

Summary financial information in US dollars

Basis of preparation

The summary financial information is a simple translation of the Reed Elsevier combined financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK and Dutch GAAP as used in the preparation of the Reed Elsevier combined financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Exchange rates for translation

	2002 US\$	2001 US\$
Sterling		
Profit and loss and cash flow	1.50	1.44
Balance sheet	1.60	1.45
Euro		
Profit and loss and cash flow	0.943	0.894
Balance sheet	1.046	0.884

Profit and loss account

For the year ended 31 December 2002

	2002 US\$m	2001 US\$m
Net sales	7,530	6,566
Adjusted operating profit	1,700	1,426
Profit before tax	434	396
Profit attributable	272	181
Adjusted profit before tax	1,391	1,221
Adjusted profit attributable to parent companies' shareholders	1,023	899

Cash flow statement

For the year ended 31 December 2002

	2002 US\$m	2001 US\$m
Net cash inflow from operating activities	1,553	1,535
Dividends received from joint ventures	20	17
Returns on investments and servicing of finance	(308)	(164)
Taxation (including US\$30m (2001: US\$203m) exceptional net inflow)	(201)	(53)
Capital expenditure and financial investment	(72)	(328)
Acquisitions and disposals	(294)	(3,082)
Equity dividends paid to shareholders of the parent companies	(410)	(367)
Cash inflow/(outflow) before changes in short term investments and financing	288	(2,442)
(Increase)/decrease in short term investments	(83)	1,683
Financing	(97)	773
Increase in cash	108	14
Adjusted operating cash flow	1,515	1,449
Adjusted operating cash flow conversion	89%	102%

Summary financial information in US dollars *(continued)*

Balance sheet

As at 31 December 2002

	2002 US\$m	2001 US\$m
Goodwill and intangible assets	9,302	9,748
Tangible fixed assets and investments	999	1,059
Fixed assets	10,301	10,807
Inventories and pre-publication costs	800	708
Debtors – amounts falling due within one year	1,476	1,448
Debtors – amounts falling due after more than one year	514	671
Cash and short term investments	912	631
Current assets	3,702	3,458
Creditors: amounts falling due within one year	(5,806)	(5,994)
Net current liabilities	(2,104)	(2,536)
Total assets less current liabilities	8,197	8,271
Creditors: amounts falling due after more than one year	(3,633)	(3,628)
Provisions for liabilities and charges	(299)	(406)
Minority interests	(11)	(7)
Net assets	4,254	4,230

Summary of the principal differences between UK and Dutch GAAP and US GAAP

The combined financial statements are prepared in accordance with UK and Dutch GAAP, which differ in certain significant respects from US GAAP. The principal differences that affect net income and combined shareholders' funds are explained below and their approximate effect is shown on page 88. The Reed Elsevier Annual Report 2002 on Form 20-F provides further information for US investors.

Goodwill and intangible assets

Under UK and Dutch GAAP, acquired goodwill and intangible assets are capitalised and amortised systematically over their estimated useful lives up to a maximum of 40 years, subject to impairment review.

Under US GAAP, acquired goodwill and intangible assets are accounted for in accordance with SFAS141: Business Combinations and SFAS142: Goodwill and Other Intangible Assets. In accordance with these SFAS, goodwill and intangible assets with indefinite lives are not amortised and are subject to annual impairment review, with effect from 1 January 2002, except in respect of acquisitions made after 1 July 2001 for which the effective date under the transitional provisions was 1 July 2001. Other intangible assets are amortised over periods up to 40 years, also subject to impairment review.

The gross cost under US GAAP, as at 31 December 2002, of goodwill is £4,553m (2001: £4,860m) and of intangible assets is £5,264m (2001: £5,583m). Accumulated amortisation under US GAAP, as at 31 December 2002, of goodwill is £1,328m (2001: £1,414m) and of intangible assets is £1,352m (2001: £1,131m).

Deferred taxation

Under UK and Dutch GAAP, the combined businesses provide in full for timing differences using the liability method. Under US GAAP, deferred taxation is provided on all temporary differences under the liability method subject to a valuation allowance on deferred tax assets where applicable, in accordance with SFAS109: Accounting for Income Taxes. The most significant adjustment to apply SFAS109 arises on those acquired intangible assets for which amortisation is not tax deductible. Under the timing difference approach applied under UK and Dutch GAAP, no such liability would be recognised.

Pensions

Under UK and Dutch GAAP, the combined businesses account for pension costs under the rules set out in SSAP24: Accounting for Pension Costs. Its objectives and principles are broadly in line with SFAS87: Employers' Accounting for Pensions. However, SSAP24 is less prescriptive in the application of the actuarial methods and assumptions to be applied in the calculation of pension assets, liabilities and costs.

Under UK and Dutch GAAP, pension plan assets and liabilities are based on the results of the latest actuarial valuation. Pension assets are valued at the discounted present value determined by expected future income. Liabilities are assessed using the expected rate of return on plan assets. Under US GAAP, plan assets are valued by reference to market-related values at the date of the financial statements. Liabilities are assessed using the rate of return obtainable on fixed or inflation-linked bonds.

Stock based compensation

Under US GAAP, the combined businesses apply the accounting requirements of APB25: Accounting for Stock Issued to Employees and related interpretations in accounting for stock based compensation. Under APB25 compensatory plans with performance criteria qualify as variable plans, for which total compensation cost must be recalculated each period based on the current share price. The total compensation cost is amortised over the vesting period. Under UK and Dutch GAAP, compensation cost is determined based on a comparison of the exercise price with the share price on the date of grant.

Also under US GAAP, SFAS123: Accounting for Stock Based Compensation establishes a fair value based method of computing compensation cost. It encourages the application of this method in the profit and loss account but, where APB25 is applied, the proforma effect on net income must be disclosed.

The disclosure only provisions of SFAS123, as amended by SFAS148: Accounting for Stock Based Compensation – Transition and Disclosure, have been adopted. If compensation costs based on fair value at the grant date had been recognised in the profit and loss account, net income under US GAAP would have been reduced by £36m in 2002 (2001: £22m).

Derivative instruments

Under US GAAP, SFAS133: Accounting for Derivative Instruments and Hedging Activities requires all derivative instruments to be carried at fair value on the balance sheet. Changes in fair value are accounted for through the profit and loss account or comprehensive income statement, depending on the derivative's designation and effectiveness as a hedging instrument. Certain derivative instruments used by Reed Elsevier have not been designated as qualifying hedge instruments under SFAS133 and, accordingly, a charge to net income is recorded under US GAAP for the changes in the fair value of those derivative instruments. Under UK and Dutch GAAP, derivative instruments intended as hedges are recorded at appropriate historical cost amounts, with fair values shown as a disclosure item. SFAS133 was effective from 1 January 2001 resulting in a cumulative transition adjustment of £1m loss to US GAAP net income and £86m loss in other comprehensive income in 2001, of which £7m was charged to US GAAP net income in 2002.

Equity dividends

Under UK and Dutch GAAP, dividends are provided for in the year in respect of which they are proposed by the directors. Under US GAAP, such dividends would not be provided for until they are formally declared by the directors.

Available for sale investments

Under UK and Dutch GAAP, fixed asset investments (excluding investments in joint ventures) are recorded at historical cost less provision for any impairment in value. Under US GAAP, investments in equity securities with readily determinable fair values are classified as available for sale and are reported at fair value, with unrealised gains or losses reported as a separate component of shareholders' funds.

Acquisition accounting

Under UK and Dutch GAAP, severance and integration costs in relation to acquisitions are expensed as incurred and, depending on their size and incidence, these costs may be disclosed as exceptional items charged to operating profit. Under US GAAP, certain integration costs may be provided as part of purchase accounting adjustments on acquisition.

Employee Benefit Trust shares

Under UK and Dutch GAAP, shares held by the Reed Elsevier Employee Benefit Trust ("EBT") are classified as fixed asset investments. Under US GAAP, shares held by the EBT are treated as a reduction in shareholders' funds.

Exceptional items

Exceptional items are material items within the combined businesses' ordinary activities which, under UK and Dutch GAAP, are required to be disclosed separately due to their size or incidence. These items do not qualify as extraordinary under US GAAP and are considered a part of operating results.

Adjusted earnings

In the combined financial statements adjusted profit and cash flow measures are presented as permitted by UK and Dutch GAAP as additional performance measures. US GAAP does not permit the presentation of alternative earnings measures.

Short term obligations expected to be refinanced

Under US GAAP, where it is expected to refinance short term obligations on a long term basis and this is supported by an ability to consummate the refinancing, such short term obligations should be excluded from current liabilities and shown as long term obligations. Under UK and Dutch GAAP, such obligations can only be excluded from current liabilities where, additionally, the debt and facility are under a single agreement or course of dealing with the same lender or group of lenders. Short term obligations at 31 December 2002 of £1,359m (2001: £1,551m) would be excluded from current liabilities under US GAAP and shown as long term obligations.

Effects on net income of material differences between UK and Dutch GAAP and US GAAP

For the year ended 31 December 2002

	2002 £m	2001 £m	2002 €m	2001 €m
Net income under UK and Dutch GAAP	181	126	288	202
US GAAP adjustments:				
Goodwill and intangible assets	223	(74)	355	(119)
Deferred taxation	(50)	(43)	(80)	(69)
Pensions	56	46	89	74
Stock based compensation	-	(15)	-	(24)
Derivative instruments	(45)	(56)	(72)	(90)
Other items	-	(4)	-	(6)
Net income/(loss) under US GAAP	365	(20)	580	(32)

Effects on combined shareholders' funds of material differences between UK and Dutch GAAP and US GAAP

As at 31 December 2002

	2002 £m	2001 £m	2002 €m	2001 €m
Combined shareholders' funds under UK and Dutch GAAP	2,659	2,917	4,068	4,784
US GAAP adjustments:				
Goodwill and intangible assets	1,302	1,151	1,992	1,888
Deferred taxation	(838)	(860)	(1,283)	(1,410)
Pensions	151	132	231	216
Derivative instruments	(117)	(79)	(179)	(130)
Available for sale investments	3	36	5	59
Equity dividends	205	190	314	312
Other items	(21)	(20)	(32)	(33)
Combined shareholders' funds under US GAAP	3,344	3,467	5,116	5,686

Summary financial information in US dollars

Basis of preparation

The summary financial information is a simple translation of Reed Elsevier PLC's consolidated financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under UK GAAP as used in the preparation of the Reed Elsevier PLC consolidated financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Consolidated profit and loss account

For the year ended 31 December 2002

	2002 US\$m	2001 US\$m
Profit attributable to ordinary shareholders: statutory	134	88
Profit attributable to 52.9% interest in Reed Elsevier combined businesses		
Adjusted profit attributable	542	475
Amortisation of goodwill and intangible assets	(407)	(386)
Exceptional items	9	7
	144	96

Data per American Depositary Share

	2002 US\$	2001 US\$
Earnings per American Depositary Share based on 52.9% interest in Reed Elsevier combined businesses		
Adjusted	\$1.71	\$1.50
Basic	\$0.46	\$0.31
Net dividend per American Depositary Share	\$0.67	\$0.60

Consolidated balance sheet

As at 31 December 2002

	2002 US\$m	2001 US\$m
Shareholders' funds	2,251	2,237

Exchange rates for translation of sterling (£:£1)

	2002	2001
Profit and loss	1.50	1.44
Balance sheet	1.60	1.45

Adjusted earnings per American Depositary Share is based on Reed Elsevier PLC shareholders' 52.9% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation of goodwill and intangible assets and exceptional items. Adjusted figures are described in note 9 to the Reed Elsevier PLC consolidated financial statements.

Reed Elsevier PLC shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares ("ADSs"), evidenced by American Depositary Receipts ("ADRs"), representing four Reed Elsevier PLC ordinary shares of 12.5p each. (CUSIP No. 758205108; trading symbol, RUK; Citibank is the ADS Depository.)

Summary of the principal differences between UK and US GAAP

Reed Elsevier PLC accounts for its 52.9% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, by the gross equity method in conformity with UK GAAP which is similar to the equity method in US GAAP. Using the equity method to present its net income and shareholders' funds under US GAAP, Reed Elsevier PLC reflects its 52.9% share of the effects of differences between UK and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the capitalisation and amortisation of goodwill and intangibles, pensions, deferred taxes and derivative financial instruments. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between UK and US GAAP is given on pages 86 and 87. The Reed Elsevier Annual Report 2002 on Form 20-F provides further information for US investors.

Effects on net income of material differences between UK and US GAAP

For the year ended 31 December 2002

	2002 £m	2001 £m
Net income under UK GAAP	89	61
Impact of US GAAP adjustments to combined financial statements	97	(77)
Net income/(loss) under US GAAP	186	(16)
Earnings/(loss) per ordinary share under US GAAP	14.7p	(1.3)p

Effects on shareholders' funds of material differences between UK and US GAAP

As at 31 December 2002

	2002 £m	2001 £m
Shareholders' funds under UK GAAP	1,407	1,543
Impact of US GAAP adjustments to combined financial statements	259	197
Equity dividends not declared in the period	102	94
Shareholders' funds under US GAAP	1,768	1,834

Summary financial information in US dollars

Basis of preparation

The summary financial information is a simple translation of Reed Elsevier NV statutory financial statements into US dollars at the stated rates of exchange. The financial information provided below is prepared under Dutch GAAP as used in the preparation of the Reed Elsevier NV statutory financial statements. It does not represent a restatement under US GAAP which would be different in some significant respects.

Profit and loss account

For the year ended 31 December 2002

	2002 US\$m	2001 US\$m
Adjusted profit attributable	511	450

Data per American Depositary Share

	2002 US\$m	2001 US\$m
Earnings per American Depositary Share based on 50% interest in Reed Elsevier combined businesses		
Adjusted	\$1.30	\$1.14
Basic	\$0.34	\$0.23
Net dividend per American Depositary Share	\$0.57	\$0.540

Balance sheet

As at 31 December 2002

	2002 US\$m	2001 US\$m
Shareholders' funds	2,128	2,115

Exchange rates for translation of euros (€:\$1)

	2002	2001
Profit and loss	1.060	1.118
Balance sheet	0.956	1.131

Adjusted earnings per American Depositary Share is based on Reed Elsevier NV's 50% share of the adjusted profit attributable of the Reed Elsevier combined businesses, which excludes amortisation of goodwill and intangible assets and exceptional items. Adjusted figures are described in note 3 to the Reed Elsevier NV statutory financial statements.

Reed Elsevier NV shares are quoted on the New York Stock Exchange and trading is in the form of American Depositary Shares ("ADSs"), evidenced by American Depositary Receipts ("ADRs"), representing two Reed Elsevier NV ordinary shares of €0.06 each. (CUSIP No. 758204101; trading symbol, ENL; Citibank is the ADS Depository.)

Summary of the principal differences between Dutch and US GAAP

Reed Elsevier NV accounts for its 50% economic interest in the Reed Elsevier combined businesses, before the effect of tax credit equalisation, by the equity method in conformity with Dutch GAAP which is similar to the equity method in US GAAP. Using the equity method to present its net income and shareholders' funds under US GAAP, Reed Elsevier NV reflects its 50% share of the effects of differences between Dutch and US GAAP relating to the combined businesses as a single reconciling item. The most significant differences relate to the capitalisation and amortisation of goodwill and intangibles, pensions, deferred taxes and derivative financial instruments. A more complete explanation of the accounting policies used by the Reed Elsevier combined businesses and the differences between Dutch and US GAAP is given on pages 86 and 87. The Reed Elsevier Annual Report 2002 on Form 20-F provides further information for US investors.

Effects on net income of material differences between Dutch and US GAAP

For the year ended 31 December 2002

	2002 €m	2001 €m
Net income under Dutch GAAP	144	101
Impact of US GAAP adjustments to combined financial statements	159	(106)
Net income/(loss) under US GAAP	303	(5)
Earnings/(loss) per share under US GAAP	€0.39	€(0.01)

Effects on shareholders' funds of material differences between Dutch and US GAAP

As at 31 December 2002

	2002 €m	2001 €m
Shareholders' funds under Dutch GAAP	2,034	2,392
Impact of US GAAP adjustments to combined financial statements	368	294
Equity dividends not declared in the period	156	157
Shareholders' funds under US GAAP	2,558	2,843