



## **Reed Elsevier NV**

# Agenda Annual General Shareholders Meeting 2006\*

To be held at Hotel Okura, Ferdinand Bolstraat 333, Amsterdam, The Netherlands  
on Wednesday, 19 April 2006 at 10.30 am

\* This is a convenience translation of the original agenda in the Dutch language. In case of differences between these documents the Dutch version prevails.

# Letter to the holders of Reed Elsevier NV shares

Dear shareholders,

Amsterdam, 10 March 2006

## Annual General Meeting 2006

### Introduction

The Annual General Meeting of Reed Elsevier NV (the 'company') will be held on Wednesday, 19 April 2006 from 10.30 am at the Okura Hotel in Amsterdam ('AGM'). The agenda for the meeting and a route map are attached to this letter.

For attendance and voting at the AGM the requirements set out in the notice of meeting published on Wednesday 15 March 2006 will apply. A copy of the notice is attached to this agenda as Appendix A. The combined board has determined that Wednesday 12 April 2006 shall be the registration date on which shareholders wishing to attend the AGM must be registered as shareholders by banks in the Netherlands associated with the Dutch giro institute Euroclear Nederland (previously NECIGEF). Shareholders who do not wish to attend the meeting in person can obtain a proxy form from the offices of the company or from our website. Proxy forms should be submitted to the Secretariat of the company no later than Friday 14 April 2006. Shareholders participating in the Dutch Shareholder Communication Channel have received the agenda and a proxy form and have the facility to vote electronically via [www.proxyvote.nl](http://www.proxyvote.nl), by using the control number on the proxy form

There will be electronic voting at the AGM. For that purpose proxy holders representing different shareholders and who have received voting instructions such that they cannot vote all the shares for which they will be attending in the same manner (for, against, abstention) for each individual agenda item, will need to contact the Secretariat of the company (see contact details set out at the end of this letter) no later than Friday, 14 April 2006, to enable appropriate processing of those instructions.

In addition to the information in the agenda I will now provide some further explanation in respect of individual agenda items.

### Agenda item 3: Approval of the 2005 Annual Financial Statements

The Reed Elsevier Annual Reports and Financial Statements 2005, the Reed Elsevier Annual Review and Summary Financial Statements 2005, a Dutch translation of the latter document, and the Annual Report on Form 20-F are available from the company's website ([www.reedelsevier.com](http://www.reedelsevier.com)). Printed copies of these documents can be requested from the offices of the company.

### Agenda item 4:

This annual agenda item concerns the waiver of claims against the members of the executive board and of the supervisory board, separately. I refer to the agenda.

### Agenda item 5: Dividend

The equalised final dividends proposed by the respective boards of Reed Elsevier NV and Reed Elsevier PLC are €0.267 for Reed Elsevier NV and 10.7p for Reed Elsevier PLC, both up 11%. Together with the interim dividends, these give total dividends for the year of €0.359 and 14.4p respectively, up 9% for Reed Elsevier NV and 11% for Reed Elsevier PLC on the prior year dividends. The difference in dividend growth rates reflects the impact of currency movements since the prior year dividend declaration dates. This increase in dividends reflects the more progressive dividend policy announced last year, that more closely aligns dividend growth with growth in adjusted earnings.

**Agenda item 6: Appointment of external auditors for 2006**

The Audit Committee has conducted a formal review of the performance of the external auditors and the effectiveness of the audit process for both the external and internal audit activities. Based on this review, and on their subsequent observations on the planning and execution of the external audit for the year ended 31 December 2005, the Audit Committee has recommended the re-appointment of Deloitte Accountants BV as the external auditors of the company. The supervisory board follows this recommendation with the support of the executive board.

**Agenda item 7: Changes to the Long Term Incentive Share Option Scheme 2003**

The Remuneration Committee has recently reviewed the operation of the Reed Elsevier Group plc Long Term Incentive Share Option Scheme (LTIS 2003) which was approved by shareholders in 2003. In light of developments in best practice, and following consultation with major shareholders, the Committee wishes to obtain approval for some changes to its operation. The Committee's intention is to ensure that the LTIS 2003 reflects best practice and aligns the remuneration programme for executive directors with the delivery of value to shareholders. Full details are set out in Appendix C to the agenda, but the main points are set out below.

If the meeting approves the proposed changes to the LTIS 2003 it will from 2006 be operated as follows:

- grants will be made annually, rather than every three years as previously;
- relative Total Shareholder Return (TSR) will be introduced as a performance measure, in addition to adjusted earnings per share (adjusted EPS) growth;
- awards will consist solely of performance shares (rather than a mix of performance shares and market value options); and
- any shares that vest will be treated as attracting dividends during the performance period.

The Committee continues to believe that the engine for the creation of long term shareholder value is sustained growth in profitability (for which the primary measure is adjusted EPS growth). A demanding adjusted EPS growth target over a three year performance period will therefore remain the primary driver of the LTIS 2003. However, TSR performance will be used to adjust any awards earned for adjusted EPS growth. The effect of this change is that the new scale of reward for adjusted EPS growth will, in isolation, generate lower reward than under the current scheme. However, in combination with strong TSR performance, there will be scope for better reward. We consider the proposed mechanism to be tougher than normal UK practice because the TSR element can improve the payments to participants if, but only if, the adjusted EPS part of the test has first been achieved.

Reed Elsevier's TSR will be tested against a selected international group of competitor companies. TSR for each company in the comparator group will be calculated in the currency of its primary listing.

No other material changes to the operation of the LTIS 2003 are proposed. Specifically, the annual expected present value of awards to executive directors will remain broadly unchanged from present levels.

If the proposed changes to the LTIS 2003 are approved, the shareholding requirement will be increased from 1.5 times to three times salary for the Group Chief Executive Officer and from 1.5 times to two times salary for Executive Directors. These increased holdings are to be achieved by 2009. The Committee considers that this will further align directors' and shareholders' interests.

The Committee is satisfied that these changes will improve the alignment of the interests of the senior management team with those of shareholders while maintaining (but not enhancing) the competitive position of our package and reinforcing our high performance goals.

## Letter to the holders of Reed Elsevier NV shares (continued)

The Committee will retain full discretion to reduce or cancel awards to participants based on its assessment as to whether Reed Elsevier's adjusted EPS and relative 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.

### **Agenda items 8 and 9: Changes in the supervisory board and in the executive board**

We have been conducting a search for a suitable non executive director, and I am delighted to be able to report that this has resulted in the joint Nominations Committee recommending the appointment of Lisa Hook as a new member of the supervisory board and as a non-executive director of Reed Elsevier PLC. Lisa has over 20 years of management experience in media, entertainment and information businesses and she will bring invaluable insights to our board discussions. The combined board will submit a recommendation to the Annual General Meeting for the purpose of considering Lisa's appointment as a member of the supervisory board.

Mrs De Boer-Kruyt and Messrs Elliott, Van Lede and Reid will retire from the supervisory board by rotation at the end of the Annual General Meeting, and, being eligible, offer themselves for re-election.

Messrs Van de Aast and Tierney will retire from the executive board by rotation at the end of the Annual General Meeting, and, being eligible, offer themselves for re-election.

The Corporate Governance Committee, comprising all the members of the supervisory board, annually reviews the performance of the executive board and the supervisory board and of the committees of these boards. The Committee also assesses the individual performance of the members of these boards and committees and has concluded that the performance of each director, including the individuals retiring by rotation, continues to be effective and that they continue to demonstrate commitment to their respective roles in the company. Based on this assessment the Nominations Committee recommends their (re-)appointment.

Biographical information in relation to the directors recommended for (re-)appointment appears in Appendix B to the Agenda. Appointments of directors are for a maximum period of three years in accordance with the rotation schedule for Reed Elsevier's directors. Appointments to the supervisory board are made in accordance with the profile for that board. Both the rotation schedule and the profile for the supervisory board are available from the Reed Elsevier website ([www.reedelsevier.com](http://www.reedelsevier.com)).

### **Agenda item 10: Authority for the executive board to acquire own shares**

This is an annually recurring agenda item that is intended to give the executive board the necessary flexibility to acquire shares. The maximum price for share repurchases is described in the agenda. Share repurchases shall not exceed or result in a holding by the company of its own shares in excess of 10% of the issued share capital. The authority will be used only in circumstances where the combined board, after careful consideration, believes that a repurchase would result in an expected increase in earnings per share and would be in the interest of the company and of its shareholders.

This agenda item will enable the company to continue to operate the annual share repurchase programme, announced on 16 February 2006. The combined board believes that this new programme will enhance shareholder returns whilst retaining the financial capability to continue to develop the business through both organic and acquisition investment. This programme, together with our dividend policy, is expected to return to shareholders in the region of 70-80% of free cash flow in 2006. The repurchase of shares in the company and Reed Elsevier PLC will reflect the equalisation ratio.

**Agenda item 11: Authority for the combined board to issue shares, grant share options and restrict pre-emptive rights**

This proposal is also an annually recurring agenda item. The first proposed resolution aims at renewing the authority of the combined board to issue shares and to grant share options. The authority is for a period of 18 months and shall be restricted as described in the agenda. It may be used for instance to generate the funds required for an acquisition of a business or asset by Reed Elsevier or to enable transactions where it will be agreed that payment shall be wholly or partly in shares in the company or in share options. The authority will furthermore be used to enable the grant of share options under the various share based incentive schemes for executive directors and staff. The combined board will only use the authority if it is considered that such would be in the interest of the company and its shareholders.

The second resolution is the necessary complement of the first and intends to authorise the combined board to cancel the pre-emptive rights of existing shareholders in respect of share issues or share option grants pursuant to resolutions of the combined board. Shareholders have no pre-emptive rights in the event of share issues or option grants to employees or against a contribution in kind, nor when shares are issued to satisfy an exercise of share options.

I hope that a large proportion of our shareholders will attend the meeting in person or by proxy and we are looking forward to the opportunity to explain our good 2005 results. The executive board and the supervisory board consider that all the proposals submitted to the Annual General Meeting are in the best interest of the company and the shareholders as a whole. The members of the boards recommend you to vote in favour of the proposed resolutions, as they intend to do in respect of their own holdings.

Yours sincerely,

**Jan Hommen**

(Chairman of the supervisory board and Chairman of Reed Elsevier)

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# AGENDA

## ANNUAL GENERAL MEETING

of the shareholders of Reed Elsevier NV established in Amsterdam, The Netherlands ('the company') to be held on Thursday, 19 April 2006 from 10.30 am at the Okura Hotel in Amsterdam\*

An explanation of certain agenda items is given in the attached letter from the Chairman of the Supervisory Board and in the Appendices.

The term 'combined board' as used in this agenda has the meaning set out in the articles of association of the company and refers to the body corporate consisting of the members of the Executive Board and of the Supervisory Board

The notice for the meeting as published in accordance with the articles of association of the company and on the company's website is attached as Appendix A

1. **Opening**

2. **The Executive Board's report on the company's affairs and management during the 2005 financial year**

The report of the Executive Board is contained in the Reed Elsevier Annual Reports and Financial Statements 2005 and the Reed Elsevier Annual Review and Summary Financial Statements 2005.

An explanation will be given during the meeting.

3. **Approval of the 2005 Annual Financial Statements**

The Company's 2005 annual financial statements is contained in the Reed Elsevier Annual Reports and Financial Statements 2005 and the Reed Elsevier Annual Review and Summary Financial Statements 2005. These have been audited by Deloitte Accountants BV, who have issued an unqualified opinion. The auditor will be present during the meeting.

4. **Waiver of claims against the members of the Executive Board and of the Supervisory Board ('Kwijting')**

(a) In accordance with Article 31.2 of the articles of association, the shareholders are requested to waive any claims against the members of the Executive Board in respect of their functioning and in particular their management during the 2005 financial year.

(b) In accordance with Article 31.2 of the articles of association, the shareholders are requested to waive any claims against the members of the Supervisory Board in respect of their functioning and in particular the supervision of management during the 2005 financial year.

These waivers are restricted to matters that have been disclosed or which are evident from the Reed Elsevier Annual Reports and Financial Statements 2005 or the Reed Elsevier Annual Review and Summary Financial Statements 2005.

\*Route map attached as appendix

**5. Dividend**

Subject to adoption of the 2005 annual financial statements by the meeting, the Combined Board proposes a 2005 final dividend of €0.267 per ordinary share of €0.06 par value. Taking into account the €0.092 interim dividend per ordinary share that was paid from 26 August 2005, this implies that the 2005 total dividend shall be €0.359. The final dividend will be payable from 12 May 2006 and the ordinary shares will trade ex-(final) dividend from 24 April 2006.

**6. Appointment of external auditors for 2006**

In pursuance of the recommendation from the Audit Committee, it is proposed by the Supervisory Board that the company's current external auditors, Deloitte Accountants BV, be appointed to audit the company's 2006 annual financial statements, under terms and conditions to be determined by the Supervisory Board. The principal considerations underlying this recommendation are set out in the letter from the Chairman of the Supervisory Board.

**7. Changes to Long Term Incentive Share Option Scheme 2003**

As explained in the letter of the Chairman of the Supervisory Board, it is recommended to approve changes to the Long Term Incentive Share Option Scheme (LTIS 2003). A more detailed explanation is given in appendix C.

**8. Changes in the Supervisory Board**

In accordance with a recommendation from the Nominations Committee Mrs Lisa Hook is nominated for appointment as a member of the Supervisory Board. Reference is made to the explanation in the attached letter of the Chairman.

As per the rotation schedule adopted by the Combined Board, Mrs G. de Boer-Kruyt and Messrs M. Elliott, C. van Lede and D. Reid will stand down from the Supervisory Board at the end of the meeting. In accordance with recommendations of the Nominations Committee, these members retiring by rotation are recommended for re-appointment. Voting on these recommendations will be separate for each of the candidates.

Reference is made to the letter from the Chairman and to Appendix B, which contain the considerations for these recommended appointments. The recommendations reflect the profile for the supervisory board.

In accordance with the Articles of Association, appointments to the Supervisory Board are for a maximum period of 3 years. All candidates recommended for appointment are eligible and have stated their willingness to accept an appointment. The relevant personal details of the candidates as referred to in Article 21.4 of the Articles of Association are set out in Appendix B to this agenda.

**9. Changes in the Executive Board**

As per the rotation schedule adopted by the Combined Board, Messrs G. van de Aast and P. Tierney will stand down as members of the Executive Board at the end of the meeting. In accordance with a recommendation from the Nominations Committee, they are recommended for (re-)appointment. Voting on these recommendations will be separate for each of the candidates.

The considerations for the above recommendations are set out in the attached letter of the Chairman of the Supervisory Board. In accordance with the Articles of Association, appointments to the executive board are for a maximum period of 3 years.

All candidates recommended for appointment to the Executive Board are eligible and have stated their willingness to accept an appointment. The relevant personal details of the candidates as referred to in Article 15.3 of the Articles of Association are set out in Appendix B to this agenda.

10. **Delegation to the Executive Board of the authority to acquire shares in the Company**

In accordance with the provisions of Article 9 of the Articles of Association, it is proposed that the Executive Board be granted the authority to repurchase the company's shares, through stock exchange trading or otherwise, for a period of 18 months ending on 30 September 2007, up to the maximum number of shares permitted as per the Articles of Association, for a price not below the nominal value and not exceeding 105% of the average market price of the Company's shares on Euronext Amsterdam during the five trading days immediately preceding the date of the purchase, and otherwise in accordance with applicable law in this respect. If it concerns R-shares, the price shall be calculated on the basis of the price of the ordinary shares in which they can be converted.

11. **Delegation to the Combined Board of the authority to resolve the issue of shares, the granting of option rights and the restriction of pre-emptive rights**

(a) In accordance with and within the limits of the provisions of Article 6.2 of the Articles of Association, it is proposed to designate the Combined Board as the body corporate authorised to resolve the issue of shares in the company and the granting of rights to acquire shares in the company, provided this authority shall be limited to 10% of the issued and outstanding share capital at close of trading on Euronext Amsterdam on 19 April 2006 and during a period which will end on 30 September 2007.

(b) In accordance with and within the limits of the provisions of Article 7.4 of the Articles of Association, it is proposed to designate the combined board as the body corporate authorised to restrict or cancel the pre-emptive rights of shareholders at an issue of shares or a grant of rights to acquire shares which are resolved by the combined board, for a period which will end on 30 September 2007.

12. **Other matters**

13. **Close of Meeting**

- Appendix A: Call for the Annual General Meeting  
Appendix B: Biographical details regarding candidates for appointment to the boards  
Appendix C: Long Term Incentive Scheme  
Appendix D: Route map

## Appendix A to the Agenda for the Annual General Meeting 2006

### Notice of Meeting

#### Annual General Shareholders Meeting Reed Elsevier NV

established at Amsterdam, Radarweg 29, Netherlands (Trade Register Amsterdam nr. 33155037)  
to be held on Wednesday 19 April 2006, from 10.30 a.m. in Hotel Okura, Ferdinand Bolstraat 333, Amsterdam

Shareholders and others with attendance rights are hereby invited to attend the meeting. Next is an abridged version of the agenda.:

1. Opening
2. Executive Board's report on 2005
3. Approval of the 2005 annual financial statements
4. Waiver of claims against the members of the Executive Board and/or the Supervisory Board
5. Dividend
6. Appointment of Deloitte Accountants BV as external auditors for 2006
7. Changes to Long Term Incentive Share Option Scheme 2003
8. Changes in the Supervisory Board
9. Changes in the Executive Board
10. Delegation to the Executive Board of the authority to acquire shares in the company
11. Delegation to the Combined Board of the authority to issue shares, grant share options and restrict or cancel pre-emptive rights
12. Other matters
13. Close of meeting

The complete agenda, the documents for the meeting, the annual financial statements, as well as a proxy form, can be obtained from the offices of the company and are available from the Reed Elsevier website ([www.reedelsevier.com](http://www.reedelsevier.com)).

#### Registration Shareholders

Shareholders who wish to attend the meeting should procure that their bank or broker who has custody of their shares (through a representative bank in the Netherlands), notifies ABN AMRO Bank N.V. (Servicedesk, tel. [+31-(0)76-5799455]) of their wish to attend the meeting, with evidence of their shareholding. This notification and confirmation should be given in writing no later than Wednesday, 12 April 2006 ('Registration Date') at 5 pm CET. A shareholder is entitled to attend the meeting if registered as a holder of Reed Elsevier NV shares on Wednesday, 12 April 2006 at 5 pm (CET) following processing of all transactions on that day and provided the following conditions shall have been met. A registration voucher will serve as entrance ticket.

#### Registered shareholders

Persons who are registered in the shareholders register of the company on the Registration Date at 5 pm (CET) as a holder of registered shares or as usufructuaries or holders of a pledge over shares with voting rights in respect of such shares, are entitled to attend the meeting, provided the company will have received the notification of their intention to attend the meeting ultimately on the Registration Date at 5 pm (CET).

**Proxy voting**

Shareholders, usufructuaries and holders of pledges over shares who are entitled to attend the meeting, may authorise a third party to represent them at the meeting. Their proxy in writing should be received by the company no later than Friday, 14 April 2006. A proxy form can be downloaded from Reed Elsevier's website [www.reedelsevier.com](http://www.reedelsevier.com).

Holders of Reed Elsevier NV shares registered with the Dutch Shareholder Communication Channel (Stichting Communicatiekanaal Aandeelhouders) will receive the agenda for the meeting by mail, together with a voting instruction form enabling them to vote through a proxy. The voting instruction form should be received no later than Wednesday, 12 April 2006 by Proxy Services, International Business Reply Services I.B.R.S./C.C.R.I. Numero 55012, 3640 VB Mijdrecht, Netherlands, by using the reply paid envelop. This year for the first time participants will be able to vote electronically via [www.proxyvote.nl](http://www.proxyvote.nl), by using the control number on the proxy form.

Amsterdam, 15 March 2006

Combined Board

Communication with the company regarding the above information through:

Company Secretariat Reed Elsevier NV  
Tel. +31(0)20 4852434, Fax +31 (0)20 6180325  
PO Box 470, 1000 AL Amsterdam  
Netherlands

## Appendix B to the Agenda for the Annual General Meeting 2006

### BIOGRAPHICAL INFORMATION

#### **Agenda item 8: Candidates recommended for appointment to the Supervisory Board**

Information on the remuneration of the Supervisory Board members is provided in the Report of the Remuneration Committee in the annual reports 2005.

#### **Lisa Hook (48)**

Proposed for appointment to the boards of Reed Elsevier NV and Reed Elsevier PLC at their respective Annual General Meetings in 2006, and as a non-executive director of Reed Elsevier Group plc. Until December 2004 was President of AOL Broadband, Premium and Developer Services. Prior to joining AOL was a partner at Brera Capital, a New York based leveraged buyout fund and at Alpine Capital, a private equity fund focused on media and telecom investments. Previously was Vice President at Time Warner Inc. where she managed corporate transactions, mergers and acquisitions, and before that was Executive Vice President/Chief Operating Officer at Time Warner Telecom. Started her career at the US law firm of Hogan & Hartson, having graduated at Duke University and the Dickinson School of Law. Serves as a director of Covad Communications Inc. and of K12 Inc. and is a member of the Board of Trustees of the National Public Radio Foundation. Mrs Hook has the nationality of the United States. She holds no shares in Reed Elsevier NV.

**Dien de Boer-Kruyt (61)** Appointed in 2000. Mrs De Boer is a member of the supervisoryboards of Reed Elsevier Nederland BV and Elsevier Reed Finance BV. She is also a member of the supervisory boards of Allianz Nederland Group NV, Imtech NV and Sara Lee/DE, a subsidiary of Sara Lee Corporation. Mrs De Boer has broad experience as a supervisory board member and has a good understanding of Dutch human resources and corporate governance issues. Mrs De Boer is independent and does not hold shares in Reed Elsevier NV.

#### **Mark Elliott (56)**

Appointed in 2003. A member of the Remuneration and Corporate Governance Committees. General Manager IBM, Global Solutions. Held a number of positions with IBM, including Managing Director of IBM Europe, Middle East and Africa. Served on the board of IBAX, a hospital software company jointly owned by IBM and Baxter Healthcare, and as chairman of the Dean's Advisory council of the Kelly School of Business, Indiana University. With a US background, he has knowledge of the US business environment and corporate governance matters, combined with experience in a large multinational technology company. Mr Elliott is a citizen of the United States. He is independent and does not hold shares in Reed Elsevier NV.

#### **Cees van Lede (63)**

Appointed in 2003. A member of the Nominations, Remuneration and Corporate Governance Committees. Chairman of the supervisory board of Heineken NV and a member of the supervisory boards of Air Liquide SA, Akzo Nobel NV, Royal Philips Electronics NV, and Air France-KLM, and a non-executive director of Sara Lee Corporation. Was chairman of the board of management of Akzo Nobel NV until his retirement in May 2003. Mr van Lede is a former chairman of the Federation of Dutch Industries (VNO) and a former vice-president of UNICE, the European Confederation of Employers' organisations. Mr van Lede has broad experience of the Dutch and international business environment. Mr Van Lede is a citizen of The Netherlands. He is independent and holds 11,100 shares in Reed Elsevier NV.

**David Reid (59)**

Appointed in 2003. A member of the Audit and Corporate Governance Committees. Non-executive chairman of Tesco PLC, having previously been executive deputy chairman until December 2003, and finance director from 1985 to 1997. Mr Reid is a chartered accountant and has broad experience as an executive and a non executive director of multinational companies, with corporate governance experience and financial expertise. He is a citizen of the United Kingdom. He is independent and does not hold shares in Reed Elsevier NV.

**Agenda item 9: Candidates recommended for appointment to the Executive Board**

Detail of 2005 remuneration, interests in shares and share options of the candidates is provided in the Report of the Remuneration Committee in the Reed Elsevier Annual Reports and Financial Statements 2005.

**Gerard van de Aast (48)** Chief Executive Officer of the Reed Business division since 2000. Prior to joining Reed Elsevier was Vice President and General Manager of Compaq's Enterprise business in Europe, Middle East and Africa. Mr Van de Aast is a citizen of The Netherlands.

**Patrick Tierney (60)** Chief Executive Officer of the Harcourt Education division since 2003. Prior to joining Reed Elsevier was chief executive officer of Thomson Financial, part of the Thomson Corporation. Mr Tierney is a citizen of the United States.

## Appendix C to the Agenda for the Annual General Meeting 2006

### LONG TERM INCENTIVE SHARE OPTION SCHEME (LTIS 2003)

As explained in the Chairman's letter, shareholders are requested to approve amendments to the LTIS 2003.

The table below sets out the level of potential awards for executive directors under the current scheme structure and under the proposed new structure. Awards are expressed as a percentage of an executive director's salary, adjusted for the fact that, as noted below, it is proposed that the award under the revised scheme be made entirely in shares rather than, as at present, a mix of shares and options.

The Remuneration Committee believes that the primary engine for the creation of long term shareholder value is sustained growth in profitability. In relation to shareholders, the primary measure of profitability is growth in adjusted earnings per share (Adjusted EPS). (Adjusted figures exclude the amortisation of acquired intangible assets, acquisition integration costs, gains on disposals and investments, related tax effects and movements on deferred tax balances not expected to crystallise in the near term.)

There is a shareholder preference for longer term incentive arrangements to include a performance measure based on shareholder return and the Remuneration Committee therefore proposes to apply a secondary measure of Total Shareholder Return (TSR) relative to a focused peer group to awards made under the LTIS from 2006.

For executive directors, the target annual grant levels over conditional shares will be around 135% of salary. However, for superior levels of Adjusted EPS growth and TSR performance, it will be possible to earn up to a maximum of 255% of salary as shown below. Lower levels of grant will apply to other senior executives invited to participate in the scheme.

	Current structure	Proposed new structure			
	Adjusted EPS Only	Adjusted EPS	TSR Uplift for relative TSR performance		
Adjusted EPS Growth			Median	62.5 percentile	Upper quartile & above
Below 8% p.a.	0%	0%	0%	0%	0%
8% p.a.	42%	38%	9%	19%	29%
10% p.a.	167%	108%	27%	54%	81%
12% p.a. & over	209%	146%	37%	73%	109%

As can be seen from the table, the current structure is based on Adjusted EPS growth only such that at 10% p.a. the reward would be 167% of salary. Whereas, for the same Adjusted EPS performance under the new structure the reward would drop to 108% of salary unless relative TSR performance was greater than median when executive directors would receive an uplift e.g. at 10% p.a. Adjusted EPS growth performance plus a TSR performance better than 62.5% of the comparator group, the reward would be 162% of salary i.e. 108% plus 54% for the achievement of Adjusted EPS and relative TSR respectively.

The achievement of both performance measures will be verified by the auditors of Reed Elsevier PLC and Reed Elsevier NV.

The following is a summary of the main features of the LTIS 2003 assuming the meeting will approve the amendments to be considered under agenda item 7:

- (a) **Introduction:** The LTIS 2003 permits the grant of rights to call for shares in Reed Elsevier PLC and Reed Elsevier NV at nil cost (conditional shares). The participant's right to call will be dependent on satisfying the demanding performance conditions described below.
- (b) **Annual grants:** Grants under the LTIS 2003 will be made annually, at the Remuneration Committee's discretion.
- (c) **Participation:** There will be approximately 140 participants in 2006, comprising executive directors and selected senior executives.
- (d) **EPS performance condition:** The primary performance condition on awards will continue to relate to the averaged compound growth in Adjusted EPS, expressed at constant exchange rates, of Reed Elsevier PLC and Reed Elsevier NV over a three-year performance period, with the vesting level of any award being determined on a sliding scale of between 8% – 12% as shown in the table above.

To ensure consistent measurement and accountability, for the purposes of the EPS target, Adjusted EPS will relate to the averaged compound growth in Adjusted EPS expressed at constant exchange rates of Reed Elsevier PLC and Reed Elsevier NV. The Remuneration Committee will have the discretion to adjust this definition of EPS to take account of any change in recognised accounting standards or practice, fiscal regime or capital structure, to ensure consistent measurement and accountability.

- (e) **TSR performance condition:** Any award earned through the Adjusted EPS growth performance condition may then be increased in line with Reed Elsevier's TSR performance against a comparator group over the three year period. No increase will be applied for performance which is below median and the maximum increase will be applied at upper quartile or higher levels of achievement. There will be no award to participants if Reed Elsevier fails to achieve the Adjusted EPS growth threshold irrespective of the associated TSR performance.

The percentage uplift available based on relative TSR performance is shown in the table above.

Straight line interpolation will be used to calculate vesting for intermediate levels of Adjusted EPS and TSR performance once the Adjusted EPS and/or TSR thresholds have been achieved. There will be no retesting of targets.

TSR will be calculated using starting and ending share prices which are averaged over the six months prior to the beginning and end of each performance period. The TSR of Reed Elsevier will be calculated as a simple average of the returns of Reed Elsevier PLC and Reed Elsevier NV on the London and Amsterdam markets respectively.

The comparator group for TSR purposes will comprise the 18 global competitors (excluding Reed Elsevier) listed below. They have been chosen to reflect the mix of businesses in Reed Elsevier's portfolio, the geographic spread of its operations, and the importance of the US market to the success of Reed Elsevier.

The Thomson Corporation	Choice Point
DMGT	McGraw Hill
EMAP	Dow Jones
Reuters Group	Informa
Lagardere	Pearson
United Business Media	Dun & Bradstreet
VNU	Fair Isaac
WPP	Wolters Kluwer
John Wiley & Sons	Taylor Nelson

Given these companies are listed on different markets in different currencies, the Remuneration Committee considered how to measure TSR, bearing in mind the Association of British Insurers' preference that TSR should be calculated in a single, common currency, although their guidelines allow for local currency to be used provided the reasons are fully explained.

The Committee concluded that in the context of our business it is more appropriate to calculate TSR for each company in the comparator group in the currency of its primary listing for the following reasons:

- it provides a more transparent incentive to executives, and a simpler plan;
- it automatically incorporates any adjustments which the market makes for the "operational" effects of currency movement;
- we believe that many global investors manage their own currency exposure, and therefore focus on the TSR delivered by a company in the currency of its primary listing; and
- the lack of an obvious "common" currency to choose, capable of creating alignment with the global investor population of Reed Elsevier PLC and Reed Elsevier NV, spread among identified beneficial holders of approximately UK 41%, rest of Europe 13% and North America 26%.

- (f) **Adjustment of vesting level:** The Remuneration Committee will retain full discretion to reduce or cancel awards to participants based on its assessment as to whether the performance targets in (d) and (e) above are a fair reflection of 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 on individual performance.
- (g) **Dividends:** Any shares which vest will be treated as attracting dividends during the performance period.
- (h) **Personal Shareholding requirement:** It is a requirement of the LTIS 2003 that executive directors and senior executives should build up a significant personal shareholding in Reed Elsevier PLC and/or Reed Elsevier NV. At executive director level this shareholding guideline is that they should own shares equivalent to two times salary (three times salary in the case of the Chief Executive) compared to 1.5 times previously. These shareholding levels must be attained by 2009 in relation to grants made in 2006. Failure to meet the shareholding required by a participant will result in the forfeiture of rights under the LTIS 2003.
- (i) **Equity Dilution:** Grants under the LTIS 2003 will not be made if, as a result, the number of shares in Reed Elsevier PLC and Reed Elsevier NV, which have been issued or are capable of being issued pursuant to rights granted in the last 10 years under all Reed Elsevier share incentive schemes, would exceed 10% of the issued share capital of Reed Elsevier PLC and Reed Elsevier NV.

It is the intention that entitlements under the LTIS 2003 will be satisfied by the purchase of shares in the market or the issue of new shares, or a combination of both dependent on the particular circumstances and the balance of advantage at the relevant time. The Remuneration Committee will comply with the ABI guideline that an employee trust should not hold more than 5% of equity without specific shareholder approval.

- (j) **Good Leavers:** Conditional shares may be released following cessation of employment in customary "good leaver" circumstances (that is death, disability, injury or retirement), or otherwise where release is permitted at the Remuneration Committee's discretion. The vesting level of awards will be determined by the Remuneration Committee, which will have discretion to pro-rate awards and to permit release on leaving or to postpone release until it is known whether the performance condition would be met in the normal course.

- (k) **Change of Control, etc:** There will be no automatic vesting following a Change of Control. Conditional share awards may be released on a takeover or winding-up of either Reed Elsevier PLC or Reed Elsevier NV (or, in certain circumstances, may be exchanged for awards over shares in an acquiring company). The vesting level of awards will be determined by the Remuneration Committee having regard to corporate performance achieved over the foreshortened period ending with the relevant event, subject to modification if the Remuneration Committee considers that the performance condition would be met to a greater or lesser extent at the normal testing date. In the event of an exchange of awards, the performance condition will cease to apply unless the Remuneration Committee considers that it should continue (subject to such modifications as are appropriate). In the event of a change of control as part of a capital reorganisation (for example, the creation of a new holding company), awards will be exchanged automatically, and the performance conditions will continue to apply.
- (l) **Termination:** No award under the LTIS 2003 may be granted more than 10 years after its approval by shareholders in April 2003.
- (m) **Amendments:** The Remuneration Committee may amend the rules of the LTIS 2003 provided that no change to the rules governing eligibility, the limits on the number of shares available under the LTIS 2003, the maximum entitlement for any one participant and the consequences of variations of capital to the advantage of participants (except minor amendments to benefit the administration of the LTIS 2003, or to obtain or maintain favourable tax, exchange control or regulatory treatment) can be made without the approval of shareholders of Reed Elsevier PLC and Reed Elsevier NV. Amendments cannot be made to affect adversely any right already acquired by a participant.
- (n) **Variation of Capital:** In the event of any capitalisation or rights issue by either Reed Elsevier PLC or Reed Elsevier NV, or of any consolidation, sub-division or reduction of their share capital, the number of conditional shares may be adjusted by the Remuneration Committee, subject to the auditors of Reed Elsevier PLC and of Reed Elsevier NV confirming in writing that such adjustment is, in their opinion, fair and reasonable.
- (o) **General:** Benefits under the schemes will not be pensionable.

## Appendix D

### to the agenda for the Annual General Meeting 2006

#### **ROUTE MAP OKURA HOTEL, AMSTERDAM**

##### **Public transportation:**

From Central Station:  
tram 25 - stop Cornelis Troostplein or Churchillaan

From Sloterdijk Station:  
tram 12 - stop Cornelis Troostplein or Churchillaan  
bus 15 - stop Scheldestraat/Churchillaan

From Amstel Station  
tram 12 - stop Cornelis Troostplein or Churchillaan  
bus 15 - stop Scheldestraat/Churchillaan

From Muiderpoort:  
bus 15 - stop Scheldestraat/Churchillaan

From RAI Station  
From the station turn left; along the roundabout; follow the road straight ahead;  
10 -15 minutes' walk to Hotel Okura

##### **By car:**

##### **From all directions follow Ring A10.**

Exit RAI (S109) and at lights turn right direction RAI/Centrum (S109).

Follow road signs direction Zuid (S109). At roundabout, via Europaplein, go straight into Scheldestraat. At lights, crossing Churchillaan, go straight on. Across the bridge you will see the Okura Hotel (high rise) at your right.

##### **Parking at Okura Hotel**

40 Spaces above ground. 100 Spaces below ground. Limited availability.  
Paid parking in the neighbourhood.



