

## EXCHANGE CONTROLS

There are currently no UK or Dutch decrees or regulations restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of, respectively, Reed Elsevier PLC ordinary shares who are non-residents of the UK and Reed Elsevier NV ordinary shares who are non-residents of the Netherlands.

There are no limitations relating only to non-residents of the UK under UK law or Reed Elsevier PLC's Memorandum and Articles of Association or on the right to be a holder of, and to vote, Reed Elsevier PLC ordinary shares, or to non-residents of the Netherlands under Dutch law or Reed Elsevier NV's Articles of Association on the right to be a holder of, and to vote, Reed Elsevier NV ordinary shares.

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## TAXATION

The following discussion is a summary under present law of the material UK income, Dutch income and US federal income tax considerations relevant to the purchase, ownership and disposition of Reed Elsevier PLC ordinary shares or ADSs and Reed Elsevier NV ordinary shares or ADSs. This discussion applies to you only if you are a US holder, you hold your ordinary shares or ADSs as capital assets and you use the US dollar as your functional currency. It does not address the tax treatment of US holders subject to special rules, such as banks, dealers, insurance companies, tax-exempt entities, holders of 10% or more of Reed Elsevier PLC or Reed Elsevier NV voting shares, persons holding ordinary shares or ADSs as part of a hedging, straddle, conversion or constructive sale transaction, persons that are resident or ordinarily resident in the UK (or who have ceased to be resident since March 17, 1998) and persons that are resident in the Netherlands. The summary also does not discuss the tax laws of particular states or localities in the US.

This summary does not consider your particular circumstances. It is not a substitute for tax advice. **We urge you to consult your own tax advisors about the income tax consequences to you in light of your particular circumstances of purchasing, holding and disposing of ordinary shares or ADSs.**

As used in this discussion, "US holder" means a beneficial owner of ordinary shares or ADSs that is (i) a US citizen or resident, (ii) a corporation, partnership or other business entity created or organised under the laws of the United States or any constituent jurisdiction, (iii) a trust subject to the control of a US person and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

### UK Taxation

#### *Dividends*

Under current UK taxation legislation, no tax is required to be withheld at source from dividends paid on the Reed Elsevier PLC ordinary shares or ADSs. See "US Federal Income Taxation – Dividends".

#### *Capital Gains*

You will not be liable for UK taxation on capital gains realised on the disposal of your Reed Elsevier PLC ordinary shares or ADSs unless at the time of the disposal you carry on a trade, profession or vocation in the United Kingdom through a branch or agency and such ordinary shares or ADSs are or have been used, held or acquired for the purposes of such trade, profession, vocation, branch or agency. For companies, in relation to accounting periods commencing on or after January 1, 2003, a change in United Kingdom law is proposed under which references to "branch or agency" above should be read as references to "permanent establishment".

#### *UK Stamp Duty and Stamp Duty Reserve Tax*

UK stamp duty reserve tax ("SDRT") or UK stamp duty is payable upon the transfer or issue of Reed Elsevier PLC ordinary shares to the Depositary in exchange for Reed Elsevier PLC ADSs evidenced by ADRs. For this purpose, the current rate of stamp duty and SDRT is 1.5% applied, in each case, to the amount or value of the consideration or, in some circumstances, to the value of the ordinary shares.

Provided that the instrument of transfer is not executed in the UK and remains outside the UK, no UK stamp duty will be payable on the acquisition or subsequent transfer of Reed Elsevier PLC ADRs. Agreement to transfer Reed Elsevier PLC ADRs will not give rise to a liability to SDRT.

A transfer of Reed Elsevier PLC ordinary shares by the Depositary to an ADR holder where there is no transfer of beneficial ownership will give rise to UK stamp duty at the rate of £5 per transfer.

Purchases of Reed Elsevier PLC ordinary shares, as opposed to ADRs, will give rise to UK stamp duty or SDRT at the time of transfer or agreement to transfer, normally at the rate of 0.5% of the amount payable for the ordinary shares. SDRT and UK stamp duty are usually paid by the purchaser. If the ordinary shares are later transferred to the Depositary, additional UK stamp duty or SDRT will normally be payable as described above.

### **Dutch Taxation**

*Withholding tax*

Dividends distributed to you by Reed Elsevier NV normally are subject to a withholding tax imposed by the Netherlands at a rate of 25%. Under the US-Netherlands income tax treaty, the rate of Dutch withholding tax on dividends distributed to you can be reduced from 25% to 15%. Dividends include, among other things, stock dividends unless the dividend is distributed out of recognised paid-in share premium for Dutch tax purposes.

You can claim the benefits of the reduced US-Netherlands income tax treaty withholding rate by submitting a Form IB 92 U.S.A. that includes an affidavit of a financial institution (typically the entity that holds the Reed Elsevier NV ordinary shares or ADSs for you as custodian). If Reed Elsevier NV receives the required documentation before the relevant dividend payment date, it may apply the reduced withholding rate at source. If you fail to satisfy these requirements, you can claim a refund of the excess amount withheld by filing Form IB 92 U.S.A. with the Dutch tax authorities within three years after the calendar year in which the withholding tax was levied and describing the circumstances that prevented you from claiming withholding tax relief at source.

#### *Taxation of dividends and capital gains*

You will not be subject to any Dutch taxes on dividends distributed by Reed Elsevier NV (other than the withholding tax described above) or any capital gain realised on the disposal of Reed Elsevier NV ordinary shares or ADSs provided that (i) the Reed Elsevier NV ordinary shares or ADSs are not attributable to an enterprise or an interest in an enterprise that you carry on, in whole or part through a permanent establishment or a permanent representative in the Netherlands, (ii) you do not have a substantial interest or a deemed substantial interest in Reed Elsevier NV (generally, 5% or more of either the total issued and outstanding capital or the issued and outstanding capital of any class of shares) or, if you have such an interest, it forms part of the assets of an enterprise, and (iii) if you are an individual, such dividend or capital gain from your Reed Elsevier NV ordinary shares or ADSs does not form benefits from miscellaneous activities (“*resultaat uit overige werkzaamheden*”) in the Netherlands.

#### **US Federal Income Taxation**

Holders of the ADSs generally will be treated for US federal income tax purposes as owners of the ordinary shares represented by the ADSs.

#### *Dividends*

Dividends on Reed Elsevier PLC ordinary shares or ADSs or Reed Elsevier NV ordinary shares or ADSs (including any Dutch tax withheld) will generally be included in your gross income as ordinary income from foreign sources. The dollar amount recognised on receiving a dividend in pounds sterling or euros will be based on the exchange rate in effect on the date the depository receives the dividend, or in the case of ordinary shares on the date you receive the dividend, as the case may be, whether or not the payment is converted into US dollars at that time. Any gain or loss recognised on a subsequent conversion of pounds sterling or euros for a different amount will be US source ordinary income or loss. Dividends received will not be eligible for the dividends-received deduction available to corporations.

If you hold Reed Elsevier PLC ordinary shares or ADSs and you are eligible for benefits under the UK-US income tax treaty, you may be entitled to a foreign tax credit for UK withholding tax. The amount of the withholding tax equals the tax credit payment that you are entitled to receive from the UK Inland Revenue. At current rates, a dividend of £90 entitles you to a payment of £10 offset by a UK withholding tax of £10. Because the tax credit payment and the withholding tax offset each other, the UK Inland Revenue neither makes the payment nor collects the tax. The offsetting payments nevertheless have US tax significance. If you elect the benefits of the UK-US income tax treaty and you include the tax credit payment in your income, you can claim a foreign tax credit for the UK withholding tax (subject to otherwise applicable limitations on foreign tax credit claims). To make the election, you must file a completed US Internal Revenue Service (“IRS”) Form 8833 with your US federal income tax return for the relevant year. A US partnership is entitled to benefits under the UK-US income tax treaty only with respect to income allocated to partners who are so entitled.

The US and the UK signed a new income tax treaty on July 24, 2001, which has not yet come into force (it is expected that the new treaty will be ratified and come into force shortly). Under the new treaty, US holders of UK shares will lose their right to claim a tax credit from the Inland Revenue (subject to certain circumstances to the ability of such holders under the present treaty to elect for the existing rules to continue to apply for a 12-month transitional period from the date the new treaty comes into force). In the absence of any such right, no UK withholding tax will be treated as having been paid, and US shareholders will therefore no longer be able to claim US foreign tax credits for any such UK withholding tax.

If you hold Reed Elsevier NV ordinary shares or ADSs and are eligible to claim benefits under the US-Netherlands income tax treaty, you may claim a reduced rate of Dutch dividend withholding tax equal to 15%. Subject to generally applicable

limitations, you can claim a deduction or a foreign tax credit only for Dutch tax withheld at the rate provided under the US- Netherlands income tax treaty.

#### *Dispositions*

You will recognise capital gain or loss on the sale or other disposition of ordinary shares or ADSs in an amount equal to the difference between your