

SPEO
THE ELSEVIER PENSION FUND FOUNDATION

SPEO
THE ELSEVIER PENSION FUND FOUNDATION
Amsterdam

Annual Report 2008
37th Financial Year

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SPEO
THE ELSEVIER PENSION FUND FOUNDATION

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Note

Amounts in the Annual Report are in thousands of euros unless explicitly stated otherwise.

In this report whenever the masculine is used this shall include the feminine.

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1 RATIOS AND INDICATORS

Financial year	2008	2007	2006	2005	2004
Income and expenditure					
Contrib. employers and members	22,951	23,342	24,710	21,739	17,798
Gross investment result	(110,887)	1,477	51,915	66,118	27,874
Investment costs	(2,346)	(1,569)	8	(75)	(199)
Movements in prov. pension liabilities	(123,946)	10,777	(24,665)	-	-
Pension payments	(15,080)	(13,728)	(12,454)	(11,346)	(10,431)
Balance of transfer rights	(1,354)	(2,642)	(1,182)	(1,347)	(215)
Other income and expenditure	(70)	(340)	99	113 ¹⁾	1,484 ¹⁾
Balance income and expenditure	(230,732)	17,317	38,431	75,202	36,311
Fund's capital					
Invested capital ²⁾	437,729	545,365	528,399	466,476	389,733
Other assets and liabilities	(725)	(1,575)	8,851	7,678	9,219
Fund's capital	437,004	543,790	537,250	474,154	398,952
Provisions for pension liabilities (PP)	519,961	396,015	486,652³⁾	461,987³⁾	437,631³⁾
Market value funding ratio (FTK)	84.0%	137.3%	132.1%	113.1%	109.8%
at an average actuarial rate of	3.53%	4.85%	4.26%	3.74%	4.40%
Capital requirement FTK	585,258	482,633	511,265	544,822	461,413
Capital requirement (% PP)	112.6%	121.9%	105.1%	117.9%	105.4%
Average gross return on investments	-20.0%	0.2%	10.9%	16.6%	7.6%
Contribution financial year					
Prescribed contribution	17.0%	17.0%	17.0%	13.0%	9.5%
Plus contribution related income	1.5%	1.7%			
Contributions received	18.5%	18.7%			
Cost-effective contribution	15.2%	18.2% ⁴⁾			

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Indexation

Indexation active members	2.75%	2.75%	1.25%	0.40%	0.00%
Indexation non-active members	2.75%	2.75%	1.25%	0.40%	0.00%

Scheme A number of members end 2008

Number of active members	2,738	2,832	2,959	3,052	3,170
Number of former members	3,870	3,552	3,227	2,992	2,727
Number of pensioners	1,093	1,041	958	882	822
Total number of members	7,701	7,425	7,144	6,926	6,719
Ratio active/total (%)	35.6%	38.1%	41.4%	44.1%	47.2%

- 1) Until 2005 these figures were based on the methodology of pension capital movements.
- 2) Invested capital: until 2007 the invested capital included re-insurance.
- 3) Calculated on the basis of a 3% actuarial interest rate until 2007. Since 2007, calculated on the basis of the term structure of interest rates at the end of the financial year.
- 4) Including a adjustment in respect of the final salary scheme which was accounted for in the 2008 financial year.

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2 ANNUAL REPORT

2.1 REPORT OF THE MANAGEMENT BOARD

Introduction

2008 has been an extremely challenging year for the Elsevier Pension Fund Foundation, SPEO (*Stichting Pensioenfonds Elsevier-Ondernemingen*). In the first place, a large part of the year was spent discussing the potential sale of Reed Business. Whilst in the second half of the year, the Fund increasingly found itself in dire straits as the consequences of the credit crisis began to make their mark on Dutch pension funds. In this context, the Fund was affected by both the negative developments in the stock markets and by the fall in the rate of interest.

Furthermore, in 2008 the Fund had its first experience of working with the bodies established by SPEO to fulfil the requirements of the new Pension Act, namely the Accountability Body and the Review Committee.

Disinvestment of Reed Business

On 21 February 2008, Reed Elsevier made it known that it wished to sell the activities of Reed Business. The intention was to realise the sale during the course of 2008. Given that within the Netherlands, Reed Business represents about 50% of the Fund's active members, the effect of the intended sale would be considerable.

In March 2008, the SPEO Management Board gave serious consideration to the ways in which the sale of Reed Business could potentially affect the Fund.

In assessing the consequences for the Pension Fund, the Management Board formulated two points of departure, namely:

- Maintaining the quality of the pension scheme: the Management Board should be in a position to supervise the fact that the quality of the pension rights of members, former members and pensioners would not be negatively influenced by the sale - including expectations in respect of indexation and future contributions.
- Balancing the promotion of interests: the Management Board should be able to monitor whether or not the interests of active members, former members and pensioners were being promoted in a balanced fashion.

With reference to the above, the Management Board entered into discussions with the employer in order to ensure these points of departure would be observed. On 1 December 2008, these discussions resulted in the signing of an agreement in which the employer made a financial commitment to compensate the Fund for any negative consequences it suffered in the event of the sale of Reed Business.

On 10 December 2008, Reed Elsevier announced that it had decided not to go ahead with the sale of Reed Business due to the adverse situation in the financial markets. Consequently, the intention to sell Reed Business has, for the moment, been dropped.

Investment result

By virtue of a cautious investment policy and by spreading its investments widely, SPEO does its utmost to act as responsibly as possible with its members' money. The risks are spread by, amongst other things, investing in equity, government bonds, corporate bonds, real estate and commodities.

In the 2008 financial year, SPEO realised a negative investment result of -20.0%. This extremely disappointing result is primarily attributable to (a) negative results on the equity mandates and (b) underperformance on the fixed-interest mandates. In the course of 2007, the investment management was transferred to external asset managers. In so doing, SPEO has opted to be supported by external advisors.

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At the time, it was decided that the investment in equities be outsourced to two active portfolio managers. In 2008, it became apparent that, in a bear market, these active mandates had led to an underperformance in respect of the benchmark and, consequently, reinforced the negative market movements.

The objective of the fixed-interest mandates is to track the Fund's obligations as closely as possible by means of a limited risk budget, so that the interest rate risk is hedged as far as is possible. In the implementation of these mandates relatively large positions were taken in corporate bonds which were originally deemed safe. However, as a result of the credit crisis, the risk premiums on corporate bonds have risen significantly, causing these mandates to lag significantly behind the benchmark. The intended duration matching has, therefore, only been partially realised. In retrospect, it is obvious that the SPEO mandates were far riskier than was originally anticipated.

The Management Board is extremely disappointed about the investment results achieved. A number of measures have since been taken to reduce the Fund's risks. In the course of 2008, the interest in marketable securities was reduced from 54% at the end of 2007 to 34% at the end of 2008, primarily by deciding to abandon the re-balancing of the equity position. Consequently, no additional equities have been purchased. In respect of corporate bonds, it has been decided that their positions will be phased out, by reinvesting the interest and redemptions in government bonds. In 2009 the Management Board will evaluate the strategic investment policy in order to ensure the portfolio fits in better with the targeted return and risk profile desired by the Fund.

Funding ratio movements

In the course 2008, SPEO's funding ratio fell from 137% on 31 December 2007 to 84% on 31 December 2008. The fall in the funding ratio was caused by two factors which reinforced one another, namely the negative investment returns and the fall in the rate of interest.

Due to the negative investment results the Fund's total capital declined. At the end of December 2008, the Fund's capital amounted to € 437 million; that was 20% less than the capital at the end of December 2007.

The fall in the rate of interest caused the funding ratio to fall significantly. When the rate of interest falls, the Fund requires more money to enable it to meet its obligations. In the course of 2008, the interest rate fell from 4.85% to 3.53%. Primarily as a result of this, the Fund's total obligations rose by 31% to € 520 million.

The Fund's funding ratio expresses the ratio between the Fund's capital and the pension obligations. As a result of the developments detailed above, the Fund's funding ratio declined on balance to 84%.

Funding shortfall

As a result of the fall in the funding ratio, the Fund found itself in a position of funding shortfall in October 2008, that is to say the Fund no longer satisfied the minimum capital requirement of 105%. On 6 October 2008, the supervisory authority, the Dutch Central Bank (DNB), was informed of this fact. In the event of a funding shortfall, the Fund is obliged to submit a short-term recovery plan to the DNB within two months; in this plan the Fund must demonstrate that, within a three-year period, it will have recovered sufficiently to satisfy the minimum capital requirement of 105%. Given the turbulence on the financial markets, the DNB made two concessions: firstly, it extended the period within which the recovery plan had to be submitted to 1 April 2009; and secondly, it issued supplementary instructions in respect of the recovery plan, including an extension of the recovery period from three to five years.

In 'Events subsequent to the year under review' more details will be provided regarding the recovery plan which was submitted on 31 March 2009.

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Pension Fund Governance

In January 2008, on the basis of prescriptions contained in the new Pension Act, the Fund decided to provide a framework for its internal supervision and establish an Accountability Body.

In April 2008, an Accountability Body was appointed, consisting of two members representing the employer, two members representing the active members and two members representing the pensioners. The terms of reference of the Accountability Body are to give an opinion on the policy executed by the Management Board, in order to assess whether when making its decisions the Management Board balances the interests of all the parties involved sufficiently.

In 2008, four meetings were held with the Fund's executive committee. In addition, the Accountability Body was given access to the decisions taken by the Fund's Management Board, to the minutes of the Board's meetings, as well as to all the underlying documentation. In April 2009, the Accountability Body submitted its conclusions in the 'Report of the Accountability Body' which is included in the Fund's Annual Report (section 4). The Management Board has taken note of the report.

A framework for internal supervision was provided by the appointment of a Review Committee which will, at least once every three years, express an opinion in respect of the Fund's policy and administrative procedures (checks and balances), the form of management and the long-term risk management. In October 2008, the Fund joined the Dutch Pension Cooperative (*PensioenCoöperatie*) and the services of this cooperative were made use of in respect of the appointment of the Review Committee. In December 2008 - after obtaining advice from the Accountability Body - an instruction was issued to carry out the first, generic analysis of the Fund. The Review Committee was given access to the Fund's most important documents and, subsequently, on the basis of three meetings with a delegation from the Management Board, it formed an opinion of the way in which the Fund is managed. In April 2009, the Review Committee submitted a report on its findings. A summary of the Review Committee's report is included in the Annual Report (section 5). The Management Board would like to express its appreciation of the recommendations made by the Review Committee and in the course of 2009 it will ensure these recommendations are adopted. Next year's annual report will contain a report from the Management Board regarding the progress in this respect.

Enhancing expertise and self-assessment

Throughout 2008, the enhancement of expertise was an important theme, leading to educational activities for the Management Board, the Fund's employees, the Board of Members as well as the members of the Accountability Body. In addition, the intended divestment resulted in numerous sessions with the Management Board and the Board of Members, in order for well-informed decisions to be taken about all the facets involved in the potential sale of a large business unit.

In June 2008, the Management Board evaluated its own performance, in order to fulfil the 'Principles of Good Pension Fund Governance'. In this context, use was made of Montae's Board Functioning Index, an online instrument whereby directors individually give their opinion of various aspects of the Board's performance.

Changes to the Management Board and the Fund's employees

On 1 January 2008, Jurgen Stoffer and Martin Tanke joined the Fund's Management Board. On 1 January 2008, Fokko Covers was appointed as the Fund's managing director and, for this reason, he transferred the chairmanship to Jan Vos. Jaap Schepen has been appointed deputy chairman.

Events subsequent to the year under review

The most important event subsequent to the year under review relates to the compilation of the recovery plan for submission to the DNB.

In February 2009, the members were informed of the extremely worrying position the Fund found itself in at the end of December 2008. At the same time, they were told that, if left to itself, the

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Fund would be unable to recover sufficiently to meet the minimum capital requirement of 105% within the legally prescribed period. In the letter, the members were informed that the Management Board had entered into discussions with the employer regarding a potential additional contribution to the Fund. Moreover, attention was explicitly drawn to the fact that - given the poor financial position of the Fund - the possibility of a reduction of the accrued rights and pensions already being paid out could not be excluded, despite the Management Board viewing such a step as extremely undesirable.

At the beginning of March 2009, the DNB prescribed supplementary instructions in respect of the compilation of the recovery plan. After a general extension of the statutory recovery period from three to five years, the DNB opted for extremely stringent conditions should a pension fund not anticipate being able to recover to the 105% level within the five-year period. These stringent conditions related, in particular, to the conditions under which any contributions from employers were included in the recovery plan, as well as the reduction measures to be taken by any fund failing to recover sufficiently.

On 26 March 2009, a financial undertaking of € 48 million was agreed with the employer; the employer is to make the sum available in five annual instalments of € 9.6 million, increased by € 1.2 million interest, in order to raise the funding ratio above the 105% level. Partially due to this financial undertaking, neither the pensions being paid out nor the accrued rights will have to be reduced. However, during the recovery period, which will in principle last five years, it will not be possible to grant any indexation.

Whilst the Management Board is pleased that any question of having to reduce the pensions and accruals has been abandoned, it is disappointed that it will be impossible to grant any supplements in the coming years. However, this situation could change, either for the better or worse, should developments in the interest and capital markets give rise.

On the basis of the Fund's articles of association (article 10, paragraph 2f and g), the Board of Members has the right to be consulted in respect of the adoption of the short and long-term recovery plans. On 30 March 2009, the recovery plan - taking account of the employer's undertaking- was submitted to the Board of Members. On 31 March 2009, the Board of Members issued their advice in respect of the recovery plan.

The Board of Members advised the Management Board to (1) enter into discussions with the employer in the short term, in order to ensure that indexation is brought back to an acceptable level, (2) enter into discussions with the employer to ensure that the cost-effective contribution including the supplement for indexation is actually levied, and (3) formulate the outline of a policy which clarifies how it will be possible to catch up the indexation supplements that have been missed.

On 31 March 2009, the recovery plan was submitted to the DNB.

This included the measures which are expected to restore the Fund's funding ratio to the required 105%; the most important of these measures are:

- During the period of the recovery plan, the pension contribution will be maintained at the maximum of 17% of the salary sum.
- No supplements will be granted while the funding ratio remains below 105%.
- In the recovery plan account has been taken of a financial undertaking of € 48 million from the employer.

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2.2 PENSION ISSUES

Provision for pension liabilities

The provision for pension liabilities has been determined in accordance with the rules of the Financial Assessment Framework (FTK) and at the end of 2008 was € 519,961 (2007 € 396,015). At the end of 2008, the average market rate of interest, which determines the provision for pension liabilities, was 3.53%, while the average market rate of interest at the end of 2007 was 4.85%. Due to the fall in the market interest rate, the provision for pension liabilities increased by € 100,020. The increase in the provision for pension liabilities excluding interest rate changes amounted to € 23,926.

The provision for pension liabilities can be specified as follows:

Division of PP into insured groups

Provision for pension liability		
	2008	2007
Active members	214,760	159,765
Former members	138,679	93,100
Pensioners	<u>166,522</u>	<u>143,150</u>
Total provision for pension liabilities	519,961	396,015

Contribution

The contribution for Pension Scheme A has been set at 17% of the salary sum. The Management Board may decide to grant a contribution reduction if the funding ratio is higher than 150%.

The contributions are divided between the employers and members in the ratio 70/30. The members' contributions are withheld from the members' salaries by the employers. The employers then transfer these withheld contributions to the Pension Fund.

The pension contribution has developed in the following way over the last five years:

Contribution overview

Year	Prescribed contribution	Contributions received	Cost-effective contributions
2004	9.5%		
2005	13.0%		
2006	17.0%		
2007	17.0%	18.7%	18.2%
2008	17.0%	18.5%	15.2%

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From the start of 2007, the cost-effective contribution must be determined within the framework of the Pension Act. The cost-effective contribution is equal to the actuarial contribution increased by the supplements prescribed by the Pension Act. In addition, the granting of supplements is to be financed primarily from the contributions. The Pension Fund does not make use of the system of cushioned contributions.

In the 2008 financial year, an adjustment was made for the transitional arrangements which ended on 31 December 2007. This adjustment was processed in the cost-effective contribution for 2007.

In addition to the pension contribution of 17% of the salary sum, the Pension Fund also receives contributions to cover the gap in the Surviving Dependents Act (*Anw-hiaat*) and contributions for Pension Scheme B. To achieve a good comparison with the cost-effective contribution, the implementation costs are also included in the calculation of the contributions received. Consequently, since 2007, the contributions received by the fund have exceeded 17%.

Supplements

Annually, the Fund's Management Board can decide whether or not to grant a supplement to the accrued pension rights and the pensions already being paid out. This is partially dependent on the Fund's financial position.

The Management Board aims to increase the pension rights on the basis of the general wage rounds agreed in the Collective Labour Agreement (*CAO*) for the Book and Journal Publishing Sector. The Pension Fund has not reserved any money for future increases of the accrued rights and pension being paid out. The granting of a supplement is conditional and is primarily financed by a supplement to the contributions with the remainder being financed by any excess return on investments. Given the Fund's current financial position, the expectation is that, in the coming years, there will be either no or very limited granting indexation.

In the last five years, the pension rights of the active members, former members and pensioners have been increased as follows:

Indexation overview

Date	CAO increase	Increase in pensions
1/04/2004	0.00%	0.00%
1/10/2005	1.25%	0.4%
1/04/2006	1.25%	1.25%
1/04/2007	2.75%	2.75%
1/01/2008	2.75%	2.75%

Value transfer

As the Pension Fund's funding ratio had fallen to below 100% by the end of 2008, cooperation in value transfers has been suspended. This applies to both in-coming and out-going value transfers. The Pension Fund will only resume its cooperation in respect of value transfer once the funding ratio has risen above 100%.

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2.3 INVESTMENT POLICY AND RESULTS

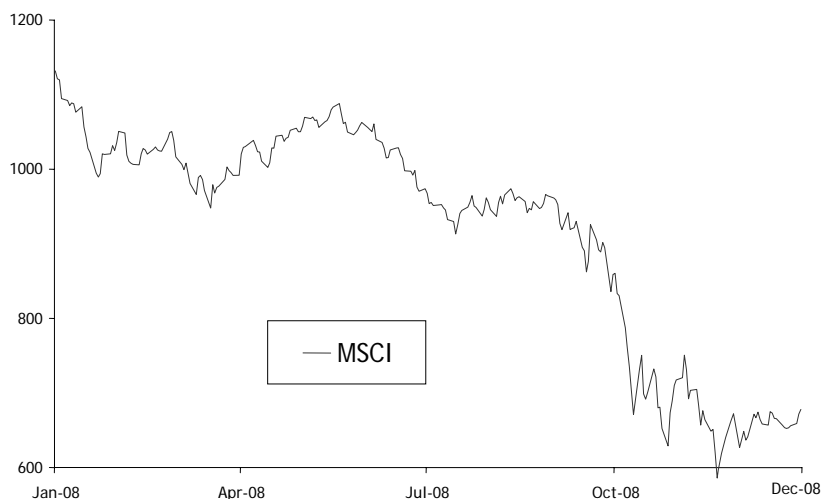
Financial markets in 2008

In 2008, the financial markets were dominated by the credit crisis. For years, institutions in the United States had been granting generous mortgages based on the assumption that house prices could only ever rise. These mortgages were then pooled and, on a massive scale, sold on in tranches to financial institutions and investors throughout the world. During this process, the risk of the value of the collateral falling was grossly underestimated.

When, at the end of 2007, house prices in the US began to fall for the first time since the end of the second world war, a chain reaction was set in motion, and the problems mounted rapidly. House prices fell by around 15% and some mortgage holders could no longer meet their commitments. Financial institutions had to write off billions on their investments. These write offs were so significant that prestigious banks were forced to seek help from their governments.

In particular, the bankruptcy of Lehman Brothers in September caused a loss of confidence and the capital markets were brought to a standstill. En masse, investors fled from anything that was associated with risk. Figure 1 shows that in 2008 the MSCI-World lost 40% of its value. Nearer home, the AEX experienced a loss of 52%.

Figure 1: Globally, equity prices fell 40% in 2008

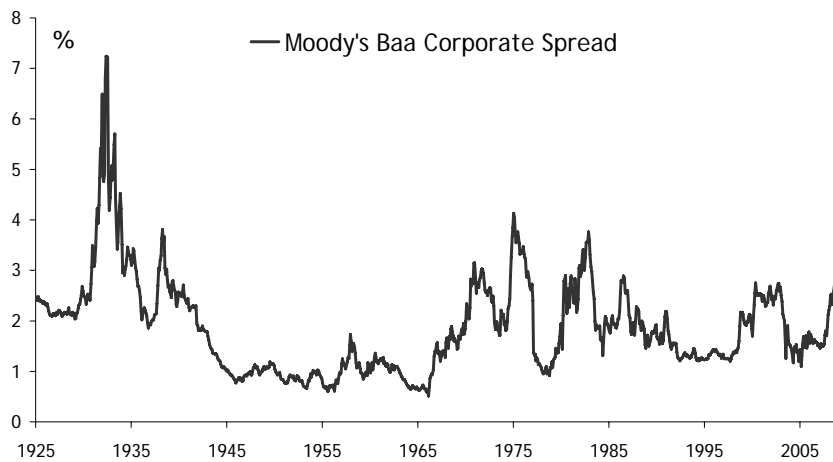


Movements in the capital market

Corporate bonds lost considerable value due to an explosion in the risk premium. Figure 2 demonstrates that the risk premium (the credit spread) experienced an enormous increase and is now at the same level as it was during the depression of the nineteen thirties.

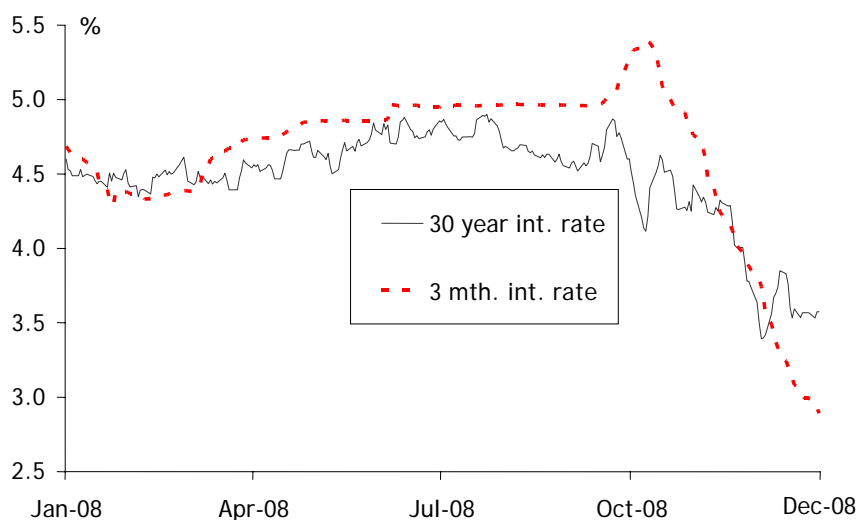
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Figure 2: The credit spread has risen to the level of the great depression in the nineteen thirties.



Government bonds of the largest industrialised countries offered the only safe haven and, due to the lower rate of interest, experienced a positive return enabling them to profit handsomely from the credit crisis. Figure 3 shows that the 30-year interest rate fell dramatically in the course of 2008. Authorities did all they could to limit the effects of the credit crisis. In an unprecedented manner central banks lowered their interest rates to, in most cases, the lowest level ever. However, in the majority of cases the policy of lower interest rates failed to compensate for the increased risk premium on the money and capital markets. Consequently, many companies and consumers were still confronted by higher rates of interest.

Figure 3: 3-months Euribor and 30-years government bonds in the Eurozone



2008 Investment policy

In 2007 a decision was taken to outsource the day-to-day investment policy to a number of external managers. In this context, the equity managers were instructed to beat the MSCI-World in euros. The bond fund managers were instructed to use the Barclays Bellwether index as their benchmark, with, in particular, the intention of hedging the interest-rate risk. In addition, 2008 saw a start being made to the further diversification of the portfolio of marketable securities by revamping the real estate portfolio and accruing investments in commodities.

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This resulted in the following investments and mandates at the end of 2008:

Portfolio manager	Type of mandate	Benchmark	Performance target	Value 31-12-2008 € million	Starting date mandate
Aberdeen	LDI	Lehman-LDI	1.0-1.5% v BM	147	Mar-07
Fidelity	LDI	Lehman-LDI	1.0-1.5% v BM	137	Mar-07
Alliance Bernstein	Global Equity	MSCI World (***)	3-4% v BM	58	Jun-07
JP Morgan	Global Equity	MSCI World (***)	3-4% v BM	69	Jun-07
Aberdeen	Real Estate Europe	IPD Europe	10% ROI	5 (*)	Dec-07
JP Morgan	Real Estate Europe	IPD Europe	10-13% ROI	4 (*)	Dec-07
Barclays	Commodities	GSCI	0% v BM	5	Jul-08
Other				13 (**)	
Total				438	

(*) Promised investments of €40m in JP Morgan and € 20m in Aberdeen

(**) This relates to real estate equities (€10m) and a deposit with the Kas Bank (€3m).

(***)MSCI All Countries World euro hedged

Reducing risk

Due to the events in the financial market, reducing risk was one of the Fund's foremost agenda points in 2008. This resulted in the following measures being taken:

- Increasing the weight of fixed interest-bearing investments from 47.5% to 66% at the expense of the weighting of marketable securities. This was primarily realised by the fall in the prices of the equity portfolio and by not automatically re-balancing. In addition, the value of the fixed interest-bearing investments rose somewhat due to the fall in the interest rate.
- Instructing our asset managers that realised interest and redemptions could only be reinvested in deposits or AAA government bonds. In this way, the risk profile of the fixed interest portfolio could be reduced, but the forced sale and the realisation of losses avoided.
- Suspending usufruct (security lending). All the securities which had been loaned out have been recalled.

We have avoided making too rigorous an adjustment to the portfolio for two reasons. Large-scale sales tend to result in investment losses; within the bond portfolio the fact that liquidity has dried up would certainly lead to undesirable results. Secondly, the uncertainty surrounding the divestment of Reed Business was a further reason for deciding not to make any substantial changes to the portfolio.

2008 investment results

Over 2008, SPEO achieved a negative investment result of -20%. This disappointing result was partly in line with the exceptionally difficult market conditions, but was also strengthened by the underperformance of the external asset managers. In retrospect, it is obvious that the SPEO mandates were far riskier than was originally anticipated. In 2009, the Fund will evaluate its strategic investment policy in order to ensure the portfolio fits in better with the Fund's desired risk profile.

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Although SPEO never invested directly in subprime instruments, the indirect consequences of the situation in the financial markets significantly affected the Pension Fund. The overweighting in fixed interest-bearing securities did in fact turn out favourably (allocation effect +5.7%), but was insufficient to avoid investment losses. Our asset managers seriously underestimated the consequences of the credit crisis and did not, therefore, position their investment policy to withstand the deteriorating economic circumstances. Their positions relative to the benchmark resulted in a significant underperformance (selection-effect -12.9%). On balance this resulted in a total underperformance of 8.4% compared to the benchmark.

Performance over the whole of 2008

Category	Strat. mix	Performance	Benchmark	Relative (*)
Fixed int-bearing secs.	47.5%	7.8%	30.1%	(17.1%)
Equity	45.0%	(46.5%)	(40.4%)	(10.2%)
Real estate	5.0%	(22.1%)	(36.6%)	22.9%
Commodities	2.5%	(59.8%)	(59.8%)	-
Total	100.0%	(20.0%)	(12.6%)	(8.4%)

(*) geometrically calculated: $((1 + \text{Portfolio return}/100)/(1 + \text{Benchmark return}/100) - 1) * 100\%$

Results per investment manager

Manager	Category	Portfolio	Benchmark	Relative (*)
Aberdeen	Fixed interest	4.6%	30.1%	(19.6%)
Fidelity	Fixed interest	11.3%	30.1%	(14.4%)
AllianceBernstein	Equities	(50.0%)	(40.4%)	(16.2%)
JPMorgan	Equities	(43.2%)	(40.4%)	(4.7%)

(*) geometrically calculated: $((1 + \text{Portfolio}/100)/(1 + \text{Benchmark}/100) - 1) * 100\%$

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Fixed interest-bearing securities

The aim of the fixed interest-bearing mandates is to hedge the obligations, as far as this is possible. The majority of our fixed interest-bearing mandates (approx. 51%) is invested in corporate bonds, which have suffered badly in the credit crisis. Hereby, the previously-mentioned historical increase in the risk premium (credit spread) has played an enormous role; and bonds which were not guaranteed by governments were affected particularly badly. Consequently, the original intention of hedging the interest rate was only partially realised. In the course of 2008, Fidelity stopped automatically reinvesting released resources and for this reason shows a lower underperformance than Aberdeen. It can be concluded that neither LDI-mandates have satisfied their original policy objective, being that of matching the obligations.

Equity

In 2008, the asset managers responsible for investing in equities were unlucky in the equities they selected within the various sectors; in particular significant losses were suffered in the financial sector. In this context, AllianceBernstein's scenario was more optimistic than JPMorgan's and was, therefore, hit harder by the continued stream of bad news. The conclusion that can be drawn is that the active component in the equity mandates contributed negatively to the total return.

Commodities

In the second half of 2008, we put into effect our policy on commodities. Hereby, we opted for a tracker of iShares, which closely follows the Goldman Sachs Commodity index. Due to the overheated situation on the commodities market, a decision was taken in the first half of 2008 to accrue a limited interest gradually. In July 2008 the first purchase worth € 5 million was made and in September there was a second purchase of € 5 million. As a result of the recession, commodity prices plummeted in the second half of 2008. For example the price of oil fell from a record \$ 147 per barrel in July 2008 to \$ 50 per barrel at the end of December. As an extension of this, our commodity investments had been halved to € 5.0 million by the end of December.

Real estate

Real estate did not act as a safe haven during the credit crisis. Our real estate shares (Corio, Unibail Rodamco and Wereldhave) fell from € 17 million at the beginning of 2008 to € 10 million at the end of 2008. In 2007, we committed € 60 million to participations in two unquoted European property funds, those of JPMorgan and Aberdeen. In the course of 2008, Aberdeen withdrew a total of € 4.9m of this commitment and, at the end of 2008, JPMorgan withdrew € 4.2 m. Unquoted property funds fell less rapidly in value during 2008 than quoted property funds.

This overview shows that all the asset managers have underperformed by about 5%-20% when compared to the benchmark. Only JP Morgan comes anywhere near the benchmark. The active component in the mandates caused, on balance, a performance loss of 12.9%. In this context it should be noted that, in accordance with the agreements with the asset managers, outperformance must be assessed over a longer period, whereby a period of at least 3 years is normal. However, one considerable disadvantage of the active mandates would appear to be that, in times of economic recession, they tend to underperform, which makes the Fund's position even worse. Moreover, in times of crisis, like last year, correlation among the various investment mandates was high, making the intended risk reduction ineffective.

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Attribution analysis

Investment	Portfolio return	Benchmark return	Difference (*)
Portfolio	(20.0%)	(12.6%)	(8.4%)
Allocation effect			5.7%
Selection effect			(12.9%)
Foreign exchange effect			(0.6%)

(*) calculated geometrically: $((1+\text{Portfolio return}/100)/(1+\text{Benchmark return}/100)-1)*100\%$

Notes to the attribution analysis:

- The allocation effect is caused by the actual portfolio composition (investment categories) deviating from the benchmark portfolio composition. In 2008, from the perspective of risk reduction, there was a question of a serious overweighting of fixed interest-bearing securities at the expense of equities as well as an underweighting of real estate shares. These positions had a favourable effect of 5.7%.
- The selection effect is the result of positions taken by our external asset managers relative to the benchmark. Investments in corporate bonds within the LDI mandates and, in particular, in those of financial institutions within the equity mandates had a negative effect of 12.8% on the performance.
- The exchange rate effect is caused by deviations in exchange rates in comparison to the benchmark. The exchange rate risk is predominantly hedged, however, there is still an exchange rate risk in investments in a number of emerging markets. The appreciation of the euro compared to these currencies resulted in an under-performance of 0.6%.

Return over the last 5 years

Year	Return SPEO	Return Benchmark	Relative performance (*)
2008	(20.0%)	(12.6%)	(8.4%)
2007	0.2%	1.2%	(1.0%)
2006	10.9%	8.3%	2.4%
2005	16.6%	17.9%	(1.1%)
2004	7.6%	7.2%	0.4%
5 year average (*)	2.2%	3.9%	(1.6%)

(*) calculated geometrically: $((1+\text{Portfolio return}/100)/(1+\text{Benchmark return}/100)-1)*100\%$

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The average return over the last 15 years was 5.2% (as at end 2007: 8.0%).

Portfolio composition

The table below depicts the composition of the investment portfolio per category as at 31 December 2008.

	End 2008 € m.	End 2008 in %	Strat. mix 2008 in %
Fixed interest-bearing securities:	287.2	65.6%	47.5%
<i>Bonds</i>	234.8	53.6%	
<i>Liquid assets</i>	52.4	12.0%	
Equity	126.8	29.0%	45.0%
Real estate	18.7	4.3%	5.0%
Commodities	5.0	1.1%	2.5%
Invested capital	437.7	100.0%	100.0%

Compared to 31 December 2007, the total invested capital had fallen by 20%.

The above position includes liquid assets, short-term receivables and obligations, as well as derivative positions and, consequently, deviates from the way in which the invested capital is presented in the balance sheet (6.1).

Risk budget / Tracking error

For the entire portfolio, the maximum permissible tracking error in relation to the obligations has been made dependent on the funding ratio. At the start of 2008, this resulted in a TE range of 6.4-8% relative to the obligations (this permissible TE was defined for a funding ratio higher than 130%).

With the help of small deviations in respect of the benchmark, an attempt is made to generate an extra return. For shares the maximum tracking error is 7%, and for fixed interest-bearing securities it is 3% in comparison to the benchmark applicable to the relevant categories. These limits have been laid down in the investment mandates. In 2008, the external managers remained within these mandates.

However, due to the volatility of the financial markets, the tracking error for the total portfolio has increased. In September 2008, we had the tracking error of the portfolio recalculated. On the basis of the strategic mix, the TE amounted to 7.9%; but due to the overweighting of fixed interest-bearing securities in the actual portfolio, the TE of the actual portfolio was less than 6.8%. However, in both cases, the tracking error was higher than prescribed in the policy framework. The policy framework observes a TE of between 4.9-6.4%, given a funding ratio of between 105% and 130%. When the funding ratio is lower than 105%, the permissible TE must be between 4.3% and (at a maximum) 4.9%.

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In December 2008, on the basis of this recalculation, a new strategic mix applicable to a funding ratio of below 105% was determined for 2009.

Category	Strat. mix 2008	Actual mix 31-12-2008	Strat. mix 2009
Tracking error (*)	7.9%	5.0%	4.9%
Fixed interest-bearing securities:	47.5%	65.6%	66.0%
Marketable securities:	52.5%	34.4%	34.0%
<i>Equity</i>	45.0%	29.0%	26.5%
<i>Real estate</i>	5.0%	4.3%	5.0%
<i>Commodities</i>	2.5%	1.1%	2.5%
Total	100.0%	100.0%	100.0%
Capital requirement	120.0%	112.6%	113.0%

(*) Tracking Error based on the calculations of September 2008

As of 1 January 2009, the Pension Fund will observe the new strategic mix.

2009 policy intentions

In December 2008, the following policy intentions were confirmed by the Management Board. In particular, these are aimed at reducing the risks in the investment portfolio. Only once the funding ratio has recovered significantly will it be possible to increase the risk profile of the investment portfolio again. Until such time, the measures outlined below will remain in force:

- No longer will additional equity automatically be purchased (re-balancing), despite the fall in the weight of investments in marketable securities. Only once the funding ratio has recovered significantly will it be possible to expand the investment in marketable securities again.
- The weighting of credits in the bond portfolio is to be reduced to 40% by the end of 2009 and 30% by the end of 2010, this will be done primarily by reinvesting redemptions and interest in AAA Eurozone government bonds.
- As a consequence of the increased volatility in the financial markets the range around the strategic norm has been extended to 5% for fixed interest-bearing securities, marketable securities as a whole and equities.
- The suspension of usufruct (securities lending) will remain in force, due to the risk associated with the other party and the reduced desire to facilitate short positions.
- Within the agreed policy framework, there will be a further diversification of the marketable securities portfolio towards commodities and real estate.
- The cash position with asset managers will be reduced, in order to limit the possible counterparty risk in the event of the potential bankruptcy of the custodian. Within the mandates, the restrictions on cash resources have, where possible, been tightened.
- Surplus liquidities/deposits will be transferred to parties outside the Kas Bank, in order to limit the possible counterparty risk in the event of the bankruptcy of the custodian.
- In the course of 2009, the real estate investments in the unquoted property funds of Aberdeen and JPMorgan will be expanded as a consequence of the promised investments. At that moment, the real estate shares will be sold.
- In the course of 2009, the investment in commodities will be expanded.

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Given the relatively negative results of our asset managers, the Investment Committee will consider the choice between active and passive investment. In addition, in 2009 attention will be paid to important themes such as sustainable investment, voting behaviour and corporate governance.

2.4 RISKS

Investment risks

In 2006 an Asset Liability Management study was carried out. On the basis of this a strategic investment mix was established taking account of an acceptable combination of the net-contribution level, the contribution volatility, the chance of a funding shortfall and the chance of (complete) indexation being awarded. To hedge the Fund's interest rate risk, the option chosen was to invest the fixed interest-bearing securities in a Liability Driven Investment (LDI) mandate whereby the duration of the investments are - within specified limits - to be brought in line with the obligations. In addition, a decision was taken to limit the exchange rate risk as much as possible. The aim of the investment in equities is to ensure that, in the long-term, excess returns will help the Fund realise (part of) its indexation ambition.

The Fund's investment management has been outsourced to external asset managers. Mandates have been agreed with these asset managers laying down the conditions under which they have to operate. On a daily basis, the custodian will check whether the investments are still within the agreed mandate. In this context, monthly reports will be submitted to the Fund.

Due to the problems in the financial markets, risk reduction was at the top of the agenda in the course of 2008. This led to a number of risk reducing measures being taken, such as the reduction of the position in corporate bonds, the suspension of usufruct and the discontinuation of the re-balancing of the equity position, as a result of which the weight of marketable securities was immediately reduced. As at 1 January 2009, the strategic mix was adjusted and the share of marketable securities in the portfolio was reduced from 52.5 % to 34 %.

Mortality risk

The mortality risk is entirely for the account of the Fund.

Contribution exemption risk

Since 1 January 1996, the Pension Fund has not reinsured the financial consequences of a continuation of the membership for members who, due to incapacity, are no longer employed by Reed Elsevier. Current payments are still being made by the Alhermij. Since the financial year 2007, the present value of these obligations has been calculated on the basis of the accounting principles used to calculate the provision for pension liabilities.

Incapacity risk

Since 1 January 1997, the Pension Fund has executed the supplementary incapacity insurance scheme (*excedent-WAO*). Since 1 January 1999, the incapacity interests have no longer been reinsured by the Alhermij. The contribution of 2% was laid down in 1996 on the basis of quotes from various re-insurers.

As at 1 January 2008, the contribution was lowered to 0.2%

Temporary partner's pension: minimum and maximum

In connection with the introduction of the General Surviving Dependant's Act (*Anw*), a floor has been included in the temporary partner's pension to cover the so-called *Anw*-gap. Consequently, the temporary partner's pension was at least € 9,383 on an annual basis in 2008 (2007: € 8,888). This minimum is adjusted in accordance with the supplements granted on the accrued pension rights. The number of members who will avail themselves of this provision cannot be predicted,

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which means the course of this provision is difficult to gauge. The contribution for the *Anw*-gap has been set at 0.7% of the pensionable earnings, with a maximum of € 123.30. On the basis of fiscal regulations, the temporary partner's pension has a different maximum per member per year.

2.5 ADMINISTRATION COSTS

With the exception of the costs related to investments, the Fund charges all its costs directly to the affiliated undertakings. The costs related to investments are charged to the investment result. All this has been agreed in the Implementation Agreement between Reed Elsevier Nederland BV and the Pension Fund. In 2008, the advance charged per member was € 521 (2007: € 350). The calculation of the number of people over whom costs are spread excludes those falling under WAO (incapacity), FVP members (unemployed former staff whose premiums are paid by an advance levy fund for pension insurance), former members and pensioners.

Actual costs 2008 ¹			€	1,432
Recharged in 2008	€	1,442		
Released pension disbursement				
(<i>excasso</i>) costs in 2008	€	<u>151</u>		
			€	<u>1,593</u>
To be settled for 2008 in 2009			€	<u>(161)</u>
¹ excluding the costs of asset management				

Amsterdam, 4 June 2009

The Management Board

Jan Vos (chairman)

Marcel Toebak (secretary)

Jaap Schepen (deputy chairman)

Paul Hekking

Jurgen Stoffer

Remko Nods

Martin Tanke

Ab Pouwels (deputy secretary)

Jan Heijting
(deputy Board Member for the employers)

Anne Lievaart-Bode
(deputy Board Member for the employees)

SPEO THE ELSEVIER PENSION FUND FOUNDATION

3 GENERAL INFORMATION

3.1 NAME AND ADDRESS OF THE REGISTERED OFFICE

Stichting Pensioenfonds Elsevier-Ondernemingen
Radarweg 29
1043 NX AMSTERDAM

Telephone : 020-515 9499
Fax : 020-515 9495
E-mail : info@speo.nl
Internet : www.speo.nl

3.2 AFFILIATED COMPANIES

Overview of the affiliated companies 2008:

Company	Scheme				
	A	B	C	D	E
Elsevier BV	√	√	√		
Elsevier Opleiding & Advies BV	√	√		√	
Koninklijke PBNA BV	√	√		√	
Reed Business Information BV:					
- Coll. Lab. Agreement for Boeken- en Tijdschriftuitgeverijbedrijf	√	√	√		
- Coll. Lab. Agreement for Vaktijdschriftjournalisten	√	√	√		
- Coll. Lab. Agreement for Publiekstijdschriftenjournalisten	√	√			√
- Coll. Lab. Agreement for Opinieweekbladjournalisten	√	√			√
Baard Fiscale Opleidingen BV	√	√	√		
Geomatics Information & Trading Centre BV	√	√	√		
Harcourt Assessment BV (*)	√	√	√		
Lexis Nexis (NL) BV	√	√	√		
Univentio Information Services BV	√				
Reed Elsevier Nederland BV	√	√	√		
Stichting Pensioenfonds Elsevier-Ondernemingen	√	√	√		

(*) until 31 March 2008

SPEO THE ELSEVIER PENSION FUND FOUNDATION

3.3 COMPOSITION OF THE MANAGEMENT BOARD, BOARD OF MEMBERS AND OTHER INVOLVED PARTIES

Situation as at 4 June 2009

MANAGEMENT BOARD

Appointed by the employers	Year of retirement
Jan Vos (chairman)	2010
Jaap Schepen (deputy chairman)	2010
Jurgen Stoffer	2012
Martin Tanke	2012
Jan Heijting (deputy Board member)	2012
Appointed by the Board of Members	
Paul Hekking	2010
Remko Nods	2010
Ab Pouwels (deputy secretary)	2012
Marcel Toebak (secretary)	2012
Anne Lievaart-Bode (deputy Board member)	2012

BOARD OF MEMBERS

Appointed By The Works Council		Elected by the group:
Peter Bulder		Trade information
Hein Helleman		Trade information
Kenny Kroon		Trade information
Rien Pranger		Trade information
Jan van der Geer (chairman)		Scientific information
Frans Lekkerkerker (secretary)		Scientific information
Elected by the members	Year of retirement	Elected the group:
Wilma van Huit-Meijers	2011	Trade information
Robert Bodde	2011	Trade information
Cornil Balk	2011	Trade information
René Kossen	2011	Scientific information
Hans Visser	2011	Scientific information
Peter van der Kleij	2011	Pensioners
Herman Frank	2011	Pensioners
Jan Nefkens	2011	Pensioners
Substitute members		
Harry Nijhuis		Pensioners
Gerard Roza		Pensioners

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INVESTMENT COMMITTEE

Board

Jaap Schepen (chairman)
Remko Nods
Marcel Toebak

External advisors

Ton Groeneveld
Jan Overmeer

SPEO

Fokko Covers
Jacob Schoenmaker

Accountability Body

Appointed by the employer

Remco Berrevoets
André de Klerk (secretary)

Appointed by the Board of Members

Jan Visser
Han de Vries (chairman)

Appointed by the Association of Pensioners of Elsevier Companies (*Vereniging Gepensioneerden Elsevier-Ondernemingen*)

Pim van Dokkum
Peter Roessel

The Accountability Body was appointed on 4 April 2008.

SPEO ORGANISATION

Director

Fokko Covers

Administration and secretariat

Ger de Rooij
Daniëlle Wijaya-Warner
Cynthia Redering

Actuarial department

Brigitte van Buuren

Investments

Jacob Schoenmaker

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3.4 ACTUARY AND AUDITOR

Actuaries

Watson Wyatt BV	
Advisory	Rick Westhoff
Certifying actuary	Dick van Doorn

Accountant

Deloitte Accountants BV	Marc van Luijk
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3.5 REVIEW COMMITTEE

Appointed via the Pensioencoöperatie

Sako Zeverijn (chairman)
Jan Kloet
Lou ten Cate

4 REPORT OF THE ACCOUNTABILITY BODY

The Pension Fund's Management Board is accountable to the Accountability Body for its policy and the way in which it implements this policy, as well as for its observation of the principles of good pension fund governance. The Accountability Body is responsible for issuing an opinion of the Management Board's performance in this respect.

The Accountability Body was appointed in April 2008. In 2008 it met five times and on four occasions held meetings with SPEO's executive board and director. In these meetings, the executive board provided information about the policy being implemented and the Accountability Body was given the opportunity to pose questions. In addition, the Accountability Body was given access to the minutes and decisions taken during the Management Board meetings, as well as to any other relevant information.

The agenda of the meetings between the executive board, the director of SPEO and the Accountability Body were dominated by two important events in 2008: the proposed sale of Reed Business and the global (credit) crisis. Although the sale of Reed Business never actually went ahead, the Accountability Body was of the opinion that, when dealing with this complex matter, the Management Board constantly tried to balance the interests of all those involved equally. The Accountability Body expressed its appreciation of this fact.

The global (credit) crisis, the negative investment results and the fall in interest rates had a significantly negative effect on the Pension Fund's funding ratio. Taking account of the DNB's regulatory measures, reducing (the nominal value of) the pension rights would have been unavoidable without an extra payment as well as an increase in the pension contributions. Subsequent to the year under review, the Management Board submitted a recovery plan to the DNB; the plan took account of the employer's agreement to make an extra payment into the Pension Fund.

On the basis of the above, the explanations provided during the meetings regarding the implemented policy, the content of the information provided and the executive board's answers to the questions posed, the Accountability Body is entirely of the opinion that in 2008 the Management Board implemented a balanced policy.

The Accountability Body

Han de Vries, chairman
André de Klerk, secretary
Remco Berrevoets
Jan Visser
Peter Roessel
Pim van Dokkum

14 April 2009

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5 REPORT OF THE REVIEW COMMITTEE

The review was carried out by the Review Committee (membership of which is detailed below) on the instruction of SPEO and with the PensioenCoöperatie (PC) acting as an intermediary. The review was carried out in February-April 2009. The results were discussed with the Management Board on 14 April 2009.

The review was designed in accordance with the provisions in the Pension Act and the Principles of Good Pension Fund Governance as compiled by the Joint Industrial Labour Council (*Stichting van de Arbeid*, STAR). The objectives of the review were:

- to assess the policy and management procedures and processes, as well as the checks and balances within the Fund;
- to assess the way in which the Fund is managed;
- to assess the way in which the Management Board handles the risks both in the long term and the short term.

The report is based on the Committee's own analysis, on the basis of documentation provided by the Pension Fund and on the basis of interviews with the Management Board and other members of the Pension Fund organisation. The remainder of this report contains a number of recommendations, for the full report we would refer you to the Management Board.

1. Pension policy

The Management Board is sufficiently aware of the consequences and responsibilities of having a company pension fund. The procedures are meticulous and developments in the field of pensions are carefully monitored.

2. Financial set up

Reporting on actuarial, financial and economic issues is undertaken professionally and decisions are taken in a prudent manner. Given the developments within Reed Elsevier (divestment in the Netherlands resulting in the ageing of the Fund's membership), it would, in the opinion of the Review Committee, be advisable to continue considering the potential future scenarios confronting the Pension Fund.

In addition, the Review Committee would like attention paid to the problems surrounding the fixed contribution of 17% which has been agreed with the employer. In the event of a funding shortfall, this could result in a reduction of the accrued rights and pensions. The Review Committee would recommend that the employer be constantly reminded of this fact.

From the continuity analysis, the Review Committee has deduced that the parameter Tracking Error of the investment portfolio has been set at 6.4. The Review Committee believes that, given a maximum contribution of 17%, an overall TE of 6.4 is somewhat high. The Review Committee would advise the Management Board to examine the means of control at their disposal in more detail in a subsequent continuity analysis.

3. Risk management

SPEO is highly sensitive to the risks facing pension funds and the Management Board has demonstrated that it has the required knowledge in respect of the factors which influence the Pension Fund's risks. However, the emphasis is placed on investment risks and not on an integral risk management plan.

The Review Committee would recommend that an integral risk management plan be drawn up to highlight not only investments but also other areas where risks might arise. Moreover, the Review Committee would recommend that risk management be made the responsibility of a member of the Pension Fund organisation who would monitor the risk management process.

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4. Management Board policy and management

The level of management fulfils all the statutory requirements as well as those laid down by the DNB. SPEO pays considerable attention to the expertise of its managers. The Review Committee would recommend that, in this context, attention is not only paid to the substantive knowledge but also to the skills of the various managers.

5. Organisation and outsourcing

The Review Committee would recommend that measurable agreements be made with the employees of the Pension Fund organisation in respect of the work they each undertake. Moreover, the Review Committee would recommend that the risks inherent in a fund controlling its own administrative system be examined, as well as the staffing level of the Pension Fund organisation. The small number of staff could affect the degree of continuity in the Fund. In addition, it would be a good idea if the AO/IC handbook were updated and the periodic evaluation of external advisors introduced.

6. Investment policy and implementation

The investments are geared to the obligations; in this context the Review Committee would suggest that consideration be given to changing the choice of a maximum return to one of a targeted return.

In the build-up of the investment portfolio, careful consideration is given to the composition of the various managers; however, in the light of the risks which manifested themselves in 2008, the Review Committee is of the opinion that a deeper examination of the investment portfolio itself is required, so that the ratio between the various investment categories can be more easily brought into line with the desired risk profile.

The Management Board has outsourced verification of the contracts with the asset managers to professional parties; the Review Committee agrees with this, however, it believes that the guidelines within the different contracts should be brought into line with the changed perception of risk.

Given the increased complexity of investment, the Review Committee would recommend fixing the manager's remuneration rather than allowing it to be dependent on performance.

Finally and similarly as a result of the increased complexity, the Review Committee would recommend that a maximum be set on the period of office of the members of the investment committee.

7. Control, supervision, management

In the risk management process, monitoring is essential. The Review Committee would recommend that another thorough inventory be carried out in respect of the information which the Management Board wishes to have, how it wishes to receive this information and how frequently.

8. Communication

The Management Board sets great store by good, timely and transparent communication of the Fund's developments. In order to move away from the ad hoc character of the communication, the Review Committee would recommend that a communication policy plan be drawn up, accompanied by an annual calendar of the plan.

The Review Committee

Sako Zeverijn, chairman
Jan Kloet
Lou ten Cate

14 April 2009

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6 ANNUAL FINANCIAL STATEMENT 2008

6.1 BALANCE SHEET (AFTER APPROPRIATION OF RESULT)

Assets	2008	2007
Investments on account and risk of the Pension Fund		
Real estate investments	19,040	17,157
Equities	115,949	271,665
Fixed interest-bearing securities	222,561	248,539
Commodities	5,021	0
Derivatives	<u>32,442</u>	<u>4,646</u>
Total investments	395,013	542,007
Reinsurances	462	512
Miscellaneous receivables		
<i>Receivables from sponsors</i>	6	0
<i>Receivables related to investments</i>	6,322	7,537
<i>Other receivables</i>	240	867
Cash	60,971	11,457
Tangible fixed assets	269	269
Total assets	<u><u>463,283</u></u>	<u><u>562,649</u></u>
Equity and liabilities		
Fund's capital and reserves		
Revaluation reserves	32,442	4,646
Other reserves	<u>(115,399)</u>	<u>143,129</u>
Fund's total capital and reserves	(82,957)	147,775
Provision for pension liabilities	<u>519,961</u>	<u>396,015</u>
Fund's capital	437,004	543,790

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Other provisions	264	440
Other debts and accruals		
<i>Insurance companies</i>	22	24
<i>Other debts</i>	3,599	3,176
<i>Accruals</i>	4,365	55
<i>Derivatives</i>	<u>18,029</u>	<u>15,164</u>
Total liabilities	<u><u>463,283</u></u>	<u><u>562,649</u></u>

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6.2 STATEMENT OF INCOME AND EXPENDITURE

	2008	2007
INCOME		
Contributions from employers and members	22,951	23,342
Recharged pension implementation and administration costs	1,281	1,132
Investment result	(113,233)	(92)
EXPENDITURE		
Movements in the provision for pensions	(123,946)	10,777
Pension payments	(15,080)	(13,728)
Pension implementation and admin. costs	(1,432)	(1,269)
Balance of transfer of pension rights	(1,354)	(2,642)
Reinsurances	29	(194)
Other income and expenditure	<u>52</u>	<u>(9)</u>
Balance of Income and Expenditure	<u><u>(230,732)</u></u>	<u><u>17,317</u></u>
Appropriation of the balance		
Other reserves	(258,528)	12,671
Movement revaluation reserve	<u>27,796</u>	<u>4,646</u>
	<u><u>(230,732)</u></u>	<u><u>17,317</u></u>

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6.3 CASH FLOW STATEMENT (IN ACCORDANCE WITH THE DIRECT METHOD)

	2008	2007
Contributions received	27,279	22,626
Receipts related to transfer of pension rights	684	1,076
Pensions paid out	(15,258)	(13,538)
Payments related to transfer of pension rights	(2,038)	(3,718)
Recharged pension implementation costs	1,442	1,007
Pension implementation and admin. costs	(1,432)	(1,269)
Payments received from reinsurers	79	3,841
	<hr/>	<hr/>
Cash flow from pension activities	10,756	10,025
Sales and repayments of investments	781,749	1,756,557
Direct investment income received	(24,356)	24,126
Purchase of investments	(691,898)	(1,792,621)
Costs paid for asset management	(1,828)	(1,567)
Movements in miscellaneous liabilities	(9,463)	14,850
Movements in miscellaneous assets	(15,498)	(886)
Other income and expenditure	52	(9)
	<hr/>	<hr/>
Cash flow from investment activities	38,758	450
Net cash flow	<u>49,514</u>	<u>10,475</u>

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6.4 GENERAL NOTES

General accounting principles

Continuity of the activities

The annual financial statements have been prepared on a going-concern basis.

Statement of compliance

The annual financial statements have been prepared in accordance with the provisions of Part 9 Book 2 of the Netherlands Civil Code taking account of the guidelines for Annual Reporting. On the 21 April 2009, the Management Board drew up the annual financial statements.

- Unless explicitly stated at the top of the relevant balance sheet, the assets and liabilities have been included at their face value.
- Income and expenses are accounted for on accrual basis. Profit is only included when realised on the balance sheet date. Losses originating before the end of the financial year are taken into account if they became known before preparation of the financial statements.

Converting foreign currency

Receivables, debts and obligations in foreign currencies will be converted at the rate prevailing on the balance sheet date. Transactions in foreign currencies during the year under review are included in the annual financial statements at the exchange rate at settlement. Any exchange rate differences arising from the conversion on the balance sheet date are included in the statement of income and expenditure.

Risk Management

In 2006, the Management Board had an Asset Liability Management study carried out. On the basis of this a strategic investment mix was established taking account of an acceptable combination of the net-contribution level, the contribution volatility, the chance of a funding shortfall and the chance of (complete) indexation being awarded. To hedge the Fund's interest rate risk, the option chosen was to invest the fixed interest-bearing securities in a Liability Driven Investment (LDI) mandate whereby the duration of the investments are - within specified limits - to be brought in line with the obligations. In addition, a decision was taken to limit the exchange rate risk as much as possible.

The aim of the investments in equities is to ensure that, in the long-term, excess returns will help the Fund realise (part of) its indexation ambition. The Fund's investment management has been outsourced to external asset managers. Mandates have been agreed with these asset managers laying down the conditions under which they have to operate. On a daily basis, the custodian will check whether the investments are still within the agreed mandate. In this context, monthly reports will be submitted to the Fund.

In 2008, in the light of the credit crises, a number of risk reducing measures were taken, such as reducing the position in corporate bonds, suspending the usufruct of securities and abandoning the re-balancing of the equity position; these measure automatically reduced the weight of marketable securities.

Accounting Principles for the valuation of assets and liabilities

Investments

Investments are valued at fair value. Only if the fair value of an investment cannot be determined reliably will the valuation be on the basis of the amortised cost price.

The participation in investment institutions is valued at the market value. In respect of quoted investment institutions, this is the quotation/share price on the balance sheet date.

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Real estate funds

Investments in quoted real estate funds are valued at the prevailing stock exchange price on the balance sheet date. Investments in non-quoted real estate funds are valued at the Net Asset Value of the participation certificates on the balance sheet date which are based on valuations of the underlying property carried out by independent third parties.

Equity

Shares quoted on stock exchanges and participations in quoted investment institutions are included at the stock exchange price prevailing on the balance sheet date.

Fixed interest-bearing securities

Fixed interest-bearing securities quoted on stock exchanges and participations in quoted investment institutions are included at the stock exchange price prevailing on the balance sheet date. Should fixed interest-bearing securities or participations in investment institutions not be quoted, valuation is on the basis of the estimated future net cash flows (interest and repayments) resulting from the investments, converted to their present value at the prevailing interest rate and taking account of the risk profile (credit risk, bad debts) and the duration.

If it is not possible to make a reliable estimate of the value of the fixed-interest bearing securities, they will be valued on the basis of their amortised cost price.

Commodities

Investments in commodities only relate to quoted commodity funds and are valued at the prevailing stock exchange price on the balance sheet date.

Derivatives

Derivatives are valued at their fair value, that being the relevant market quotation or, if there is no market quotation, the value determined using valuation models which are accepted by the market and are verifiable.

Reinsurances

The Fund no longer takes out reinsurance cover for the risks of death or incapacity. The provision reinsurance is the present value of the insurances which are still outstanding from these terminated risks contracts.

Calculated on the basis of the actuarial principles of the Pension Fund, the provision reinsurance is the present value of the pension rights, the incapacity interest awards (*arbeidsongeschiktheidsrenten*) and the supplementary incapacity payments (*excedent-WAO*) which are reinsured at the end of the financial year.

The change to the provision reinsurance is built up from the following components:

- the increase in the provision reinsurances, incapacity interests and supplementary WAO payments on the basis of the actuarial principles of the Pension Fund;
- the pension payments, incapacity interest and supplementary WAO payments received from the reinsurance companies.

Receivables, prepayments and accrued income

Receivables are included at their nominal value, less any provisions deemed necessary to cover the risk of bad debts. These provisions are determined on the basis of an individual assessment of the receivables.

Tangible fixed assets

Tangible fixed assets are valued at cost, less cumulative depreciation and, if applicable, less impairments in value. The depreciation is based on the estimated useful life of the asset and calculated on the basis of a fixed percentage of the cost, taking account of any residual value. Depreciation is applied the moment the asset is brought into use.

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Provision for pension liabilities

The provision for pension liabilities was determined in accordance with the following accounting principles.

Subject	Actuarial provision
Actuarial interest rate	In conformity with the term structure of interest rates of the current nominal market interest rate, as published by the DNB.
Basis of mortality assumptions	Mortality in accordance with the Prognoses table 2005-2050 (as published by the AG). In addition, account is taken of the difference between the mortality chances of the working population and the population as a whole, making use of the mortality experience table published by Watson Wyatt in 2008.
Marital status of those covered by Pension Scheme 1992 and later	<ul style="list-style-type: none"> • Every member (former) will be deemed to have a partner of the opposite sex; • The point of departure for pensioners is their actual marital status.
Marital status of those covered by Pension Scheme 1981	<ul style="list-style-type: none"> • Every former male member will be deemed to have a wife; • Every former female member will be deemed to be unmarried; • The point of departure for pensioners is their actual marital status.
Marital status of those covered by Pension Scheme 1978 and earlier schemes	The point of departure for former members and pensioners is their actual marital status.
Age difference	An age difference of three years is assumed (males older than females).
Orphan's pension	Until retirement age is reached, the burden of orphans' pensions which are ineffective will be set at 7% of the burden of the ineffective partner's pensions of those who are not yet pensioners.
Supplementary Incapacity (WAO/WIA) <ul style="list-style-type: none"> • Effective payments • Payments which are, as yet, ineffective, but incapacity, WAO, is being received • Payments which are, as yet, ineffective nor is incapacity, WAO/WIA, as yet, being received. 	Reserves on the basis of the previously mentioned accounting principles for effective payments; Reserves amount to 100% of the present value of the payments which are, as yet, ineffective; Reserves amount to the total of the annual contributions set for all members.
Miscellaneous	<ul style="list-style-type: none"> • Pensions are deemed to be continuously payable; • Annual contributions are deemed to lapse on 1 January; • To cover the future administration and pension disbursement (<i>excesso</i>) costs, the net present value of the pension rights of the Pension Fund will be raised by 1% once the pension is being paid out.
Supplements	The aim is to align the effective pensions and accrued rights with the general wage rounds in accordance with the Collective Labour Agreement (<i>CAO</i>) for the Book and Journal Publishing Sector, if and to the extent the Fund has the necessary resources.
Contributions from employers and members	The regulatory contribution and single premiums charged in accordance with the rules and regulations in the year under review.

The same principles apply to Schemes A, C, D and E, unless explicitly stated otherwise.

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Accounting Principles for the compilation of the statement of income and expenditure

Investment income

Direct investment income is understood to mean, interest, dividends and other similar income. Indirect investment income is understood to mean both realised and unrealised price and exchange rate differences. The investment income is reduced by the costs allocated to asset management. All investment related transaction costs, provisions etc. are offset against the direct and indirect investment income.

In respect of the dividend on shares, only the dividends received in the financial year are justified as income.

Balance of value transfer

The transfer of reserves received in the year under review minus reserves being transferred out of the Fund.

Pension paid out

The payments made in the financial year in respect of retirement, incapacity pensions, dependants' pensions and pre-pensions, including surrender due to the small sums involved.

Recharged pension execution and administration costs

Administration costs incurred in the year under review which have already been recharged, or will be recharged, to the affiliated employers.

Pension implementation and administration costs

The balance of the pension implementation and administration costs and the recharged pension implementation and administration costs is financed by the pension disbursement (*excesso*) costs released from the provision for pension liabilities.

Principles for the compilation of the cash flow statement

The cash flow statement is compiled in accordance with the direct method.

Cash flows in foreign currencies will be converted at an estimated average exchange rate. Exchange rate differences in respect of cash resources are shown separately in the cash flow statement.

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6.5 NOTES TO THE BALANCE SHEET

Real estate investments	2008	2007
Position at the start of the financial year	17,157	18,169
Purchases	<u>9,879</u>	<u>8,907</u>
	27,036	27,076
Sales	<u>(1,981)</u>	<u>(6,336)</u>
	25,055	20,740
Realised result	(581)	(341)
Unrealised result	(5,434)	(3,242)
	<u>19,040</u>	<u>17,157</u>
Equities ¹⁾	2008	2007
Position at the start of the financial year	271,665	289,294
Purchases	<u>221,142</u>	<u>951,624</u>
	492,807	1,240,918
Sales	<u>(254,273)</u>	<u>(972,631)</u>
	238,534	268,287
Realised result	(70,315)	10,648
Unrealised result	(52,270)	(7,270)
	<u>115,949</u>	<u>271,665</u>
Fixed interest-bearing securities ¹⁾	2008	2007
Position at the start of the financial year	248,539	215,447
Purchases	<u>450,868</u>	<u>832,090</u>
	699,407	1,047,537
Sales and repayments	<u>(451,492)</u>	<u>(784,412)</u>
	247,915	263,125
Realised result	(3,107)	(3,485)
Unrealised result	(22,247)	(11,101)

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	222,561	248,539
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Commodities	2008	2007
Position at the start of the financial year	0	0
Purchases	10,009	0
Sales	0	0
Realised result	0	0
Unrealised result	(4,988)	0
Position at the end of the financial year	5,021	0

¹⁾ As at 31 December 2007 approx € 50.7 million worth of equities and approx. € 9.7 million worth of bonds were lent on the basis of a usufruct agreement concluded with the Kas Bank NV in Amsterdam on 19 May 2000. As at 31 December 2008 nothing was lent out.

Derivatives	2008	2007
Position at the start of the financial year	(10,518)	0
Purchases	7,407	2,480
	(3,111)	2,480
Sales	(21,620)	(6,906)
	(24,731)	(4,426)
Realised result	13,777	4,426
Unrealised result	25,367	(10,518)
Position at the end of the financial year ²⁾	14,413	(10,518)

²⁾ This relates to the balance of the positive position of € 32,442 invested for the account and risk of the Fund and the negative position of € 18,029 accounted for under other debts and accruals.

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Reinsurances	2008	2007
Contrib. reserve reinsurance basic pension	189	214
Present value incapacity interest		
Algemene Levensherv verzekering Maatschappij NV	130	138
Present value of supplementary WAO payments	<u>143</u>	<u>160</u>
	<u>462</u>	<u>512</u>

Miscellaneous receivables	2008	2007
<i>Receivables from sponsors</i>		
Employers	<u>6</u>	<u>0</u>

Receivables related to investments

Interest on bonds	5,547	6,295
Sales income still to be received	478	945
Dividends still to be received	228	266
Dividend tax over the financial year	<u>69</u>	<u>31</u>
	<u>6,322</u>	<u>7,537</u>

Other receivables

Interest income still to be received	125	2
Balance of administration costs	0	161
Rechargeable/advance payments	0	9
Accrued items with asset managers	<u>115</u>	<u>695</u>
	<u>240</u>	<u>867</u>

Cash	2008	2007
Kas Bank	4,453	461
Postbank	41	11
Deposits with Kas Bank	2,900	2,000
Liquidities asset managers	<u>53,577</u>	<u>8,985</u>
	<u>60,971</u>	<u>11,457</u>

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The liquid assets are freely available with the exception of the liquidities with the asset managers. The liquid assets with the asset managers relate primarily to the LDI managers namely € 27.6 m with Aberdeen and € 23.4 m with Fidelity. A part of this (in total € 12.4 m) relates to collateral deposits, i.e. liquidity deposited in connection with the actual value of derivative positions being negative.

Tangible fixed assets	2008	2007
Inventory	2	4
Software	<u>267</u>	<u>265</u>
	<u><u>269</u></u>	<u><u>269</u></u>

Revaluation reserves	2008	2007
Position 1 January	4,646	0
Movement 2008	<u>27,796</u>	<u>4,646</u>
Position 31 December	<u><u>32,442</u></u>	<u><u>4,646</u></u>

The revaluation reserve is formed for the positive price/exchange results on derivatives which do not have a permanent stock exchange quotation.

Other reserves	2008	2007
Position 31 December 2007	<u>143,129</u>	<u>50,598</u>
Plus the change in accounting policies	<u>0</u>	<u>79,860</u>
Position 1 January 2008	143,129	130,458
Movement revaluation reserves	(27,796)	0
Movement result 2008	(230,732)	12,671

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Position 31 December	<u>(115,399)</u>	<u>143,129</u>
Provision for pension liabilities	2008	2007
Position 31 December 2007	396,015	486,652
Plus the change in accounting policies	<u>0</u>	<u>(79,860)</u>
Position 1 January 2008	396,015	406,792
Movement	<u>123,946</u>	<u>(10,777)</u>
Position 31 December	<u>519,961</u>	<u>396,015</u>
Other provisions	2008	2007
Provision for holidays and bonuses	42	0
Reserved payments	<u>222</u>	<u>440</u>
	<u>264</u>	<u>440</u>
Other debts and accruals	2008	2007
<i>Insurance companies</i>		
Contribution private insurances	<u>22</u>	<u>24</u>
<i>Other debts</i>		
Accounts payable	469	609
Employers	500	995
Income tax/insurance premiums December	336	296
Purchases still to be paid	<u>2,294</u>	<u>1,276</u>
	<u>3,599</u>	<u>3,176</u>
<i>Accruals</i>		
Advance pension contributions received	4,321	0
Miscellaneous liabilities	<u>44</u>	<u>55</u>
	<u>4,365</u>	<u>55</u>
<i>Derivatives</i> ³⁾	<u>18,029</u>	<u>15,164</u>

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³⁾ For an explanation of the derivatives, reference should be made to the notes²

Financial instruments

For an explanation of the primary financial instruments, reference should be made to the specific explanation of each item. The group's financial derivatives and associated risks are explained below.

- Exchange rate risks: The policy governing foreign currency focuses on protecting the operational margin. To manage the exchange rate risk, foreign exchange contracts have been entered into.
- Interest rate risks: Interest rate instruments are applied to acquire the desired risk profile in fixed and variable interest rate positions.
- Credit risks: Credit risks are reduced by only undertaking business with third parties with a high credit rating, whereby pre-determined limits are set for each entity.
- Credit risk on derivatives: the credit risk on derivatives is reduced by depositing collateral, i.e. depositing liquidities as security in connection with the actual value of the derivative position being negative.

Situation of under funding

Due to the fall in the funding ratio, the Pension Fund found itself in a position of underfunding in October 2008, i.e. the Fund no longer fulfilled the minimum capital requirement of 105%. As at 31 December 2008, the funding ratio was 84%. On 31 March 2009, the Fund submitted a recovery plan to the DNB; in this recovery plan the Fund demonstrated how it expected to achieve the minimum level requirement of 105% within a period of five years.

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6.6 NOTES TO THE STATEMENT OF INCOME AND EXPENDITURE

Contributions from employers and members	2008	2007
Contribution Scheme A (pension) members	6,552	6,596
Contribution Scheme A (Anw gap) members	294	294
Contribution Scheme A (pension) employers	15,767	15,391
Contribution Scheme B (supplementary WAO/WIA insurance) from members	16	42
Contribution Scheme B (supplementary WAO/WIA insurance) from employers	37	100
Miscellaneous contributions (e.g. FVP)	285	700
Surrender sums received Scheme A	<u>0</u>	<u>219</u>
	<u><u>22,951</u></u>	<u><u>23,342</u></u>

The cost-effective contribution has been laid down as the contribution required actuarially increased by the supplement for the capital requirement corresponding to the growth of the pension obligations, the implementation costs and a contribution towards part of the conditional components of the pension scheme. In 2008, the cost-effective contribution was € 19,959.

The Pension Fund does not intend to make any use of the option to use the system of cushioned contributions. The cushioned contribution is, therefore, equal to the cost-effective contribution.

Recharged pension implementation and administration costs	2008	2007
Administration costs already recharged:		
Number of members 2008 2,768 x € 521	1,442	0
Number of members 2007 2,878 x € 350	<u>0</u>	<u>1,007</u>
	1,442	1,007
Administration costs still to be recharged	<u>(161)</u>	<u>125</u>
	<u><u>1,281</u></u>	<u><u>1,132</u></u>

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Investment result	2008	2007
Real estate funds	(5,195)	(2,826)
Equities	(116,111)	13,162
Derivatives	27,274	(5,745)
Bonds	(13,109)	(4,116)
Commodities	(4,988)	0
Cash	<u>1,242</u>	<u>1,002</u>
	(110,887)	1,477
Usufruct less custody fees and costs	(518)	(2)
Costs of asset management	<u>(1,828)</u>	<u>(1,567)</u>
Net investment result	<u><u>(113,233)</u></u>	<u><u>(92)</u></u>

The investment income can be specified as follows:

Direct investment income	2008	2007
Real estate funds	820	757
Equities	5,694	8,809
Derivatives	(3,001)	401
Bonds and other fixed interest-bearing securities	12,182	10,472
Cash	<u>1,242</u>	<u>1,002</u>
	<i>16,937</i>	<i>21,441</i>

Indirect investment income	2008	2007
Real estate funds	(6,015)	(3,583)
Equities	(121,805)	4,353
Derivatives	30,275	(6,146)
Bonds and other fixed interest-bearing securities	(25,291)	(14,588)
Commodities	<u>(4,988)</u>	<u>0</u>
	(127,824)	(19,964)

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Bank charges	(559)	(308)
Custody fees	(76)	(53)
Usufruct payments	117	359
Costs of asset management	<u>(1,828)</u>	<u>(1,567)</u>
	(2,346)	(1,569)
Net investment result	<u>(113,233)</u>	<u>(92)</u>

Movements in the provisions for pension liabilities	2008	2007
Pension accrual	(12,578)	(13,153)
Indexation and other supplements	(10,848)	(11,076)
Interest rate addition	(18,951)	(17,654)
Withdrawn for pension payments and pension implementation costs	15,310	13,922
Changes to the market rate of interest	(100,020)	34,769
Changes due to transfers from third parties	1,420	2,749
Other movements to the provision for pension liabilities	<u>1,721</u>	<u>1,220</u>
	<u>(123,946)</u>	<u>10,777</u>

Pension payments	2008	2007
Retirement pensions	(11,648)	(10,471)
Dependant's pensions	(2,662)	(2,487)
Surrender due to small sums	<u>(20)</u>	<u>(32)</u>
	(14,330)	(12,990)
Supplementary incapacity (WAO) payments		
Payments to members	(161)	(153)
Payments to employers	<u>(27)</u>	<u>(49)</u>
	(188)	(202)

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Pre-pension Scheme C	(323)	(242)
Pre-pension Scheme D	(236)	(290)
Pre-pension Scheme E	<u>(3)</u>	<u>(4)</u>
	<u>(15,080)</u>	<u>(13,728)</u>

Pension implementation and administration costs	2008	2007
Salaries	(654)	(557)
Social insurance costs	(152)	(150)
Pension costs	(94)	(110)
Other personnel costs	<u>(95)</u>	<u>(60)</u>
Total personnel costs	(995)	(877)
Management expenses	(32)	(17)
Costs of Advisors and auditors	(1,517)	(1,339)
Accommodation/Service Fee	(103)	(94)
IT	(233)	(227)
Administration costs recharged from third parties	(301)	(211)
Other costs	<u>(79)</u>	<u>(71)</u>
Total	(3,260)	(2,836)
Costs of asset management	<u>1,828</u>	<u>1,567</u>
	<u>(1,432)</u>	<u>(1,269)</u>

At the end of 2008, 5 employees were employed by the Pension Fund; on a fulltime basis 3.69 (2007: 5 employees; fulltime basis 4.65).

In the annual financial statements, the pension commitments to the Pension Fund's own personnel are not processed as a defined benefit plan as all the Pension Fund's costs including the pension costs of the personnel, are borne by the employers.

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As such the Management Board members received no remuneration.

€ 31.3 was paid out as honorary fees for sitting on committees.

The fees for the work of the external auditor and auditor's office chargeable to the result of the financial year amount to € 79.

Balance of transferred pension rights	2008	2007
Incoming value transfer	684	1,076
Outgoing value transfer	<u>(2,038)</u>	<u>(3,718)</u>
	<u><u>(1,354)</u></u>	<u><u>(2,642)</u></u>

Reinsurances	2008	2007
Movement in the reinsurance contribution reserve	(25)	(467)
Movement in the present value of incapacity interests Alhermij	(8)	(13)
Movement in the present value of supplementary incapacity (WAO) payments	(16)	(28)
Reinsurance payments	19	244
Incapacity interest payment Alhermij	20	26
Supplementary incapacity (WAO) payments Alhermij	<u>39</u>	<u>44</u>
	<u><u>29</u></u>	<u><u>(194)</u></u>

Other income and expenditure	2008	2007
Other income	<u><u>52</u></u>	<u><u>(9)</u></u>

SPEO THE ELSEVIER PENSION FUND FOUNDATION

Amsterdam, 4 June 2009

The Management Board

Jan Vos (chairman)

Marcel Toebak (secretary)

Jaap Schepen (deputy chairman)

Paul Hekking

Jurgen Stoffer

Remko Nods

Martin Tanke

Ab Pouwels (deputy secretary)

Jan Heijting
(deputy Board member for the employers)

Anne Lievaart-Bode
(deputy Board member for the employees)

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7 OTHER INFORMATION

7.1 ADOPTION AND ALLOCATION OF THE RESULT

During a meeting held on 4 June 2009, the Management Board of the Elsevier Pension Fund Foundation (*Stichting Pensioenfonds Elsevier-Ondernemingen*) adopted the 2008 annual financial statements. The debit balance was withdrawn from other reserves.

7.2 IMPLEMENTATION AGREEMENT

Since 1 January 2008 an Implementation Agreement has been effective between the Fund and Reed Elsevier Nederland B.V., this agreement establishes the mutual obligations which apply between the Fund, Reed Elsevier Nederland B.V. and the affiliated companies. Below is a summary of the main points of the Implementation Agreement.

The Implementation Agreement lays down the policy framework which defines the relationship between the contribution policy, the policy in respect of supplements and the investment policy. Within that framework, the level of the total contributions as a percentage of the salary sum has been made dependent on the funding ratio in the following way:

Funding ratio	Contribution	Supplement
> 150 %	Reduction	Complete
140 % - 150 %	17%	Complete + catch up
130 % - 140 %	17%	Complete
105 % - 130 %	17%	pro rata
< 105 %	17%	none

The Management Board uses the policy framework as a guideline and it may decide to impose a different contribution level. The contribution will not be reduced until any supplements not granted in previous years have been compensated for.

The objective of the policy framework is to award an annual percentage supplement to the pension rights, the vested rights and the pensions being paid out, and to equate this annual percentage supplement to the percentage of the general salary increase by virtue of the Collective Labour Agreement for the Book and Journal Publishing Sector.

In the event of there being insufficient capital, the Fund and Reed Elsevier Nederland will enter into consultations. The Implementation Agreement does not include the option of repayment.

Should compelling circumstances make it necessary, the Fund and Reed Elsevier will enter into further discussions.

7.3 SUBSEQUENT EVENTS

On 31 March 2009, the Fund submitted a recovery plan to the DNB. This plan demonstrated that, partially due to the employer's undertaking to contribute € 48 million, the Fund expected to achieve the minimum capital requirement of 105% within five years.

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7.4 ACTUARIAL STATEMENT

Instruction

SPEO, the Elsevier Pension Fund Foundation (*Stichting Pensioenfonds Elsevier-Ondernemingen*), registered in Amsterdam, instructed Watson Wyatt B.V. to issue an actuarial statement, as defined in the Pension Act, for the financial year 2008.

Information

The information on which my audit is based was provided by and drawn up under the responsibility of the Management Board. I tested the resources of the Fund and assessed the capital position on the basis of the financial details which underlie the annual financial statements. In accordance with the guideline "Cooperation between the chartered accountant and the actuary regarding the audit of the accountability of insurance institutions", the Pension Fund's auditor provided me with information about his findings in respect of the reliability and completeness of the basic administrative data and the other accounting principles which were essential for me to form an opinion.

Scope

To carry out the instruction, I examined whether articles 126 to 140 (inclusive) of the Pension Act had been fulfilled.

The basic administrative data provided by the Pension Fund and the auditor's findings in respect of this data are such that I have accepted these as the basis for my assessment.

Part of this task included:

- examining whether it had been established that the provisions for pension liabilities, the minimum capital requirement and the capital requirement were adequate, and
- forming an opinion of the capital position of the Pension Fund.

My assessment was carried out in such a way that I obtained a reasonable degree of certainty that the results did not contain any inaccuracies of significant importance. I formed an opinion as to the likelihood that the Pension Fund would be able to meet all its obligations up to the balance sheet date. The duties described and the execution of these were undertaken in accordance with the standards and norms prevailing within the Actuarial Society, and I believe these form a sound basis for my opinion.

Opinion

Taking account of the above and of the following, I declare that, with the exception of articles 131, 132 and 133, I am satisfied that articles 126 to 140 (inclusive) of the Pension Act have been fulfilled. In accordance with the defined calculation rules and accounting principles, the provision for pension liabilities has been established as adequate. On the balance sheet date the Pension Fund's capital was lower than the statutory minimum capital requirement. On the balance sheet date, the provisions for pension liabilities were not sufficiently hedged by securities.

Measured against the statutory standards there could be said to be a funding shortfall in respect of the obligations entered into until the balance sheet date.

The capital position of the Elsevier Pension Fund Foundation is, in my opinion, insufficient, due to a funding shortfall. The determining factor in this context being the degree of likelihood that the Pension Fund will be able to meet all its obligations entered into until the balance sheet date, taking account of the ambition in respect of supplements, as communicated to the insured; this communication being in accordance with the relevant statutory criteria.

Amstelveen, 4 June 2009

D.E. van Doorn AAG
Watson Wyatt BV

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7.5 AUDITOR'S REPORT

To the SPEO (*Stichting Pensioenfonds Elsevier-Ondernemingen*) Management Board

Report on the financial statements

We have audited the accompanying financial statements 2008 of Stichting Pensioenfonds Elsevier-Ondernemingen, Amsterdam, which comprise the balance sheet as at December 31, 2008, the statement of income and expenditure for the year then ended and the notes.

Management Board's responsibility

The Pension Fund's Management Board is responsible for the preparation and fair presentation of the financial statements and for the preparation of the Management Board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pension Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Pension Fund's Management Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Stichting Pensioenfonds Elsevier-Ondernemingen as at December 31, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the annual report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 4 June 2009

Deloitte Accountants BV
M. van Luijk

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8 APPENDICES

8.1 MEMBERS, FORMER MEMBERS AND PENSIONERS (INCL. PRE -PENSIONERS) SCHEME A

In the last five years the average age of the active members changed in the following way:

Average age	Male	Female	Total
2004	43.8	41.2	42.5
2005	43.7	41.6	42.7
2006	43.9	41.7	42.8
2007	43.9	41.9	42.9
2008	44.2	42.2	43.2

In the year under review the following movements occurred:

Members	Male	Female	Total
Number of members as at 31-12-2007	1,383	1,449	2,832
Movements in 2008			
Adjustment to opening balance	8	5	13
Joining	197	228	425
Deaths	(2)	0	(2)
Retirement	(20)	(14)	(34)
Leaving service with vested rights	(214)	(259)	(473)
Miscellaneous movements	<u>(13)</u>	<u>(10)</u>	<u>(23)</u>
Balance of movements	<u>(44)</u>	<u>(50)</u>	<u>(94)</u>
Number of members as at 31-12-2008	<u>1,339</u>	<u>1,399</u>	<u>2,738</u>

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Former members	Male	Female	Total
Position as at 31-12-2007	1,722	1,830	3,552
Movement in 2008			
Adjustment to opening balance	(6)	(7)	(13)
Leaving service with vested rights	214	259	473
Surrender emigration/value transfer	(53)	(61)	(114)
Death	(9)	(4)	(13)
Retirement	(25)	(13)	(38)
Miscellaneous movements	<u>13</u>	<u>10</u>	<u>23</u>
Balance of movements	<u>134</u>	<u>184</u>	<u>318</u>
Position as at 31-12-2008	<u>1,856</u>	<u>2,014</u>	<u>3,870</u>

Pensioners	Male		Female		Orphan	Total
	OP	PP	OP	PP	WZP	
Position as at 31-12-2007	483	39	274	207	38	1,041
Movements in 2008						
Adjustment to opening bal.	0	0	(2)	0	0	(2)
Taken up	45	2	27	23	5	102
Died/terminated	(23)	(1)	(8)	(10)	(4)	(46)
Surrender	0	0	(1)	(1)	0	(2)
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance of movements	<u>22</u>	<u>1</u>	<u>16</u>	<u>12</u>	<u>1</u>	<u>52</u>
Position as at 31-12-2008	<u>505</u>	<u>40</u>	<u>290</u>	<u>219</u>	<u>39</u>	<u>1,093</u>

OP = retirement pension
PP = partner's pension
WZP = orphan's pension

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8.2 DIVIDING THE PROFIT AND LOSS ACCOUNT AND BALANCE SHEET INTO SCHEMES

The Pension Fund implements the pension schemes A, B, C, D and E. A breakdown of the results is shown below.

Income and expenditure	Scheme A	Scheme B	Scheme C	Scheme D	Scheme E	Total
Contributions	22,898	53	0	0	0	22,951
Gross investment results	(107,304)	(276)	(3,021)	(173)	(113)	(110,887)
Investment costs	(2,270)	(6)	(64)	(4)	(2)	(2,346)
Movements PP	(121,827)	1	(2,176)	134	(78)	(123,946)
Pension payments	(14,330)	(188)	(323)	(236)	(3)	(15,080)
Balance of transfers rights	(1,168)	0	(177)	(6)	(3)	(1,354)
Other income and expenditure	0	0	0	(70)	0	(70)
Result financial year 2008	(224,001)	(416)	(5,761)	(355)	(199)	(230,732)
<i>Result financial year 2007</i>	18,106	44	(636)	(185)	(12)	17,317
PP end 2008	503,159	1,294	14,166	812	530	519,961
PP end 2007	381,334	1,294	11,990	945	452	396,015

PP = provision for pension liabilities

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8.3 EXPLANATORY LIST OF TERMS

ABTN	An actuarial and technical business report describing the financial structure of the Pension Fund and the accounting principles on which this structure is based.
Active investment	The management of securities whereby by taking a position which differs from a benchmark an attempt is made to exceed the value increase achieved by the benchmark. The opposite is passive management, whereby the benchmark is followed as closely as possible.
Actuarial principles	The basis of the calculations on which the contribution and the provision for pension liabilities of the Fund are based: including the actuarial interest rate, the chances of mortality and incapacity, the terms of the interest and wage rate rises, and the costs.
AFM	Financial Markets Authority
Allocation	Division of invested capital over various investment categories.
ALM	Asset Liability Management, aligning the investment mix with the obligations.
The General Dependents Act Gap (<i>Anw-hiaat</i>)	The General Dependents Act Gap is the difference between the payment to which dependants had a right in accordance with the (now lapsed) General Widows and Orphans Act (<i>Algemene Weduwen en Wezenwet</i> , AWW) and the current General Dependents Act (<i>Algemene Nabestaandenwet</i> , Anw) which became effective on 1 July 1996. A payment under the General Widows and Orphans Act was not income dependant, under the General Dependents Act it is. Should the dependant have his own income, this amount is deducted from the payment in accordance with the General Dependents Act.
Investment mix	The ratio between the investments over the various investment categories, such as equities, real estate and fixed interest-bearing securities.
Benchmark	An objective measure for both the composition and performance of the capital invested.
Collateral	Liquidities deposited as security in connection with the actual value of the derivative position being negative.
Credit spread	Interest rate charges above the risk free interest rate which companies have to pay on their bonds.
Custodian	An external party responsible for having custody of the securities. In the case of SPEO, the investment administration, performance measurement and compliance monitoring are also the responsibility of the custodian.

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Funding ratio	The relationship between, on the one hand, the capital available (pension capital) and, on the other, the present value of the pension obligations (the provision for pension liabilities).
Funding shortfall	The situation that the Pension Fund does not have sufficient resources to cover the provisions for pension liabilities and the reserve for general risks.
DNB	The Dutch Central Bank
Direct investment returns	Interest and dividend income from investments
Duration	The average period of a loan, portfolio of fixed interest-bearing securities or other obligations weighted according to the rate of interest and repayments. Duration is a measure of the interest rate sensitivity. The longer the duration, the greater the effect of interest rate changes on the value.
Supplementary Incapacity Insurance (<i>Excedent-WAO/WIA</i>)	Incapacity insurance for any income which exceeds the maximum benefit wage paid in accordance with the WAO.
Actual contribution	The pension contribution which the Fund charges to the employer in a financial year.
The Fund's capital	The sum of the Fund's provision for pension liabilities and reserves.
Offset sum	That part of the salary over which there is no pension accrual.
FTK	Financial Assessment Framework, chapter 6 of the 2007 Pension Act
FVP scheme	A scheme organised by the government which enables employees who are involuntarily unemployed to continue their pension accrual whilst they are unemployed.
Indirect investment returns	Realised and unrealised price and exchange rate gains and losses on investments.
Short-term recovery plan	If there is a question of a funding shortfall, a pension fund must submit a short-term recovery plan to the DNB. In the plan, the fund has to demonstrate how it intends to eliminate the funding shortfall within a period of three years. In 2009, the period of three years was extended to five years due to the exceptional economic circumstances.
Cost-effective contribution	The contribution which in conformity with the Pension Act is actuarially necessary to meet the Fund's obligations.
Long-term recovery plan	The plan a pension fund must submit to the DNB if there is any question of the fund having a reserve shortfall. In this plan, the

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	pension fund must indicate how it intends to restore its reserves to the required level within a period of 15 years.
Lehman swaps	A specific portfolio of swaps quoted by Lehman Brothers; the objective of this portfolio of swaps is to reflect the Fund's obligation structure as closely as possible. This serves as a benchmark for the Liability Driven Investment mandate.
Life Course Plan	The leave scheme laid down in the VPL Act (VPL = VUT/ pre-pensions and Life Course Plan).
Liability Driven Investment (LDI)	An investment policy whereby the specific pension fund structure of the obligations forms the basis for the benchmark formulated and allows a manager (limited) flexibility to implement an active policy to add value to this LDI benchmark.
Minimum capital requirement	The minimum capital requirement is the amount the Fund should have to satisfy the supplement for general risks. In the case of SPEO, the minimum capital requirement is set at 5%.
Mortality tables	Statistics showing the survival chances of a defined group of people at a particular age (e.g. The Entire Population of men in the Netherlands).
Passive investment	The management of the portfolios by following a previously determined benchmark.
Pensionable earnings	The part of the salary which forms the basis for the pension accrual.
Pension agreement	That which is agreed between an employer and an employee in respect of pensions.
Pension salary	The elements in the salary which are included in the determination of the pension rights to be accrued.
Pension Act	The Act containing rules and regulations governing pensions; effective as of January 2007.
Performance measure	The comparison of the realised investment results with the previously formulated benchmarks.
Actuarial interest rate	The fictitious yield percentage that the Fund's invested pension capital is deemed to return in the future.
Interest rate risk	The risk to which the Fund is exposed due to a difference in the interest rate sensitivity (duration) of the investments and the interest rate sensitivity (duration) of the obligations.
Reserve shortfall	A pension fund has a reserve shortfall if it has insufficient funds to cover the reserves required for investment risks, as well as for provisions for pension liabilities and reserves for general risks.

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Degree of maturity	The ratio between the number of non-active members (pensioners and former members) and the total number of members.
Provision for pension liabilities	The present value of the accrued pension obligations without any future rights being accrued (comparable to the Fund's capital)
Adequacy test	A test executed by an actuary to assess the adequacy of the assets held to meet the pension obligation commitments in the longer term.
Indexation	An increase in the pensions being paid out and the vested rights
Tracking error	The measure of risk if the stock exchange index being used as a benchmark is deviated from.
Implementation Agreement	An agreement between an employer and the body responsible for the implementation of one or more pension schemes.
Fixed interest-bearing securities	Investments which in principle have a fixed-interest return and a defined term (amongst others, bonds, medium term notes and negotiable loans).
Usufruct	The lending out of securities on a temporary basis against payment.
Capital requirement	The capital requirement is the amount of capital a fund should have to ensure that, with a degree of certainty of 97.5%, the pension fund's resources will, within a year, be no lower than the level of pension provision required for the unconditional parts of the pension agreement.
Value transfer	The transfer of the present value of the pension rights, with the objective of avoiding any loss of pension when an employee changes pension schemes.
WAO	Incapacity Insurance Act, as at 1 January 2004 became the Employment and Income according to Capacity for Work Act (WIA).
WIA	Employment and Income according to Capacity for Work Act
Marketable securities	Investments in equity, real estate and raw materials.