



Adoption of International  
Financial Reporting Standards

 Reed Elsevier

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### **Forward looking statements**

The information on adoption of International Financial Reporting Standards contains forward looking statements within the meaning of Section 27A of the US Securities Act 1933, as amended, and Section 21E of the Securities Exchange Act 1934, as amended. These statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently being anticipated as reflected in such forward looking statements. The terms 'expect', 'should be', 'will be' and similar expressions identify forward looking statements. Factors which may cause future outcomes to differ from those foreseen in forward looking statements include, but are not limited to: general economic conditions and business conditions in Reed Elsevier's markets; exchange rate fluctuations; customers' acceptance of its products and services; the actions of competitors; significant failures in electronic delivery platforms or security breaches; legislative, fiscal and regulatory developments; changes in law and legal interpretation affecting Reed Elsevier's intellectual property rights and internet communications; and the impact of technological change.

# Adoption of International Financial Reporting Standards

## Financial highlights (IFRS)

### Reed Elsevier combined businesses

|  | £<br>Unaudited<br>2004<br>£m | €<br>Unaudited<br>2004<br>€m |
|--|------------------------------|------------------------------|
| <b>Reported figures (IFRS)</b>             |                              |                              |
| Turnover                                   | 4,812                        | 7,074                        |
| Operating profit                           | 766                          | 1,126                        |
| Profit before taxation                     | 631                          | 928                          |
| Net borrowings                             | 2,532                        | 3,570                        |
| <b>Adjusted (benchmark) figures (IFRS)</b> |                              |                              |
| Operating profit                           | 1,066                        | 1,567                        |
| Profit before taxation                     | 934                          | 1,373                        |
| Profit attributable                        | 687                          | 1,010                        |
| Operating cash flow                        | 1,013                        | 1,490                        |
| Operating margin                           | 22%                          | 22%                          |
| Operating cash flow conversion             | 95%                          | 95%                          |
| Interest cover (times)                     | 8.1                          | 8.1                          |

### Parent companies

|   | £<br>Unaudited<br>2004<br>pence | €<br>Unaudited<br>2004<br>euro |
|---|---------------------------------|--------------------------------|
| <b>Earnings per ordinary share (IFRS)</b> |                                 |                                |
| Reported earnings per share               | 18.6p                           | €0.43                          |
| Adjusted (benchmark) earnings per share   | 28.7p                           | €0.64                          |

On adoption of IFRS, Reed Elsevier proposes to use adjusted (benchmark) figures as additional performance measures. These measures exclude the amortisation of acquired intangible assets, acquisition related and non-operating exceptional items and deferred tax movements not expected to crystallise in the near term, and are explained in the commentary below. Reconciliations to the reported IFRS figures (unaudited) have been provided within the summarised IFRS financial information.

**Under a regulation adopted by the European Parliament, the Reed Elsevier combined financial statements and the financial statements of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV, will be prepared in accordance with International Financial Reporting Standards (IFRS) with effect from the 2005 financial year. The 2004 financial statements have been restated (unaudited) under IFRS, assuming a 1 January 2004 transition date, and are summarised on pages 5 to 29. The restated IFRS financial information, which will form the results and financial position for the comparative year in the 2005 financial statements, assumes the endorsement of certain standards by the European Commission in 2005.**

- Share based payments;
- Financial instruments;
- Deferred taxation; and
- Dividends

The net effect of presenting the 2004 financial statements under IFRS is to increase the reported Reed Elsevier combined attributable earnings by £156m/€230m, an increase of 51% over the amounts reported under UK GAAP, and to reduce combined shareholders' funds as at 31 December 2004 by £603m/€850m. These are accounting effects only and have no bearing on the cash flows in the business.

The adoption of IFRS for the 2005 financial year requires changes in Reed Elsevier accounting policies in six major areas:

- Goodwill and intangible assets;
- Employee benefits;

Under IFRS, the primary financial statements are described differently than under UK GAAP and there are certain differences of presentation.

### Goodwill and intangible assets

IFRS 3 – Business Combinations prohibits the amortisation of acquired goodwill. Goodwill amortisation of £206m/€304m charged under UK GAAP in 2004 is therefore reversed under IFRS. On the balance sheet, the net book amount of goodwill under IFRS is £262m/€370m higher as at 31 December 2004 than under UK GAAP. This higher amount reflects the reversal of the UK GAAP amortisation charge for 2004, together with an increase of £68m/€96m in the amount of goodwill arising on 2004 acquisitions under IFRS due to the recognition of additional deferred taxation liabilities (see below), less the effects of currency translation on adjustments.

IAS38 – Intangible Assets requires more detailed evaluations to be made of acquired intangible assets and their estimated useful lives than under UK GAAP. Estimated useful lives of acquired intangible assets under IFRS are typically shorter than under UK GAAP, although in certain cases may be considered indefinite. The adoption of IAS38 gives rise to a net increase in the amortisation charge in respect of acquired intangible assets of £55m/€81m.

Capitalised software costs, previously included within tangible fixed assets, are now included within intangible assets. The net book amount reclassified as at 31 December 2004 is £227m/€321m. There is no change to the depreciation charges in respect of such assets, although these will now be classified, separately, within intangible asset amortisation.

On the balance sheet, the net book amount of intangible assets under IFRS is £178m/€251m higher as at 31 December 2004 than under UK GAAP. This is due to the reclassification of capitalised software costs, partly offset by the higher amortisation of acquired intangible assets and the effects of currency translation on adjustments.

There is no retrospective restatement of the acquired goodwill and intangible asset values as at the 1 January 2004 transition date.

### Employee benefits

The accounting for the costs of defined benefit pension schemes and other post-retirement employee benefits under IFRS is governed by IAS19 – Employee Benefits, which differs from UK GAAP in that the net expense is determined using assumptions that are based on market conditions at the start of each financial year, principally in relation to salary inflation, investment returns and discount rates. Similarly, the assets and liabilities of defined benefit pension schemes and other employee benefit schemes are determined based on market conditions at the balance sheet date. Previously, under UK GAAP, determinations were made based on long run actuarial assumptions. The adoption of IAS19 valuation methodologies increases the expense for employee benefits by £27m/€40m compared

to the amount reported under UK GAAP. Net pension obligations calculated using the IAS19 valuation methodologies were £321m/€453m as at 31 December 2004, which compares with a net pension prepayment less accrued liabilities under UK GAAP of £84m/€118m.

Reed Elsevier is adopting the approach available under IAS19 to reflect all actuarial gains and losses in the balance sheet in full and to report the amounts of such gains and losses arising each year through the Statement of Recognised Income and Expenditure. Actuarial losses of £74m/€109m arising in the year ended 31 December 2004 are reflected in the amount of net pension obligations at the balance sheet date.

### Share based payments

For share based payments, the expense under IFRS2 – Share Based Payment is determined based on the fair value of such payments at the date of grant, spread over the vesting period taking account of the number of shares that are expected to vest. Under UK GAAP, only the intrinsic value is expensed e.g. where options are granted over shares with an exercise price below the market price of the shares at the date of grant. The charge under IFRS2 in 2004 is £48m/€71m higher than the £11m/€16m charge under UK GAAP. There is no effect on net assets as the profit and loss charge is offset by an equivalent amount credited to reserves.

### Deferred taxation

IAS12 – Income Taxes requires deferred taxation to be provided for nearly all differences between the balance sheet amounts of assets and liabilities and their corresponding tax bases. Previously, under UK GAAP, deferred tax was provided for timing differences only and deferred tax assets were not recognised unless realisable in the near term. Net deferred tax liabilities as at 31 December 2004 are £643m/€907m higher under IFRS than under UK GAAP. This relates principally to deferred tax of £785m/€1,107m on the difference between the balance sheet amount of acquired intangible assets and the historic tax bases of the underlying assets, partly offset by deferred tax assets in respect of net pension obligations. The goodwill on acquisitions is grossed up by the amount of deferred tax liabilities on acquired intangible assets, other than in respect of intangible assets acquired prior to the transition date of 1 January 2004. (Under transition rules, the deferred tax liability as at the 1 January 2004 transition date in respect of intangible assets acquired prior to that date is charged directly to reserves and not added to goodwill.) The tax charge under IFRS for 2004 is £80m/€118m lower than under UK GAAP due to the unwinding of deferred tax liabilities and the deferred tax effects of other IFRS adjustments.

### Dividends payable

Under UK GAAP, dividends are provided for in the year in respect of which they are declared or proposed by the directors. Under IAS10 – Post Balance Sheet Events,

dividends are only provided for when declared. Current liabilities have been reduced by £248m/€350m as at 31 December 2004 in respect of proposed dividends not formally declared as at the balance sheet date.

### Joint ventures

Under IFRS, the equity accounted share of joint ventures results is included within operating profit on a post-tax basis. Under UK GAAP, the equity share of the taxes in joint ventures has been included in taxation and not deducted within operating profit. The effect is to reduce both the operating profit and the taxation charge under IFRS by £7m/€10m for 2004. There is no effect on profit attributable and net assets.

### Financial instruments

IAS39 – Financial Instruments is not applicable until the 2005 financial year, and there is no restatement of prior year comparatives required (due to the impracticality of applying the new rules to past transactions). Accordingly there is no restatement of the 2004 financial statements for IAS39. Reed Elsevier uses financial instruments such as interest rate derivatives and forward exchange contracts to hedge interest rate and currency transaction exposures. Not all such instruments will in future necessarily qualify for hedge accounting treatment under the prescriptive rules of IAS39. For financial instruments not qualifying for hedge accounting, changes in their market value will be reported through the income statement.

For those debt instruments designated under IFRS as hedged by derivatives, such as cross currency swaps, qualifying as fair value hedges, both the debt and derivatives will be included separately in the balance sheet at fair value, resulting in variations in the balance sheet values of the gross debt and the offsetting derivatives as market values fluctuate. The balance sheet value of the net debt, including the associated derivatives, will be unaffected. Under UK GAAP, the balance sheet amount of debt hedged by derivatives has previously been recorded at historical cost at hedged rates and not revalued.

In respect of currency risk, Reed Elsevier hedges cross border transactions in foreign currencies, the most significant of which relate to the global scientific journals business. Hedge accounting treatment will still apply for these transactions under IAS39. However, whereas under UK GAAP hedge accounting applied to both revenues and costs where the net exchange risk is hedged in the market, under IFRS there is no grossing up of the hedge for the foreign currency revenues and the offsetting costs and a portion of the revenues and the costs are therefore treated as if unhedged. There should however be no net impact on profit and loss.

### Performance measures

Reed Elsevier has for many years presented adjusted profit and cash flow figures as additional performance measures,

which have been stated before the amortisation of goodwill and intangible assets, exceptional items and related tax effects. These have been important measures used in establishing budgets across the business and in monitoring performance, and in expressing Reed Elsevier's financial targets.

Whilst the adoption of IFRS has no effect on the cash flow of the business, it will inevitably have an influence on the way management and investors view performance. Maintaining existing benchmarks, whilst providing consistency and avoiding the inherent volatility under IFRS, would require too many adjustments to reported figures.

In future, Reed Elsevier is likely to focus on adjusted figures that include the additional expense of share based payments and pension expense under IFRS. Additionally, restructuring costs will be included in the benchmark. Acquisition integration costs will be excluded as they are entirely dependent on acquisition activity and are budgeted as an integral component of acquisition cost. Amortisation of acquired intangible assets will, as before, be excluded from the adjusted figures. Whilst the impact of mark-to-market adjustments on any financial instruments which fail to qualify for hedge accounting treatment is believed to be manageable, it is intended to exclude these effects from the benchmark figures, at least initially, whilst we gain practical experience. The effective tax rate used in the benchmark will exclude the effect of movements in deferred taxation assets and liabilities that are not expected to crystallise in the near term. This will, as before, more closely approximate the cash tax rate. Adjusted operating profits and taxation will be grossed up for the equity share of taxes in joint ventures.

The new proposed additional performance measures under an IFRS regime would for 2004 be: adjusted operating profit of £1,066m/€1,567m, adjusted operating cash flow of £1,013m/€1,490m, adjusted pre-tax profits of £934m/€1,373m, and adjusted earnings per share for Reed Elsevier PLC of 28.7p and for Reed Elsevier NV of €0.64. The derivation of these new benchmark figures for 2004 from the results presented under IFRS is set out on page 20.

Reported results under IFRS will inherently be more volatile than under previous UK GAAP due to the inclusion of fair value and market based assets and liabilities and income and expense. Of most significance to the new additional performance measures will be the volatility in respect of pension expense. A relatively small market change in the corporate bond yields that are used to determine discount rates or in inflation rates implied by index-linked government bonds can have a significant impact, favourable and adverse, on the annual service cost for defined benefit pension schemes. Targets in respect of future financial performance will therefore be set in this context.

# Reed Elsevier combined businesses

## Combined income statement (IFRS)

For the year ended 31 December 2004

|   | Note | £<br>Unaudited<br>2004<br>£m | €<br>Unaudited<br>2004<br>€m |
|---|------|------------------------------|------------------------------|
| <b>Revenue</b>                                      | 1    | <b>4,812</b>                 | <b>7,074</b>                 |
| Cost of sales                                       |      | (1,733)                      | (2,548)                      |
| Gross profit  |      | 3,079                        | 4,526                        |
| Selling and distribution costs                      |      | (1,065)                      | (1,566)                      |
| Administration and other expenses                   |      | (1,265)                      | (1,860)                      |
| Before amortisation and exceptional items           |      | (954)                        | (1,403)                      |
| Amortisation of acquired intangible assets          |      | (255)                        | (375)                        |
| Exceptional items                                   |      | (56)                         | (82)                         |
| <b>Operating profit</b>                             |      | <b>749</b>                   | <b>1,100</b>                 |
| Share of result of joint ventures                   |      | 17                           | 26                           |
| <b>Operating profit including joint ventures</b>    | 1,2  | <b>766</b>                   | <b>1,126</b>                 |
| Net interest expense                                |      | (132)                        | (194)                        |
| Exceptional losses on disposals                     |      | (3)                          | (4)                          |
| <b>Profit before tax</b>                            |      | <b>631</b>                   | <b>928</b>                   |
| Tax   | 3    | (170)                        | (250)                        |
| <b>Profit on ordinary activities after taxation</b> |      | <b>461</b>                   | <b>678</b>                   |
| Attributable to:                                    |      |                              |                              |
| Parent companies' shareholders                      |      | 459                          | 675                          |
| Minority interests                                  |      | 2                            | 3                            |
| <b>Net profit for the year</b>                      |      | <b>461</b>                   | <b>678</b>                   |

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 9 to 12.

A reconciliation of the combined income statement under IFRS to the combined profit and loss account under UK GAAP is set out in note 6.

Adjusted (benchmark) profit figures under IFRS are presented in note 7 as additional performance measures.

# Reed Elsevier combined businesses

## Combined cash flow statement (IFRS)

For the year ended 31 December 2004

|  | £<br>Unaudited<br>2004<br>£m | €<br>Unaudited<br>2004<br>€m |
|--|------------------------------|------------------------------|
| <b>Cash flows from operating activities</b>              |                              |                              |
| Cash generated from operations                           | 1,154                        | 1,696                        |
| Interest paid  | (146)                        | (215)                        |
| Interest received  | 16                           | 24                           |
| Tax paid   | (209)                        | (307)                        |
| Net cash from operating activities                       | 815                          | 1,198                        |
| <b>Cash flows from investing activities</b>              |                              |                              |
| Acquisitions   | (647)                        | (951)                        |
| Proceeds from sale of businesses                         | 2                            | 3                            |
| Purchases of property, plant and equipment               | (82)                         | (120)                        |
| Proceeds on disposal of property, plant and equipment    | 4                            | 7                            |
| Expenditure on internally developed intangible assets    | (110)                        | (162)                        |
| Purchases of available-for-sale investments              | (13)                         | (19)                         |
| Proceeds from disposal of available-for-sale investments | 10                           | 15                           |
| Dividends received from joint ventures                   | 17                           | 25                           |
| Net cash used in investing activities                    | (819)                        | (1,202)                      |
| <b>Cash flows from financing activities</b>              |                              |                              |
| Dividends paid to shareholders of the parent companies   | (309)                        | (454)                        |
| Decrease in borrowings                                   | (82)                         | (120)                        |
| Proceeds on issue of ordinary shares                     | 21                           | 31                           |
| Purchase of treasury shares                              | (29)                         | (43)                         |
| Net cash used in financing activities                    | (399)                        | (586)                        |
| <b>Decrease in cash and cash equivalents</b>             | <b>(403)</b>                 | <b>(590)</b>                 |
| <b>Movement in cash and cash equivalents</b>             |                              |                              |
| At start of year   | 638                          | 906                          |
| Decrease   | (403)                        | (590)                        |
| Effect of foreign exchange rate changes                  | (10)                         | 1                            |
| <b>At end of year</b>                                    | <b>225</b>                   | <b>317</b>                   |

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 9 to 12.

Adjusted (benchmark) operating cash flow figures under IFRS are presented in note 7 as additional performance measures.

# Reed Elsevier combined businesses

## Combined balance sheet (IFRS)

As at 31 December 2004

|                                       | Note | £<br>Unaudited<br>2004<br>£m | €<br>Unaudited<br>2004<br>€m |
|---------------------------------------|------|------------------------------|------------------------------|
| <b>Assets</b>                         |      |                              |                              |
| <b>Non-current assets</b>             |      |                              |                              |
| Goodwill                              | 4    | 2,611                        | 3,682                        |
| Intangible assets                     | 5    | 2,835                        | 3,997                        |
| Investments in joint ventures         |      | 60                           | 86                           |
| Available-for-sale investments        |      | 50                           | 71                           |
| Property, plant and equipment         |      | 292                          | 411                          |
| Deferred tax assets                   |      | 235                          | 331                          |
|                                       |      | <b>6,083</b>                 | <b>8,578</b>                 |
| <b>Current assets</b>                 |      |                              |                              |
| Inventories and pre-publication costs |      | 541                          | 763                          |
| Trade and other receivables           |      | 1,103                        | 1,555                        |
| Cash and cash equivalents             |      | 225                          | 317                          |
|                                       |      | <b>1,869</b>                 | <b>2,635</b>                 |
| <b>Total assets</b>                   |      | <b>7,952</b>                 | <b>11,213</b>                |
| <b>Liabilities</b>                    |      |                              |                              |
| <b>Current liabilities</b>            |      |                              |                              |
| Trade and other payables              |      | 1,791                        | 2,525                        |
| Borrowings                            |      | 1,051                        | 1,482                        |
| Taxation                              |      | 497                          | 701                          |
|                                       |      | <b>3,339</b>                 | <b>4,708</b>                 |
| <b>Non-current liabilities</b>        |      |                              |                              |
| Borrowings                            |      | 1,706                        | 2,405                        |
| Deferred tax liabilities              |      | 857                          | 1,208                        |
| Employee benefit obligations          |      | 321                          | 453                          |
| Provisions                            |      | 52                           | 73                           |
|                                       |      | <b>2,936</b>                 | <b>4,139</b>                 |
| <b>Total liabilities</b>              |      | <b>6,275</b>                 | <b>8,847</b>                 |
| <b>Net assets</b>                     |      | <b>1,677</b>                 | <b>2,366</b>                 |
| <b>Equity</b>                         |      |                              |                              |
| <b>Capital and reserves</b>           |      |                              |                              |
| Combined share capitals               |      | 191                          | 269                          |
| Combined share premium accounts       |      | 1,805                        | 2,545                        |
| Combined shares held in treasury      |      | (66)                         | (93)                         |
| Translation reserve                   |      | (122)                        | (175)                        |
| Other combined reserves               |      | (144)                        | (200)                        |
|                                       |      | <b>1,664</b>                 | <b>2,346</b>                 |
| Minority interest                     |      | 13                           | 20                           |
| <b>Total equity</b>                   |      | <b>1,677</b>                 | <b>2,366</b>                 |

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 9 to 12.

A reconciliation of the combined balance sheet under IFRS to the combined balance sheet under UK GAAP is set out in note 6.

## Reed Elsevier combined businesses

### Combined statement of recognised income and expenditure (IFRS)

For the year ended 31 December 2004

|  | £<br>Unaudited<br>2004<br>£m | €<br>Unaudited<br>2004<br>€m |
|--|------------------------------|------------------------------|
| Net profit for the year                                  | 461                          | 678                          |
| Exchange difference on translation of foreign operations | (121)                        | (196)                        |
| Actuarial losses on defined benefit pension schemes      | (74)                         | (109)                        |
| Tax on items taken directly to reserves                  | 12                           | 18                           |
| Net expense recognised directly in equity                | (183)                        | (287)                        |
| <b>Total recognised income and expense for the year</b>  | <b>278</b>                   | <b>391</b>                   |
| Attributable to:   |                              |                              |
| Parent companies' shareholders                           | 276                          | 388                          |
| Minority interests                                       | 2                            | 3                            |
|  | <b>278</b>                   | <b>391</b>                   |

### Combined shareholders' funds reconciliation (IFRS)

For the year ended 31 December 2004

|  | £<br>Unaudited<br>2004<br>£m | €<br>Unaudited<br>2004<br>€m |
|--|------------------------------|------------------------------|
| Total recognised net income attributable to the parent companies' shareholders | 276                          | 388                          |
| Dividends declared in the year   | (309)                        | (454)                        |
| Issue of ordinary shares, net of expenses                                      | 21                           | 31                           |
| Increase in shares held in treasury  | (29)                         | (43)                         |
| Increase in share based payment reserve  | 59                           | 87                           |
| Net increase in combined shareholders' funds                                   | 18                           | 9                            |
| Combined shareholders' funds at 1 January                                      | 1,646                        | 2,337                        |
| <b>Combined shareholders' funds at 31 December</b>                             | <b>1,664</b>                 | <b>2,346</b>                 |

The financial information has been prepared on the basis of the accounting policies under IFRS set out on pages 9 to 12.

# Reed Elsevier combined businesses

## Accounting policies (IFRS)

### Basis of preparation

Under a regulation adopted by the European Parliament in 2002, the Reed Elsevier combined financial statements and the financial statements of the two parent companies, Reed Elsevier PLC and Reed Elsevier NV, will be prepared under International Financial Reporting Standards (IFRS) with effect from the 2005 financial year.

The Reed Elsevier accounting policies under IFRS are set out below. The financial statement information summarises the results and financial position of the Reed Elsevier combined businesses and the two parent companies for the year ended 31 December 2004 in accordance with these accounting policies.

The financial statement information presented is unaudited.

### Transition date

The date of transition to IFRS is 1 January 2004, which is the beginning of the prior year comparative period for the 2005 financial year.

### Foreign exchange translation

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rate prevailing on the balance sheet date.

Assets and liabilities of foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items of foreign operations are translated at the average exchange rate for the period. Exchange differences arising are classified as equity and transferred to the translation reserve. Cumulative translation differences are recognised within the income statement in the period in which operations are disposed of.

As permitted under the transition rules of IFRS1 – First Time Adoption of International Financial Reporting Standards, cumulative translation differences in respect of foreign operations have been deemed to be nil at the date of transition.

Reed Elsevier uses derivative financial instruments, primarily forward contracts, in order to hedge its exposure to certain foreign exchange risks. Details of Reed Elsevier's accounting policies in respect of derivative financial instruments are set out below.

### Revenue

Revenue represents the invoiced value of sales less anticipated returns on transactions completed by performance, excluding customer sales taxes and sales between the combined businesses.

Revenues are recognised for the various categories of turnover as follows: subscriptions – on periodic despatch of subscribed product or ratably over the period of the subscription where performance is not measurable by despatch; circulation – on despatch; advertising – on publication or over the period of online display; exhibitions – on occurrence of the exhibition; educational testing contracts – over the term of the contract on percentage completed against contract milestones.

Where sales consist of two or more independent components, revenue is recognised on each component, as it is completed by performance, based on attribution of relative value.

### Employee benefits

The expense of defined benefit pension schemes and other post-retirement employee benefits is determined using the projected unit credit method and charged to the income statement as an operating expense, based on actuarial assumptions reflecting market conditions at the beginning of the financial year. Actuarial gains and losses are recognised in full in the statement of recognised income and expenditure in the period in which they occur. Past service costs are recognised immediately to the extent that benefits have vested, or, if not vested, on a straight line basis over the period until the benefits vest.

Net pension obligations in respect of defined benefit schemes are included in the balance sheet at the present value of scheme liabilities, less the fair value of scheme assets. Where assets exceed liabilities, any net pension asset is limited to the extent that the asset is not recoverable through reductions in future contributions.

The expense of defined contribution pension schemes and other employee benefits is charged in the income statement as incurred.

### Share-based payments

The fair value of share-based remuneration is determined at date of grant and recognised as an expense in the income statement on a straight line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of a binomial model. All share-based remuneration is equity settled.

In accordance with the transitional provisions of IFRS2 – Share-Based Payment, the expense recognised in the income statement relates to grants made during the

# Reed Elsevier combined businesses

## Accounting policies (IFRS) continued

financial period and all grants made before the transition date that had not fully vested at that date.

### Taxation

The tax expense represents the sum of the tax payable on the current year taxable profits and the movements on deferred tax.

The tax payable on current year taxable profits is calculated using the applicable tax rates that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is the tax arising on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is not recognised on temporary differences arising in respect of goodwill that is not deductible for tax purposes.

No provision is made for deferred tax which would become payable on the distribution of retained profits by foreign subsidiaries, joint ventures or associates, unless there is an intention to distribute such retained profits.

Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Movements in deferred tax are charged or credited in the income statement, except when they relate to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Goodwill

On the acquisition of a subsidiary, joint venture, associate or business, the purchase consideration is allocated between the net tangible and intangible assets on a fair value basis, with any excess purchase consideration representing goodwill.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and may not be subsequently reversed.

On disposal of a subsidiary, joint venture, associate or business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the 1 January 2004 date of transition to IFRS is included in the balance sheet at

the previously stated net book amount under UK GAAP. An impairment review was carried out as at the transition date and no impairment identified.

### Intangible assets

Intangible assets acquired as part of a business combination are stated in the balance sheet at their fair value as at date of acquisition, less accumulated amortisation. Internally generated intangible assets are stated in the balance sheet at the directly attributable cost of creation of the asset, less accumulated amortisation.

Intangible assets acquired as part of business combinations comprise: market related assets (e.g. trade marks, imprints, brands); customer based assets (e.g. subscription bases, customer lists, customer relationships); editorial content; software and systems (e.g. application infrastructure, product delivery platforms, in-process research and development); contract based assets (e.g. publishing rights, exhibition rights, supply contracts); and other intangible assets. Internally generated intangible assets typically comprise software and systems development where an identifiable asset is created that is probable to generate future economic benefits. All other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets, other than brands and imprints determined to have indefinite lives, are amortised systematically over their estimated useful lives, typically up to a maximum of 20 years. Brands and imprints determined to have indefinite lives are not amortised and are subject to impairment review at least annually.

Intangible assets recognised on acquisitions made before the 1 January 2004 date of transition to IFRS have been included in the balance sheet at their previously stated cost less amortisation under UK GAAP. An impairment review was carried out as at the transition date and no impairment identified.

### Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation. No depreciation is provided on freehold land. Freehold buildings and long leases are depreciated over their estimated useful lives up to a maximum of 50 years. Short leases are written off over the duration of the lease. Depreciation is provided on other assets on a straight line basis over their estimated useful lives: leasehold improvements – shorter of life of lease and 10 years; plant – 3 to 20 years; office furniture, fixtures and fittings – 5 to 10 years; computer systems, communication networks and equipment – 3 to 7 years.

**Investments, joint ventures and associates**

Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value. Investments held as part of the Reed Elsevier Ventures portfolio are classified as available-for-sale venture capital investments, with changes in fair value reported through the income statement. All other investments are classified as available-for-sale investments with changes in fair value recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is brought into the net profit or loss for the period.

Investments in joint ventures and associates are accounted for under the equity method and stated in the balance sheet at cost as adjusted for post-acquisition changes in share of net assets, less any impairment in value.

**Impairment**

At each balance sheet date, reviews are carried out of the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, estimates are made of the cash flows of the cash generating unit to which the asset belongs. Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

**Inventories and pre-publication costs**

Inventories and pre-publication costs are stated at the lower of cost, including appropriate attributable overhead, and estimated net realisable value. Pre-publication costs, representing costs incurred in the origination of content prior to publication, are expensed systematically reflecting the expected sales profile over the estimated economic lives of the related products, generally up to five years.

**Leases**

Assets held under leases which confer rights and obligations similar to those attaching to owned assets are capitalised within property, plant and equipment and the corresponding liability to pay rentals is shown net of interest in the balance sheet as obligations under finance leases. The capitalised value of the assets is depreciated on a straight line basis over the shorter of the periods of the leases or the useful lives of the assets concerned. The interest element of the lease payments is allocated so as to produce a constant periodic rate of charge.

Operating lease rentals are charged to the income statement on a straight line basis over the period of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

**Financial instruments**

Derivative financial instruments are used to hedge interest rate and foreign exchange risks.

In accordance with the transitional provisions of IFRS1 – First Time Adoption of International Financial Reporting Standards, derivative financial instruments have been accounted for and presented on the UK GAAP basis for the year ended 31 December 2004.

Under IAS39 – Financial Instruments, derivative financial instruments are stated in the balance sheet at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. If a hedged firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time that the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss. Any ineffective portion of hedges is recognised immediately in the income statement.

Where an effective hedge is in place against changes in the fair value of fixed rate borrowings, the hedged borrowings are adjusted for changes in fair value attributable to the risk being hedged with a corresponding income or expense included in the income statement. The offsetting gains or losses from re-measuring the fair value of the related derivatives are also recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

## Reed Elsevier combined businesses

### Accounting policies (IFRS) *continued*

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is either retained in equity until the forecasted transaction occurs, or, where a hedged transaction is no longer expected to occur, is immediately credited or expensed in the income statement.

Derivatives embedded in other host contracts are treated as separate derivatives where their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

As at 1 January 2005, adjustments are to be made either to the carrying value of hedged items or to equity, as appropriate, to reflect the differences between the UK GAAP carrying values of derivative financial instruments and their carrying values required to be reported under IAS39. Any transition gains or losses on derivative financial instruments that qualify for hedge accounting and are reflected in equity will remain in equity until either the forecasted transaction occurs or is no longer expected to occur.

# Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

## 1 Segment analysis (IFRS)

|                                | Unaudited 2004       |                      |                                       | Adjusted (benchmark) operating profit |                      |                                       |
|--------------------------------|----------------------|----------------------|---------------------------------------|---------------------------------------|----------------------|---------------------------------------|
|                                | Revenue              | Operating profit     | Adjusted (benchmark) operating profit | Revenue                               | Operating profit     | Adjusted (benchmark) operating profit |
|                                | Unaudited 2004<br>€m | Unaudited 2004<br>€m | Unaudited 2004<br>€m                  | Unaudited 2004<br>€m                  | Unaudited 2004<br>€m | Unaudited 2004<br>€m                  |
| <b>Business segment</b>        |                      |                      |                                       |                                       |                      |                                       |
| Elsevier                       | 1,363                | 402                  | 445                                   | 2,004                                 | 591                  | 654                                   |
| LexisNexis                     | 1,292                | 188                  | 287                                   | 1,899                                 | 276                  | 422                                   |
| Harcourt Education             | 868                  | 67                   | 157                                   | 1,276                                 | 99                   | 231                                   |
| Reed Business                  | 1,289                | 126                  | 194                                   | 1,895                                 | 185                  | 285                                   |
| Subtotal                       | 4,812                | 783                  | 1,083                                 | 7,074                                 | 1,151                | 1,592                                 |
| Corporate costs                |                      | (29)                 | (29)                                  |                                       | (43)                 | (43)                                  |
| Unallocated net pension credit |                      | 12                   | 12                                    |                                       | 18                   | 18                                    |
| <b>Total</b>                   | <b>4,812</b>         | <b>766</b>           | <b>1,066</b>                          | <b>7,074</b>                          | <b>1,126</b>         | <b>1,567</b>                          |
| <b>Geographical origin</b>     |                      |                      |                                       |                                       |                      |                                       |
| North America                  | 2,656                | 315                  | 539                                   | 3,904                                 | 462                  | 792                                   |
| United Kingdom                 | 846                  | 129                  | 159                                   | 1,244                                 | 190                  | 234                                   |
| The Netherlands                | 503                  | 182                  | 189                                   | 739                                   | 268                  | 278                                   |
| Rest of Europe                 | 545                  | 102                  | 138                                   | 801                                   | 150                  | 203                                   |
| Rest of world                  | 262                  | 38                   | 41                                    | 386                                   | 56                   | 60                                    |
| <b>Total</b>                   | <b>4,812</b>         | <b>766</b>           | <b>1,066</b>                          | <b>7,074</b>                          | <b>1,126</b>         | <b>1,567</b>                          |

Adjusted (benchmark) operating profit figures are presented as additional performance measures and reconciled to the reported figures in note 7. The unallocated net pension credit of £12m/€18m comprises the expected return on pension scheme assets of £139m/€204m less interest on pension scheme liabilities of £127m/€186m. Share of post-tax results of joint ventures of £17m/€26m included in operating profit comprises £3m/€5m relating to LexisNexis and £14m/€21m relating to Reed Business.

|                            | Unaudited 2004       |                               | Adjusted (benchmark) operating profit |                               |
|----------------------------|----------------------|-------------------------------|---------------------------------------|-------------------------------|
|                            | Capital additions    | Depreciation and amortisation | Capital additions                     | Depreciation and amortisation |
|                            | Unaudited 2004<br>€m | Unaudited 2004<br>€m          | Unaudited 2004<br>€m                  | Unaudited 2004<br>€m          |
| <b>Business segment</b>    |                      |                               |                                       |                               |
| Elsevier                   | 67                   | 67                            | 98                                    | 98                            |
| LexisNexis                 | 300                  | 140                           | 441                                   | 206                           |
| Harcourt Education         | 94                   | 85                            | 138                                   | 125                           |
| Reed Business              | 47                   | 85                            | 70                                    | 125                           |
| Subtotal                   | 508                  | 377                           | 747                                   | 554                           |
| Corporate amounts          | 5                    | 4                             | 7                                     | 6                             |
| <b>Total</b>               | <b>513</b>           | <b>381</b>                    | <b>754</b>                            | <b>560</b>                    |
| <b>Geographical origin</b> |                      |                               |                                       |                               |
| North America              | 407                  | 277                           | 598                                   | 407                           |
| United Kingdom             | 45                   | 47                            | 66                                    | 69                            |
| The Netherlands            | 40                   | 15                            | 59                                    | 22                            |
| Rest of Europe             | 15                   | 36                            | 22                                    | 53                            |
| Rest of world              | 6                    | 6                             | 9                                     | 9                             |
| <b>Total</b>               | <b>513</b>           | <b>381</b>                    | <b>754</b>                            | <b>560</b>                    |

Capital additions comprise expenditure on property, plant and equipment and intangible assets, both acquired and internally developed, and exclude goodwill.

# Reed Elsevier combined businesses

## 1 Segment analysis (IFRS) continued

|                              | Total assets         |                      |                      | Total liabilities    |                      |                      | Net assets           |                      |                      |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                              | Unaudited 2004<br>£m | Unaudited 2004<br>£m | Unaudited 2004<br>£m | Unaudited 2004<br>€m | Unaudited 2004<br>€m | Unaudited 2004<br>€m | Unaudited 2004<br>£m | Unaudited 2004<br>£m | Unaudited 2004<br>£m |
| <b>Business segment</b>      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Elsevier                     | 2,099                | 704                  | 1,395                | 2,960                | 993                  | 1,967                |                      |                      |                      |
| LexisNexis                   | 2,616                | 329                  | 2,287                | 3,689                | 464                  | 3,225                |                      |                      |                      |
| Harcourt Education           | 1,542                | 177                  | 1,365                | 2,174                | 249                  | 1,925                |                      |                      |                      |
| Reed Business                | 1,194                | 515                  | 679                  | 1,683                | 726                  | 957                  |                      |                      |                      |
|                              | <b>7,451</b>         | <b>1,725</b>         | <b>5,726</b>         | <b>10,506</b>        | <b>2,432</b>         | <b>8,074</b>         |                      |                      |                      |
| Tax                          | 235                  | 1,354                | (1,119)              | 331                  | 1,909                | (1,578)              |                      |                      |                      |
| Cash and borrowings          | 225                  | 2,757                | (2,532)              | 317                  | 3,887                | (3,570)              |                      |                      |                      |
| Employee benefit obligations | -                    | 321                  | (321)                | -                    | 453                  | (453)                |                      |                      |                      |
| Other assets and liabilities | 41                   | 118                  | (77)                 | 59                   | 166                  | (107)                |                      |                      |                      |
| <b>Total</b>                 | <b>7,952</b>         | <b>6,275</b>         | <b>1,677</b>         | <b>11,213</b>        | <b>8,847</b>         | <b>2,366</b>         |                      |                      |                      |
| <b>Geographical origin</b>   |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| North America                | 5,622                | 3,403                | 2,219                | 7,927                | 4,798                | 3,129                |                      |                      |                      |
| United Kingdom               | 927                  | 581                  | 346                  | 1,307                | 819                  | 488                  |                      |                      |                      |
| The Netherlands              | 417                  | 623                  | (206)                | 588                  | 878                  | (290)                |                      |                      |                      |
| Rest of Europe               | 841                  | 1,531                | (690)                | 1,186                | 2,159                | (973)                |                      |                      |                      |
| Rest of world                | 145                  | 137                  | 8                    | 205                  | 193                  | 12                   |                      |                      |                      |
| <b>Total</b>                 | <b>7,952</b>         | <b>6,275</b>         | <b>1,677</b>         | <b>11,213</b>        | <b>8,847</b>         | <b>2,366</b>         |                      |                      |                      |

Share of net assets in joint ventures of £60m/€86m included above comprises £26m/€37m relating to LexisNexis and £34m/€49m relating to Reed Business.

## 2 Operating profit (IFRS)

Operating profit is stated after charging/(crediting):

|  | Unaudited 2004<br>£m | Unaudited 2004<br>€m |
|--|----------------------|----------------------|
| Staff costs  |                      |                      |
| Wages and salaries                                     | 1,216                | 1,788                |
| Social security costs                                  | 130                  | 191                  |
| Pensions   | 84                   | 123                  |
| Share based payments                                   | 59                   | 87                   |
| <b>Total staff costs</b>                               | <b>1,489</b>         | <b>2,189</b>         |
| Operating lease rentals payable                        | 105                  | 154                  |
| Operating lease rentals receivable                     | (12)                 | (18)                 |
| Amortisation of acquired intangible assets             | 255                  | 375                  |
| Amortisation of internally developed intangible assets | 55                   | 81                   |
| Depreciation of property, plant and equipment          | 71                   | 104                  |

The accounting for pensions under IAS19 is very similar to the requirements of UK FRS 17, disclosures in respect of which are set out in the Reed Elsevier Annual Reports and Financial Statements 2004.

## Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

### 3 Tax (IFRS)

|  | Unaudited<br>2004<br>£m | Unaudited<br>2004<br>€m |
|--|-------------------------|-------------------------|
| Current tax:                                     |                         |                         |
| United Kingdom                                   | 73                      | 107                     |
| The Netherlands                                  | 52                      | 77                      |
| Other  | 60                      | 88                      |
|  | 185                     | 272                     |
| Deferred tax:                                    |                         |                         |
| Current year                                     | (15)                    | (22)                    |
| <b>Total</b>                                     | <b>170</b>              | <b>250</b>              |
| Effective tax rate on reported profit before tax | 27%                     | 27%                     |

### 4 Goodwill (IFRS)

|                                  | Unaudited<br>2004<br>£m | Unaudited<br>2004<br>€m |
|----------------------------------|-------------------------|-------------------------|
| At 1 January 2004                | 2,437                   | 3,461                   |
| Acquisitions                     | 345                     | 507                     |
| Exchange translation differences | (171)                   | (286)                   |
| <b>At 31 December 2004</b>       | <b>2,611</b>            | <b>3,682</b>            |

## Reed Elsevier combined businesses

### 5 Intangible assets (IFRS)

|                                     | Acquired intangible assets | Internally developed intangible assets | Total           | Acquired intangible assets | Internally developed intangible assets | Total           |
|-------------------------------------|----------------------------|--|-----------------|----------------------------|--|-----------------|
|                                     | Unaudited<br>€m            | Unaudited<br>€m                        | Unaudited<br>€m | Unaudited<br>€m            | Unaudited<br>€m                        | Unaudited<br>€m |
| <b>Cost</b>                         |                            |  |                 |                            |  |                 |
| At 1 January 2004                   | 4,091                      | 419                                    | 4,510           | 5,809                      | 595                                    | 6,404           |
| Additions                           | 310                        | 110                                    | 420             | 456                        | 162                                    | 618             |
| Disposals                           | (13)                       | –                                      | (13)            | (19)                       | –                                      | (19)            |
| Exchange translation differences    | (236)                      | (17)                                   | (253)           | (391)                      | (36)                                   | (427)           |
| At 31 December 2004                 | 4,152                      | 512                                    | 4,664           | 5,855                      | 721                                    | 6,576           |
| <b>Amortisation</b>                 |                            |  |                 |                            |  |                 |
| At 1 January 2004                   | 1,375                      | 229                                    | 1,604           | 1,953                      | 325                                    | 2,278           |
| Disposals/write off on acquisitions | (13)                       | 10                                     | (3)             | (19)                       | 15                                     | (4)             |
| Charge for the year                 | 255                        | 55                                     | 310             | 375                        | 81                                     | 456             |
| Exchange translation differences    | (73)                       | (9)                                    | (82)            | (131)                      | (20)                                   | (151)           |
| At 31 December 2004                 | 1,544                      | 285                                    | 1,829           | 2,178                      | 401                                    | 2,579           |
| <b>Net book amount</b>              |                            |  |                 |                            |  |                 |
| At 31 December 2003                 | 2,716                      | 190                                    | 2,906           | 3,856                      | 270                                    | 4,126           |
| <b>At 31 December 2004</b>          | <b>2,608</b>               | <b>227</b>                             | <b>2,835</b>    | <b>3,677</b>               | <b>320</b>                             | <b>3,997</b>    |

Acquired intangible assets as at 31 December 2004 include brands and imprints totalling £610m/€860m determined to have indefinite lives based on an assessment of their longevity and stable market positions.

# Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

## 6 Reconciliations to UK GAAP

### Reconciliation of combined profit

|   | Note  | UK GAAP Adjustments |                         |                         | IFRS         |                         |                         |
|---|-------|---------------------|-------------------------|-------------------------|--------------|-------------------------|-------------------------|
|   |       | 2004<br>£m          | Unaudited<br>2004<br>£m | Unaudited<br>2004<br>£m | 2004<br>€m   | Unaudited<br>2004<br>€m | Unaudited<br>2004<br>€m |
| <b>Revenue</b>  |       | <b>4,812</b>        | <b>-</b>                | <b>4,812</b>            | <b>7,074</b> | <b>-</b>                | <b>7,074</b>            |
| Cost of sales   |       | (1,733)             | -                       | (1,733)                 | (2,548)      | -                       | (2,548)                 |
| Gross profit  |       | 3,079               | -                       | 3,079                   | 4,526        | -                       | 4,526                   |
| Selling and distribution costs                          |       | (1,065)             | -                       | (1,065)                 | (1,566)      | -                       | (1,566)                 |
| Administration and other expenses                       |       | (1,339)             | 74                      | (1,265)                 | (1,968)      | 108                     | (1,860)                 |
| Before amortisation and exceptional items               | (i)   | (879)               | (75)                    | (954)                   | (1,292)      | (111)                   | (1,403)                 |
| Amortisation of goodwill and acquired intangible assets | (ii)  | (404)               | 149                     | (255)                   | (594)        | 219                     | (375)                   |
| Exceptional items                                       |       | (56)                | -                       | (56)                    | (82)         | -                       | (82)                    |
| <b>Operating profit</b>                                 |       | <b>675</b>          | <b>74</b>               | <b>749</b>              | <b>992</b>   | <b>108</b>              | <b>1,100</b>            |
| Share of result of joint ventures                       | (iii) | 22                  | (5)                     | 17                      | 32           | (6)                     | 26                      |
| <b>Operating profit including joint ventures</b>        |       | <b>697</b>          | <b>69</b>               | <b>766</b>              | <b>1,024</b> | <b>102</b>              | <b>1,126</b>            |
| Net interest expense                                    |       | (132)               | -                       | (132)                   | (194)        | -                       | (194)                   |
| Exceptional losses on disposals                         |       | (3)                 | -                       | (3)                     | (4)          | -                       | (4)                     |
| <b>Profit before tax</b>                                |       | <b>562</b>          | <b>69</b>               | <b>631</b>              | <b>826</b>   | <b>102</b>              | <b>928</b>              |
| Tax   | (iv)  | (257)               | 87                      | (170)                   | (378)        | 128                     | (250)                   |
| <b>Profit on ordinary activities after taxation</b>     |       | <b>305</b>          | <b>156</b>              | <b>461</b>              | <b>448</b>   | <b>230</b>              | <b>678</b>              |
| Attributable to:  |       |                     |                         |                         |              |                         |                         |
| Parent companies' shareholders                          |       | 303                 | 156                     | 459                     | 445          | 230                     | 675                     |
| Minority interests                                      |       | 2                   | -                       | 2                       | 3            | -                       | 3                       |
| <b>Net profit for the year</b>                          |       | <b>305</b>          | <b>156</b>              | <b>461</b>              | <b>448</b>   | <b>230</b>              | <b>678</b>              |

Notes in respect of the IFRS adjustments are set out on page 19.

# Reed Elsevier combined businesses

## 6 Reconciliations to UK GAAP continued

### Reconciliation of combined balance sheet

|                                       | Note   | UK GAAP Adjustments |                         | IFRS                    | UK GAAP Adjustments |                         | IFRS                    |
|---------------------------------------|--------|---------------------|-------------------------|-------------------------|---------------------|-------------------------|-------------------------|
|                                       |        | 2004<br>£m          | Unaudited<br>2004<br>£m | Unaudited<br>2004<br>£m | 2004<br>€m          | Unaudited<br>2004<br>€m | Unaudited<br>2004<br>€m |
| <b>ASSETS</b>                         |        |                     |                         |                         |                     |                         |                         |
| <b>Non-current assets</b>             |        |                     |                         |                         |                     |                         |                         |
| Goodwill                              | (v)    | 2,349               | 262                     | 2,611                   | 3,312               | 370                     | 3,682                   |
| Intangible assets                     | (vi)   | 2,657               | 178                     | 2,835                   | 3,746               | 251                     | 3,997                   |
| Investments in joint ventures         | (vii)  | 58                  | 2                       | 60                      | 82                  | 4                       | 86                      |
| Available-for-sale investments        |        | 50                  | –                       | 50                      | 71                  | –                       | 71                      |
| Property, plant and equipment         | (viii) | 519                 | (227)                   | 292                     | 732                 | (321)                   | 411                     |
| Deferred tax assets                   | (ix)   | 97                  | 138                     | 235                     | 137                 | 194                     | 331                     |
|                                       |        | <b>5,730</b>        | <b>353</b>              | <b>6,083</b>            | <b>8,080</b>        | <b>498</b>              | <b>8,578</b>            |
| <b>Current assets</b>                 |        |                     |                         |                         |                     |                         |                         |
| Inventories and pre-publication costs |        | 541                 | –                       | 541                     | 763                 | –                       | 763                     |
| Trade and other receivables           | (x)    | 1,240               | (137)                   | 1,103                   | 1,748               | (193)                   | 1,555                   |
| Cash and cash equivalents             |        | 225                 | –                       | 225                     | 317                 | –                       | 317                     |
|                                       |        | <b>2,006</b>        | <b>(137)</b>            | <b>1,869</b>            | <b>2,828</b>        | <b>(193)</b>            | <b>2,635</b>            |
| <b>Total assets</b>                   |        | <b>7,736</b>        | <b>216</b>              | <b>7,952</b>            | <b>10,908</b>       | <b>305</b>              | <b>11,213</b>           |
| <b>LIABILITIES</b>                    |        |                     |                         |                         |                     |                         |                         |
| <b>Current liabilities</b>            |        |                     |                         |                         |                     |                         |                         |
| Trade and other payables              | (xi)   | 2,074               | (283)                   | 1,791                   | 2,924               | (399)                   | 2,525                   |
| Borrowings                            |        | 1,051               | –                       | 1,051                   | 1,482               | –                       | 1,482                   |
| Taxation                              |        | 497                 | –                       | 497                     | 701                 | –                       | 701                     |
|                                       |        | <b>3,622</b>        | <b>(283)</b>            | <b>3,339</b>            | <b>5,107</b>        | <b>(399)</b>            | <b>4,708</b>            |
| <b>Non-current liabilities</b>        |        |                     |                         |                         |                     |                         |                         |
| Borrowings                            |        | 1,706               | –                       | 1,706                   | 2,405               | –                       | 2,405                   |
| Deferred tax liabilities              | (ix)   | 76                  | 781                     | 857                     | 107                 | 1,101                   | 1,208                   |
| Employee benefit obligations          | (xii)  | –                   | 321                     | 321                     | –                   | 453                     | 453                     |
| Provisions                            |        | 52                  | –                       | 52                      | 73                  | –                       | 73                      |
|                                       |        | <b>1,834</b>        | <b>1,102</b>            | <b>2,936</b>            | <b>2,585</b>        | <b>1,554</b>            | <b>4,139</b>            |
| <b>Total liabilities</b>              |        | <b>5,456</b>        | <b>819</b>              | <b>6,275</b>            | <b>7,692</b>        | <b>1,155</b>            | <b>8,847</b>            |
| <b>Net assets</b>                     |        | <b>2,280</b>        | <b>(603)</b>            | <b>1,677</b>            | <b>3,216</b>        | <b>(850)</b>            | <b>2,366</b>            |
| <b>EQUITY</b>                         |        |                     |                         |                         |                     |                         |                         |
| <b>Capital and reserves</b>           |        |                     |                         |                         |                     |                         |                         |
| Combined share capitals               |        | 191                 | –                       | 191                     | 269                 | –                       | 269                     |
| Combined share premium accounts       |        | 1,805               | –                       | 1,805                   | 2,545               | –                       | 2,545                   |
| Combined shares held in treasury      |        | (66)                | –                       | (66)                    | (93)                | –                       | (93)                    |
| Translation reserves                  | (xiii) | –                   | (122)                   | (122)                   | –                   | (175)                   | (175)                   |
| Other combined reserves               | (xiv)  | 337                 | (481)                   | (144)                   | 475                 | (675)                   | (200)                   |
|                                       |        | <b>2,267</b>        | <b>(603)</b>            | <b>1,664</b>            | <b>3,196</b>        | <b>(850)</b>            | <b>2,346</b>            |
| Minority interest                     |        | 13                  | –                       | 13                      | 20                  | –                       | 20                      |
| <b>Total equity</b>                   |        | <b>2,280</b>        | <b>(603)</b>            | <b>1,677</b>            | <b>3,216</b>        | <b>(850)</b>            | <b>2,366</b>            |

Notes in respect of the IFRS adjustments are set out on page 19.

## Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

### 6 Reconciliations to UK GAAP continued

#### Notes on the IFRS adjustments

- (i) Administration and other expenses before amortisation and exceptional items: additional pension expense £27m/€40m; share option expense £48m/€71m.
- (ii) Amortisation of goodwill and acquired intangible assets: non-amortisation of goodwill (excluding in joint ventures) £204m/€300m; higher amortisation of acquired intangible assets £55m/€81m.
- (iii) Share of result of joint ventures: non-amortisation of goodwill £2m/€4m; joint ventures tax reclassification £7m/€10m.
- (iv) Tax: reduced deferred tax charge £80m/€118m; joint ventures tax reclassification £7m/€10m.
- (v) Goodwill: non-amortisation £204m/€300m; gross up for deferred tax liabilities £68m/€96m; exchange £10m/€26m (differences between average rates and year end balance sheet rates on profit and loss adjustments).
- (vi) Intangible assets: higher amortisation £55m/€81m; reclassification of capitalised software £227m/€321m; exchange £6m/€11m.
- (vii) Investments in joint ventures: non-amortisation of goodwill £2m/€4m.
- (viii) Property, plant and equipment: reclassification of capitalised software £227m/€321m.
- (ix) Deferred tax: additional deferred tax assets principally in relation to net pension obligations £138m/€194m; additional deferred tax liabilities principally in relation to acquired intangible assets £781m/€1,101m.
- (x) Trade and other receivables: reversal of pension prepayments £137m/€193m (including £115m/€162m over one year).
- (xi) Trade and other payables: reversal of proposed dividends £248m/€350m; reversal of unfunded defined benefit pension liability £53m/€74m; other £18m/€25m.
- (xii) Employee benefit obligations: net pension obligations £321m/€453m.
- (xiii) Translation reserve: exchange differences on translation of foreign operations £143m/€224m; translation effects of IFRS adjustments £21m/€49m (difference between average rates and year end balance sheet rates on profit and loss adjustments).
- (xiv) Other combined reserves: adjustments to net profit for the year £156m/€230m; additional net deferred tax liabilities at 1 January 2004 date of transition £686m/€974m; additional net pension obligations at 1 January 2004 date of transition £310m/€440m; actuarial losses arising during the year on defined benefit pension schemes net of related deferred tax £62m/€91m; reversal of proposed dividends £248m/€350m; reclassification to translation reserve of exchange differences on translation of foreign operations £143m/€224m; other £30m/€26m.

UK GAAP figures (before IFRS adjustments) have been recategorised so as to conform to the presentation under IFRS.

## Reed Elsevier combined businesses

### 7 Adjusted (benchmark) figures (IFRS)

Adjusted (benchmark) profit figures, proposed as additional performance measures on adoption of IFRS, are derived from the reported figures (unaudited) under IFRS for the 2004 financial year as follows:

|  | Adjusted operating profit | Adjusted pre-tax profit | Adjusted attributable profit | Adjusted operating profit | Adjusted pre-tax profit | Adjusted attributable profit |
|--|---------------------------|-------------------------|------------------------------|---------------------------|-------------------------|------------------------------|
|  | Unaudited £m              | Unaudited £m            | Unaudited £m                 | Unaudited €m              | Unaudited €m            | Unaudited €m                 |
| <b>For the year ended 31 December 2004</b>     |                           |                         |                              |                           |                         |                              |
| Reported figures under IFRS                    | 766                       | 631                     | 459                          | 1,126                     | 928                     | 675                          |
| Adjustments:                                   |                           |                         |                              |                           |                         |                              |
| Amortisation of acquired intangible assets     | 255                       | 255                     | 288                          | 375                       | 375                     | 423                          |
| Acquisition integration and related costs      | 38                        | 38                      | 29                           | 56                        | 56                      | 43                           |
| Exceptional losses on disposals                | -                         | 3                       | 2                            | -                         | 4                       | 3                            |
| Reclassification of tax on joint ventures      | 7                         | 7                       | -                            | 10                        | 10                      | -                            |
| Deferred tax adjustment                        | -                         | -                       | (91)                         | -                         | -                       | (134)                        |
| <b>Adjusted (benchmark) figures under IFRS</b> | <b>1,066</b>              | <b>934</b>              | <b>687</b>                   | <b>1,567</b>              | <b>1,373</b>            | <b>1,010</b>                 |

A reconciliation of adjusted profit figures previously used as additional performance measures under UK GAAP to the new proposed adjusted (benchmark) figures to be used on adoption of IFRS for the 2004 financial year is set out below.

|  | Adjusted operating profit | Adjusted pre-tax profit | Adjusted attributable profit | Adjusted operating profit | Adjusted pre-tax profit | Adjusted attributable profit |
|--|---------------------------|-------------------------|------------------------------|---------------------------|-------------------------|------------------------------|
|  | Unaudited £m              | Unaudited £m            | Unaudited £m                 | Unaudited €m              | Unaudited €m            | Unaudited €m                 |
| <b>For the year ended 31 December 2004</b>     |                           |                         |                              |                           |                         |                              |
| Adjusted figures for UK GAAP                   | 1,159                     | 1,027                   | 760                          | 1,704                     | 1,510                   | 1,117                        |
| Reconciling items:                             |                           |                         |                              |                           |                         |                              |
| Additional pension expense                     | (27)                      | (27)                    | (17)                         | (40)                      | (40)                    | (25)                         |
| Share option expense                           | (48)                      | (48)                    | (41)                         | (71)                      | (71)                    | (60)                         |
| Restructuring costs                            | (18)                      | (18)                    | (15)                         | (26)                      | (26)                    | (22)                         |
| <b>Adjusted (benchmark) figures under IFRS</b> | <b>1,066</b>              | <b>934</b>              | <b>687</b>                   | <b>1,567</b>              | <b>1,373</b>            | <b>1,010</b>                 |

Adjusted (benchmark) operating cash flow, proposed as an additional performance measure on adoption of IFRS, is derived from the reported cash generated from operations (unaudited) under IFRS for the 2004 financial year as follows:

|   | Unaudited £m | Unaudited €m |
|---|--------------|--------------|
| <b>For the year ended 31 December 2004</b>                        |              |              |
| Cash generated from operations                                    | 1,154        | 1,696        |
| Dividends received from joint ventures                            | 17           | 25           |
| Purchases of property, plant and equipment                        | (82)         | (120)        |
| Proceeds on disposal of property, plant and equipment             | 4            | 7            |
| Expenditure on internally developed intangible assets             | (110)        | (162)        |
| Payments in relation to acquisition integration and related costs | 30           | 44           |
| <b>Adjusted (benchmark) operating cash flow</b>                   | <b>1,013</b> | <b>1,490</b> |
| <b>Adjusted (benchmark) operating cash flow conversion</b>        | <b>95%</b>   | <b>95%</b>   |

Adjusted (benchmark) operating cash flow conversion expresses adjusted (benchmark) operating cash flow as a percentage of adjusted (benchmark) operating profit.

A reconciliation of adjusted operating cash flow previously used as an additional performance measure under UK GAAP to the new proposed adjusted (benchmark) operating cash flow figure to be used on adoption of IFRS for the 2004 financial year is set out below.

|  | Unaudited £m | Unaudited €m |
|--|--------------|--------------|
| Adjusted operating cash flow under UK GAAP                 | 1,050        | 1,544        |
| Exceptional restructuring payments                         | (37)         | (54)         |
| <b>Adjusted (benchmark) operating cash flow under IFRS</b> | <b>1,013</b> | <b>1,490</b> |

## Notes to the combined financial statements (IFRS)

For the year ended 31 December 2004

### 8 Interim results (IFRS)

The combined IFRS income statement (unaudited) for the six months ended 30 June 2004 is set out below:

| Six months ended 30 June 2004                       | Unaudited<br>€m | Unaudited<br>€m |
|---|-----------------|-----------------|
| <b>Revenue</b>                                      | <b>2,263</b>    | <b>3,349</b>    |
| Cost of sales                                       | (821)           | (1,215)         |
| Gross profit  | 1,442           | 2,134           |
| Selling and distribution costs                      | (495)           | (732)           |
| Administration and other expenses                   | (640)           | (947)           |
| Before amortisation and exceptional items           | (506)           | (749)           |
| Amortisation of acquired intangible assets          | (116)           | (172)           |
| Exceptional items                                   | (18)            | (26)            |
| <b>Operating profit</b>                             | <b>307</b>      | <b>455</b>      |
| Share of result of joint ventures                   | 13              | 19              |
| <b>Operating profit including joint ventures</b>    | <b>320</b>      | <b>474</b>      |
| Net interest expense                                | (64)            | (95)            |
| <b>Profit before tax</b>                            | <b>256</b>      | <b>379</b>      |
| Tax   | (64)            | (95)            |
| <b>Profit on ordinary activities after taxation</b> | <b>192</b>      | <b>284</b>      |
| Attributable to:                                    |                 |                 |
| Parent companies' shareholders                      | 191             | 283             |
| Minority interests                                  | 1               | 1               |
| <b>Net profit for the year</b>                      | <b>192</b>      | <b>284</b>      |

# Reed Elsevier combined businesses

## 8 Interim results (IFRS) continued

The IFRS segment analysis (unaudited) of revenue, operating profit and adjusted (benchmark) operating profit for the six months ended 30 June 2004, is as follows:

| Six months ended 30 June 2004                | Unaudited<br>€m | Unaudited<br>€m |
|--|-----------------|-----------------|
| <b>Revenue</b>                               |                 |                 |
| Elsevier                                     | 631             | 934             |
| LexisNexis                                   | 614             | 909             |
| Harcourt Education                           | 359             | 531             |
| Reed Business                                | 659             | 975             |
| <b>Total</b>                                 | <b>2,263</b>    | <b>3,349</b>    |
| <b>Operating profit</b>                      |                 |                 |
| Elsevier                                     | 178             | 263             |
| LexisNexis                                   | 83              | 123             |
| Harcourt Education                           | (19)            | (27)            |
| Reed Business                                | 88              | 130             |
| Subtotal                                     | 330             | 489             |
| Unallocated corporate costs                  | (16)            | (24)            |
| Unallocated net pension credit               | 6               | 9               |
| <b>Total</b>                                 | <b>320</b>      | <b>474</b>      |
| <b>Adjusted (benchmark) operating profit</b> |                 |                 |
| Elsevier                                     | 198             | 293             |
| LexisNexis                                   | 122             | 181             |
| Harcourt Education                           | 23              | 34              |
| Reed Business                                | 118             | 175             |
| Subtotal                                     | 461             | 683             |
| Unallocated corporate costs                  | (16)            | (24)            |
| Unallocated net pension credit               | 6               | 9               |
| <b>Total</b>                                 | <b>451</b>      | <b>668</b>      |

## Notes to the combined financial statements

For the year ended 31 December 2004

### 8 Interim results (IFRS) continued

Adjusted (benchmark) figures, proposed as additional performance measures on adoption of IFRS, for the six months ended 30 June 2004 are derived from the reported figures (unaudited) as follows:

|  | Adjusted<br>operating<br>profit<br>Unaudited<br>£m | Adjusted<br>pre-tax<br>profit<br>Unaudited<br>£m | Adjusted<br>net<br>profit<br>Unaudited<br>£m | Adjusted<br>operating<br>profit<br>Unaudited<br>€m | Adjusted<br>pre-tax<br>profit<br>Unaudited<br>€m | Adjusted<br>net<br>profit<br>Unaudited<br>€m |
|--|--|--|--|--|--|--|
| Reported figures under IFRS                    | 320  | 256  | 191  | 474  | 379  | 283  |
| Adjustments:                                   |  |  |  |  |  |  |
| Amortisation of acquired intangible assets     | 116  | 116  | 130  | 172  | 172  | 192  |
| Acquisition integration and related costs      | 10   | 10   | 9  | 15   | 15   | 13   |
| Exceptional losses on disposals                | -  | -  | -  | -  | -  | -  |
| Reclassification of tax on joint ventures      | 5  | 5  | -  | 7  | 7  | -  |
| Deferred tax adjustment                        | -  | -  | (42)   | -  | -  | (62)   |
| <b>Adjusted (benchmark) figures under IFRS</b> | <b>451</b>   | <b>387</b>                                       | <b>288</b>                                   | <b>668</b>   | <b>573</b>                                       | <b>426</b>                                   |

A reconciliation of adjusted figures previously used as additional performance measures under UK GAAP to the new proposed adjusted (benchmark) figures for the six months ended 30 June 2004 to be used on adoption of IFRS is set out below.

|  | Adjusted<br>operating<br>profit<br>Unaudited<br>£m | Adjusted<br>pre-tax<br>profit<br>Unaudited<br>£m | Adjusted<br>net<br>profit<br>Unaudited<br>£m | Adjusted<br>operating<br>profit<br>Unaudited<br>€m | Adjusted<br>pre-tax<br>profit<br>Unaudited<br>€m | Adjusted<br>net<br>profit<br>Unaudited<br>€m |
|--|--|--|--|--|--|--|
| Adjusted figures for UK GAAP                   | 497  | 433  | 319  | 736  | 641  | 472  |
| Reconciling items:                             |  |  |  |  |  |  |
| Additional pension expense                     | (14)   | (14)   | (10)   | (21)   | (21)   | (15)   |
| Share option expense                           | (24)   | (24)   | (15)   | (35)   | (35)   | (22)   |
| Restructuring costs                            | (8)  | (8)  | (6)  | (12)   | (12)   | (9)  |
| <b>Adjusted (benchmark) figures under IFRS</b> | <b>451</b>   | <b>387</b>                                       | <b>288</b>                                   | <b>668</b>   | <b>573</b>                                       | <b>426</b>                                   |

Proposed adjusted (benchmark) earnings per share under IFRS for the six months ended 30 June 2004 are 12.1p for Reed Elsevier PLC and €0.27 for Reed Elsevier NV.

# Reed Elsevier PLC

## Consolidated income statement (IFRS)

For the year ended 31 December 2004

|  | £<br>Unaudited<br>2004<br>£m |
|--|------------------------------|
| Administrative expenses  | (2)                          |
| Effect of tax credit equalisation on distributed earnings        | (8)                          |
| Share of results of joint ventures                               | 247                          |
| <b>Operating profit including joint ventures</b>                 | <b>237</b>                   |
| Investment income  | 3                            |
| <b>Profit before tax</b>   | <b>240</b>                   |
| Tax  | (5)                          |
| <b>Profit for the year attributable to ordinary shareholders</b> | <b>235</b>                   |

## Earnings per ordinary share (EPS) (IFRS)

|   | £<br>Unaudited<br>2004<br>pence |
|---|---------------------------------|
| Basic EPS   | 18.6p                           |
| Diluted EPS   | 18.5p                           |
| EPS based on 52.9% economic interest in the Reed Elsevier combined businesses | 19.2p                           |
| Adjusted (benchmark) EPS  | 28.7p                           |

Adjusted (benchmark) earnings per ordinary share, proposed as an additional performance measure on adoption of IFRS, is derived from the basic earnings per share (unaudited) under IFRS as follows:

|  | £<br>Unaudited<br>2004<br>pence |
|--|---------------------------------|
| Basic earnings per ordinary share  | 18.6p                           |
| Effect of tax credit equalisation on distributed earnings                                  | 0.6p                            |
| Earnings per share based on 52.9% economic interest in the Reed Elsevier combined business | 19.2p                           |
| Adjustments:   |                                 |
| Amortisation of acquired intangible assets   | 12.0p                           |
| Acquisition integration and related costs  | 1.2p                            |
| Exceptional losses on disposals  | 0.1p                            |
| Deferred tax adjustment  | (3.8p)                          |
| <b>Adjusted (benchmark) earnings per ordinary share</b>                                    | <b>28.7p</b>                    |

# Reed Elsevier PLC

## Balance sheets (IFRS)

As at 31 December 2004

|                                    | £                       | £                       |
|------------------------------------|-------------------------|-------------------------|
|                                    | Consolidated            | Company                 |
|                                    | Unaudited<br>2004<br>£m | Unaudited<br>2004<br>£m |
| <b>Assets</b>                      |                         |                         |
| <b>Non-current assets</b>          |                         |                         |
| Investment in joint ventures       | 334                     | 1,411                   |
| <b>Current assets</b>              |                         |                         |
| Amounts due from joint ventures    | 595                     | 595                     |
| <b>Total assets</b>                | <b>929</b>              | <b>2,006</b>            |
| <b>Liabilities</b>                 |                         |                         |
| <b>Current liabilities</b>         |                         |                         |
| Payables                           | 1                       | 1                       |
| Amounts owed to joint ventures     | 36                      | 36                      |
| Taxation                           | 12                      | 12                      |
| Amounts owed to group undertakings | -                       | 77                      |
| <b>Total liabilities</b>           | <b>49</b>               | <b>126</b>              |
| <b>Net assets</b>                  | <b>880</b>              | <b>1,880</b>            |
| <b>Equity</b>                      |                         |                         |
| <b>Capital and reserves</b>        |                         |                         |
| Called up share capital            | 159                     | 159                     |
| Share premium account              | 974                     | 974                     |
| Shares held in treasury            | (35)                    | -                       |
| Capital redemption reserve         | 4                       | 4                       |
| Translation reserve                | (64)                    | -                       |
| Profit and loss reserve            | (158)                   | 743                     |
| <b>Total equity</b>                | <b>880</b>              | <b>1,880</b>            |

## Consolidated statement of recognised income and expenditure (IFRS)

For the year ended 31 December 2004

|   | £                       |
|---|-------------------------|
|   | Unaudited<br>2004<br>£m |
| Net profit for the year   | 235                     |
| Share of exchange difference on translation of foreign operations in joint ventures | (64)                    |
| Share of actuarial losses on defined benefit pension schemes                        | (39)                    |
| Share of tax on items taken directly to reserves                                    | 6                       |
| Net expense recognised directly in equity   | (97)                    |
| <b>Total recognised income and expense for the year</b>                             | <b>138</b>              |

# Reed Elsevier PLC

## Reconciliations to UK GAAP

### Reconciliation of profit

|   | Unaudited<br>2004<br>£m |
|---|-------------------------|
| Net profit under UK GAAP                    | 152                     |
| Adjustments to IFRS                         |                         |
| Share of IFRS adjustments in joint ventures | 83                      |
| <b>Net profit for the year under IFRS</b>   | <b>235</b>              |

### Reconciliation of equity

|   | Consolidated            | Company                 |
|---|-------------------------|-------------------------|
|   | Unaudited<br>2004<br>£m | Unaudited<br>2004<br>£m |
| Shareholders' funds under UK GAAP           | 1,199                   | 1,760                   |
| Adjustments to IFRS                         |                         |                         |
| Dividends                                   | 120                     | 120                     |
| Share of IFRS adjustments in joint ventures | (439)                   | -                       |
|   | (319)                   | 120                     |
| <b>Equity under IFRS</b>                    | <b>880</b>              | <b>1,880</b>            |

# Reed Elsevier NV

## Group income statement (IFRS)

For the year ended 31 December 2004

|  | €<br>Unaudited<br>2004<br>€m |
|--|------------------------------|
| Administrative expenses  | (3)                          |
| Share of results of joint ventures                               | 339                          |
| <b>Operating profit including joint ventures</b>                 | <b>336</b>                   |
| Investment income  | 2                            |
| <b>Profit before tax</b>   | <b>338</b>                   |
| Tax  | -                            |
| <b>Profit for the year attributable to ordinary shareholders</b> | <b>338</b>                   |

## Group earnings per ordinary share (EPS) (IFRS)

|                          | €<br>Unaudited<br>2004<br>euro |
|--------------------------|--------------------------------|
| Basic EPS                | €0.43                          |
| Diluted EPS              | €0.43                          |
| Adjusted (benchmark) EPS | €0.64                          |

Adjusted (benchmark) group earnings per ordinary share, proposed as an additional performance measure on adoption of IFRS, is derived from the basic earnings per share (unaudited) under IFRS as follows:

|   | €<br>Unaudited<br>2004<br>euro |
|---|--------------------------------|
| Basic group earnings per ordinary share                       | €0.43                          |
| Adjustments:  |                                |
| Amortisation of acquired intangible assets                    | €0.27                          |
| Acquisition integration and related costs                     | €0.03                          |
| Exceptional losses on disposals                               | -                              |
| Deferred tax adjustments                                      | €(0.09)                        |
| <b>Adjusted (benchmark) group earnings per ordinary share</b> | <b>€0.64</b>                   |

# Reed Elsevier NV

## Balance sheets (IFRS)

As at 31 December 2004

|                                 | €                       | €                       |
|---------------------------------|-------------------------|-------------------------|
|                                 | Group                   | Parent company          |
|                                 | Unaudited<br>2004<br>€m | Unaudited<br>2004<br>€m |
| <b>Assets</b>                   |                         |                         |
| <b>Non-current assets</b>       |                         |                         |
| Investment in joint ventures    | 1,183                   | 2,161                   |
| <b>Current assets</b>           |                         |                         |
| Amounts due from joint ventures | 30                      | 30                      |
| Receivables                     | 7                       | 7                       |
| Short term investments          | 25                      | 25                      |
| <b>Total assets</b>             | <b>1,245</b>            | <b>2,223</b>            |
| <b>Liabilities</b>              |                         |                         |
| <b>Current liabilities</b>      |                         |                         |
| Payables                        | 3                       | 3                       |
| Taxation                        | 4                       | 4                       |
|                                 | 7                       | 7                       |
| <b>Non-current liabilities</b>  |                         |                         |
| Debenture loans                 | 7                       | 7                       |
| Taxation                        | 58                      | 58                      |
|                                 | 65                      | 65                      |
| <b>Total liabilities</b>        | <b>72</b>               | <b>72</b>               |
| <b>Net assets</b>               | <b>1,173</b>            | <b>2,151</b>            |
| <b>Equity</b>                   |                         |                         |
| <b>Capital and reserves</b>     |                         |                         |
| Share capital issued            | 47                      | 47                      |
| Paid in surplus                 | 1,477                   | 1,477                   |
| Shares held in treasury         | (47)                    | -                       |
| Translation reserve             | (98)                    | -                       |
| Profit and loss reserve         | (206)                   | 627                     |
| <b>Total equity</b>             | <b>1,173</b>            | <b>2,151</b>            |

# Reed Elsevier NV

## Group statement of recognised income and expenditure (IFRS)

For the year ended 31 December 2004

|   | €<br>Unaudited<br>2004<br>€m |
|---|------------------------------|
| Net profit for the year   | 338                          |
| Share of exchange difference on translation of foreign operations in joint ventures | (98)                         |
| Share of actuarial losses on defined benefit pension schemes                        | (55)                         |
| Share of tax on items taken directly to reserves                                    | 9                            |
| Net expense recognised directly in equity   | (144)                        |
| <b>Total recognised income and expense for the year</b>                             | <b>194</b>                   |

## Reconciliations to UK GAAP

### Reconciliation of group profit

|   | Unaudited<br>2004<br>€m |
|---|-------------------------|
| Net group profit under UK GAAP                  | 223                     |
| Adjustments to IFRS                             |                         |
| Share of IFRS adjustments in joint ventures     | 115                     |
| <b>Net group profit for the year under IFRS</b> | <b>338</b>              |

### Reconciliation of equity

|   | Group<br>Unaudited<br>2004<br>€m | Parent company<br>Unaudited<br>2004<br>€m |
|---|----------------------------------|---|
| Shareholders' funds under UK GAAP           | 1,598                            | 1,974                                     |
| Adjustments to IFRS                         |                                  |   |
| Dividends                                   | 177                              | 177                                       |
| Share of IFRS adjustments in joint ventures | (602)                            | -   |
|   | (425)                            | 177                                       |
| <b>Equity under IFRS</b>                    | <b>1,173</b>                     | <b>2,151</b>                              |