

Preliminary Results 2006



From print...
From information...
From local...
...to online
...to solutions
...to global

Reed Elsevier Preliminary Results 2006
Sir Crispin Davis
Mark Armour



2006 Preliminary Results: Highlights



Overall financial performance on target

Sharper strategic focus

Sale of Harcourt planned

More cohesive business

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Harcourt Divestment



- Harcourt business dynamics and strategy increasingly differ from rest of Reed Elsevier
- Market growth profile, and performance, less consistent
- Digital revenue and margin opportunity less clear

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Strategic Market Characteristics



- Content integral to customers' professional function
- Clear digital opportunities to drive customer value
- Brands, content, technology scaleable
- Consistent market demand and recurring revenue streams

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Reed Elsevier...Looking Forward



- More cohesive portfolio
- Global leading positions in each sector
- Exceptional portfolio of brands
- Strong, proprietary, must-have content
- Growing strength and expertise online
- Good financial characteristics

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More Focused Strategy



Deliver authoritative content through leading brands

Drive online solutions

Improve cost efficiency

Selective portfolio development



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Delivering Authoritative Content Through Leading Brands



Why?

- Content and brand are key driver of customer choice
- Trusted brands vital as online sources proliferate
- Leadership brands and authoritative content deliver real competitive advantage

How?

- Extend content offering into growing emerging sectors
- Maintain focus on highest quality, proprietary content
- Invest behind brands: new launches, brand extensions, geo-cloning, new events

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Drive Online Solutions



Why?

- Professional customers' workflows migrating online
- Opportunities to expand product range, widen distribution, launch value-add services
- Online a key growth driver: £2 billion revenues, 37% total, 10% growth

How?

- Detailed understanding of evolving markets and customer needs
- Create compelling online content driven workflow solutions
- Leverage technology infrastructure and know-how
- Business model innovation and solutions marketing

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Improve Cost Efficiency



Why?

- Increase competitiveness and effectiveness
- Release resources for investment behind product and marketing
- Drive continuous margin improvement

How?

- Leverage skills, technology, resource across businesses
- Increase focus on operating and supply chain efficiency
- Improved product development speed and impact

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Selective Portfolio Development



Why?

- Accelerate strategy and growth
- Open up areas for growth beyond existing customer relationships and geographies
- Capture financial returns

How?

- Allocation of capital and resources to good growth, good return opportunities
- Focus on existing markets: e-health, legal solutions, risk management, e-business
- Financial discipline against established criteria

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Sharper Strategic Focus Will Deliver



- More cohesive, consistent business
- Good revenue growth
- Consistent underlying margin improvement
- Strong cash generation, and growing returns on capital
- Minimum 10% EPS growth targeted at constant currencies

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Mark Armour
Chief Financial Officer



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2006 Financial Performance



Adjusted earnings per share +11%

- Revenue growth; +0.7% pt underlying margin improvement
- Tight cost management, embedded investment
- Higher interest costs mitigated by slightly lower tax rate
- Good contribution from recent acquisitions

Growing returns

- Return on invested capital increased to 9.8% post tax
- Return on acquisitions within 3 years of 10% post tax
- 72% of free cashflow distributed to shareholders

Adjusted earnings growth stated at constant exchange rates

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Adjusted Profit and Loss



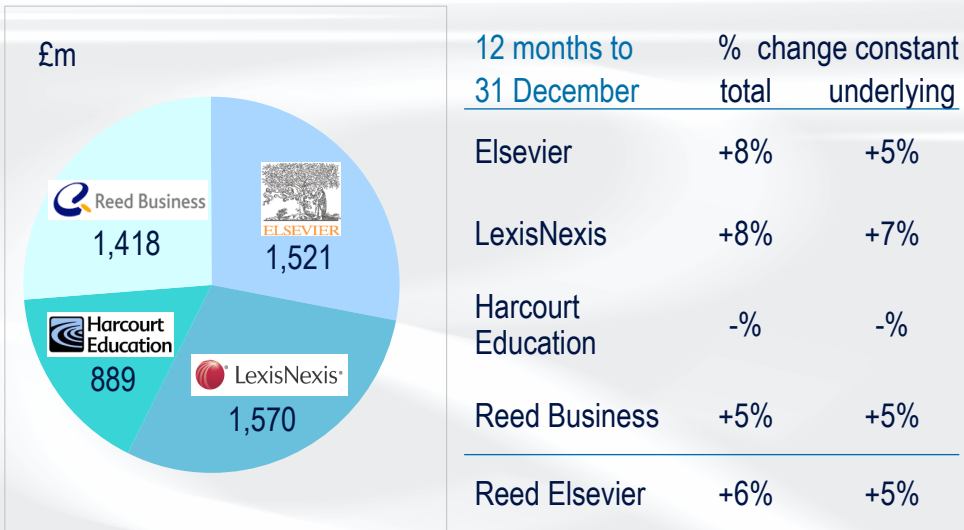
12 months to 31 December	2006 £m	2005 £m	% change constant
Revenue	5,398	5,166	+6%
Adjusted operating profit	1,210	1,142	+9%
Adjusted operating margin	22.4%	22.1%	
Net interest expense	(158)	(140)	
Adjusted profit before tax	1,052	1,002	+9%

Adjusted figures are stated before amortisation of acquired intangible assets, acquisition integration costs and disposal gains

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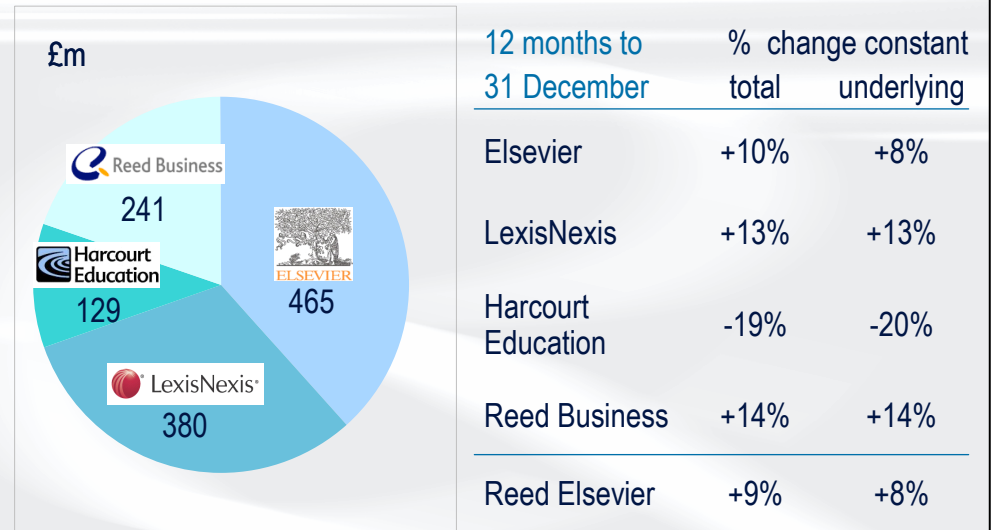
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Revenue



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Adjusted Operating Profit



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Elsevier



12 months to 31 December	2006 £m	2005 £m	% change constant
Revenue	1,521	1,436	+8%
Adjusted operating profit	465	449	+10%
Adjusted operating margin	31%	31%	

- Underlying: revenue up 5%; adjusted operating profit up 8%
- Strong subscription renewals, growing online sales, successful book publishing programme
- Significant improvement in underlying margin up 0.9% pts; reported margin reflects low (but improving) acquisition margins and lower hedge rates
- Good revenue contribution from MediMedia MAP, margin significantly improved

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LexisNexis



12 months to 31 December	2006 £m	2005 £m	% change constant
Revenue	1,570	1,466	+8%
Adjusted operating profit	380	338	+13%
Adjusted operating margin	24%	23%	

- Underlying: revenue up 7%; adjusted operating profit up 13%
- Organic revenue growth compares with +6% in 2005; +4% in 2004
- Strong subscription renewals, new total solutions sales in US and internationally, good growth in patent volumes and risk and analytics
- Significant improvement in margin up 1.1% pts
- Seisint 2006 return of 10% post tax

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Harcourt Education



12 months to 31 December	2006 £m	2005 £m	% change constant
Revenue	889	901	-%
Adjusted operating profit	129	161	-19%
Adjusted operating margin	15%	18%	

- US K-12 revenues up 1% in market down 6%
- Strong share performance in adoptions; good response to new supplemental publishing
- Lower revenues and contract cost overruns in assessment; new management in place and organisational changes made
- Lower margin due to flat revenues, investment ahead of 2007 adoptions, sales mix and difficulties in assessment

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Reed Business



12 months to 31 December	2006 £m	2005 £m	% change constant
Revenue	1,418	1,363	+5%
Adjusted operating profit	241	214	+14%
Adjusted operating margin	17%	16%	

Exhibitions:

- Underlying: revenues up 10%, profits up 16%
- Strong performances in annual and biennial shows

Publishing:

- Underlying: revenues up 2%, profits up 12%
- Strong online growth of 20%+; now 24% of total revenues
- Margin ahead due to strong exhibition growth and tight cost control

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Adjusted Operating Cashflow



	2006	2005
12 months to 31 December	£m	£m
Adjusted operating profit	1,210	1,142
Capital expenditure	(196)	(195)
Depreciation	162	144
	(34)	(51)
Share based payments	49	57
Working capital and other items	(73)	(68)
Adjusted operating cashflow	1,152	1,080
Cash flow conversion rate	95%	95%

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Free Cashflow



	2006	2005	% change
	£m	£m	
Adjusted operating cashflow	1,152	1,080	+7%
Interest and tax paid	(335)	(316)	+6%
Free cashflow	817	764	+7%
Dividends	(371)	(336)	
Share buyback programme	(217)	-	
Acquisitions / disposals (net)	(145)	(309)	
Share option proceeds (net)	25	(2)	
Change in net debt from cashflows	109	117	

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Adjusted Earnings and Dividends



	Reed Elsevier PLC		Reed Elsevier NV		% change constant
Adjusted EPS	33.6p	+7%	€0.76	+9%	+11%
Equalised dividends:					
Interim dividend	4.1p	+11%	€0.102	+11%	
Final dividend	11.8p	+10%	€0.304	+14%	
Total	15.9p	+10%	€0.406	+13%	

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Reported Profit Attributable



12 months to 31 December	2006 £m	2005 £m
Adjusted profit before tax	1,052	1,002
Amortisation, acquisition integration, other	(331)	(301)
Reported profit before tax	721	701
Adjusted tax charge	(254)	(246)
Prior year disposals	65	-
Deferred tax on inter-affiliate lending	22	(44)
Deferred tax on acquired intangible assets / other	71	53
Reported tax charge	(96)	(237)
Reported profit attributable	623	462
Reed Elsevier PLC adjusted EPS	33.6p	31.5p
Reed Elsevier NV adjusted EPS	€0.76	€0.70

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Harcourt Process and Financial Effects



- Disposal expected to complete in H2
- Net proceeds to be returned to shareholders
 - special distribution in equalisation ratio
 - share consolidation
- Modest pro forma adjusted earnings per share dilution

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Minimum 10% Adjusted EPS Growth Target



- Good revenue growth (>cost growth)
- Continuous underlying margin improvement
- Financial leverage, consistent with rating, and fiscal efficiency
- Strong cash generation and efficient use of cash: dividends, buybacks, reinvestment
- Capital discipline and growing returns on capital

Adjusted EPS growth at constant currencies

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Distribution Policy



- Dividends closely aligned to adjusted earnings per share growth
- Approximately 70-80% of free cashflow returned to shareholders
 - balance of free cashflow reinvested in business
 - maintain capital efficiency aligned to strategic goals

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Balance Sheet



- Maintain Reed Elsevier's credit rating
 - focus on funds from operations / net debt; retained free cashflow / net debt
 - access to cheapest sources of borrowing, particularly commercial paper
- Net debt of £2.3bn
 - borrowings denominated mostly in US dollars; partial translation hedge
- Strong cash generation; tight working capital management

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Acquisitions



Financial criteria

- Accelerate strategic progress and revenue / profit growth
- Add to shareholder value based on discounted post tax cash flows
- Annual ROI to exceed WACC within three years, and continue to grow thereafter
- Earnings accretive

Authoritative content; digital solutions

Health: Urban & Fischer, MediMedia MAP, Gold Standard, MC Strategies, HESI. Legal Solutions: Quicklaw, Applied Discovery, Casesoft, Dataflight, Visualfiles, Interface, Examen, Time Matters, Verilaw. International Legal: MBO. Education: Saxon. Risk: Dolan, Seisint. B2B Online: eMedia, Buyerzone. Exhibitions: Sinopharm, UKIP, Adnec

£1.6bn in last 5 years

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Outlook



Market conditions generally favourable

Further progress in digital development

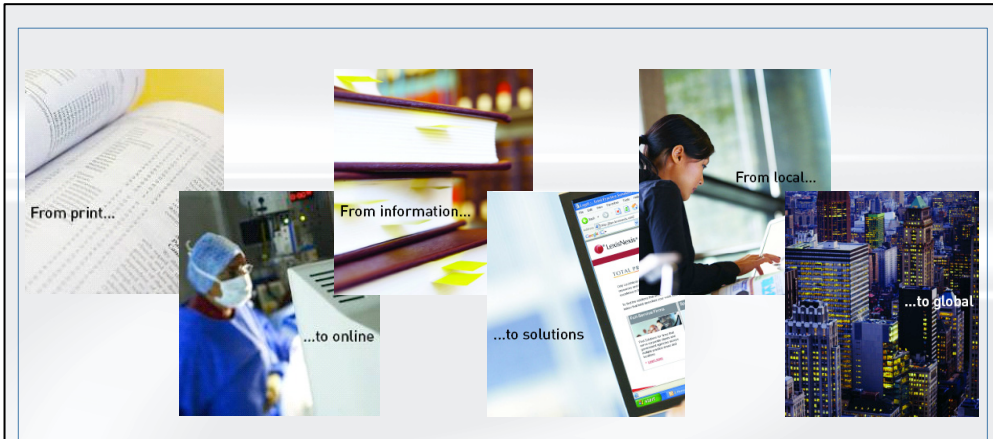
Good revenue momentum, margin improvement

Strong cash generation, growing returns

Minimum of 10% adjusted EPS growth at constant currencies targeted

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From print...

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...to global

Appendices

 Reed Elsevier



From print...

From information...

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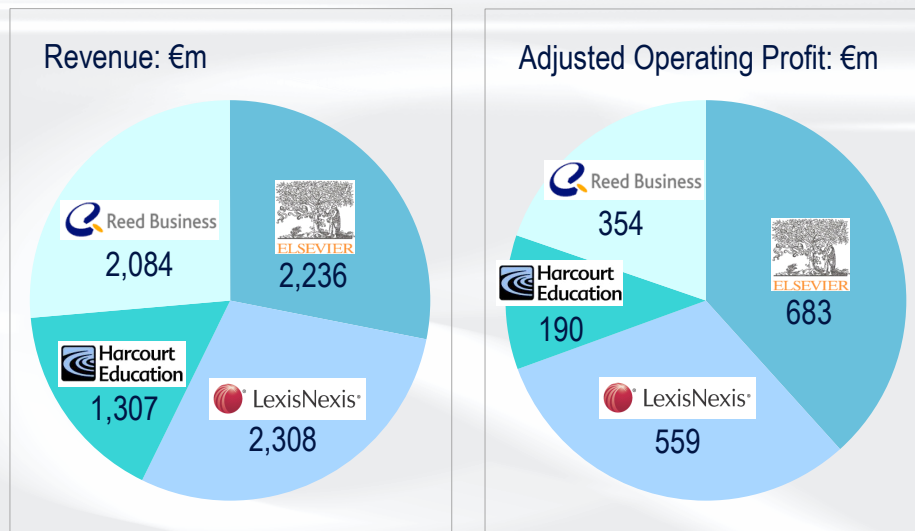
Financial Information in Euros

 Reed Elsevier

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Revenue and Adjusted Operating Profit (in Euros)

Reed Elsevier



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Adjusted Profit and Loss

Reed Elsevier

12 months to 31 December	2006 £m	2005 £m	2006 €m	2005 €m	% change constant
Revenue	5,398	5,166	7,935	7,542	+6%
Adjusted operating profit	1,210	1,142	1,779	1,667	+9%
Adjusted operating margin	22.4%	22.1%	22.4%	22.1%	
Net interest expense	(158)	(140)	(233)	(204)	
Adjusted profit before tax	1,052	1,002	1,546	1,463	+9%

Adjusted figures are stated before amortisation of acquired intangible assets, acquisition integration costs and disposal gains 34

From print... to online From local... Reed Elsevier ...to global From information... to solutions

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Elsevier



	2006	2005	2006	2005	% change
12 months to 31 December	£m	£m	€m	€m	constant
Revenue	1,521	1,436	2,236	2,097	+8%
Adjusted operating profit	465	449	683	655	+10%
Adjusted operating margin	31%	31%	31%	31%	

- Underlying: revenue up 5%; adjusted operating profit up 8%
- Strong subscription renewals, growing online sales, successful book publishing programme
- Significant improvement in underlying margin up 0.9% pts; reported margin reflected low (but improving) acquisition margins and lower hedge rates
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LexisNexis



	2006	2005	2006	2005	% change
12 months to 31 December	£m	£m	€m	€m	constant
Revenue	1,570	1,466	2,308	2,140	+8%
Adjusted operating profit	380	338	559	493	+13%
Adjusted operating margin	24%	23%	24%	23%	

- Underlying: revenue up 7%; adjusted operating profit up 13%
- Organic revenue growth compares with +6% in 2005; +4% in 2004
- Strong subscription renewals, new total solutions sales in US and internationally, good growth in patent volumes and risk and analytics
- Significant improvement in margin up 1.1% pts
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Harcourt Education



12 months to 31 December	2006 £m	2005 £m	2006 €m	2005 €m	% change constant
Revenue	889	901	1,307	1,315	-%
Adjusted operating profit	129	161	190	235	-19%
Adjusted operating margin	15%	18%	15%	18%	

- US K-12 revenues up 1% in market down 6%
- Strong share performance in adoptions; good response to new supplemental publishing
- Lower revenues and contract cost overruns in assessment; new management in place and organisational changes made
- Lower margin due to flat revenues, investment ahead of 2007 adoptions, sales mix and difficulties in assessment

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Reed Business



12 months to 31 December	2006 £m	2005 £m	2006 €m	2005 €m	% change constant
Revenue	1,418	1,363	2,084	1,990	+5%
Adjusted operating profit	241	214	354	313	+14%
Adjusted operating margin	17%	16%	17%	16%	

Exhibitions:

- Underlying: revenues up 10%, profits up 16%
- Strong performances in annual and biennial shows

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Adjusted Operating Cashflow

Reed Elsevier

12 months to 31 December	2006 £m	2005 £m	2006 €m	2005 €m
Adjusted operating profit	1,210	1,142	1,779	1,667
Capital expenditure	(196)	(195)	(288)	(285)
Depreciation	162	144	238	210
	(34)	(51)	(50)	(75)
Share based payments	49	57	72	83
Working capital and other items	(73)	(68)	(108)	(98)
Adjusted operating cashflow	1,152	1,080	1,693	1,577
Cash flow conversion rate	95%	95%	95%	95%

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Free Cashflow

Reed Elsevier

	2006 £m	2005 £m	2006 €m	2005 €m	% change £	% change €
Adjusted operating cashflow	1,152	1,080	1,693	1,577	+7%	+7%
Interest and tax paid	(335)	(316)	(492)	(461)	+6%	+7%
Free cashflow before dividends	817	764	1,201	1,116	+7%	+8%
Dividends	(371)	(336)	(545)	(491)		
Share buyback programme	(217)	-	(319)	-		
Acquisitions / disposals (net)	(145)	(309)	(214)	(452)		
Share option proceeds (net)	25	(2)	37	(2)		
Change in net debt from cashflows	109	117	160	171		

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Reported Profit Attributable



12 months to 31 December	2006 £m	2005 £m	2006 €m	2005 €m
Adjusted profit before tax	1,052	1,002	1,546	1,463
Amortisation, acquisition integration, other	(331)	(301)	(486)	(440)
Reported profit before tax	721	701	1,060	1,023
Adjusted tax charge	(254)	(246)	(373)	(359)
Prior year disposals	65	-	96	-
Deferred tax on inter-affiliate lending	22	(44)	32	(64)
Deferred tax on acquired intangible assets / other	71	53	104	77
Reported tax charge	(96)	(237)	(141)	(346)
Reported profit attributable	623	462	919	677
Reed Elsevier PLC adjusted EPS	33.6p	31.5p		
Reed Elsevier NV adjusted EPS			€0.76	€0.70

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Further Information

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Revenue Reconciliation



12 months to 31 December	£m	% change	€m	% change
2005 Revenue	5,166		7,542	
Base businesses	232	+5%	339	+5%
Acquisitions	98	+2%	143	+2%
Disposals	(28)	-1%	(41)	-1%
Currency effects	(70)	-2%	(48)	-1%
2006 Revenue	5,398	+4%	7,935	+5%

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Adjusted Profit Before Tax Reconciliation



12 months to 31 December	£m	% change	€m	% change
2005 Adjusted profit before tax	1,002		1,463	
Base business	80	+8%	117	+8%
Acquisitions / disposals	7	+1%	10	+1%
Currency effects	(37)	-4%	(44)	-3%
2006 Adjusted profit before tax	1,052	+5%	1,546	+6%

Adjusted figures are stated before amortisation of acquired intangible assets, acquisition integration costs and disposal gains

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Elsevier Growth and Currency Analysis



	Organic	Acquisitions/ Disposals	Constant currency	Year on year change in hedge rates	Other currency	Total
12 months to 31 December 2006						
Revenue	+5%	+3%	+8%	-2%	-1%*	+6%
Adjusted operating profit	+8%	+2%	+10%	-5%	-1%	+4%
Adjusted operating margin	+0.9%	-0.2%	+0.7%	-1.2%	-0.2%	-0.7%

12 months to 31 December 2005

Revenue	+5%	+3%	+8%	-2%	-1%*	+5%
Adjusted operating profit	+5%	-%	+5%	-4%	-%	+1%
Adjusted operating margin	-%	-0.8%	-0.8%	-0.9%	+0.4%	-1.3%

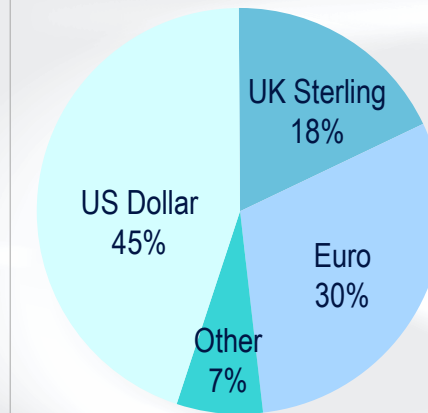
*includes effect of recognising revenues (IFRS) at spot rates where cross currency revenues and costs are internally matched

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Currency Profile



Adjusted profit before tax



Average rates for year:

	2006	2005
£		
US dollar	1.84	1.82
Euro	1.47	1.46
€		
US dollar	1.25	1.25
Sterling	0.68	0.68

Year end rates:

	2006	2005
£		
US dollar	1.96	1.73
Euro	1.49	1.46
€		
US dollar	1.32	1.18
Sterling	0.67	0.68

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Balance Sheet

Reed Elsevier

	2006 £m	2005 £m	2006 €m	2005 €m
Goodwill & intangible assets	5,326	6,009	7,936	8,773
Tangible fixed assets	298	314	444	458
Investments & net assets held for sale	123	164	183	240
Net pensions obligations	(236)	(405)	(351)	(591)
Working capital	(71)	(107)	(106)	(157)
Capital employed	5,440	5,975	8,106	8,723
Shareholders' equity	1,966	1,970	2,929	2,876
Net debt	2,314	2,694	3,448	3,933
Current & deferred tax (net)	1,159	1,270	1,727	1,856
Other net liabilities / minorities	1	41	2	58
	5,440	5,975	8,106	8,723

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Debt Ratios

Reed Elsevier

	2006	2005
Funds from operations / net debt	36%	29%
Retained free cashflow / net debt	21%	18%
Net debt / EBITDA	2.3x	2.8x
Long term credit rating	A- / Baa1 / A-	A- / A3 / A-

Net debt is pensions and lease adjusted

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Return on Invested Capital: Acquisitions 2004-2006

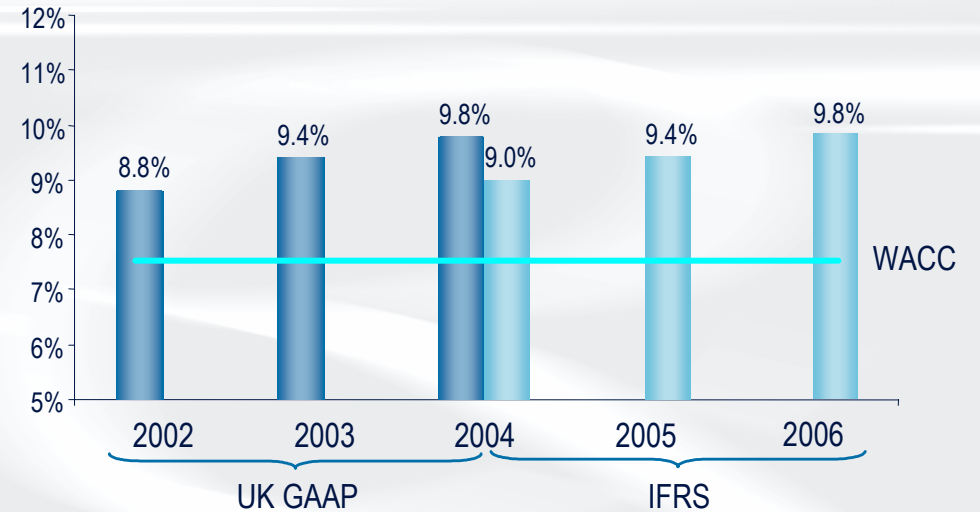


All Acquisitions	Revenue CAGR*	2006 post-tax return
Including:		
2004 Seisint, Saxon, Interface, Ordinate	18%	10%
2005 MediMedia MAP, PC Law, Univentio, Examen	5%	6%
2006 Gold Standard, HESI, Dataflight, Casesoft, Visualfiles	7%	5%*

* presented on a pro forma basis to 2006 from year prior to acquisition

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Return on Invested Capital: Reed Elsevier (post tax)



Post-tax return on average invested capital at average exchange rates for year

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Return on Invested Capital



	2006 £m	2005 £m
Adjusted operating profit	1,210	1,142
Less effective tax rate	(292)	(286)
	918	856
Capital employed	5,440	5,975
Cumulative amortisation	3,639	3,730
Year end invested capital at year end exchange rates	9,079	9,705
Average invested capital at average exchange rates	9,392	9,153
Return on average invested capital	9.8%	9.4%

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Dividend Equalisation



	Interim			Final		
	2006	2005	% change	2006	2005	% change
Reed Elsevier PLC (p)	4.10	3.70	+11%	11.8	10.70	+10%
UK tax credit rate	10%	10%		10%	10%	
Reed Elsevier PLC (gross)(p)	4.56	4.11		12.98	11.89	
Equalisation ratio	1.538	1.538		1.538	1.538	
Exchange rate (€:£)	1.46	1.45		1.51	1.46	
Reed Elsevier NV (€)	0.102	0.092	+11%	0.304	0.267	+14%

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Information for US Institutions



- Reed Elsevier PLC ADR (ticker: RUK) and Reed Elsevier NV ADR (ticker: ENL) traded on NYSE
- Each Reed Elsevier PLC ADR represents 4 Reed Elsevier PLC ordinary shares
- Each Reed Elsevier NV ADR represents 2 Reed Elsevier NV ordinary shares
- PLC and NV ADRs members of following indices:
 - NYSE Composite index
 - BoNY Composite ADR index
 - BoNY Developed Markets ADR index
 - BoNY Europe ADR index
 - BoNY Europe 100 ADR index
- Depository is The Bank of New York



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