

Royal Swets & Zeitlinger Holding NV

The logo for SWETS, featuring the word "SWETS" in a bold, white, sans-serif font. Above the letter "T" is a stylized crown icon composed of a cross and three dots. The logo is set against a red rectangular background.

SWETS

Annual Report 2005

These financial statements were adopted
by the General Meeting of Shareholders
on 16 May 2006.



Annual Report 2005





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Introduction

Royal Swets & Zeitlinger Holding NV (variously referred to in this report as Swets & Zeitlinger, the Company or the Group) is an internationally operating subscriptions services company for the scientific and professional communities. At the end of 2005 the Group had over 800 employees (in FTEs) and branches in over 20 countries, namely:

Australia, Belgium, Canada, China, Denmark, France, Germany, Italy, Japan, Mexico, Netherlands, Norway, Russia, Singapore, South Africa, Spain, Sweden, Taiwan, Turkey, United Kingdom, United States

In addition, there are alliances with strategic partners in Greece and Israel. Swets & Zeitlinger has agencies in Colombia, Nigeria, Iran, Portugal, Finland, Argentina and Egypt.

The activities of Swets & Zeitlinger are conducted under the trade name Swets Information Services. Swets Information Services carries out the complete management and processing of subscriptions to printed and electronic scientific publications. It has 60,000 customers for whom it handles more than 1.8 million subscriptions. Many of the publications that Swets Information Services has in its portfolio are available electronically. Through Swets Backsets Service it assists libraries, companies, scientific institutes, universities and individuals in completing or expanding their collections of scientific and scholarly publications. These activities have been integrated into Swets Information Services since the beginning of 2006.

Further information about Swets Information Services and its activities can be found at www.swets.com.

Where reference is made in this annual report to Swets Information Services this means the activities of the following companies: Swets Information Services BV, Swets Information Services Ltd, Swets Information Services Srl and Swets & Zeitlinger International Holding BV and its subsidiaries.

Report of the Supervisory Board to the shareholders

2005 financial statements

Pursuant to the provisions of article 28 et seq. of the articles of association (the 'articles of association') of Royal Swets & Zeitlinger Holding NV (the 'Company'), we hereby present the annual report for 2005. The financial statements have been compiled and signed by the Executive Board and audited by the external auditors, PricewaterhouseCoopers Accountants NV, who have issued an unqualified report. The Supervisory Board discussed and approved the financial statements for 2005 at a meeting attended by the Executive Board and the auditor.

The Supervisory Board subsequently signed the 2005 financial statements and recommends that the shareholders approve the financial statements at the general meeting of shareholders of the Company on 16 May 2006.

Activities

The Supervisory Board met with the Executive Board Team ten times in 2005. The Supervisory Board also met on its own on a number of occasions and held discussions with the shareholders. The members of the Supervisory Board attended the General Meeting of Shareholders and four Extraordinary Meetings of Shareholders.

The matters discussed were:

- the budget and the financial results of the business;
- the strategy of the Company;
- the composition and functioning of the Supervisory Board;
- the functioning of the Executive Board and the management structure of the business;
- the Company's personnel policy and terms and conditions of employment;
- the divestment of Turpin Distribution Services, Extenza and Swets Farrington;
- the efficiency of the business and the redesigning of the operating processes within the business;
- the improvement of the financial systems; and
- the risks run by the business.

Some members of the Supervisory Board attended meetings of the Company's Works Council in 2005. In the year under review the Works Council played an important role in implementing a plan to completely redefine and redesign operating processes within the business and enhance their efficiency. This included discussion of a new job classification and remuneration system and a new

performance appraisal system. In this way the Works Council successfully represented the interests of both the employees and the business. The Supervisory Board views its dealings with the Works Council very positively.

The Supervisory Board decided in 2003 to set up an Audit Committee. The Audit Committee supervises the Company's financial policy, the effectiveness of the Company's internal financial audit, the audit by the Company's external auditors and the financial reporting to the shareholders and other stakeholders. All the members of the Supervisory Board will continue to sit on the Audit Committee until further notice.

The Supervisory Board as a whole functioned as Remuneration Committee in 2005. The Remuneration Committee discussed the performance and remuneration of the Executive Board.

Composition, size and fees of and appointments to the Supervisory Board

A Supervisory Board of six persons is considered adequate, given the size and complexity of the group. The members to be appointed must cover all the operational areas between them. In addition, each member has his or her own individual characteristics and experience. Mr Schreve was appointed to the Board in 2005.

To guarantee sufficient continuity in the functioning of the Supervisory Board, it is desirable for members to be available for more than one term of office. The roster for retirement, appointment and reappointment is drawn up in such a way as to achieve the greatest possible continuity in the Supervisory Board. Appointments and reappointments are normally made at the end of the General Meeting of Shareholders.

The members of the Supervisory Board receive a fee from the Company. The fee is fixed by the General Meeting of Shareholders. The annual fee paid to the Chairman of the Supervisory Board is € 36,302 and to the ordinary members € 22,689. This is not dependent on the results of Royal Swets & Zeitlinger Holding NV. The Supervisory Board's procedures are regulated by by-laws.

Composition and structure of the Executive Board

Mr Jongejan was appointed CEO of the Executive Board in March. Mr Van Elsloo was appointed CFO in August.

The management structure of the business was discussed. The Supervisory Board decided to appoint a number of regional directors as members of the Executive Board: Mrs Dore and Messrs Ernst, Lens and Wiltenburg. The jobs of chief operating officer and chief information officer were merged. There is a vacancy for the position of chief commercial officer.

The Supervisory Board is pleased about the appointments of Messrs Jongejan, Van Elsloo and of the regional directors. The Supervisory Board wishes the existing and new members of the Executive Board every success in performing their duties.

Mr P. de Bruin, as member of the Supervisory Board, temporarily assisted the Executive Board until the end of April 2005 pending the appointment of the new chairman of the Executive Board in March 2005.

The other members of the Executive Board in 2005 were Mr Wim J.J. Agsteribbe (chief operating officer), Dr John R. Martin (chief commercial officer) and Mr Eelco T.A. de Boer. Mr De Boer resigned from the Executive Board on 10 May 2005, Mr Agsteribbe resigned on 30 January 2006 and Mr Martin resigned on 7 March 2006. The Supervisory Board is greatly indebted to them for their commitment and the manner in which they discharged their duties as members of the Executive Board of the company.

The joint statutory directors of the Company under the Articles of Association are currently Messrs Jongejan and Van Elsloo.

2005

The Company completed the reorganisation involving the improvement of efficiency and the redesigning of the operating processes in 2005. During the year under review it concentrated on its core business: the provision of subscription services. Swets Farrington Document Systems BV, Turpin Distribution Services Ltd and the EMS and ePS business units of Extenza BV were sold.

2006: Strategy and future

In the course of 2005 the Company started to formulate in more detail its strategy of acting as a service provider that manages and processes subscriptions. The aim is to safeguard the role and in particular the value of the Company for customers and publishers and to develop this in line with changing market conditions.

The strategy to support the core business focuses on:

- new business initiatives;
- increasing the quality of the service to publishers and customers; and
- maintaining and introducing internal efficiency.

The results of the Company were substantially improved in 2005 and provide a good starting point for structural continuity. The Company's stable strategy of focusing on the core business, combined with the strength and commitment of its employees, gives the Supervisory Board the confidence that the business will produce good results in 2006 too.

The Supervisory Board is very appreciative of the commitment shown by the employees and the Executive Board. As a result the Company is back on track.

Lisse, 10 April 2006

The Supervisory Board
P. de Bruin, chairman
E.A. van Amerongen
B.C. Brix
W. Brounts
C. van Kempen
F.H. Schreve

Members of the Supervisory Board during 2005

E.A. van Amerongen (1953)

Dutch nationality, first appointed on 18 October 2004, current term of office to 2006. Eric van Amerongen has held executive board posts with such companies as Alcatel, Thales Nederland and Lucent NV. He was chief executive officer of Royal Swets & Zeitlinger Holding NV from 2002 to 2004. He also holds several non-executive directorships. Eric van Amerongen was put forward by the Works Council;

W. Brounts (1936)

Dutch nationality, first appointed on 2 November 2004, current term of office to 2007. Willem Brounts was most recently the director with particular responsibility for risk management at ABN AMRO Bank NV. He holds several non-executive directorships;

B.C. Brix (1949)

Dutch nationality, first appointed on 24 September 2004, current term of office to 2008. Berend Brix held various positions with Hunter Douglas and Cap Gemini. He works as a consultant and holds various non-executive directorships;

P. de Bruin (1938)

Dutch nationality, first appointed on 24 September 2004, current term of office to 2006. Paul de Bruin has held executive board posts with such companies as Vredestein, Van Doorne's Transmissie and De Ster. He holds several non-executive directorships;

C. van Kempen (1944)

Dutch nationality, first appointed on 21 December 2004, current term of office to 2008. Caspar van Kempen was chairman of the Board of Management of Wolters Kluwer and has been an independent management consultant since 2000. He holds several non-executive directorships; and

F.H. Schreve (1942)

Dutch nationality, first appointed on 27 January 2005, current term of office to 2009. Frank Schreve was on the executive board of such companies as Heidemij (Arcadis), Rabobank and Koninklijke Ten Cate. He holds several non-executive directorships and is on the board of various civic organisations.

Members of the Executive Board in 2005 and early 2006

At the time of the presentation of these 2005 financial statements to the shareholders, the Executive Board consists of two registered directors under the Articles of Association and eight other members:

Arie Jongejan (1951)

Dutch nationality, CEO of the Executive Board, appointed on 15 March 2005, also managing director under the Articles of Association;

Deborah Dore (1960)

British nationality, regional director, appointed to the Executive Board on 1 March 2006;

Elisabeth M. van Dijk (1965)

Dutch nationality, general counsel and company secretary, appointed to the Executive Board on 1 September 2004;

Siebe H. van Elsloo RA (1954)

Dutch nationality, CFO, appointed on 1 April 2005, also managing director under the Articles of Association since 31 August 2005;

Ezra T. Ernst (1968)

American nationality, regional director, appointed to the Executive Board on 1 March 2006;

Dirk Lens (1961)

Belgian nationality, regional director, appointed to the Executive Board on 1 March 2006;

Jo J.A.M. Vincken (1955)

Dutch nationality, HRM director, appointed to the Executive Board on 1 September 2004;

Bob J. Visser (1954)

Dutch nationality, chief information and operating officer, appointed to the Executive Board on 1 September 2004; and

Fred Wiltenburg (1969)

Dutch nationality, regional director, appointed to the Executive Board on 1 March 2006.

The position of chief commercial officer is vacant.



Report of the Executive Board



Market environment

The main trends in recent years have continued. These are the transition from the print to the electronic medium, the greater pressure on customers to control costs and the consequent need for an improved selection process.

Large publishers are encouraging above all the switch from the print to the electronic medium and are seeking more direct contact with customers in order to be better able to meet the wider range of wishes and needs created by the electronic provision of information. The possible effects on the Company, as a provider of subscription services, are pressure on turnover as publishers 'go direct' and, on the other hand, enhanced value-added as the Company capitalises on the importance that publishers attribute to customer relations as an asset. In addition, the electronic provision of information greatly increases the complexity of the system to the point where libraries, and often publishers too, are unable to cope. More than ever before are we being asked to provide support in all major administrative processes.

We also note that as a consequence of the budgetary curbs and the changed role of information, customers wish to have a clear idea of what specific content is available and in what form and on what terms. The provision of objective information, of the kind available in our systems, is of ever greater value in this selection process.

In summary, it may be said that the cost benefits that we are able to generate as a provider of subscription services have clearly proved to meet the needs of the customer, provided that such savings are accompanied by a simple solution and a high level of service.

Strategy

The strategy of Swets & Zeitlinger ('Swets') is based on improving the service to customers and developing new markets and services. Swets does not aspire to a role in the primary process of information creation, but wishes instead to be world leader in supporting the selection, purchase and administration of content. This supporting role is irrespective of the content medium: paper periodical or electronic file or any combination of the two or any other form whatsoever. Whereas it concentrated in the past on the administration process from subscription purchase to renewal, Swets will in future also support the customer by providing information and instruments that help in the process of subscription selection. Swets wishes to be a fully-fledged partner for its customers in supporting the overall information management process. Examples of new functionality for customers are the development in 2005 of a procurement environment within SwetsWise that enables the customer to obtain control of the purchasing process, a unique search machine SwetsWise Searcher that helps the customer to access and classify available content and SwetsWise Titlebank, which provides an alphabetical overview of and access to all available information for the end user of the library.

As regards market development, great progress has been made in specific regions and segments and with content types. The 'Gateway to China' initiative is a good example of a regional development and the growth achieved by Swets in the federal government market in the USA is an example of segment development. Finally, the growth of turnover through the development of new content types is best illustrated by the fact

that over 50% of our turnover can now be attributed to services relating to electronic content.

It is important to note the special role of publishers as customers. Besides offering publishers an extensive and ever wider package of core activities, Swets is in favour of a differentiated approach. Examples are representation in markets that are difficult for publishers to access, the introduction of new business and/or content models such as databanks of electronic books, and support for specific processes such as preventing subscription erosion.

Result

The result after taxation for 2005 is a profit of €26.0 million (2004: loss of €3.6 million). The net result from sales in 2005 was a profit of €26.3 million compared with a profit of €5.1 million in 2004. The greatly improved net result from sales, combined with a substantial improvement in the balance of interest payable and receivable due to the sale of several business units, produced a positive result from ordinary business activities before taxation of €34.9 million. Owing to various factors such as substantial reorganisation costs and higher financing expenses, the result from ordinary business activities before taxation in 2004 was a loss of €4.3 million.

The adjacent graphs show the results from 2002 to 2005. The profit per share in 2005 amounted to €1.90 (2004: €0.52 loss per share).

2005 saw the sale of the interests in Swets Farrington Document Systems BV ('Farrington') and Turpin Distribution Services Ltd ('Turpin') and operations of Extenza BV. The operational activities in the first quarter of 2005 still took place under the responsibility of Swets & Zeitlinger. The first quarter results have therefore been included in the consolidated profit and loss account for 2005.

Although the gross result from sales fell by almost €7 million, a sizeable reduction in the operating costs produced a sharp increase in the net result from sales: a profit of €26.3 million compared with a profit of €5.1 million in 2004. The reorganisation process initiated in 2004 in order to achieve a structural improvement in the efficiency of the operating processes yielded the desired results in 2005. A non-recurrent item of income of €9.2 million connected with the sale of certain business units as referred to above ensured that the result from ordinary business activities before interest and taxation was €34.7 million (2004: €0.3 million).

The balance of financial income and expenditure was a net income of €0.2 million (compared with a net expenditure of €4.6 million in 2004). This improvement was largely due to a better liquidity position resulting from such factors as improved working capital management and a slightly higher level of interest on deposits in 2005.

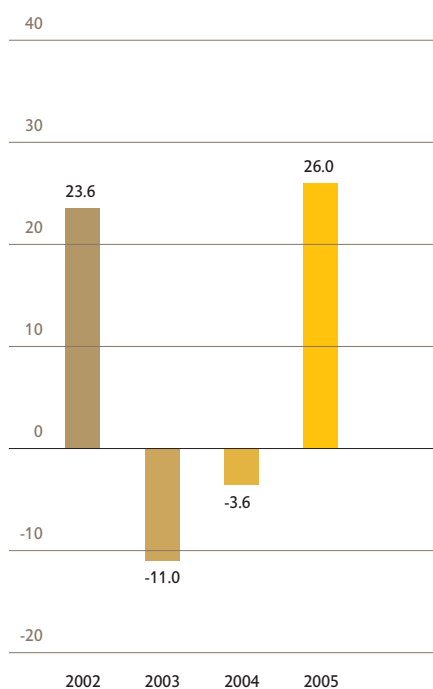
Dividend proposal

As 2005 was a year of recovery, in which the income was used to strengthen the Company's balance sheet and liquidity position, and as the subordinated loan of €10 million is due for repayment in September 2006, it is proposed that no dividend will be paid for 2005.

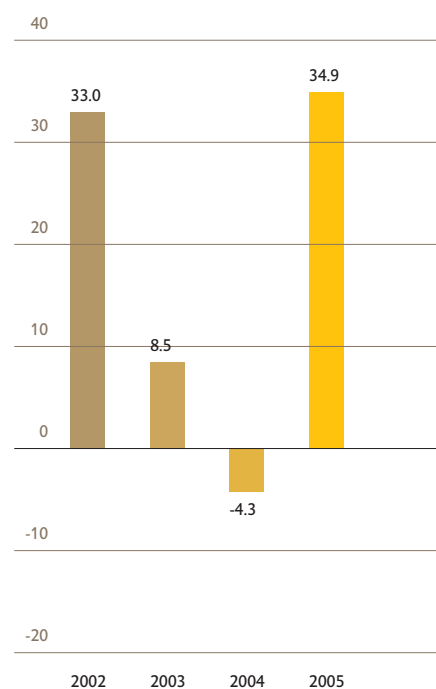
Balance sheet

The shareholders' equity before profit appropriation amounted to €68.0 million as at 31 December 2005 (end-2004: €44.7 million). In 2005 an amount of €2.8 million was charged directly against shareholders' equity in connection with the cash value of pension obligations under the defined benefit pension plans. This amount was added to provisions. The item is explained on page 22. No changes have been made to shareholders' equity other than the appropriation of the 2004 profit and the addition of the unappropriated net profit for 2005.

Net profit in millions of euros



Result from ordinary business activities before taxation in millions of euros



1 The profit or loss per share is calculated by dividing the result after taxation by the average number of shares in issue during the year.

Agreement was reached with ABN AMRO Bank and ING Bank in the autumn of 2005 for a new facility involving the provision of bank guarantees and an overdraft for a period of two years. The facility for the first year amounts to a maximum of €175 million, and consists of an overdraft of €15 million for the period from January to April and a bank guarantee facility not exceeding €160 million in January and falling to €70 million in June.

€2.2 million was invested in fixed assets in 2005 (2004: €3.1 million). The expenditure related mainly to replacement investments. The depreciation was €3.4 million (2004: €5.8 million). The net amount of equity tied up in fixed assets declined by €2.9 million (2004: €2.9 million).

The purchases, sales and payments relating to the 2006 sales season are shown separately under current assets and liabilities in the balance sheet. The balance of current assets and liabilities rose to €83.5 million at end-2005 (2004: €72.6 million).

The number of ordinary shares of €0.05 in issue at 31 December 2005 was 13,659,946 (31 December 2004: 13,659,946).

Cash flows

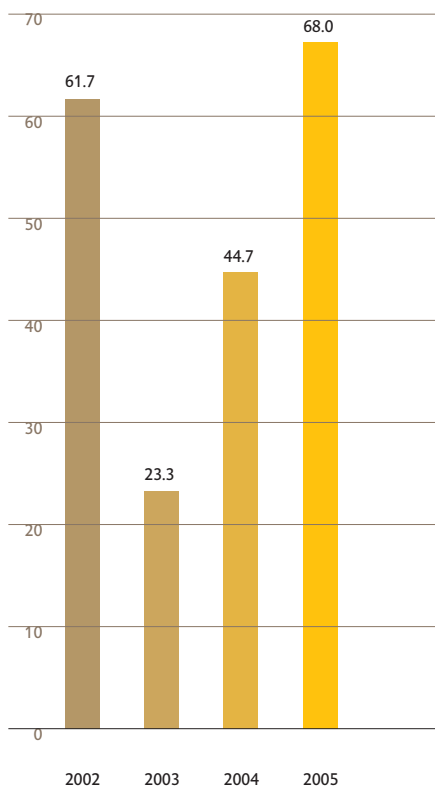
The cash position improved by €13.6 million to €140.9 million at end-2005. This improvement was due to various factors, the most important of which are reported below.

The operating activities made a positive contribution to the cash position of €6.8 million. The working capital (excluding liquid assets) improved still further in 2005 as a result of stringent cash management. The debtors item fell by €21.8 million to €149.6 million (2004: €171.4 million). This was due to the lower level of turnover in 2005 and a strict debt collection policy.

The purchases paid by the Company to publishers in advance as at 31 December 2005 (€440.5 million) are lower than the position on 31 December 2004 (€461.0 million). The debts to suppliers have decreased from €94.6 million at end-2004 to €75.4 million at end-2005.

The cash flow from investment activities consists mainly of the investments in tangible fixed assets in 2005 and the proceeds of the sale of participating interests and business activities sold in 2005.

Shareholders' equity at year end in millions of euros



Organisation and employees

The number of employees within the Group fell sharply in 2005 as a result of the reorganisation. The average number (in FTEs) dropped from 1,267 in 2004 to 831 in 2005.

The restructuring started in 2004 has led to the creation of seven regional offices:

- Lisse (for the Netherlands as well as Belgium, Turkey, Russia, the Middle East, Greece, South Africa and the Latin American countries);
- North America (United States and Canada);
- United Kingdom (United Kingdom and Republic of Ireland);
- France;
- Frankfurt (Germany, Italy, Spain and Eastern Europe);
- Nordic countries (Denmark, Sweden, Finland and Norway); and
- Singapore (Singapore and other Asian countries such as Japan, China and Taiwan, as well as Australia).

The Efficiency and Redesign project was largely completed in 2005 and has provided a robust basis for the organisation and costs structure in the years ahead.

A start was made at the end of 2005 on the cultural change and different way of working attendant on the reorganisation. Among the matters to which attention is being given in this connection are:

- training and education in the new way of working and the new working processes;
- management development and coaching of the new management;
- development of new products and services in keeping with the shift from print-related to e-related products and services; and
- development of new markets, for example in the corporate non-STM market (STM = Scientific, Technical, Medical).

The Executive Board would like to thank all employees for their efforts and loyalty in the past year.

Prospects

We expect the developments set in motion in 2005 to continue in 2006. Further steps will be taken to integrate the Swets portfolio with a view to offering a clear proposition to the market, namely that Swets provides an optimal service to its customers while at the same time offering them additional benefits such as simplified administration and enhanced efficiency. In addition to the activities mentioned under Strategy, new initiatives will be developed. We will also play a more pronounced role in standardising processes relevant to this industry, where necessary by means of special-purpose partnerships.

We anticipate that future market developments will give rise to a wide range of possibilities and Swets will put the emphasis on making the correct choices within the strategic framework outlined above. The central objective will be further growth of sales to private sector customers, to local and federal government and in specific regions. Special attention will also be paid in 2006 to the service provided to publishers. Swets can therefore be expected to expand its role in introducing and renewing access to electronic book databases and to work to improve efficiency still further (for example by introducing EDI throughout the entire business process).

The Executive Board expects the Company to achieve a level of net turnover in 2006 equivalent to that of 2005.

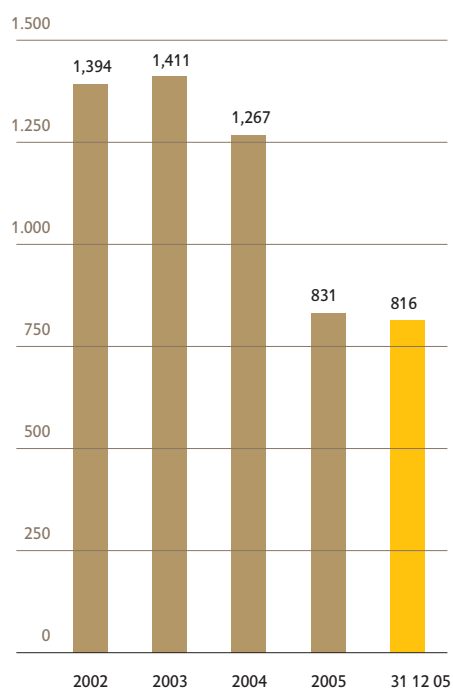
Lisse, 10 April 2006

The Executive Board (under the Articles of Association)

A. Jongejan, Chief Executive Officer
S.H. van Elsloo, Chief Financial Officer

Number of employees

- Average number of employees (in FTEs)
- Number of employees at year end (in FTEs)





Consolidated financial statements

Consolidated balance sheet (before profit appropriation)

	31 December 2005	31 December 2004
Fixed assets		
1 Intangible fixed assets	9	1,518
2 Tangible fixed assets	12,458	13,887
	12,467	15,405
Current assets		
Stocks	0	549
3 Accounts receivable	169,452	193,505
4 Prepaid purchases	440,501	461,003
5 Cash at bank and in hand	140,871	127,253
	750,824	782,310
Current liabilities and accruals		
6 Amounts received in advance	-145,756	-174,409
7 Sales invoiced in advance	-414,672	-407,602
8 Current liabilities	-106,877	-127,670
	-667,305	-709,681
Current assets less current liabilities and accruals	83,519	72,629
Total assets less current liabilities and accruals	95,986	88,034
9 Long-term liabilities	11,152	20,840
10 Provisions	16,862	22,451
11 Shareholders' equity	67,972	44,743
Total long-term liabilities, provisions and shareholders' equity	95,986	88,034

See for notes to the consolidated balance sheet page 26 and further.

	2005	2004
Consolidated profit and loss account		
13 Net turnover	821,828	907,284
Cost of turnover	717,151	795,840
Gross result from turnover	104,677	111,444
14 Sales costs	67,575	93,998
14 General administrative costs	10,841	12,345
Total operating costs	78,416	106,343
Net result from turnover	26,261	5,101
15 Net other operating income and expenditure	8,398	-4,765
16 Net financial income and expenditure	213	-4,608
	8,611	-9,373
Result from ordinary business activities before taxation	34,872	-4,272
17 Taxation on profit from ordinary business activities	8,862	-680
Result after taxation	26,010	-3,592

See for notes to the consolidated profit and loss account page 34 and further.

	2005	2004
Cash flow statement		
Result from ordinary business activities before interest and taxation		336
	34,659	
Adjustments for		
Effect of sale of participating interests on operating result	-9,208	0
Depreciation of tangible and intangible assets	3,436	5,780
Other changes in the value of tangible and intangible fixed assets	159	83
Changes in provisions	-8,058	4,939
Other	0	839
	-13,671	11,641
Changes in working capital		
Accounts receivable	9,288	40,167
Stocks	-169	327
Short-term liabilities	-31,118	21,796
Accruals and deferrals relating to turnover and purchases	-1,081	58,531
	-23,080	120,821
Cash flow from business activities	-2,092	132,798
Interest received/paid	4,402	-1,732
Corporation tax received/paid	4,526	4,669
	8,928	2,937
Cash flow from operating activities	6,836	135,735
Investments in		
Intangible fixed assets	0	-698
Tangible fixed assets	-2,167	-2,430
	-2,167	-3,128
Disinvestments in		
Tangible fixed assets	536	179
Participating interests	8,490	0
	9,026	179
Cash flow from investment activities	6,859	-2,949
Issue of shares and other capital contributions	0	25,000
Lease commitments	-114	0
Interest on long-term financing	37	0
Receipt from long-term financing	0	20,000
Repayment of long-term financing	0	-477
Cash flow from funding activities	-77	44,523
Net cash flow	13,618	177,309
Increase/(decrease) in funds	13,618	177,309

The amounts shown in this statement have been determined indirectly and can therefore not automatically be traced back to the balance sheet. €10 million of the long-term liabilities will be repaid in 2006. This concerns the mezzanine loan. This amount has been included under short-term liabilities as at 31 December 2005 (see note 8).

Statement of change in funds

Position at 1 January				
Cash at bank and in hand	127,253		49,944	
Credit institutions	0		-100,000	
		127,253		-50,056
Position as at 31 December				
Cash at bank and in hand	140,871		127,253	
Credit institutions	0		0	
		140,871		127,253
Change in funds		13,618		177,309

General notes and accounting policies

General

The financial statements have been drawn up in conformity with the statutory provisions of Title 9, Book 2, of the Dutch Civil Code and with the firm statements in the Annual Reporting Guidelines issued by the Dutch Accounting Standards Board. There is one exception to this, namely the incorporation of goodwill (reference is made to the section dealing with the principles for the determination of net assets).

The financial statements are denominated in euros.

The accounting principles are based on historic costs. Unless indicated otherwise, the assets and liabilities are shown at their nominal value. All amounts shown in the financial statements are in thousands of euros unless otherwise indicated.

Nature of the business activities

The Group concentrates on the trade in scholarly publications, books, other information media and equipment, whether or not published by itself, and whether current or antiquarian. The Company's registered office is in Lisse.

With the exception of six subsidiaries including Swets Information Services Ltd (UK) and Swets Information Services Inc (USA), agreements have been concluded with the foreign subsidiaries and associated companies under which the business activities are carried on for the parent company on a cost-plus basis.

Consolidation principles

The companies included in the consolidation are Royal Swets & Zeitlinger Holding NV and all group companies in which Royal Swets & Zeitlinger Holding NV can exercise control either directly or indirectly (the Group). The group companies are consolidated in full. Where applicable, the minority interests in group companies are shown separately. Intercompany transactions, intercompany results and receivables and liabilities between group companies are eliminated. Where necessary, the accounting principles of group companies have been adjusted to bring them into line with those applicable to the Group as a whole.

For a list of the companies involved in the consolidation see note 18.

The results of subsidiaries that have been acquired in the course of the financial year have been included in the consolidated profit and loss account from the time at which control could be exercised in the company concerned. Group companies remain included in the consolidation until the date on which they are sold and control is transferred.

In so far as the exemption requirements of Article 2:402 of the Dutch Civil Code are fulfilled, the exemption is exercised in relation to the information to be provided in the financial statements of the participating interests. As the profit and loss account of Royal Swets & Zeitlinger Holding NV has been included in the consolidated annual accounts, only an abridged profit and loss account is given here, in compliance with Article 2:402 of the Dutch Civil Code.

Foreign currency

Transactions in foreign currency during the reporting period have been shown in the financial statements at the exchange rate on the transaction date. Resulting exchange gains and losses are accounted for in the result. Assets and liabilities denominated in a foreign currency are translated at the official rate of exchange applicable on the balance sheet date. Resulting exchange gains and losses are accounted for in the profit and loss account. The result on currency futures contracts taken out to cover the foreign exchange risk of monetary assets and liabilities in a foreign currency is accounted for in the profit and loss account of the year in which the result of the transaction involving the assets and liabilities concerned is also accounted for.

Assets and liabilities of the group companies outside the eurozone are translated at the exchange rate on the balance sheet date. Items in the profit and loss account are translated at average exchange rates during the financial year. Translation differences arising as a result of differences between the balance sheet exchange rate and the average exchange rate are taken directly to the shareholders' equity under the exchange gains and losses item. The translation difference arising from the conversion of the invested equity in a foreign group company, including permanent loans in foreign currency, at the opening and closing exchange rates in the year is also taken directly to the shareholders' equity under the exchange gains and losses item. The amount posted to this item may not be distributed.

System change

As a consequence of the amendments to the legislation and regulations, which took effect on 1 January 2005, the Group has made a change to the system. This change relates to the manner in which pension obligations are shown in the accounts. The comparative figures for 2004 have not been adjusted since the regulations do not require this (Dutch Accounting Standards Board, Guideline 271).

Since 2005 the Group has accounted for its pension plans in accordance with the provisions of Guideline 271. As regards the defined benefit pension plans, this means that the cash value of the pension entitlement under the pension plan is shown in the balance sheet after deduction of the real value of the fund investments and taking account of the expenditure for past service attributable to subsequent financial years.

In so far as this obligation exceeds the obligation calculated on the basis of the principles applied until last year, the higher amount (the transition amount) is charged directly against shareholders' equity (off the profit and loss account), taking account of the relevant tax effects.

Up to and including 2004 the situation in respect of all pension plans was that only the pension contributions due were charged to the profit and loss account.

Principles for the valuation of assets and liabilities

Fixed assets

Intangible fixed assets

Capital expenditure on software is valued at historic cost, less straight-line depreciation based on useful life. Software produced internally is capitalised if it is likely that economic benefits can be gained from it and the costs can be reliably determined. Expenditure connected with the maintenance of software programs and research expenditure is recognised in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are valued at acquisition value less straight-line depreciation based on useful life. Land is not subject to depreciation. Software acquired externally will be classified under Tangible fixed assets from the start of 2005 onwards.

Financial fixed assets

The participating interests in group companies are valued in accordance with the share-of-net-asset-value method. The net asset value is calculated by reference to the accounting policies of these financial statements. If the valuation of a participating interest is negative, the value is set at nil. If and in so far as the Company guarantees the debts of the relevant participating interest or firmly intends to allow the participating interest to pay its debts, a provision is made.

Exceptional diminution in the value of fixed assets

On the date of each balance sheet the Group decides whether there are indications that there may have been an exceptional diminution in the value of an asset. If such indications exist, the realisable value of the asset

is determined. If it is not possible to determine the realisable value of an individual asset, the realisable value of the unit generating the cash flow to which the asset belongs is determined. Exceptional diminution of value is deemed to occur if the book value of an asset exceeds the realisable value; the realisable value is the higher of the market value and the business value. In such a case the difference is recorded in the profit and loss account.

Current assets

Stocks

Stocks are valued at purchase price or market value, whichever is the lower, in so far as necessary less provision for obsolescence. Specific collections in the antiquarian stock are valued at cost price or valuation, whichever is the lower, while general stock is valued at a fixed amount. Reprint stock is valued per publication at historical cost less the proceeds of sold copies. The profit is recognised once the total costs connected with the reprint have been covered.

Receivables

Receivables are stated at the real value of the consideration, which is usually the nominal value. A provision is made for doubtful debts.

Liquid assets

Liquid assets consist of cash in hand, cash at bank and deposits with a maturity of less than twelve months.

Equity

Shareholders' equity/Goodwill

Goodwill on the acquisition of participating interests or business activities is deducted directly from shareholders' equity. When ascertaining the goodwill, account is taken of tax savings to the extent that they are regarded as realisable.

The statutory provisions governing the treatment of goodwill have been followed as in previous years. These provisions allow goodwill to be deducted directly from shareholders' equity. The prevailing Annual Reporting Guidelines for 2005 have not been followed in this respect.

Where a participating interest for which goodwill has previously been deducted directly from shareholders' equity is sold within five years of its acquisition, the goodwill posted in the past is taken into account pro rata in determining the result from its sale. That is, the goodwill paid is charged against the result pro rata in that case.

Provisions

Provisions are set aside for liabilities enforceable in law or actual liabilities that exist on the date of the balance sheet where it is likely that a sum that can already be reliably estimated will have to be paid in the future. Pension provisions are valued on the basis of actuarial principles. Other provisions are made at nominal value.

Deferred tax receivables and liabilities

In the case of deferred tax receivables and liabilities, temporary differences between the value of the assets and liabilities are recognised in accordance with the tax rules and also with the valuation principles adopted in these annual accounts. The deferred tax receivables and liabilities are calculated at the tax rates applicable at the end of the year under review or at the rates applicable in the years ahead, in so far as they have already been established by law.

Deferred tax receivables, including those resulting from the carrying forward of losses, are shown in the balance sheet in so far as it is likely that there will be taxable profit against which they can be set off.

Deferred taxes are recognised in respect of temporary differences concerning group companies, participating interests and joint ventures, unless the Group is able to determine the date of termination of the temporary difference and it is unlikely that the temporary difference will terminate in the foreseeable future. Deferred taxes are shown at their nominal value.

Deferred tax receivables are accounted for under financial fixed assets and deferred tax liabilities under provisions.

Pensions

The Group has a number of pension plans, including some defined benefit plans. A defined benefit plan is a plan under which employees are granted entitlement to a pension whose size is dependent on age, salary and years of service.

The pension provision included in the balance sheet is the cash value of the pension entitlement under the defined benefit plan, after deduction of the real value of the fund investments. Unrealised actuarial profits and losses and pension costs in respect of past service that has not yet been recognised in the accounts are set off against this. Each year the pension provision is calculated by independent actuaries using the actuarial method known as the 'Projected Unit Credit' method. The cash value of the obligation is calculated by translating the estimated future cash flows into

cash. This calculation is based on interest rates for high-quality corporate bonds having a maturity roughly equal to that of the pension obligation.

Actuarial profits and losses which are a consequence of changes in actuarial assumptions that exceed 10% of the amount of the pension entitlement and the real value of the fund investments at the start of the financial year are credited or debited to the profit and loss account during the expected average future years of service of the employees concerned.

Long-term liabilities

Long-term liabilities are valued at the amount received, where applicable after taking account of any share premium or discount.

Leasing

Finance leases Some of the Group's fixed assets are leased. If the Group has most of the advantages and disadvantages associated with ownership of the assets concerned, they are shown on the balance sheet at the moment when the lease obligation is entered into. This is done on the basis of the real value of the assets concerned or, if lower, the cash value of the minimum lease instalments. The lease instalments to be paid are divided on an annuity basis into a repayment and an interest component based on a fixed percentage. The lease obligations, excluding the interest component, are recognised under long-term liabilities. The interest component is charged against the result depending on the lease instalments. The relevant assets are depreciated over the economic life of the assets or, if shorter, the term of the lease contract.

Operating leases Lease contracts in which the advantages and disadvantages of ownership do not for the most part lie with the Group are shown in the accounts as operating leases. Obligations under operating leases are valued on a straight-line basis over the term of the contract and accounted for in the profit and loss account, after making allowance for payments received from the lessor.

Principles for determining the result

General

The result is determined as the difference between the proceeds of the goods and services delivered and the costs and other expenditure incurred in the financial year. The results of transactions are accounted for in the year in which they are realised.

Revenue recognition

The net revenue from transactions is recognised at the moment when delivery to the customer has taken place and all major rights and risks entailed by ownership of the goods and services has passed. Revenue received or due before the delivery of the goods and services is accounted for under 'Amounts received in advance' or 'Sales invoiced in advance' (under 'Current liabilities and accruals').

Net turnover and cost of turnover

Net turnover is the revenue from goods and services delivered to third parties in the course of ordinary business activities, after deduction of turnover tax and discounts granted. Cost of turnover is the purchase price directly attributable to the goods and services supplied, after deduction of any discounts obtained. Handling charges and other fees charged to customers for specific services are accounted for in net turnover.

Costs

The costs are valued at historic cost and attributed to the reporting year to which they relate. The depreciation on tangible and intangible fixed assets is based on the acquisition or production price. Depreciation is calculated by the straight-line method on the basis of the estimated useful life.

Sales costs

The sales costs are the direct costs of the selling activities and the services provided to customers. The costs of depreciation of tangible and intangible fixed assets and special diminutions in their value are accounted for under 'Sales costs'.

General administrative costs

These are the costs of management and administration and the costs of additions to provisions.

Staff pay

Wages, salaries and social security contributions under the terms and conditions of employment are accounted for in the profit and loss account in so far as they are owed to employees. The pension plan is for the most part a defined contribution scheme. Contributions are paid to an insurance company based on the salary in the year concerned. The Group does not have any other statutory or actual obligation in respect of this pension scheme if there is a shortfall at the insurance company. Conversely, extra revenues accrue directly to the employee. Employees have the possibility of choosing between various investment funds. The Group also has a number of defined benefit plans. Under these plans staff are entitled to a pension on the age of retirement depending on age, salary and years of service (see on page 23 above on pensions).

Interest receivable and interest payable

Interest receivable and interest payable are attributed to the reporting period to which they relate. Differences between the interest receivable or payable and that actually received or paid are accounted for in the accrual and deferral items under 'accounts receivable' and 'current liabilities'. When interest payable is recognised, account is taken of the transaction costs of the loans received.

Taxation

In principle, the tax on the result on ordinary activities is calculated at the current rate, taking account of tax facilities. Account is taken of temporary differences between the commercial and fiscal results leading to deferred tax assets and liabilities. Deferred tax assets are valued at the nominal tax rate and shown under accounts receivable where there is a reasonable degree of certainty that they can be offset against future taxable profits. The deferred item is valued at a lower percentage if this is warranted by expectations of future profits.

Earnings per share

Earnings per share are computed by dividing the result after tax by the average number of shares in issue during the year.

Principles for determining the cash flow statement

General

The cash flow statement is drawn up in accordance with the indirect method. The increase/decrease in funds in the cash flow statement consists of any increase or decrease in the liquid assets and in the credits of credit institutions under current liabilities. Cash flows in foreign currency are translated at the average exchange rate. Exchange gains and losses from funds are shown separately in the cash flow statement.

Cash flow from operating activities

The cash flow from operating activities consists of the cash flow relating to the result after tax, adjusted for operational income and expenditure that does not generate a cash flow. Interest received and paid and taxes paid on profits are accounted for under the cash flow from operating activities.

Cash flow from investment activities

The acquisition of participations and business activities item includes the acquisition price of the shares in an acquired company, of assets and liabilities that have been acquired, or of an acquired subscription portfolio.

Cash flow from financing activities

Changes in the share capital resulting from stock dividends are not recognised as cash flow, nor are changes as a result of the conversion of long-term liabilities into short-term liabilities. Paid dividends are accounted for under the cash flow from financing activities.

Financial instruments

Foreign exchange risks

Currency exposures are hedged by means of spot and forward currency contracts. No currency derivatives other than forward contracts are used.

Cash transactions are used to hedge exposures that arise from transactions in foreign currencies (on both the buying and the selling side). Forward contracts and long-term intercompany loans are used to hedge the exchange rate risk on net investments in group companies.

Interest rate risk

The management of interest rate risk positions is carried out centrally by the Treasury Department. The Company endeavours to maximise the return on its positive liquidity positions. By matching the term of the deposits as far as possible with the term of the underlying obligations, the Company can limit the mismatch between the interest structure of the interest-bearing assets (liquid assets and deposits) and that of interest-bearing liabilities (amounts received in advance). Interest rate derivatives are not used to manage interest rate risk positions.

Credit risk

Goods and services are sold to customers who fulfil the creditworthiness criteria of the Company. The credit periods are those usually applied in the industry and may therefore differ from country to country.

Notes to the consolidated balance sheet

(The amounts in the headings are in thousands of euros)

1 Intangible fixed assets € 9 (2004: € 1,518)

The capital expenditure on the development of SwetsWise and SAP is accounted for under intangible fixed assets. The depreciation periods range from three to five years.

Software				
All amounts in thousands of euros	2005		2004	
Balance as at 1 January				
Acquisition cost	15,593		15,887	
Cumulative depreciation	14,075		12,937	
Book value		1,518		2,950
Changes in book value				
Investments	0		698	
Reclassification of fixed assets	-1,497		0	
Depreciation	-12		-2,964	
Permanent impairment	-0		-36	
Net change		-1,509		-1,432
Balance as at 31 December				
Acquisition cost	12,479		15,593	
Cumulative depreciation	12,470		14,075	
Book value		9		1,518

There was virtually no capital expenditure on software in 2005 (2004: € 0.7 million).

The reclassification of assets concerns the book value of software bought externally, which has been classified under tangible fixed assets since the start of 2005.

2 Tangible fixed assets € 12,458 (2004: € 13,887)

The book value of the tangible fixed assets can be specified as follows.

All amounts in thousands of euros	Land, buildings and equipment		Other tangible fixed assets		Total	
	2005	2004	2005	2004	2005	2004
Balance as at 1 January						
Acquisition cost	24,810	22,246	19,495	32,428	44,305	54,674
Cumulative depreciation	14,847	12,379	15,571	26,926	30,418	39,305
Book value	9,963	9,867	3,924	5,502	13,887	15,369
Changes in book value						
Investments	539	1,029	1,628	1,401	2,167	2,430
Reclassification of fixed assets	0	0	1,497	0	1,497	0
Divestments	-932	-8	-968	-171	-1,900	-179
Depreciation	-1,087	-1,210	-2,337	-2,476	-3,424	-3,686
Translation adjustments	118	285	112	-332	230	-47
Net change	-1,362	96	-68	-1,578	-1,430	-1,482
Balance as at 31 December						
Acquisition cost	23,901	24,810	19,790	19,495	43,691	44,305
Cumulative depreciation	15,301	14,847	15,932	15,571	31,233	30,418
Book value	8,600	9,963	3,858	3,924	12,458	13,887

Depreciation is calculated pro rata from the time an asset is taken into use, at the following rates:

- buildings and equipment: 4 to 10% of the acquisition price
- other fixed assets: 10% to 33 1/3% of the acquisition price.

Land is not depreciated.

The book value of land, buildings and equipment as at 31 December 2005, namely € 8.6 million, consists mainly of the business premises in Lisse (€ 6.0 million). The current value of this property is approximately € 25 million, based on the insured value.

The business premises and land are mortgaged.

The capital expenditure on 'Other tangible fixed assets' relates mainly to computer hardware and software.

3 Accounts receivable € 169,452 (2004: € 193,505)

All amounts in thousands of euros	2005		2004	
Trade receivables	145,137		167,914	
Taxation	9,515		18,567	
Other	14,800		7,024	
Total receivables		169,452		193,505

The trade receivables item serve as collateral for the bank funding (see note 5).

The decline in the deferred tax claims is due in part to the eduction in the commercial/tax discrepancies from the past. The prepaid tax item relates to tax rebates that can still be claimed.

4 Prepaid purchases € 440,501 (2004: € 461,003)

The prepaid purchases item relates to purchases of subscriptions made and paid for in respect of the 2006 and 2005 subscription years respectively.

5 Cash at bank and in hand € 140,871 (2004: € 127,253)

The cash at bank and in hand may be disposed of by the Company as it sees fit, subject to certain contractual conditions agreed with the credit institutions in respect of bank guarantees and the financing of working capital.

In October 2004 the Company concluded a 2-year facility with ABN AMRO Bank NV and ING Bank NV for the short-term financing of working capital (seasonal financing) up to an amount of € 50 million, and to enable it to provide bank guarantees to customers for a maximum of € 100 million, which would fall to a maximum of € 70 million on 30 September 2005.

To replace the above facility the Company arranged a new 1-year facility with ABN AMRO Bank NV and ING Bank NV for seasonal financing up to an amount of € 175 million. € 160 million of this is to enable it to provide bank guarantees to customers, and will reduce to € 70 million in June 2006. There is also an overdraft facility of up to € 15 million available for the months of January to April 2006. The facility can be renewed for a further year after the expiry in September 2006.

Collateral in various forms has been provided for this facility, including first an arrangement under which some of the group companies have accepted joint and several liability and, second, the provision of a document under hand which can be converted at the first request of the lender into a mortgage

on the property in Lisse. The value of the bank guarantees provided to customers should be covered in the period from August to November by sufficient balance on the accounts at the banks concerned.

In addition, some financial covenants to be fulfilled by the Company during the term of the facility have also been recorded. The main financial covenants concern conditions in respect of tangible net worth, net working capital and EBITDA.

Bank guarantees and suretyships for a total amount of €77.8 million (2004: €87.6 million) had been issued as at 31 December 2005. No liquid assets needed to be kept as at 31 December 2005 to cover the outstanding guarantees.

The value of the outstanding deposits has not been adjusted to bring it into line with market value since the difference between the market value and the book value is minimal, mainly due to the very short maturity of the deposits.

6 Amounts received in advance €145,756 (2004: €174,409)

The amounts received in advance item consists mainly of prepayments for the 2006 subscription year (2005 in parenthesis) made by customers of the Swets Information Services Division. The item also includes debtors who have a credit balance because credit invoices have not yet been processed.

7 Sales invoiced in advance €414,672 (2004: €407,602)

The sales invoiced in advance item relates to sales for the 2006 subscription year (2005 in parenthesis) made and billed during the financial year.

8 Current liabilities (falling due within one year) €106,877 (2004: €127,670)

All amounts in thousands of euros	2005		2004	
Trade debts	75,351		94,615	
Taxation and social security contributions	3,796		1,307	
Pension contributions	0		676	
Other	27,730		31,072	
Total current liabilities (falling due within one year)		106,877		127,670

The mezzanine loan item concerns the repayment of a subordinated loan in 2006 (see note 9).

9 Long-term liabilities € 11,152 (2004: € 20,840)

The long-term liabilities item consists of a subordinated loan of €10 million at 10% interest per year, to be repaid in a single lump sum on 31 December 2009; the interest is payable annually in arrear on 30 September (for the first time on 30 September 2005). Early repayment of the loan is not permitted, unless the conversion option referred to below is used. During the term of the loan, all or part of the loan may be converted into ordinary shares to be issued at a price of € 2.93 per share. The interest owed may also be converted.

A second subordinated (mezzanine) loan, also of €10 million, will be repayable in 2006. The amount of this loan is recognised under short-term liabilities.

10 Provisions € 16,862 (2004: € 22,451)

All amounts in thousands of euros	2005		2004	
Pensions	4,096		129	
Taxation	9,987		13,946	
Reorganisation costs	890		5,865	
Other	1,889		2,511	
Total provisions		16,862		22,451

The provisions item decreased in 2005 as a result of expenditure charged to provisions in 2005 (for example reorganisation costs), a lower estimate of the provisions created in the past (taxes) and the making of new provisions.

Staff pension plans

Since 2005 the Group has applied a new principle in valuing and recognising pension obligations. On the basis of the accounting principles, obligations have been included for defined benefit plans. The comparable figures for 2004 have not been adapted to take account of the new principle as the Group is exercising the option provided under Annual Reporting Guideline 271. Reference is made to the notes on the system change on page 22.

The long-service obligations include the actuarial value of future obligations for long-service entitlement of staff and in connection with extra leave for older staff.

The pension obligations provisions under the defined contribution amounts were €53,000 as at 31 December 2005.

The changes to the pension obligations provision for defined benefit plans and the provision for long-service obligations are as follows:

in thousands of euros

Balance as at 31 December 2004	0
System change	3,928
	<hr/>
Balance as at 1 January 2005	3,928
Allocated pension expenditure for defined benefit plans	313
Pension premiums paid	-198
	<hr/>
Balance as at 31 December 2005	4,043
	<hr/>

The pension entitlement as at 31 December 2005 is composed as follows:

in thousands of euros

31 December 2005

Cash value of allocated pension claims for which investments are held	31,675
Real value of the fund investments	26,240
	<hr/>
Cash value of allocated pension claims for which no investments are held	5,435
Actuarial results not yet incorporated in the profit/loss	1,392
	<hr/>
Net pension entitlement	4,043
	<hr/>

The main actuarial criteria of the three defined benefit plans are as follows:

Procents

2005

Discount rate	4.0 – 4.5
Expected return on fund investments	3.25 – 4.2
Expected salary rises	2.5
Expected pension indexation	0 – 3.25

The pension plan presently provides that pensions that have started are inflation-protected.

Taxation

A provision for deferred tax liabilities has been created for all taxable temporary differences.

Pending litigation

The provision created for pending litigation concerns a few claims brought against one of the subsidiaries abroad.

Empty offices

The provision made for empty offices relates to an office building of one of the subsidiaries. The tenancy agreement concluded by the subsidiary has a remaining term of 7 years.

Future income from sub-tenancies that have been concluded has been offset against the projected costs of the vacant premises.

The above provisions are of a predominantly long-term nature, with the exception of the provision for reorganisation costs.

Change in provisions

All amounts in thousands of euros	Pensions	Taxation	Reorganisation costs	Other	Total
Balance as at 1 January 2005	129	13,946	5,865	2,511	22,451
Additions	4,163	9,545	662	6,414	20,783
Withdrawals	-196	-13,504	-5,637	-7,036	-26,372
Balance as at 31 December 2005	4,096	9,987	890	1,889	16,862

11 Shareholders' equity € 67,972 (2004: € 44,743)

All amounts in thousands of euros	Issued capital	Share premium	Other reserves	Unappropriated result	Total
Balance as at 31 December 2004	687	61,386	-13,738	-3,592	44,743
System change			-2,781		-2,781
Balance as at 1 January 2005	687	61,386	-16,519	-3,592	41,962
Appropriation of 2004 profit/loss			-3,592	3,592	0
2005 unappropriated result				26,010	26,010
Balance as at 31 December 2005	687	61,386	-20,111	26,010	67,972

An amount of € 2.8 million was deducted from shareholders' equity on 1 January 2005 in connection with the system change explained on page 22. This amount is a result of the calculation of the future obligations for a few defined benefit pension plans. These obligations, which must be incorporated in the annual accounts from 2005 on the basis of new regulations (Annual Reporting Guideline 271), have been charged directly against shareholders' equity, taking account of future tax credits in relation to pension payments.

All shares placed with third parties are fully paid up. This concerns 13,659,946 shares (2004: 13,659,946) each of € 0.05, of which 8,532,423 are non-cumulative convertible preference shares (issued in 2004), also having a nominal value of € 0.05. The preference conditions are as follows. In so far as a dividend is paid in any year the preference shareholders will have a preferential right (i.e. in preference to the ordinary shareholders) annually to a dividend amounting to € 5 million. If the dividend to be paid in any year exceeds € 5 million, the

holders of the ordinary shares will be entitled to a dividend not exceeding € 3 million. If the dividend to be paid exceeds € 8 million, each preference share and each ordinary share will receive an equal part of the dividend in excess of € 8 million. The preference shares will cease to be preferential when the total dividend paid out on them reaches € 25 million.

The share premium can be distributed entirely free of tax. The other reserves consist of accumulated losses from previous years.

Change in shareholders' equity in 2004

All amounts in thousands of euros	Issued capital	Share premium	Other reserves	Unappropriated result	Total
Balance as at 1 January 2004	260	36,813	-2,777	-10,961	23,335
Issue of shares	427	24,573			25,000
Profit appropriation in 2003			-10,961	10,961	0
Unappropriated result in 2004				-3,592	-3,592
Balance as at 31 December 2004	687	61,386	-13,738	-3,592	44,743

12 Off-balance sheet commitments

Rental commitments

The rental commitments relate mainly to rent for offices, computer equipment and software and to car lease commitments. The average term of the commitments is around two and a half years. The overall commitment based on the total term of the contracts is € 20.4 million (2004: € 21.3 million).

Guarantees

Bank guarantees and suretyships had been issued for a total of € 77.8 million as at 31 December 2005 (2004: € 87.6 million).

Joint and several liability

Royal Swets & Zeitlinger Holding NV is jointly and severally liable for its Dutch subsidiaries in accordance with Article 2:403 of the Dutch Civil Code.

Tax risks

The Company sells products and services worldwide from various countries. Where there are definite indications of potential tax risks, which are reasonably capable of being quantified, the Company has made adequate provisions.

Notes to the consolidated profit and loss account

(The amounts in the headings are in thousands of euros)

13 Net turnover per continent

All amounts in thousands of euros	Swets Information Services	Extenza	Swets Backsets	Swets Farrington Document Systems	Total 2005	Total 2004
North America	160,159		239		160,398	183,720
Europe	532,602	4,127	1,916	1,558	540,203	555,090
Asia	60,031		106		60,137	104,881
Australia/New Zealand	26,048		30		26,078	25,856
Central and South America	17,741		342		17,813	21,276
Africa	16,799		400		17,199	16,461
Total	813,110	4,127	3,033	1,558	821,828	907,284

The amounts specified for Extenza and Swets Farrington Document Systems concern the net turnover realised in the first quarter of 2005, prior to the divestment of these participating interests.

14 Sales costs and general administrative expenses: € 78,416 (2004: € 106,343)

All amounts in thousands of euros	2005		2004	
Sales costs				
Wages and salaries	38,776		48,458	
Pensions	2,472		3,236	
Other social security contributions	4,867		6,481	
Administration costs	18,024		30,050	
Amortisation/depreciation of tangible/intangible fixed assets	3,436		5,773	
		67,575		93,998
General administrative costs				
Wages and salaries	3,519		6,189	
Pensions	540		943	
Other social security contributions	266		309	
Costs of advice	1,277		1,422	
Other costs	5,239		3,482	
		10,841		12,345
Total		78,416		106,343

Number of employees

The average number of employees expressed in FTEs is:

	2002	2003	2004	2005
The Netherlands	588	599	508	343
Foreign countries	806	812	759	488
Total	1,394	1,411	1,267	831

Remuneration of executive and supervisory directors

In compliance with the provisions of Article 2:383 (1) of the Dutch Civil Code, the Company reports that in the year under review it paid the following remuneration to the members of the Executive Board and the Supervisory Board: € 2,689,062 (2004: € 2,369,649).

No options were exercised by members or former members of the Executive Board under the share option plan of Swets & Zeitlinger Beheer BV in the year under review. Two series of options, totalling 175 options, expired in 2005. The relevant option plan has ended. At the end of 2005 members or former members of the Executive Board had 38 outstanding options (2004: 213 options).

All amounts in thousands of euros	31 Dec 2004	Changes	31 Dec 2005
Number granted	1,798	0	1,798
Number exercised	-1,585	0	-1,585
Expired in 2005		-175	-175
Number of outstanding options	213	-175	38

The price at which the 38 options were exercised as of 31 December 2005 was € 70,053 (2004: 213 options and € 365,011). The remaining term of these options is one year. Each outstanding option confers entitlement to one Swets & Zeitlinger Beheer BV share.

The composition of the pension expenditure in the profit and loss account is as follows:

in thousands of euros	2005
Pension entitlement earned in the financial year	34
Allocated interest	1,256
Expected proceeds of fund investments	-991
Allocated actuarial results	0
Allocated expenditure for past service	0
Result on account of limitations or termination of the plan	14
Pension expenditure on the basis of defined pension plan	313
Pension premiums on the basis of defined contribution plan	2,699
Total pension expenditure	3,012

In 2004 all pension plans were shown in the accounts on the basis of a defined contribution plan. The total costs amounted to € 4,179,000 in 2004.

€ 2,472,000 (2004: € 3,236,000) of the pension expenditure was recognised under selling costs and € 540,000 (2004: € 943,000) under general management costs.

15 Other operating income/expenditure: € 8,398 (2004: -€ 4,765)

All amounts in thousands of euros	2005		2004	
Reorganisation	459		-5,493	
Litigation	-368		-750	
Sale of business activities	9,208		991	
Other	-901		487	
Total		8,398		-4,765

The proceeds (before taxation) of the sale of the assets and activities of Swets Farrington Document Systems BV and Turpin Distribution Services Ltd are shown as other operating income.

16 Interest receivable and other income € 4,808 (2004: € 4,598)

All amounts in thousands of euros	2005		2004	
Deposits and foreign currency accounts	4,808		4,598	
Total		4,808		4,598

Interest payable and similar charges € 4,595 (2004: € 9,206)

All amounts in thousands of euros	2005		2004	
Interest payments to customers on prepayments	1,800		2,109	
Loans	2,795		7,097	
Total		4,595		9,206

17 Taxation € 8,862 (2004: -€ 680)

All amounts in thousands of euros	2005		2004	
Taxation	12,638		-615	
Changes in deferred taxes in previous years	-3,776		-65	
Total		8,862		-680

The amount for taxation for the 2005 profit in the profit and loss account is € 8.9 million (2004: tax rebate of € 0.7 million). This consists of an immediate corporation tax liability of € 12.6 million on the 2005 consolidated result. In addition, the changes in the deferred and immediate taxation for previous

years result in a tax rebate of € 3.8 million. The changes in the deferred taxation are connected in part with the changes to the provisions recognised in 2005. The changes in the immediate tax positions for past years are in part a consequence of the settlement of the corporation tax returns submitted during 2005 with the immediate corporation tax calculated for this in the past. The immediate tax liability on the 2005 consolidated result differs from the nominal rate since it takes account of permanent differences.

Effective tax rate 25.4% (2004: 15.9%)

All amounts in thousands of euros	2005		2004	
Profit/loss from ordinary business activities before taxation		34,872		-4,272
Tax liability on basis of applicable tax rate		10,985		-1,474
Permanent differences	2,480		1,397	
	-411		-713	
Difference from previous tax years	-2,494		-2,190	
Change in deferred items	-1,282		2,125	
Other	-416		175	
		-2,123		794
Tax on profit from ordinary business activities		8,862		-680
Effective tax rate		25.4%		15.9%
Applicable tax rate		31.5%		34.5%

Company financial statements

Note All amounts in thousands of euros

31 December 2005

31 December 2004

Balance sheet (before profit appropriation)

	31 December 2005	31 December 2004
Financial fixed assets		
18 Participating interests	56,847	43,979
19 Receivables from group companies	20,000	0
	76,847	43,979
Current assets		
Receivables	182	50
Cash at bank and in hand	16,952	45,008
	17,134	45,058
Current liabilities		
Debts to group companies	-4,862	-7,453
Other debts	-10,625	0
	-15,487	-7,453
Net current assets less current liabilities	1,647	37,605
Total assets less current liabilities	78,494	81,584
Long-term liabilities		
20 Provisions	521	16,841
Issued capital	687	687
Share premium	61,386	61,386
Other reserves	-20,111	-13,738
Unappropriated result	26,010	-3,592
21 Shareholders' equity	67,972	44,743
Total shareholders' equity, provisions and liabilities	78,494	81,584

Note All amounts in thousands of euros

2005

2004

Profit and loss account

	2005	2004
Profit/loss from participating interests	18,698	-2,040
22 Company result	7,312	-1,552
Total	26,010	-3,592

See for notes page 40 and 41.

Notes to the balance sheet

The same principles of valuation and determination of the result are used for the company and consolidated financial statements. Consolidated companies are valued using the net asset method. Please see the notes to the consolidated balance sheet and profit and loss account for the principles of valuation of assets and liabilities and for the determination of the result.

18 Participating interests € 56,847 (2004: € 43,979)

This concerns the participating interests of Royal Swets & Zeitlinger Holding NV, Lisse:

All amounts in thousands of euros	2005		2004	
Balance as at 1 January		43,979		46,018
Issue of 155 shares in Swets & Zeitlinger Beheer BV	0		1	
Dividend	0		0	
Foreign exchange differences on participating interests	-458		0	
System change	-2,768			
Other	-2,604		0	
		-5,830		1
Profit/loss from participating interests		18,698		-2,040
Balance sheet as at 31 December		56,847		43,979

The participating interests are shown at the share of the net asset value computed in accordance with the accounting policies set out in these financial statements.

List of participating interests, including subsidiaries

Swets & Zeitlinger Beheer BV
Swets & Zeitlinger Finance BV
Swets & Zeitlinger BV
Swets & Zeitlinger International BV
Swets Information Services BV
Swets & Zeitlinger International Holding BV
Swets & Zeitlinger Finance BV
Swets Information Services SA, France
Swets Information Services Ltd, UK
Swets Information Services GmbH, Germany
Swets Information Services Srl, Italy
Swets Information Services Inc, USA
Swets Information Services Inc, Japan
Swets Information Services AB, Sweden
Swets Information Services AS, Norway
Swets Information Services AS, Denmark
Swets Information Services Inc, Korea
Swets Information Services SL, Spain

Swets Information Services Pty Ltd, Australia
Swets Information Services SA, Belgium
Swets Information Services LLC, Russia
MNI Books & Journals Ltd, Brazil
Swets Farrington Document Systems BV
Turpin Distribution Services Ltd, UK
Extenza BV
Extenza Inc, USA

The following participating interests were sold in the course of 2005: Swets Farrington Document Systems BV and Turpin Distribution Services Ltd.

Royal Swets & Zeitlinger Holding NV owns all the shares of the other companies in which it has a participating interest.

19 Receivables from group companies € 20,000 (2004: € 0)

This item concerns an intercompany loan in 2005 of amounts received in 2004 in connection with the subordinated loans. The intercompany loan was arranged in order to take best advantage of the tax position.

20 Provisions € 521 (2004: € 16,841)

A provision has been made for tax risks.

21 Shareholders' equity € 67,972 (2004: € 44,743)

Please see note 11 of the financial statements for details of shareholders' equity.

Notes to the profit and loss account

(All amounts in thousands of euros)

22 Company result € 7,312 (2004: -€ 1,552)

The company profit of Royal Swets & Zeitlinger Holding NV mainly represents the balance of interest received and paid and other business income.

Lisse, 10 April 2006

The Executive Board (under the articles of association)

A. Jongejan, Chief Executive Officer

S.H. van Elsloo, Chief Financial Officer



Other data

Auditors' report

Introduction

In accordance with your assignment we have audited the financial statements of Royal Swets & Zeitlinger Holding NV, Lisse, for the year 2005 as set out on pages 16 to 41. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore, we have to the extent of our competence, established that the annual report is consistent with the financial statements.

Utrecht, 10 April 2006

PricewaterhouseCoopers
Accountants NV

Drs J.W. Middelweerd RA

Profit appropriation

Article 33 of the articles of association provides as follows in respect of the appropriation of profit:

- 1 The general meeting of shareholders shall determine each year what part of the profit will be reserved.
- 2 The part of the profit remaining after application of the provisions of paragraph 1 may be disposed of by the general meeting of shareholders as it sees fit.
- 3 In so far as the profit permits and in so far as preference shares have been issued, the profit shall be used first of all to pay a dividend of 20% of the amount paid up on the shares to the holders of preference shares in proportion to the number of preference shares held by each of them. Thereafter, and once again in so far as the profit permits, such amount shall be distributed in respect of each ordinary share to the holders of ordinary shares as is equal to the amount paid on each of the preference shares on the basis of the above, in proportion to the number of ordinary shares held by each of the ordinary shareholders. Any profit remaining after application of the above provisions shall be disposed of by the general meeting as it sees fit, subject to the proviso that all shareholders are entitled to this residual profit in proportion to the size of their shareholding.
- 4 Distributions may take place only up to the amount of the distributable part of the shareholders' equity.
- 5 Profits may be distributed only after adoption of the financial statements showing that this is permissible.
- 6 Subject to the relevant provisions of paragraph 3 and with the approval of the Supervisory Board, the Executive Board may resolve to pay an interim dividend.

- 7 The general meeting may, on a proposal from the Executive Board that has been approved by the Supervisory Board, resolve that a dividend on shares is to be paid partly or completely in shares in the Company rather than in cash.
- 8 The General Meeting may, on a proposal from the Executive Board that has been approved by the Supervisory Board, resolve that dividends on shares are to be paid from the distributable part of the shareholders' equity. The provisions in the previous paragraph apply by analogy.
- 9 A shareholder's claim to payment of a dividend expires after five years.

Events since the balance sheet date

No events that need to be reported here have occurred since the balance sheet date.

Branches

The Company has branches in Canada, China, Mexico, Turkey, Singapore, South Africa and Taiwan.

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