rate would have a significant impact on deferred tax balances.

9. Personnel

	2012 £'000	2011 £'000
Staff costs (including directors)		
Wages and salaries	83,793	81,733
Social security costs	16,746	9,306
Other pension costs (note 11)	19,485	19,052
Share based and related remuneration (note 10)	12,469	8,123
	132,493	118,214

	2012 £'000	2011 £'000
Staff costs (including directors) by function were		
Sales	18,341	20,895
Administration/other	21,666	18,114
Editorial and production	38,805	32,204
Finance	23,328	20,014
Management	18,938	16,567
IT	3,224	3,641
Human Resources	8,191	6,779
	132,493	118,214

The average monthly number of employees (including directors) during the year ended 31 December 2012 was 1,249 (2011: 1,263)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

10. Share based remuneration

Reed Elsevier (UK) Limited directors and employees participate in a number of Reed Elsevier Group plc share based remuneration schemes. The principal share based remuneration schemes are the Executive Share Option Schemes (ESOS), the Long Term Incentive Plan (LTIP), the Reed Elsevier Growth Plan (REGP), the Retention Share Plan (RSP), the Bonus Investment Plan (BIP) and the Save As You Earn scheme (SAYE). Share options granted under ESOS and LTIP are exercisable after three years and up to ten years from the date of grant at a price equivalent to the market value of the respective shares at the date of grant. Conditional shares granted under ESOS, LTIP, RSP and BIP are exercisable after three years for nil consideration if conditions are met. Conditional shares granted under REGP are exercisable for nil consideration if conditions are met after three and five years.

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

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

The weighted average fair value per award is based on full vesting on achievement of non market related performance conditions and stochastic models for market related components. The conditional shares and option awards are recognised in the income statement over the vesting period, being between three and five years, on the basis of expected performance against the non market related conditions, with the fair value related to market related components unchanging. Further details of performance conditions are given in the Reed Elsevier Annual Reports and Financial Statements 2012.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

10 Share based remuneration (continued)

	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	Number of shares '000	Weighted average fair value per award £	Number of shares 000	Weighted average fair value per award £
2012 grants				
Share options				
- ESOS	511	0.91	360	1.22
- SAYE	271	1.04	-	-
Total share options	782	0.95	360	1.22
Conditional shares				
- ESOS	119	4.60	83	6.41
- LTIP	516	4.63	237	6.14
- RSP	249	6.02	-	-
- BIP	467	5.19	191	7.48
Total conditional shares	1,351	5.08	511	6.68
2011 grants				
Share options				
- ESOS	455	0.98	304	1.41
- SAYE	202	1.04	-	-
Total share options	657	1.00	304	1.41
Conditional shares				
- ESOS	111	4.83	74	6.90
- LTIP	325	4.63	218	6.70
- BIP	385	5.41	243	8.05
Total conditional shares	821	5.02	535	7.34

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

10 Share based remuneration (continued)

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

Assumptions for grants made during the year	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	2012	2011	2012	2011
Weighted average share price at date of grant				
- ESOS	£5.25	£5 39	€9 19	€8 97
- LTIP	£5.45	£5 31	€8 93	€8 89
- RSP	£6.02	-	n/a	n/a
- BIP	£5.19	£5 43	€9.23	€9 21
- SAYE	£5.49	£5 13	-	-
Expected share price volatility	30%	29%	30%	29%
Expected option life	4 years	4 years	4 years	4 years
Expected dividend yield	3.9%	3 6%	4 5%	4 1%
Risk free interest rate	0.8%	1 9%	0.9%	2 5%
Expected lapse rate	2-5%	2-5%	2-4%	2-4%

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

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

Share options	In respect of Reed Elsevier PLC ordinary shares		In respect of Reed Elsevier NV ordinary shares	
	Number of shares under option '000	Weighted average exercise price (pence)	Number of shares under option '000	Weighted average exercise price (€)
Outstanding at 1 January 2011	8,739	538	5,719	11 54
Granted	657	500	304	8 97
Exercised	(208)	483	(24)	9 34
Forfeited	(89)	443	(17)	(0 14)
Expired	(537)	649	(476)	6 90
Outstanding at 1 January 2012	8,562	530	5,506	11 20
Granted	782	496	360	9.23
Exercised	(2,436)	495	(267)	9 33
Forfeited	(450)	514	(232)	9 32
Expired	(1,435)	620	(2,192)	12.07
Transfers	(77)	547	(58)	12.74
Outstanding at 31 December 2012	4,946	517	3,117	10.63
Exercisable at 31 December 2011	6,270	546	4,521	11 67
Exercisable at 31 December 2012	3,057	540	2,341	11 19

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

10 Share based remuneration (continued)**Conditional shares**

	In respect of Reed Elsevier PLC ordinary shares	In respect of Reed Elsevier NV ordinary shares
	Number of shares '000	Number of shares '000
Outstanding at 1 January 2011	3,755	2,291
Granted	821	535
Vested	(82)	(53)
Forfeited	(164)	(56)
Transferred	(310)	(86)
Outstanding at 1 January 2012	4,020	2,631
Granted	1,351	511
Vested	(90)	(59)
Forfeited	(1,534)	(975)
Transfers	(32)	(1)
Outstanding at 31 December 2012	3,715	2,107

The weighted average share price at the date of exercise of share options and conditional shares during 2012 was 593p (2011 554p) for Reed Elsevier PLC ordinary shares and €10.43 (2011 €9.71) for Reed Elsevier NV ordinary shares

	2012		2011	
Range of exercise prices for outstanding share options	Number of share options outstanding '000	Weighted average remaining period until expiry (years)	Number of share options outstanding '000	Weighted average remaining period until expiry (years)
Reed Elsevier PLC ordinary shares (pence)				
401-450	731	2.9	743	2.9
451-500	1,175	2.9	2,517	2.9
501-550	2,280	5.4	3,199	5.1
551-600	24	5.3	517	0.5
601-650	736	5.2	1,586	5.7
Total	4,946	4.4	8,562	4.1
Reed Elsevier NV ordinary shares (euro)				
7.01-8.00	-	-	5	8.0
8.01-9.00	464	8.0	526	8.9
9.01-10.00	578	7.5	729	4.9
10.01-11.00	698	2.0	1,386	2.3
11.01-12.00	916	2.6	1,402	3.6
12.01-13.00	269	5.1	538	6.1
13.01-14.00	7	4.3	414	0.2
14.01-15.00	185	4.1	506	5.1
Total	3,117	4.5	5,506	4.1

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

11. Pension schemes

The company participates in the Reed Elsevier Pension Scheme, the main UK defined benefit scheme. This scheme is of the defined benefit type providing benefits to certain employees within Reed Elsevier Group plc, and its assets are held separately from the group's assets. The Reed Elsevier Pension Scheme actuaries are Towers Watson.

The net deficit in the scheme valued under FRS17 by the actuaries at 31 December 2012 was £60 million (2011 £40 million deficit). The company is unable to identify its share of the underlying assets and liabilities and consequently, under the FRS17 requirements for multi-employer pensions, accounts for the pension scheme as if it were a defined contribution scheme. The regular pension cost for the company is therefore equal to the contributions paid during the year of £19,188,000 (2011 £18,920,000) which excludes the settlement of pension liabilities arising on disposal of subsidiaries of £34,200,000, as disclosed in note 7. Full disclosures of Reed Elsevier's pension schemes under International Financial Reporting Standards (IFRS) are given in the financial statements of Reed Elsevier Group plc for the year ended 31 December 2012. The valuation of Reed Elsevier's pension assets and liabilities under IFRS is not significantly different from the valuation under FRS17. The company also participates in the Reed Elsevier Group plc Group Personal Pension Plan, a defined contribution plan to which for 2012 the company contributed up to a maximum of 9% of basic salary. The charge for the year, recognised as incurred, was £1,000,000 (2011 £1,000,000).

Following the divisionalisation of Axxia Systems Limited on 1 January 2010, the Axxia Systems Limited Staff Pension Scheme is included within Reed Elsevier (UK) Limited from this date. Further information on the Scheme is shown below.

Certain employees who transferred with the management team from Digital Ltd in 1995 transferred their pension benefits to the Axxia Systems Limited Staff Pension Scheme ("the Axxia Scheme") defined benefits pension scheme. This scheme did not admit new members.

For the defined benefits scheme the related costs are accrued in accordance with the advice of a professionally qualified actuary.

The assets are held separately from those of the company in an independently administered fund. The most recent valuation of the plan was as at April 2011. The main assumptions used to determine the pension cost were an investment rate of return of 4.9% per annum pre and post-retirement, price indexation of 3.7% per annum, and mortality in line with the S1PMA & S1PFA (B=Year of Birth) tables for males and females as appropriate, using the long cohort projection from 2002. The most recent actuarial valuation showed that the actuarial value of the plan's assets was £3,916,000 and that the actuarial value of these assets represented 63% of the benefits that had accrued to members. In accordance with actuarial advice, the rate of contribution has been set to fund this deficit over a period of 10 years from 1 October 2012. The defined benefits scheme was closed to further accrual of benefits with effect from 30 June 2006.

Additional disclosures regarding the company's defined benefit pension scheme are required under the provisions of FRS17 "Retirement benefits" and these are set out below. An actuarial valuation for FRS17 purposes has been prepared as at 31 December 2012 by a qualified actuary using assumptions that are consistent with the requirements of FRS17. Investments have been valued, for this purpose, at fair value.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

11 Pension schemes (continued)

The major assumptions used for the actuarial valuation of the Axxia Scheme were

	2012 %	2011 %
Discount rate	4.65	4.90
Inflation rate	2.85	3.00
Revaluation of early leavers' benefits	2.85	2.90
Rate of increase in salaries	n/a	n/a
Rate of increase to pensions in payment		
- post 1988 Guaranteed Minimum Pension	2.85	2.90
- pension earned after 6 April 1997	2.85	2.90

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

	2012	
	Male (years)	Female (years)
Members currently aged 65	87	89
Members currently aged 45	89	91

The fair value of the assets and the present value of the liabilities in the Axxia Scheme at the balance sheet date were

	2012 £'000	2011 £'000
Unitised with profits fund	4,299	3,984
Total fair value of assets	4,299	3,984
Present value of scheme liabilities	(6,335)	(5,342)
Deficit in the scheme	(2,036)	(1,358)
Related deferred tax	489	340
Net pension liability	(1,547)	(1,018)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

11. Pension schemes (continued)

The expected rate of return at the balance sheet date was

	2012	2011
Unitised with profits fund	4 0	4 0

There were no amounts charged or credited to operating profit in either period

Analysis of the amount charged to interest payable and similar charges

	2012 £'000	2011 £'000
Expected return on pension scheme assets	160	247
Interest on pension scheme liabilities	(259)	(269)
	(99)	(22)

Analysis of the actuarial loss in the statement of total recognised gains and losses

	2012 £'000	2011 £'000
Actual return less expected return on pension scheme assets	87	(197)
Experience (losses)/gains arising on the scheme liabilities	(622)	12
Changes in assumptions underlying the present value of the scheme liabilities	(262)	(215)
	(797)	(400)

Movement in the scheme deficit during the period

	2012 £'000	2011 £'000
At 1 January	(1,358)	(1,126)
Contributions	218	190
Net return	(99)	(22)
Actuarial loss	(797)	(400)
At 31 December	(2,036)	(1,358)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

11 Pension schemes (continued)

Experience gains and losses

	2012	2011
Difference between the expected and actual return on scheme assets		
Amount (£'000)	87	(197)
Percentage of scheme assets	2%	(5%)
Experience (losses)/gains on scheme liabilities		
Amount (£'000)	(622)	12
Percentage of the present value of scheme liabilities	10%	0%
Total actuarial loss recognised in the statement of total recognised gains and losses		
Amount (£'000)	(262)	(215)
Percentage of the present value of scheme liabilities	14%	4%

12 Directors' emoluments

The emoluments of the directors were

	2012 £'000	2011 £'000
Emoluments (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>1,876</u>	<u>1,246</u>

Highest paid director's remuneration

Aggregate of emoluments and awards under the long-term incentive schemes (excluding pension contributions, share options and awards in the form of shares)	<u>1,035</u>	<u>502</u>
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	2012 Number	2011 Number
Number of directors in office at 31 December who		
- are members of a defined benefit pension scheme,	3	3
- exercised share options,	4	-
- have received awards during the year in the form of shares under long term incentive schemes	<u>4</u>	<u>4</u>

Mr M H Armour who retired in December 2012 was also a director of the company's parent undertaking, Reed Elsevier Group plc. It is not practicable to allocate his emoluments for services to the company and so no emoluments are included in the above figures. Full details of his remuneration are given in the financial statements of Reed Elsevier Group plc. During 2012 Ms K Bayazit was appointed a director and Mr P Richardson retired in 2013.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

13 Intangibles assets and goodwill

	Internally generated intangible assets £'000	Acquired intangible assets £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2012	76,033	318,937	74,558	469,528
Additions	34,825	-	-	34,825
Disposals	(4,437)	-	-	(4,437)
At 31 December 2012	106,421	318,937	74,558	499,916
Amortisation				
At 1 January 2012	31,319	253,598	35,593	320,510
Disposals	(4,425)	-	-	(4,425)
Charge for the year	6,734	15,802	3,729	26,265
At 31 December 2012	33,628	269,400	39,322	342,350
Net book amount				
At 31 December 2012	72,793	49,537	35,236	157,566
At 31 December 2011	44,714	65,339	38,965	149,018

14 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2012	706	33,577	34,283
Additions	-	756	756
Disposals	-	(23,315)	(23,315)
At 31 December 2012	706	11,018	11,724
Depreciation			
At 1 January 2012	462	30,554	31,016
Charge for the year	-	1,237	1,237
Disposals	-	(23,303)	(23,303)
At 31 December 2012	462	8,488	8,950
Net book amount			
At 31 December 2012	244	2,530	2,774
At 31 December 2011	244	3,023	3,267

Land and buildings include freehold land at a cost of £41,000 (2011 £41,000) which has not been depreciated.

There were no fixed assets held under finance leases (2011 nil)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

15. Investments in subsidiary undertakings

	Cost £'000	Provisions £'000	Net book value £'000
At 1 January and 31 December 2012	2,315,614	(704,161)	1,611,453

Principal subsidiary undertakings

Name of company	Country of incorporation and operation	Proportion of equity capital held (direct) %	Proportion of equity capital held (indirect) %
Exhibitions			
Reed Exhibitions Limited	Great Britain	100%	
Reed Midem Limited	Great Britain		100%
Publishing			
Elsevier Limited	Great Britain	100%	
Reed Business Information Limited	Great Britain		100%
Holding companies			
Butterworth & Co (Publishers) Limited	Great Britain		100%
Formpart (RPL) Limited	Great Britain	100%	
Dormant companies			
Axxia Systems Limited	Great Britain	100%	
Reed Consumer Books Limited	Great Britain	100%	
Reed Overseas Corporation Limited	Great Britain	100%	
Eclipse Group Limited	Great Britain	100%	

Details of additional undertakings where the nominal value of the company's holding is 20% or more of any class of shares, are included as an annexe to the company's annual return

In the opinion of the directors the value of the company's investments in its subsidiaries is not less than the amount at which they are stated in the balance sheet

16. Other investments

<u>Investment in joint ventures</u>	Cost £'000	Provisions £'000	Net book value £'000
At 1 January and 31 December 2012	27,007	-	27,007

<u>Unlisted investments</u>	Cost £'000	Provisions £'000	Net book value £'000
At 1 January and 31 December 2012	2,800	(2,800)	-

The directors' valuation of other investments at 31 December 2012 is nil (2011: nil)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

17 Stocks

	2012 £'000	2011 £'000
Raw materials and consumables	91	250
Work in progress	4,697	3,471
Finished goods	1,408	1,466
	<u>6,196</u>	<u>5,187</u>

Stocks are stated at the lower of cost and estimated net realisable value

18. Debtors (amounts falling due within one year)

	2012 £'000	2011 £'000
Trade receivables	63,666	62,536
Amounts owed by fellow subsidiary undertakings	353,560	320,752
Amounts owed by subsidiary undertakings	31,055	51,560
Amount owed by Reed Elsevier Group plc	-	108,263
Amount owed by Reed Elsevier (Holdings) Ltd	1,124,672	874,672
Other debtors	222	61
Prepayments and accrued income	72,595	36,998
Current tax	7,626	-
	<u>1,653,396</u>	<u>1,454,842</u>

19 Debtors (amounts falling due after one year)

	2012 £'000	2011 £'000
Deferred tax asset (note 23)	14,196	5,455

20. Short-term investments

	2012 £'000	2011 £'000
Cash deposits with terms in excess of seven days	419,250	173,201

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

21. Creditors (amounts falling due within one year)

	2012 £'000	2011 £'000
Bank overdraft	-	9,438
Trade creditors	6,369	7,358
Amounts owed to fellow subsidiary undertakings	204,337	139,124
Amounts owed to subsidiary undertakings	1,485,492	1,140,254
Amounts owed to Reed Elsevier PLC	953,931	635,510
Amount owed to Elsevier Reed Finance BV group	38	11
Amount owed to Reed Elsevier Group plc	272,497	-
Other creditors	22,687	22,682
Corporation tax payable	-	10,439
Social security costs	17,573	10,006
Accruals and deferred income	94,009	102,267
	<u>3,056,933</u>	<u>2,077,089</u>

22 Provisions for liabilities

	Property £'000	Restructuring £'000	Total £'000
At 1 January 2012	3,310	581	3,891
Utilised	(1,616)	(581)	(2,197)
At 31 December 2012	<u>1,694</u>	<u>-</u>	<u>1,694</u>

Property provisions relate to estimated sub-lease shortfalls in respect of property leases

23. Deferred taxation

	2012 £'000	2011 £'000
Deferred tax assets (note 19)		
Share based remuneration gains	4,266	1,682
Excess of tax allowances over related amortisation	1,620	1,321
Other timing differences	8,310	2,452
Total	<u>14,196</u>	<u>5,455</u>

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

23 Deferred taxation (continued)

	2012 £'000	2011 £ 000
Deferred tax asset at 1 January	5,455	6,228
Credited/(charged) to the profit and loss account (note 8)	8,695	(843)
Deferred tax charge on actuarial gain on defined benefit pension scheme (note 11)	195	106
Defined benefit pension scheme deficit deferred tax included in net pension liability (note 11)	(149)	(36)
Net deferred tax asset at 31 December	14,196	5,455

The Budget 2013, issued on 20 March 2013, announced that the main rate of corporation tax would be reduced to 21% from 1 April 2014 and to 20% with effect from 1 April 2015. These future rate reductions had not been substantively enacted at the balance sheet date, therefore have not been reflected in these financial statements. The effect of these rate reductions will be accounted for in the period they are substantively enacted.

24 Called up share capital

	Authorised		Called up, issued and fully paid	
	Number	£'000	Number	£'000
<i>Ordinary shares of £1 each</i>				
At 1 January and 31 December 2012	1,500,000	1,500	1,161,424	1,161

25. Reconciliation of movement in shareholders' funds and statement of movement on reserves

	Share capital 2012 £'000	Share premium 2012 £'000	Profit and loss account 2012 £'000	Total 2012 £'000	Total 2011 £ 000
At 1 January 2012	1,161	383,899	962,372	1,347,432	1,196,664
Retained (loss)/profit for the financial year	-	-	(26,577)	(26,577)	142,939
Dividends paid	-	-	(500,000)	(500,000)	-
Actuarial loss on defined benefit pension scheme	-	-	(797)	(797)	(400)
Tax credit recognised directly in equity	-	-	195	195	106
Increase in share based remuneration reserve	-	-	12,469	12,469	8,123
At 31 December 2012	1,161	383,899	447,662	832,722	1,347,432

NOTES TO THE ACCOUNTS
For the year ended 31 December 2012

26 Operating leases

The annual commitments under non-cancellable leases are

	2012 Land and buildings £'000	2011 Land and buildings £'000
Expiry of operating lease		
<u>Land and buildings</u>		
Within one year	90	1,986
In the second to fifth years inclusive	1,411	3,683
After five years	1,000	1,000
	<u>2,501</u>	<u>6,669</u>

27. Group accounts and cash flow statement

The company is not required to prepare group accounts under s400 of the Companies Act 2006 because its parent undertaking is established under the law of a member State of the European Union and the ultimate parent undertaking prepares group accounts. Accordingly these financial statements present information about this company as an individual undertaking and not as a group. Similarly, a cash flow statement is not required under Financial Reporting Standard 1 (Revised) (Cash Flow Statements).

28. Ultimate parent company

The company's ultimate and immediate parent undertaking and controlling entity is Reed Elsevier Group plc, a company incorporated in Great Britain. The smallest and largest group into which the accounts of the company for the year ended 31 December 2012 are consolidated is Reed Elsevier Group plc. Copies of the consolidated accounts of Reed Elsevier Group plc may be obtained from its registered office at 1-3 Strand, London, WC2N 5JR. Reed Elsevier Group plc is jointly owned by Reed Elsevier PLC (a company incorporated in Great Britain) and Reed Elsevier NV (a company incorporated in the Netherlands).

29. Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 (Related Party Disclosures) from disclosing related party transactions with entities that are part of Reed Elsevier Group plc. There were no other related party transactions in the current or prior year.