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## **WTKWY - Q3 2007 Wolters Kluwer NV Earnings Conference Call**

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**Nancy McKinstry**

*Wolters Kluwer NV - CEO*

**Boudewijn Beerkens**

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**Jack Lynch**

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*Merrill Lynch - Analyst*

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**Sami Kassab**

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**Anna Fokkelman**

*ING - Analyst*

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## PRESENTATION

**Operator**

Good afternoon ladies and gentlemen. And welcome to the Q3 2007 Wolters Kluwer NV Earnings Conference Call hosted by Kevin Entricken, Vice President of Investor Relations. My name is Wendy and I'll be your coordinator for this conference. (OPERATOR INSTRUCTIONS). I will now hand you over to Kevin Entricken to begin today's conference call. Thank you.

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**Kevin Entricken** - *Wolters Kluwer NV - Vice President IR*

Good afternoon everyone and thank you for joining us. I'm Kevin Entricken, Vice President of Investor Relations for Wolters Kluwer, and I'd like to welcome you to our 2007 Third Quarter Release Presentation. This afternoon's presentation will be delivered by our CEO, Nancy McKinstry. Joining us as well is our CFO, Boudewijn Beerkens, and Jack Lynch, Member of the Executive Board. The presentation will be followed by a question and answer session.

I'd kindly like to ask you to read the forward-looking statement which is included in our press release and on page two of today's presentation. Thank you, and with that I'd like to turn it over to Nancy.

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Thanks Kevin. Welcome everyone and good afternoon. Today we'll provide you with the highlights of Wolters Kluwer 2007 third quarter and year to date September performance, followed by a discussion of the operating results of each division. I will then conclude with some summary remarks and share with you the outlook for the full year of 2007 and beyond, and then we'll move to Q&A.

So why don't we begin on slide four with the Q3 results. We are pleased with our strong results for the third quarter which demonstrated an acceleration of revenue growth and improvement in profitability. Wolters Kluwer's revenues grew by 2% compared to Q3 2006, and 6% in constant currencies. Growth was fuelled by new products and strong growth in online and software solutions. Our organic growth for the third quarter accelerated to a solid 4.4%. Our ordinary EBITA margin increased to 19.1% from 16% in 2006. This significant improvement was driven by revenue growth, the impact from acquisitions and the increased benefits of cost saving initiatives. The cost savings of EUR41m achieved in the third quarter indicate that we are well on track to achieve our 2007 target of EUR160m. Free cash flow was EUR76m for the quarter and in line with the same period last year. Our ordinary diluted earnings per share increased by 32% over 2006 levels.

I am pleased to report that all divisions contributed to our accelerated organic revenue growth and improvements in profitability. With these results we are well on track to achieve our 2007 goal.

Now turning to our results for the first nine months on slide five. Revenues grew by 2% in total and 6% in constant currencies. Organic revenue growth was 3.2% and we are well on track to achieve our full year target of 4% organic growth. Ordinary EBITA margin improved to 18.5% from 16% in the prior year to date period. Cost savings increased by 29% to EUR117m. Free cash flow increased 8% after excluding the impact of a one time tax refund received in 2006. Ordinary diluted earnings per share increased by 23% over the prior year, 32% in constant currencies.

I am pleased that in the first nine months of 2007 we have delivered accelerated revenue growth and improved profitability. This performance will fuel our continued momentum in the fourth quarter. We are well on track to meet our goals for 2007 and today we reiterate our full year guidance.

Now moving to slide seven. We today announced an additional share buyback program. As you'll recall on March 26 of this year we announced a share buyback program valued at EUR475m, in connection with the divestment of our education division. This program is approximately 97% complete and we expect this to be fully complete in the current fiscal year. Earlier today, Wolters Kluwer announced a further buyback program valued at EUR175m which is in addition to the EUR475m program currently underway. This additional program will begin once the first program is complete and is expected to end in April 2008 or earlier.

Now I'd like to turn to the performance highlights of each of our divisions beginning on slide nine with Health. In the Health division organic revenue growth accelerated to 4% in the third quarter from flat growth during the first half of the year. This performance was driven by double digit growth in Professional & Education Books, due to the strong front list and new adoptions. Clinical Solutions also delivered double digit growth in the quarter through strong performance of the Medi-Span product line.

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Medical Research continued to perform well with good growth in Ovid online revenues, driven both by strong renewals as well as increased demand for non prescription products.

Pharma Solutions continued to strengthen its core business with growth in custom medical communications, Adis Journals and Business Intelligence Products. While this unit experienced strong growth in the quarter, the broad industry trend show an increased softness in marketing spending which is expected to impact our journal advertising and promotion programs over the balance of this fiscal year.

Healthcare Analytics experienced double digit growth in its managed care and brand analytics product lines, offset by previously announced price compression in the traditional targeting and compensation business.

Third quarter ordinary EBITA margin increased to 20% from 18% in 2006. We are on track to achieve our full year EBITA margin in line with 2006 levels of 15%. Full year organic revenue growth guidance is 1% to 2% for the Health Division.

Now turning to Corporate and Financial Services. CFS third quarter organic revenue growth was 4%. Corporate Legal Services was the key driver of this performance with 5% organic revenue growth due to continued strength in Corporate, UCC and litigation business lines. Strong renewals for its corporate representation product lines, market share gains in UCC and strong growth in CT Corsearch, TyMetrix and Summation contributed to this performance.

Financial Services delivered positive organic growth in the third quarter despite continued challenges in the wholesale mortgage market. Financial services banking content and non-mortgage banking product sales continued to perform well on the strength of the new automated lending and deposit compliance platform, which is called Compliance One, as well as the continued success of the it's print compliance product, particularly in the indirect lending market.

Operating margins improved significantly to 30% in Q3 from 24% in the same period of 2006. This improvement resulted from higher organic growth in the core business, and the benefit of operational improvements. Full year organic revenue growth guidance is 5% to 7% for CFS.

Turning now to Tax, Accounting and Legal. TAL third quarter organic growth was 4% driven by good growth in U.S. Tax, Canada and Law & Business U.S. Tax and Accounting delivered 5% (sic - see presentation) organic growth in the quarter with contributions in particular from the core U.S. software product lines. The Small Firm Services Group, acquired in the second half of 2006, performed well due to new software and trading sales. CCH Canada continued to deliver strong growth driven in part by its CCH Accountant's Suite. In Australia sales of accounting and audit products that leverage the U.S. Pro System software line gained share in the market, offset by softness experienced in the core publishing and legal workflow solution product line. Law & Business U.S. delivered 5% organic growth through the quarter due to strong performance from the unit's front list, the legal education group and Kluwer Law International.

Operating margins increased significantly in the quarter to 21% from 18% in 2006 driven by strong revenue growth and improved cost structure and contributions from Small Firm Services. Full year organic revenue growth guidance is 4% to 6% for TAL.

Legal Tax and Regulatory Europe organic growth in the third quarter was 6%, driven by continued strong growth of electronic solutions software and services. Electronic products grew at double digit levels in this quarter and now account for over 40% of the division's revenue. Strong performance was demonstrated across the division led by continued good growth in Italy, Spain and the Netherlands.

Third quarter operating margins grew to 15% from 13% in 2006. Strong improvements in operating margins were delivered through revenue growth and the positive impact of prior restructuring efforts. Full year organic revenue growth guidance is 4% to 5% for LTRE.

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Now to wrap up our presentation with an outlook and summary. On slide 14 we are reiterating our outlook for 2007 and beyond. We will continue to focus on executing our strategy for accelerating profitable growth, and with our strong third quarter results we are well on track to meet our 2007 outlook. Our guidance for beyond 2007 reflects this plan and includes 4% to 5% organic growth, strong free cash flow, continuous improvement in operating margins and double digit growth in diluted ordinary earnings per share.

In summary, our results demonstrated improved growth and profitability performance. With these strong third quarter results we have increased confidence in achieving all of our key performance targets set for 2007, enabling us to reiterate our outlook for 2007 and beyond. We expect to complete the EUR475m share buyback program in the remainder of this fiscal year, and will execute an additional EUR175m program upon its completion.

Thank you, and I'd now like to open it up for Q&A.

## QUESTIONS AND ANSWERS

### Operator

Thank you. (OPERATOR INSTRUCTIONS). Our first question comes from the line of Paul Sullivan from Merrill Lynch. Please go ahead.

### Paul Sullivan - Merrill Lynch - Analyst

Good afternoon guys. A few questions if I may. Just on the Health side in Pharma Solutions the growth looked like it was down over 10% in the quarter. Can you just provide a bit more color of the breakdown within that? And when realistically do you think the price compression and some of the other drags we've seen during the course of this year will start to wash through, and do you think we can see a return to growth during the second half of next year?

And can you give us a sense of the margin differentials between the various parts of the Healthcare businesses, and whether the margins in Pharma Solutions are significantly below that of the rest of the Healthcare business, which I would've thought they would be? That's the first bit.

Secondly, in Europe can you just provide a bit more color on the improved retention levels, and help us quantify some of the improvement you're seeing there?

And then also, of the 40% electronic, how much of that is pure online?

And then just finally, what is the logic behind the EUR175m additional buyback? How did you come up with that number and does that suggest a commitment to a specific net debt to EBITA target going forward?

### Nancy McKinstry - Wolters Kluwer NV - CEO

Okay. So keep us honest here Paul as we've not written down every one of the questions, but I'll start with Pharma Solutions. As you'll note from my remarks the traditional part of the Pharma Solutions product line, around custom medical communications in our Adis Journal business had good growth in the quarter. This was offset by the previously announced price compression that we saw on a single contract in the Healthcare Analytics business which we talked about on many occasions.

So as we look to the future the price compression on this one contract will really be mitigated as we head into 2008. So we are in the process of shifting our product line away from promotional spending sensitive products like our Books [bolt] program

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and other types of things into more must-have information needed by Pharma. So if you look within the business of Pharma Solutions what you see is that we had double digit growth in our Managed Care and Brand Analytic Product lines within HA, that's where we're investing money to continue to build out that part of the business. And that is the strategy for mitigating, as I said, this one contract where we experienced price compression.

On the margin side we don't break down individuals units within the Health business on margins. What I can say is that we are confident in our ability to reach our target for this year which is in line with our 2006 level of 15%. And certainly as we head into 2008 we expect better performance from Health, both in terms of revenue growth and in terms of operating income.

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**Paul Sullivan** - Merrill Lynch - Analyst

So should we expect more industry type Health growth rates next year?

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**Nancy McKinstry** - Wolters Kluwer NV - CEO

We're not giving guidance for next year about divisions at this point. But what I certainly can say, is if you look at the Health division they had good Q3 results. And the three factors that have had an adverse effect on Health's results overall for this year are historical losses on some larger journals, the price compression on this single contract in Healthcare Analytics, and the softness in promotional spending.

We have spent much time in the last 12 to 18 months working to mitigate those factors. We have launched more new journals. We have also won some new contracts this year for journal publishing which will begin in 2008. We've also, as I mentioned, have been investing to build out our Managed Care and Brand Analytic lines and those are growing well for us. So as we head into the, again, the '08 time period, the things that have been a drag on our Health results this year will in part be mitigated as we go forward and, therefore, we have confidence that our organic growth levels will improve over this year's levels.

Now talking about LTRE. As you know we had good 6% organic growth in the third quarter. Overall, our retention levels are improving throughout Europe driven by a couple of things. One is we've made a number of changes in the way that we go to market through our sales and marketing efforts, which have improved both new sales generation as well as retention. And clearly as customers adopt more electronic products and software solutions, we experience higher retention rates in those areas. If you look at the online development for Wolters Kluwer overall, we had double digit online growth in electronic products in Q3 as well as double digit growth within Europe in that product line, the bulk of which is coming from online product offering.

And then on share buyback?

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**Boudewijn Beerkens** - Wolters Kluwer NV - CFO

The EUR175m amount came up due to the fact that we are allowed to own about 10% of our outstanding shares at the maximum. So at the moment once we have finalized our first share buyback program of EUR475m that adds to about 7.5% of our outstanding stock. So the EUR175m will actually bring that 7.5% closer to 10%.

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**Paul Sullivan** - Merrill Lynch - Analyst

Can that be changed next year?

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

It depends. If shareholders will give us more latitude to buy back more then of course there's always an opportunity to (inaudible) 10% on a yearly basis.

**Paul Sullivan** - *Merrill Lynch - Analyst*

But that could change at the AGM?

**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

Yes.

**Paul Sullivan** - *Merrill Lynch - Analyst*

Okay. Great. Thank you.

**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

And to the net debt to EBITA question that you -- we still, even including net debt to EBITA target that we gave of 2.5 times, we're still far below that, even including EUR175m on a non acquisition basis.

**Paul Sullivan** - *Merrill Lynch - Analyst*

Great. Thanks a lot.

**Operator**

Thank you. Our next question comes from the line of Paul Gooden from ABN Amro. Please go ahead.

**Paul Gooden** - *ABN Amro - Analyst*

Good afternoon. Three questions please. The first one is on CFS which held up pretty well in the quarter. I just wondered if you could just quantify for us, within that division, how large are the exposures that you consider to be cyclical, i.e. this exposure to the mortgage market and the IPO market?

And can you give us a sense of what you're hearing from customers there? There's clearly a bit of weakness, but should we expect to see significant weakness into the fourth quarter and into next year?

My second question is coming back to Paul's question on the buyback. So this buyback takes you to 10% of shares outstanding which you'll own. What needs to happen for you to cancel those shares, is that something that is within your gift and something that you're considering?

And then thirdly, I'm sure you're aware there's a lot of press mutterings about a combination between Reed and Wolters Kluwer. I'm not going to ask you about that, but clearly there's been a lot of deals in the publishing space in the last 12 months. Do you think that a combined Thomson Reuters is going to be a more difficult competitor for you, or do you think it has no real impact on your business?

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**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Okay. So starting with CFS, just to put that division into perspective, CFS is our smallest division. It represents about 20% of Wolters Kluwer's revenues overall. About a third of those revenues are tied to economic cycles, specifically lending activity, and M&A and IPO activity. As you'll see in Q3, we had good growth of 4% and within the division we saw CLS at 5% organic growth and FS had positive growth despite the fact it was clearly impacted by the downturn in the mortgage market. So we have a very diverse product line within the division, that division overall. So what you see is that we have had some negative economic trends particularly in the lending market we have been able to offset some of that through stronger growth in Banking Content and other product lines.

What I can tell you, is that July -- if you look just at CLS in terms of the volume of what we measure, which is what we call on-demand volume, which are the product lines that are very tied to M&A and IPO activity. What we saw is that July and August were on the trend line and then September was lumpy. And I think the lumpiness, if you talk to our customers, was that, as you know, people were trying to figure out how to line up some of the financing associated with some of the M&A deals. And so it took them some time to work their way through that. So we see that clearly there have been volume changes in the on-demand, but as I say, that represents only about in total, including the lending aspect of that, a third of the revenues there. So in general we have a diverse portfolio and other parts of the business have been growing well within CFS.

**Paul Gooden** - *ABN Amro - Analyst*

Great. Thanks.

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Do you want to do the buyback?

**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

Well on the buyback, well, we have to put this forward to the AGM and the AGM has to approve our proposal to cancel the 10% outstanding shares. We'll probably propose to cancel about 9.5% to leave also 0.5% over for the performance shares outstanding for the employees of WK (inaudible). After that period there's a two month grace period, or what we call reflection period, in which shareholders can actually object or bring in counterarguments. And then after two months after the decision of the AGM the cancellation takes place and then any new share buyback program or any new situation that could occur could then start. But the AGM, timing actually is essential in terms of cancellation of that number of outstanding shares that we have WK holding.

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Then in terms of the question around the combination of Thomson and Reuters, we really see that that was an effort on both of those companies' parts to focus very much on the financial services area. We don't compete in that market, we really compete with Thomson primarily in Tax and Accounting and in some pieces of our Healthcare business. And so we don't see that that combination is going to change the competitive landscape in the segments that we operate in.

**Paul Gooden** - *ABN Amro - Analyst*

Great, that's very clear. Thank you.



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**Operator**

Thank you. Our next question comes from the line Polo Tang at UBS. Please go ahead.

**Polo Tang - UBS - Analyst**

Hi, it's Polo Tang from UBS here. I just have a couple of different questions, it's mainly on TAL. Because if you look at, if you do the math, you've kept your full year guidance unchanged at 4% to 6%. So mathematically this means that you need around 8% organic revenue growth in Q4 for TAL. Have I done my numbers correctly and is this step-up in terms of growth realistic? And if so what's driving it?

And the second question that's related to TAL, is you've obviously done quite a lot of acquisitions in TAL last year, like the Kleinrock acquisition, TaxWise. What level of growth are these assets seeing and when do they feed through into organic revenue growth number?

**Nancy McKinstry - Wolters Kluwer NV - CEO**

Okay. Within the TAL division what you'll see is that we always have a very strong fourth quarter performance both within Tax and Accounting as well as in Legal. And the drivers of that is that tax selling season really begins now. In fact, I was just in Dallas on Monday with our CCH User Conference where we have a big customer meeting. We had almost 800 customers there and that's the kind of the kick-off session around driving the new sales as tax season really starts to begin. So that's one factor. Second factor is the Books program, we had a lot of year-end editions including the Master Tax Guide which is one of our top sellers on the Tax and Accounting side. We also begin doing our renewal program for our core content businesses. In addition if you look at the front list this year, within our Legal business, as we indicated the front list was heavily slated to the second half of 2007. So we will also be seeing some uplift in the growth performance coming out of Law and Business U.S. So we typically have a fourth quarter surge in our growth and we expect that this year as well.

If you look at [SFS], it grew better than the average within -- of TAL and it becomes organic in the fourth quarter of the year. So there the integration is progressing well there. We have been driving new sales both of our software products and of training.

**Polo Tang - UBS - Analyst**

Okay. I just have one follow-up question, just in terms of CFS. You've seen 4% organic revenue growth in Q3 and you obviously gave quite a detailed answer in terms of the mix of that business in terms of what's happening. But very simplistically are you optimistic that you can maybe see a continuation of the 4% organic revenue growth in Q4 and beyond just in terms of repeating what you delivered in Q3?

**Nancy McKinstry - Wolters Kluwer NV - CEO**

Yes, we don't want to start talking about the fourth quarter at this stage. Obviously that would be appropriate when we come out with our full-year results. But we're confident in the guidance we've given for the division which is 5% to 7%. So we have a great deal of confidence in the guidance.

**Polo Tang - UBS - Analyst**

Okay, thanks.

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**Operator**

Thank you. Our next question comes from the line Sami Kassab from Exane. Please go ahead.

**Sami Kassab** - *Exane BNP Paribas - Analyst*

Good afternoon everybody this is Sami at Exane BNP Paribas. Can I ask you whether you could update us on the various off-shoring projects that currently have in the way in the business, particularly regarding the off-shoring of editorial functions please?

And secondly, leaving aside regulatory constraints regarding the share buyback, is it fair to understand from the announcement today that you have actually have made up and your mind and want to propose to gear up the balance sheet to 2.5 times net debt to EBITDA through additional cash returns?

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Yes, thanks Sami. Why don't I ask Jack Lynch, Jack is spearheading our off-shoring and other efficiency programs, to talk about that. And then Boudewijn will talk about the share buyback.

**Jack Lynch** - *Wolters Kluwer NV - Member of the Executive Board*

In terms of off-shoring, most of our off-shoring today is for IT. We did have -- as you asked about the content, we do have several content off-shoring initiatives. Principally our Health Division in India, both in Chennai and in New Delhi, have major off-shoring operations for their professional education books publishing and journal publishing. In addition in Asia Pacific we have a major captive offshore production center for Asia Pacific operations in Kuala Lumpur in Malaysia. And I think that's a pretty good overview of our off-shoring today.

**Sami Kassab** - *Exane BNP Paribas - Analyst*

I meant less what you have today but more what you're planning to do. If we look, for instance, at Thomson Financial you see they have been off-shoring a lot of their editorial functions from Philadelphia to India. Are there any other similar projects whereby you would put people from one location to a lower cost location, India for instance, abstracting any (inaudible) that you have?

**Jack Lynch** - *Wolters Kluwer NV - Member of the Executive Board*

Yes, we do a lot of our content conversion and indexing for all of our operations in offshore locations today. We are piloting an effort for Western Europe in Eastern Europe today. And we'll be looking at opportunities to offshore additional editorial production in North America in the future. So, we'll be looking at expanding the scope of these initiatives in the future.

**Sami Kassab** - *Exane BNP Paribas - Analyst*

Thank you.

**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

On the share buyback, Sami, the reason for the share buyback, the EUR175m, I think I explained before, that indeed it does bring us of course closer to the net debt to EBITDA target capital structure of 2.5 times, although we will be short of that. As you know

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we invest a lot of money in the Company. We do of course on average a few acquisitions on an annual basis. So even with this EUR175m buyback leaves enough financial flexibility for the Company to move in any direction that we would like.

**Sami Kassab** - *Exane BNP Paribas - Analyst*

Thank you Boudewijn.

**Operator**

Thank you. Our next question comes from the line of Anna Fokkelman of ING. Please go ahead.

**Anna Fokkelman** - *ING - Analyst*

Yes, two questions left please. First of all on dollar weakness can you update us on hedging and what the potential financial impact will be for this year's results? Remembering a situation with a dollar hedge in, at least, 2002 -- sorry in 2003, which had a significant impact. That's the first question.

Second one is on the Health division. What confidence can you give us that Health can meet average organic revenue growth expectations for Wolters Kluwer of 4% in turn say 2009? I just got the feeling from your comments that it will not be 2008, but what is the confidence you can give us that that will be 2009?

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Why don't I start with Health? First we are reiterating our overall guidance for this year at 4% organic growth, and then beyond '07, the 4% to 5% guidance that we've given previously. So we are not giving specific divisional guidance beyond this year.

What I can say is that Health performance in the quarter was good at 4%. The macro trends within Health are still positive in terms of the demographics and spending on healthcare. We have a good portfolio particularly in education and point-of-care and in online publishing which are growing areas of the business.

And what has impacted us this year and a bit last year as well was really three factors. The loss of some historical journals, the price compression on one customer contract in Healthcare Analytics that we renewed at the end of '06 that impacted '07 results, and the softness in promotional spending on the part of pharmaceutical companies that impacts our journals and other product lines, which represents about 15% of the division's results. So we have been in the process of obviously taking actions to mitigate those three factors.

As I look to the future what you see is that we are launching more of our own proprietary journals, which has been a strategy that we embarked on a couple of years ago and we continue to launch new journals this year. We also have won some new society journals contracts that again won't impact the results in '07 but will clearly begin impacting the results in '08. On the Healthcare Analytics line, what you see is that we are experiencing good strong growth in managed care and brand analytics, which is really the future of the business. And we believe that we can continue to build our penetration in those segments of the market and mitigate the impact of this price compression that we saw this year on that one contract. And then on the promotional side our whole strategy in this division is to move away from lower value added promotional kinds of programs into higher value data centric product lines, which was the rationale behind buying the Healthcare Analytics business.

So as we move into the future the division is well positioned to improve its growth performance beginning in '08.

So with that, that was quite a long answer, the dollar weakness?

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

Dollar weakness. The impact of the dollar weakness from Wolters Kluwer needs to be measured in a few ways. Let me just point out from the beginning, we have a very limited transactional exchange rate risks within Wolters Kluwer. We mostly produce the products where we also sell them, so I think it's very important.

If you look what we then actually hedge to mitigate impact of the dollar it's in two areas. On the one it's in our financing expenses that we have hedged to -- 61% of all our financing costs are in dollar. And the second element of our hedging strategy is mainly that our U.S. dollar assets are covered to the extent of 28%, which means about 70% of our dollar assets are exposed, around 30% are covered. And therefore again reflecting a mitigating strategy and not an elimination strategy from that point of view.

But I think the first point I made is the most important we have hardly any transactional risks and therefore I think that the exposure in that sense is clear for everybody.

In anticipation of your earlier remark about 2003, we do not anticipate these large cash inflows from derivatives as you have seen in the past.

**Anna Fokkelman** - *ING - Analyst*

Alright. Thank you.

**Operator**

Thank you. Our next question comes from the line of Mark Braley from Deutsche Bank. Please go ahead.

**Mark Braley** - *Deutsche Bank - Analyst*

Yes, good afternoon. Just a couple of questions, apologies the first one is Health again. Do you just want to give us a feel as to whether this is an area where you will carry on committing new capital? You have in the past talked about this being one of, if not the most, attractive business you have. Do you still take that view and should we kind of think about the acquisition spend being skewed towards Health going forward?

And then secondly, Nancy, you've kind of given us good run through in terms of TAL about why the fourth quarter is important and why it sees a pick-up in growth rates. Can you just give us a feel for Health and CFS, how fourth quarter reliant the business is, not only in terms of actually booking revenue for the year but also in terms of customer renewals? I'm trying to get a feel for the macro sensitivity of the business to what's happening in the wider U.S. economy right now, how difficult will discussions with customers be?

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Okay. Well, first let's talk about our capital allocation. As you know we are focused very much on continuing to drive our organic growth strategy. We are committing about 10% of our revenues back, reinvesting in product development across the various divisions. That's been one of the big drivers of our improved organic growth and that continuous commitment that we've made. We also commit about 17% to 18% of our revenues back in sales and marketing as well.

On the acquisition front we continue to drive business development both in terms of acquisitions and potentially minority ownership positions and partnerships across all four of the divisions. We are focused specifically in Health in two areas. One is continuing to look for content. As you know there's not a lot of content assets out there and left in the market but we continue

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to believe that those are good assets when they are available. And we will continue to build out our point-of-care product line. Now most of that is done through earn out type, where we do something that's similar to the probation kind of deals, where it's an earn out situation because a lot of these business are obviously emerging companies because point-of-care is an emerging space. So that's our focus within the Health business.

Health is -- in terms of the overall capital allocation, the major areas we're investing in are worldwide tax and accounting, some geographic expansion like the CFR deal in Russia. In Health I talked about where we're focused and then within CFS we're primarily focused on adjacent markets within the Legal business like a summation kind of product line and in the Financial Services area.

And then in terms of the fourth quarter macro drivers in CFS and Health, we always have, again, heavier weighting towards the third and fourth quarter of the year than the first and second quarters.

Within Health that is very much this year driven by the front list, so that's a big driver of the third and fourth quarter revenue acceleration. As well as the normal school cycle that goes on within nursing and physician education within this business. We also had substantial renewals of Ovid that really start now and continue through the remainder of this year. As well as we typically have buying that's done by our customers at the end of year when they have excess budgets.

Within CFS there is less specific product lines that come out at the end of the year but we do start a renewal around our representation services. That represents about 50% of our Corporate Legal Services and that has a fairly substantial fourth quarter element to it.

All of these products that I'm describing are clearly products that our customers need. They're clearly focused on buying these products. It's very much in the way that they have historically bought from us. So we do not see that in the purchase of what I have just described about that there is any macro trends that are going to affect that behavior.

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**Mark Braley** - Deutsche Bank - Analyst

Okay, that's great. Thank you.

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**Operator**

Thank you. Our next question comes from the line of Maurits Heldring from Landesbanken Kepler. Please go ahead.

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**Maurits Heldring** - Landesbanken Kepler - Analyst

Hi, good afternoon, two questions please. First one is on Europe. I was very pleased to see that for the first time in a very long while organic growth of European activities is exceeding the Group average. I was wondering whether you think that the businesses have changed for the better and that the European business can continue to grow in excess of the average, or that the third quarter included some one-off effects that brought that figure to be 6%?

And then the second question is coming back to the buyback. I was just wondering whether you do that buyback also because you see no further interesting acquisition opportunities at the moment, or shouldn't I read it that way?

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**Nancy McKinstry** - Wolters Kluwer NV - CEO

Okay. Let me begin with LTRE. We're very pleased with our Q3 performance and what you see as you kind of peel back the onion on that is based -- a couple of things. One is that one of the biggest drivers is obviously the successful restructuring that we've

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done in the Benelux, in Holland and Belgium. And so we continue to see good growth in Italy, Spain, Central Europe, which we had been seeing over the last couple of years. But now we see very positive growth coming out of Belgium and out of The Netherlands as those countries have come out of that restructuring mode. Second major thing that you see is that online products and software products have been growing across Europe. So we see growth in all of the countries as it relates to those products. We will be continuing to invest in those products both on the product development side but also on the sales and marketing side.

So there are no one-offs in the numbers and we typically, as I say, have also a stronger third and fourth quarter in Europe. This is historically based on the seasonal buying patterns and we expect that as well this year.

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

Okay, and on the share buyback, we are very focused as a mission on enhancing shareholder value in whatever way, either investing in the business, doing acquisitions, a progressive dividend policy or share buybacks when the capital structure allows.

In the meantime we have a healthy pipeline of acquisition opportunities we always look at. But as you know we're pretty critical in the measures and the conditions we put against each of those acquisitions. So it's not a matter of not having the alternatives. Sometimes there could be periods that those alternatives do not meet our criteria. And given the fact that we also want to keep a healthy balance sheet, we decided to accept the share buyback option for the time being. But I can not exclude that you will see us doing continued acquisitions in the period to come.

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**Maurits Heldring** - *Landesbanken Kepler - Analyst*

Okay, that's very helpful. Thank you.

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**Operator**

Thank you. Our next question comes from the line of Oskar Tijs from Kempen & Co. Please go ahead.

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**Oskar Tijs** - *Kempen & Co - Analyst*

Yes, good afternoon. I'm sorry, but I have one more question on the share buyback. Last week the ministry of finance came with a proposal to double the number of historical dividends you can distribute, or basically use for share buybacks, from 10 to 20 times. So you can then buyback tax free twice as much as before. In the current regulation did you see any restrictions to tax friendly share buybacks? And related to that, if this law changes, would it have any impact on your future view on share repurchases?

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**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Okay, Boudewijn.

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

Yes. If I recall the current discussion about the expanding or loosening up the regime, the proposal was to implement that by, I think, somewhere at the end of 2008 or the beginning of 2009. So our current decision to accept the share buyback program has nothing to do with that because if we have to wait until over a year's time, I think, that would be too long.

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The current regime, indeed, does give limitations to the amount of shares that you can buy back. Those limitations of course also are applicable to Wolters Kluwer, but we still have ample room to execute the share buyback program under the historical dividend payouts -- cash payouts we have done in the past.

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**Oskar Tijs** - *Kempen & Co - Analyst*

Thank you. Can I have one more question?

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**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Sure.

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**Oskar Tijs** - *Kempen & Co - Analyst*

It's about the dollar, how much of your debt was in U.S. dollars at the end of the third quarter?

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

Of the -- in terms of the natural hedge?

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**Oskar Tijs** - *Kempen & Co - Analyst*

Just the -- natural hedge -- the lending in U.S. dollars.

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

About \$0.5b.

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**Oskar Tijs** - *Kempen & Co - Analyst*

\$0.5b. Thank you.

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

To the point that was made earlier, one of the reasons why you will not see some of cash from derivatives influx this year compared to 2003 is that part of the coverage comes out of more natural hedging. Now that natural hedged position has been larger, but it has been reduced due to the cash inflow we got through the proceeds of the divestment of Education. So you will see that position actually increase due to the share buyback and maybe possible acquisitions we are going to do in the future.

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**Oskar Tijs** - *Kempen & Co - Analyst*

Yes. Thank you.

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**Operator**

Thank you. Our next question comes from the line of Rogan Angelini-Hurll from Citi. Please go ahead.

**Rogan Angelini-Hurll** - *Citigroup - Analyst*

Good afternoon, it's Rogan Angelini-Hurll from Citigroup. Three questions, two kind of follow-ons. Within CFS you helpfully breakout that CLS is 66% and Financial Services is 34% or roughly. Is that consistent through the year or is the fourth quarter any way different just in a kind of natural weighting, i.e. is either Financial Services or Corporate Legal Services more fourth quarter weighted?

My second question is in LTRE. It looks, doing the math, that you've started to invest a bit more, or at least your organic cost growth is about 3.5% in the quarter. I was wondering whether there was anything one-off there or whether we assume that kind of level of cost inflation going forward at LTRE?

And then the final question which is a bit more general is, typically we talk at some point about phasing through the year. Not the traditional weighting of the year but phasing differences through the year. We haven't done in this. Is this a totally clean nine month period? So genuinely this nine month period against last nine month period, no particular differences in terms of what we're measuring against last year?

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Yes, okay. So on the CFS business there is nothing that would change the basic weighting between Corporate Legal Services and Financial Services throughout the year. It basically stays constant in terms of the contributions from each of those units for the overall divisional result.

On LTRE, the cost base of increase you should assume that there is nothing out of the ordinary again in Q3 results. We continue to launch continuous improvement programs, not just in Europe, but elsewhere in Wolters Kluwer. That is what will underpin our continuous improvement in operating margin goals that we have for 2008 and beyond. So there are a number of initiatives that we continue to deploy that will provide Europe itself with some opportunities for margin improvement beyond 2007. But the cost base given that the majority of our costs are still people related, not just again in LTRE but throughout the world, the 3.5% largely reflects wage inflation.

And then on saving we're basically measuring year-over-year the same business, so there's nothing specific that happened this year that is any different than the specifics of last year.

**Rogan Angelini-Hurll** - *Citigroup - Analyst*

Great. Can I just come back to LTRE, if I could delve down into the mix, obviously you've got salary inflation. Do you have any cost savings? What I'm trying to get at is, I suppose, if you were to build it up would it be 3.5% gross in salary inflation, X% unknown in terms of new initiatives and then minus X for cost savings? Can you tell me what X might be?

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

The way to build it up, and this is true not just within Europe but kind overall, the typical wage inflation is somewhere between 3% and 4%. And we then focus a great deal of our energy around optimizing not just the people side of the business through off-shoring and outsourcing, some things that Jack talked about. We also work very hard to optimize the non-people cost growth to ensure that it is below the 3% to 4%.



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The only real difference in Europe versus, say, North America is that we have more collective labor agreements so those have a little bit less control over the exact wage inflation that you are going to experience. But Europe, as you know, has had a major transformation in terms of profit improvement and that's come very much from a lot of the programs that we've focused on in Europe around procurement, around optimization of printing, optimization of technology, those kinds of activities.

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**Rogan Angelini-Hurll** - Citigroup - Analyst

Brilliant. Thanks a lot.

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**Operator**

Thank you. Our next question comes from the line of Sam Morton of Barclays. Please go ahead.

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**Sam Morton** - Barclays Capital - Analyst

Hi, it's Sam Morton from Barclays Capital. Just a question on your pro forma leverage, if I stripped out --

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**Nancy McKinstry** - Wolters Kluwer NV - CEO

Can you speak up a little bit? I think we're having a tiny bit of trouble hearing you.

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**Sam Morton** - Barclays Capital - Analyst

Okay, sure. Just on your pro forma leverage if I strip out some of your disposals, what would the pro forma leverage look like at the moment, so over the past 12 months?

And then just on your leverage targets which are approximately 2.5 times net debt to EBITDA, would you be as comfortable at 3 times as you have been at 2 times? Until recently you've been at 2 times net debt to EBITDA. I just wondered if you were flexible to go the 3 times range there or whether you think 2.5 is enough leverage?

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**Nancy McKinstry** - Wolters Kluwer NV - CEO

Okay, Boudewijn.

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**Boudewijn Beerkens** - Wolters Kluwer NV - CFO

Okay. On the second question, yes, as you have seen at the end of last year when we acquired the ATX and UTS businesses, we indeed temporarily moved above the 2.5 times. The target we set at 2.5 times is a long term target around which we feel pretty comfortable. It doesn't mean that we could temporarily deviate as a result of doing acquisitions to a level above the 2.5 or even slightly above the 3. So in that sense it's not written in stone.

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**Sam Morton** - Barclays Capital - Analyst

Okay, and then on the pro forma leverage.

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**Boudewijn Beerkens** - *Wolters Kluwer NV - CFO*

What you actually can do is -- the proceeds that we got in of EUR650m, is something you could easily calculate actually yourself out of the current balance sheet of what we would not have redeemed, so what would have been refinancing through our multi-currency facility that we have in place. So the current net debt to EBITDA would have been around 2.5 to 2.7.

**Sam Morton** - *Barclays Capital - Analyst*

2.5 to 2.7. Okay, that's great. Thanks a lot.

**Operator**

Thank you. Our final question comes from the line of Hans Slob of Rabo. Please go ahead.

**Hans Slob** - *Rabo Securities - Analyst*

Good afternoon, a couple of questions. One which is --

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Hans, could you also speak up, we're having trouble on this end?

**Hans Slob** - *Rabo Securities - Analyst*

Yes. Could you update us on the restructuring of your U.K. within the TAL division?

Second question is related to Health. Do you need a further step-up in product development spending at Health in order to accelerate the growth there and what could be the impact on the Health margins?

And also related to Healthcare Analytics, are margins there still under pressure or are they -- have they stabilized? Because of course you have to cope there with the earlier mentioned price compressions. Maybe you could update us there also. Thanks.

**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Okay. On the U.K. business, the U.K. is tracking in line with our expectations which are that we expected to see substantial improvement in operating margins in '07 as a result of the restructuring that we did last year and we are seeing that, and we expect that to continue. We also expect that they will have year-on-year flat performance, and again, we are seeing that. So that we are positioning the U.K. for improved growth performance as we head into next year, very similar to the trajectory that we saw in Holland and in Belgium. So things are improving in the U.K. both in terms of the product side and growing particularly the tax product line and some of CBA business, as well as seeing margin improvement.

On Health, the product development spending, they continue spend in line with our overall goal of 10% of the revenues reinvested in the business. So we feel confident that we are investing sufficiently in the business particularly in the areas where we had some issues like in the journal side of the business. We also are investing quite a lot in our point-of-care product line, because again that's an emerging part of the business. So the levels that we've been investing there are not out of the ordinary on the product development side.

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The one area we did invest more in this year than we had originally anticipated was within the Healthcare Analytics product line buying some additional data sets. Now obviously the step-up in that investment is not planned to be continued. So those are data sets that we will continue to buy on an ongoing basis but we had a specific gap in mail order data that we needed to cover. But now that that gap is filled we don't obviously anticipate other major step-ups in investments there.

So that leads me to the final comment on HA, which is again we don't specifically talk about margin on sub-unit levels but I can certainly say that the margins are stabilizing as we have made this additional data set purchase. But we are not adding other sizeable data sets to the business that we didn't have the margins going forward.

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**Hans Slob** - *Rabo Securities - Analyst*

Thanks very much.

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**Operator**

Thank you. That was our final question today. I will now hand you back to your host to conclude today's conference call. Thank you.

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**Nancy McKinstry** - *Wolters Kluwer NV - CEO*

Well, thank you very much, we appreciate your time and attention and look forward to seeing you with our full year results in the first quarter of next year. So, thank you.

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**Operator**

Ladies and gentlemen, thank you for joining today's conference, you may now replace your handset.

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