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29th January 2010

Hazel O'Sullivan
Project Director
The Audit Practices Board

Re: Non-Audit Services Consultation Document

In response to the consultation on provision of non-audit services by audit firms to listed companies that they audit, I make the following comments:

1. The existing requirements are well understood, are taken very seriously by Boards of Directors and Audit Committees, and seem to be well managed.
2. The ability of companies to be able to choose their auditors for certain non-audit services, including tax services, is important in providing high quality services (based on proper understanding of the business) in a cost effective manner (leveraging cumulative knowledge).
3. From my previous experience as an audit partner, I found that the provision of non-audit services brought greater insight into the companies being audited, thereby increasing audit quality.
4. A vibrant audit profession is crucial to corporate governance; further restrictions on what auditors can and cannot do may well serve to undermine the attractiveness of the profession to high quality individuals through the narrowing of opportunity and professional satisfaction.
5. If it's broke, fix it. If it ain't broke, don't fix it.

I attach for your information Reed Elsevier's policy on auditor independence which we believe appropriately addresses the independence issues.

I would be very happy to discuss these comments further.

Yours sincerely



Mark Armour
Chief Financial Officer

Att:

REED ELSEVIER PLC AND REED ELSEVIER NV

POLICY ON AUDIT EFFECTIVENESS AND INDEPENDENCE OF AUDITORS

The Boards of Reed Elsevier PLC and Reed Elsevier NV are committed to ensuring that the financial statements of their respective companies and of the Reed Elsevier combined businesses have an effective and independent annual audit. The Boards of Reed Elsevier PLC and Reed Elsevier NV have delegated to their respective Audit Committees responsibility for reviewing the effectiveness of the external audit and the independence and objectivity of the auditors. The independence of the external auditors should be both in fact and appearance. In making these assessments the Audit Committees will have regard to the relevant professional and regulatory requirements.

As shareholders of Reed Elsevier Group plc and Elsevier Reed Finance BV, Reed Elsevier PLC and Reed Elsevier NV expect those companies to conform to this policy. References to audits, auditors and Audit Committees should be construed as relating to the relevant company or the Reed Elsevier combined businesses as the context suggests.

Appointment of Auditors

The selection of auditors is primarily the responsibility of the Audit Committee. Resolutions to appoint auditors should be put to shareholders each year. The Audit Committee should make an annual assessment of the effectiveness of the external audit and confirm the auditors' independence, prior to making a recommendation to the Board in respect of any reappointment.

At least every five years, the Audit Committee should consider a tendering of the audit, even if there is no specific concern as to auditor performance or independence.

Audit Terms of Engagement, Scope and Fees

The terms of engagement and scope of the annual audit of the financial statements should be presented to, discussed with and agreed by the Audit Committee in advance of the engagement of the auditors in respect of the annual audit. The Audit Committee should approve the fees for the audit.

Independence and the Provision of Non-Audit Services

The auditors and their staff should have no financial, employment or business relationship (other than envisaged herein or, in the case of supplies by Reed Elsevier to the auditors, in the normal course of business) with Reed Elsevier. Investment, directly or indirectly, in the shares of Reed Elsevier PLC and Reed Elsevier NV, and any subsidiary or affiliate companies, is prohibited.

The auditors are precluded from engaging in non-audit services that would compromise their independence or violate any laws or regulations affecting their appointment as auditors. Non-audit services that may not be provided by auditors

have been specified by the SEC and US Congress and this will apply within Reed Elsevier. The Audit Committee will consider SEC rules and other guidelines in determining the scope of such prohibited services.

In general, the auditors may not provide a service which:

- a) Creates a mutuality of interest;
- b) Places the auditor in a position to audit their own work;
- c) Results in the auditor acting as a Reed Elsevier manager or employee;
- d) Puts the auditor in the role of advocate for Reed Elsevier.

Specifically, the following services may not be provided by the auditors:

- a) Bookkeeping or other services related to the accounting records or financial statements;
- b) Financial information systems design and implementation;
- c) Appraisal or valuation services, providing fairness opinions or preparing contribution in kind reports;
- d) Actuarial services;
- e) Internal audit outsourcing services;
- f) Management functions or human resources services;
- g) Broker or dealer, investment advisor or investment banking services;
- h) Legal services and expert services unrelated to the audit; and
- i) Any other service that is prohibited through regulation.

Certain types of activity precluded in the above list may be required under local laws. Any such conflicts will require resolution through application to the relevant regulatory bodies, under the supervision of the Audit Committee.

The auditors may provide non-audit services that do not conflict with their independence, subject to the prior approval of the Audit Committee. Such services typically might include audit related services, such as advice on accounting policies, royalty audits, prospectus reports, etc, and non-audit related services, such as tax compliance and advice, IT and management consulting other than as precluded above, and acquisition and disposal due diligence reviews. Fees in respect of non-audit services should be activity based and not success related. For record keeping and disclosure purposes, all types of services must be identified as audit, audit related, tax or other services.

The auditors are eligible for selection to provide non-audit services only to the extent that their skills and experience make them a logical supplier of the services. Where other suppliers are equally placed to provide such services, there must be specific reasons why the auditors are chosen over others. These reasons should be explained to the Audit Committee. Mandatory tendering of non-audit services is not required, but tendering should be considered when it would be normal to hold a tender process for the particular type of supply.

The Audit Committee must pre-approve the provision of all non-audit services by the auditors. The Audit Committee has pre-approved non-audit services in respect of individual assignments for permitted services where the fees represent less than

10% of the annual audit fee, subject to the fees from such pre-approved assignments not exceeding 25% in aggregate of the total annual audit fee without ratification. Assignments outside these parameters must be specifically pre-approved by the Audit Committee in advance of the commissioning of the work. Aggregate non-audit fees must not exceed the annual audit fee in any given year, unless approved in advance by the Audit Committee.

Where the commissioning requirements fall between Audit Committee meetings, the Chairman of the Audit Committee may be approached for his/her approval, subject to details of this approval then being circulated to other Committee members and ratification at the following meeting. Where such ratification is not forthcoming, the assignment must be terminated forthwith.

The Audit Committee will be presented annually with a list of the non-audit services provided by the auditors and the fees involved.

Rotation of Audit Partners and Staff

It is to be expected that, for the audit of financial statements, there will be two senior audit partners: the "lead" partner, who takes the lead or coordinating role and has primary responsibility for the audit; and a "review" partner, who has responsibility for overview of the audit. Additionally, there may be a "junior" audit partner, supporting the "lead" partner, and "subsidiary" audit partners responsible for the audit of business units.

No member of the audit staff should serve more than ten consecutive years in a position of managerial or partner responsibility.

The lead and review partners should serve no more than five years continuously in either role. The junior and subsidiary partners should serve no more than seven consecutive years in the same role.

A partner rotated off audit lead or review responsibilities may not resume either role for a period of five years. A partner rotated off junior or subsidiary responsibilities may not resume the same role within three years.

The length of audit service of the partners engaged on the audit and their status of rotation should be recorded in a register and presented to the Audit Committee annually.

Auditor Relationships

Relationships with auditors should be professional and respectful of the need for there to be objectivity on the part of the auditor in the conduct of their audit responsibilities. Whilst it is recognised that a cordial relationship should foster open communication, which should assist the effectiveness of the audit, it is important that relationships remain businesslike. To this end, whilst business entertaining, common in other professional relationships, is permissible, a report should be provided to the Chairman of the Audit Committee each year detailing the extent of such entertainment.

Employment of Former Auditors

A former lead partner or review partner may not be recruited by Reed Elsevier unless a period of at least two years has expired since he/she held such a position.

Meetings between Auditors and Audit Committees

The auditors should raise directly with the Chairman or members of the Audit Committee any matters of concern that they have in relation to their audit responsibilities where they believe that the concerns may not be adequately addressed through the regular processes established with management.

At the Audit Committee meetings to approve the half-year and full year results, there must be a separate meeting of the auditors and Audit Committee members without executive management present. The auditors may also request at any time such a separate meeting with the Audit Committee.

Pursuant to applicable regulations of the SEC, the auditors must provide the Audit Committee with timely reports regarding:

- a) all critical accounting policies and practices used by the Company;
- b) analyses prepared by the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Company's management, the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the external auditor;
- c) major issues regarding accounting principles and financial statement presentations, including any major significant changes in the Company's selection or application of accounting principles;
- d) major issues as to the adequacy of the Company's internal controls and any specific audit steps adopted in light of material control deficiencies; and
- e) any other material written communications between the external auditor and the Company's management.

Report to Shareholders

Once it becomes established best practice, the Audit Committee should produce an annual report to shareholders describing the role and responsibilities of the Audit Committee and the actions taken by the Audit Committee to discharge those responsibilities. Such a report should include that the Audit Committee has reviewed the scope of the annual audit and the objectivity and independence of the auditors and is satisfied that the integrity of the audit has not been compromised and should explain to shareholders how the Committee's policy on the engagement of the external auditors to supply non-audit services provides adequate protection of auditor objectivity and independence.

The annual financial statements should disclose the amounts paid to the auditors both for audit and non-audit services, with a description of the services provided and, where thought appropriate, the reason for the services to have been provided by the auditors rather than another supplier.

Auditor Confirmation of Independence

The auditors are required each year to confirm in writing to the Audit Committee that they have complied with the independence rules of their profession and regulations governing independence, and that they have complied with the requirements of this policy.