

FINAL TRANSCRIPT

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WTKWY - Q1 2006 Wolters Kluwer NV Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2006 Wolters Kluwer earnings conference call. My name is Tony and I will be your coordinator for today. [OPERATOR INSTRUCTIONS]. I would now like to turn the call over to Miss Oya Yavuz, Vice

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President of Investor Relations. Please proceed, ma'am.

Oya Yavuz - *Wolters Kluwer NV - VP IR*

Thank you. Good afternoon. Welcome to the Wolters Kluwer first quarter 2006 results conference call. This call is also being audio webcast and will be available as an archive on our website under Investor Relations. You can also find the presentation there. You should all have this morning's Q1 press release which, please note, is in accordance with IFRS and unaudited. I would kindly like to ask you to read the forward-looking statement, which is included in our presentation on page two and in your press release.

With me here today are Nancy McKinstry, our CEO, Boudewijn Beerkens, our CFO and Jean-Marc Detailleur, Member of the Executive Board. Nancy will start with some introductory comments, after which we will open for Q&A. Nancy?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Thank you, Oya. Welcome and good afternoon. I'd like to start on slide three and give you an overview of our agenda. We'll begin by highlighting our first quarter 2006 performance, followed by a discussion of the operating results of each division. After a brief outlook for the year and a summary, we'll open for questions.

So now, if you could turn to the slide that begins with the highlights for the first quarter.

Wolters Kluwer's organic growth was 1% and slightly above our guidance, as given in March. Our ordinary EBITA margin was 13%, compared to 14% last year, due to increased investments in product development and sales and marketing. Our product development spend increased by 13% to 59m and our cost savings in the first quarter were 28m, an increase of 27% over 2005. We had a strong free cash flow in the first quarter of 43m, which is 30m higher than the first quarter of 2005.

We had continued strong performance at tax, accounting and legal, and corporate and financial services.

Health showed significant growth over prior year, which is primarily due to the acquisitions of Healthcare Analytics, formally NDC's Information Management business, and ProVation Medical, as well as good performance at professional and education, and pharma solutions.

LTRE and education both showed negative organic growth, caused by the anticipated phasing and seasonality of these businesses. This will correct itself during the remainder of this year.

Our first quarter achievements show that we are on track to achieve all targets for 2006 and realize the goals of our three-year strategy.

Now, I'd like to move on to the divisional review, beginning on slide five with health. Health showed significant growth in the first quarter of 2006 compared to the prior year. This is primarily due to the acquisitions of Healthcare Analytics and ProVation Medical, and both companies achieved a higher growth compared to the prior year. Health showed negative organic growth of -1%, which was largely the result of anticipated phasing differences associated with the 2006 publishing schedule and the loss of the Journal of Urology, as well as some softness in advertising. We expect significant organic growth in the second half of the year.

Ordinary EBITA margin results were in line with prior year at 10%, reflecting continued investment in new products, operational excellence initiatives and divisional management. We continue to build on these results by investing in new and enhanced products and sales and marketing. Our outlook for the year for this division remains 3 to 5% organic growth.

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On slide six you can see that corporate and financial services achieved very solid organic growth of 6% in the first quarter. Corporate legal services performed very well with 8% organic growth, driven by volume increases in transactional services. Financial services also grew 2% organically, largely due to good performance in professional services, e-forms and software sales.

EBITA margins of 20% for the quarter, compared to 22% in the prior year. This reflects increased product development spend and higher investment in shared services and sales and marketing. Our outlook for the year for this division remains 4 to 6% organic growth.

On slide seven you can see that the tax accounting and legal division showed a strong quarter with over 5% organic growth. This is the result of good performance in both tax and accounting and the legal unit. Growth in tax and accounting was the result of a successful tax season and good new sales of tax and accounting software, as well as new sales of online integrated libraries. In the legal unit they also showed good growth, due to continued adoption of integrated library and good performance within the legal education group.

EBITA margins of 28% for the quarter, compared to 29% in the prior year. This reflects higher investments in shared services and sales and marketing, as well as increased product development spend. The outlook for the year for TAL remains 3 to 4% organic growth.

The legal tax and regulatory Europe division, which is shown on slide eight, showed -2% organic growth in the first quarter. This reflects the anticipated phasing differences, mainly in France and Germany, as well as continued restructuring in the U.K. The positive growth was experienced in Italy, Spain and Central Europe and, importantly, in The Netherlands and Belgium. Double-digit growth in electronic product revenues continued, reflecting increased customer adoption of online products in several countries.

Margins are in line with last year, reflecting increased investments in sales and marketing, as well as the impact of product mix. The acquisitions of DeAgostini, EON and Rosetti are progressing well. And in the first quarter of this year, LTRE announced the successful acquisition of Carl Heymanns, one of Germany's leading academic and legal publishers. The outlook for the year for LTRE remains at 0 to 1% organic growth.

Moving to slide nine. Education's first quarter revenues of -6% organic growth is due to the normal seasonal patterns in this business. The first quarter represents less than 10% of the revenues for the year. Market conditions in the U.K. remain difficult, but the agreement with AQA is progressing well. The outlook for the year for education remains at 1 to 2% for 2006.

By the end of the year we will achieve approximately 120m in cost savings, of which we have achieved 28m in the first quarter. Non-exceptional restructuring costs in the quarter were 6m and will be approximately 30m for the full year. There were no exceptional restructuring costs in the quarter, which is in line with expectations. Our FTE reduction target for the full year is 200m, of which we've completed approximately 50m year to date.

Our year-to-date results give us confidence to reiterate our full-year guidance of 2 to 3% organic growth and 16.5 to 17% margins, as we communicated in March. We will continue the transformation of Wolters Kluwer and build on the momentum created last year. The stronger organic growth this year is driven by continued investment in new content, online products and software solutions, and a renewed focus on our customers through better sales and marketing.

To summarize, our focus remains on driving revenue growth in all divisions. We will be showing higher margins than 2005 as a result of further cost savings, and we are on track to achieve our goal of 120m of cost savings for the year. It is therefore with confidence that we reiterate the 2007 outlook of 4% organic growth and 19 to 20% operating margin.

Now, with those remarks, I'd like to open for questions.

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Oya Yavuz - *Wolters Kluwer NV - VP IR*

We are ready to take questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]. Your first question comes from Mariska Zonneveld with Fortis. Please proceed.

Mariska Zonneveld - *Fortis - Analyst*

I have a question [inaudible].

Oya Yavuz - *Wolters Kluwer NV - VP IR*

Mariska, can you speak up, please? We can't hear you.

Mariska Zonneveld - *Fortis - Analyst*

Is this better?

Oya Yavuz - *Wolters Kluwer NV - VP IR*

Much better.

Mariska Zonneveld - *Fortis - Analyst*

Alright. I have a question concerning the investments in marketing and sales, and those in shared services. Will these ramp up throughout the quarters or will the effect on margins remain more or less similar, as it was in Q1? That's my first question.

Secondly, I had a question concerning mix effects and the impact of that on your margin. You explicitly mentioned Europe, but what about health? Could you elaborate a bit on that?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Good. Why don't we start at the beginning, product development. We're on track to spend approximately 270m, which is what we guided in March of this year. We've spent 59m year to date and so you can see that continue to be relatively even over the next several quarters. Similarly, with marketing spend, you will see that be relatively similar to the first quarter in the remaining quarters.

On the mix question, what -- the reason we highlighted that in LTRE is some of the phasing impact in Germany and France for the trade fairs and certain legal titles, they tended to be very high-margin product lines. And therefore they had an impact on the margin for LTRE in the first quarter and you'll see that that will even itself out over the course of the year.

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Within health, the margins were more or less in line with last year's level, again reflecting the continued investments that we're making in products and sales and marketing. There were no major mix issues that would have affected the operating margins within the health group.

Mariska Zonneveld - *Fortis - Analyst*

Thanks. That's very helpful

Operator

Your next question comes from the line of Paul Sullivan with Merrill Lynch. Please proceed.

Paul Sullivan - *Merrill Lynch - Analyst*

Hi, guys, just a few questions. Firstly, can you just give a bit more color on the pace of change in Europe and the restructuring efforts there, and then also just update us on the data center rationalization and the progress of the shared service initiatives in the States?

Secondly, can you just give a little bit more color on the interest charge and the full-year guidance on interest there?

And then also, finally, any reason why the expected growth rate in TAL is forecast as slow? I know your guidance is below that of what you achieved in Q1, yet through last year growth was spread pretty evenly through the quarters in TAL. Thank you.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Thanks, Paul. I'll take them -- the first three and then ask Boudewijn to talk about interest charges. The pace of change in Europe, where we are is that, as we indicated in March, Holland and Belgium have largely completed their restructuring from a cost perspective. So what you saw -- Belgium was the first country that we began restructuring and so you saw, even in '05, a good improvement in their operating margin. We'll continue to see improvement in '06 around operating margins.

And for '06, both in Belgium and in Holland, the goal is to demonstrate growth. And we were encouraged to see in the first quarter modest but positive organic growth in both Holland and in Belgium. In Holland this year we also expect to see improvements in operating margins. Again, they've largely completed the restructuring in '05.

In the U.K., which is the last country where we started restructuring, they did a lot of the cost work in 2005. They still have some work to do this year in 2006. And the expectations that we have for the U.K., which again we communicated in March, was that they would not show organic growth until 2007.

So, all of those countries are tracking to our expectations. In addition, within Europe we see very good online developments in all countries and continued strong growth in Italy, Spain and Central Europe.

On the second question, I'll just cover TAL and then go back on the shared service initiatives.

On TAL, what you saw in the first quarter is the typical seasonal pattern, where the tax season, which runs from late November through April in the U.S. We have a number of transactional products that are underway during the tax season and so those -- the revenues associated with those products, such as CompleteTax and the quick charges in our core product lines, those decline over the course of the year after we finish tax season. So that is one of the factors that's driving the strong growth in the first quarter. So you will see us moderate that over the next quarters, to get to the target of 3 to 4% organic growth.

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On shared services, we are progressing both in Europe and in North America. In North America, the major initiatives are around completing the rollout of our new online global platform, which is what we call Atlas at this point. That is still underway and it's scheduled to be rolled out in 2007. HR is more or less done in terms of the centralization of that function.

And we continue on the data center consolidation. That is our most complex activity. We are consolidating 47 centers down to two, working with an outsource provider, which is Perot Systems. And we are continuing to talk with them about ways in which we can improve things as we continue that consolidation.

Paul Sullivan - *Merrill Lynch - Analyst*

So that's going broadly to plan?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. I would say we are running into challenges and we are under a confidentiality agreement with them, so we can't get into too many specifics. But we are working through those challenges, which is what we expected during the course of something this complex. And we are largely on schedule from a cutover perspective.

Paul Sullivan - *Merrill Lynch - Analyst*

Right.

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Okay. On the financing results, the financing results are 22m compared to 30m in the quarter last year. We mainly benefited, of course, from a lower debt position that we [inaudible] by the end of last year. You have some favorable derivative impact. We had a one-time benefit from fiscal interest income. And we have, of course, the currency working in our favor in this sense.

So overall, that quarter's down too by 22m. For the full year we still expect a financing cost -- financing charge of around the level that we've seen last year. And that's mainly due to the fact that our net debt levels are higher than what you've seen in the first quarter last year.

Paul Sullivan - *Merrill Lynch - Analyst*

And what was the impact of the one-offs in the first quarter?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

I think it's pretty minimal, about 2m, 1m to 2m.

Paul Sullivan - *Merrill Lynch - Analyst*

Right, okay. Great. Thank you.

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Operator

Your next question comes from the line of Sami Kassab with Exane. Please proceed.

Sami Kassab - *Exane BNP Paribas - Analyst*

Good afternoon, everybody. Two or three questions. Good afternoon. Can you quantify the organic revenue growth in Belgium and The Netherlands? Was it more than 1% or around 1%?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. As you know, Sami, we don't give specific country guidance around growth. What we had anticipated, which was positive but modest, is how we would characterize the results there.

Sami Kassab - *Exane BNP Paribas - Analyst*

Okay. And secondly, can you elaborate on the steps that you're taking to restructure the top line in the U.K.? We talked about that several times but could you maybe update us on where you are in the U.K., what you've done with the different -- with the three different businesses there, please?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Just by way of background, we have three lines of businesses in the U.K. One is CBA, which is the consulting business. That is a business that historically had grown at double-digit levels. And one of the issues we have in the U.K. is that the growth in that business has slowed down quite a bit in the last year or two.

So our plans are, and we're underway with those plans, is we have made significant changes in our sales and marketing efforts, not just in the CBA business but in the other lines of business there. And that work began last year but it's really starting to bear -- or be implemented in 2006, and so will start bearing some fruit. We've also made some modifications in the product price combinations of the offering within the CBA business.

So a number of steps are underway, both in sales and marketing, in the price product combination, as well as in developing some broad relationships with banking institutions which drive a lot of the volume in that end of the business. So activity is underway, we've implemented some of this, but we're not yet seeing the results from that implementation.

Second part of the business is the Croner information business. There the issue is more the classic situation, where we have a lot of traditional products, and the goal is to migrate those products into an online environment. We started that last year with the launch of Croner-i. We continue to build out that product line. And that represents the activity or the future of how we're going to grow the business in the Croner information space, along, as I said, with the sales and marketing initiatives.

And then finally, the third line of business is the tax business, where that business has been mature but a business that we continue to see opportunities for growth, again largely around developing new products.

So broadly where we are with the U.K. is the restructuring really was the focus in 2005. As I say, still some restructuring that we're doing now in '06. And the focus is shifting to the growth activities and those are being currently implemented, but you won't see the results of those growth activities until 2007.

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Sami Kassab - Exane BNP Paribas - Analyst

That's very clear. Thank you, Nancy. Last one, do you want a 25 increase in your sales force overall for the Group? How many new sales reps have you recruited over, maybe, the last 12 months, to give us a feel of how your sales force is expanding, please?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes. Marketing and sales has gone up about 15% year-over-year. But that includes more than just adding sales people, it would be all of the activities associated with sales and marketing. So we don't give specific numbers on sales forces. But it does show you that we are aggressively supporting the new products that we've been developing.

Sami Kassab - Exane BNP Paribas - Analyst

Okay. And lastly, could you -- what's your view of the growth rate in Portugal? What's the normalized growth rate for the Portuguese legal information market in your view, please?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes. I'll have to get back to you on that one.

Sami Kassab - Exane BNP Paribas - Analyst

Okay. Thank you very much.

Operator

Your next question comes from the line of Alistair Reid with UBS. Please proceed.

Alistair Reid - UBS - Analyst

Afternoon. A few quick questions. You talked about the phasing issues affecting growth [inaudible] in the health division. I was wondering if you could give us some color of when this will come through, whether it will be the Q2 or whether that would be more in the second half?

And then just secondly, on education. Obviously I appreciate it's a small quarter, but it's obviously down compared to last year, which is also presumably a small quarter with the same seasonal effect. I was just wondering if you could give us some more color on that.

Nancy McKinstry - Wolters Kluwer NV - CEO

Okay. Sure, we don't give quarterly guidance but what I can say is that the second half of the year is the most critical half for both LTRE and for health. And if you just go back and look at the comparables from last year, you can see that pattern develop. Within education, the comparative is from last quarter to this quarter we had -5% growth in the first quarter of '05. We had -6% in the first quarter of '06. So it's relatively in line.

So there's nothing different going on from a quarterly development within education. We are reiterating our guidance for education. We see good performance in Belgium and Sweden and Germany and in The Netherlands. The U.K. still remains a

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difficult market, but we are gaining market share despite those difficulties. And this relationship with AQA, and the fact that the new curriculum is rolling out in maths and science in the U.K., will drive growth in that marketplace.

Alistair Reid - UBS - Analyst

Okay. That's great.

Operator

Your next question comes from the line of Giasone Salati with Credit Suisse. Please proceed.

Giasone Salati - CSFB - Analyst

Hi, good morning, everybody. I have three questions, please. The first one is on organic growth. We know you don't give quarterly guidance but you gave us previously indications about a weak Q1 in '06, and the main reason seems to be the phasing. So, should we expect a very strong Q2 '06, basically bringing up Q1 as well to what is the full-year guidance?

The second one is on margins progression. Is it fair to believe that some development costs may have been brought forward, like some investments in the sales force, and we should have a steady improvement of margins in Q2, Q3 and Q4, or margins in Q1 have been particularly badly affected by the same phasing and other one-off effects which affected the top line?

And the third question is on re-leverage and the firepower for potential more acquisitions. Could you give us the maximum level of debt you think you would feel comfortable with going forward? Or, alternatively, what is the maximum amount of money you think you can use for an acquisition in 2006 and 2007, please?

Nancy McKinstry - Wolters Kluwer NV - CEO

Okay. Thanks, Giasone. On organic growth, again, we don't give quarterly guidance, even though we broke that rule when we gave you the first quarter indication in March. But we can say that the second half of the year is the stronger half, and that's been true for several years now [inaudible] and you should expect that same pattern.

Similarly, on margins, as our revenues grow, that is the biggest driver of our margin improvement. So again, you should expect that as revenues progress during the course of the year, that is exactly the margin progression that you will see. There's been no timing of certain investments that would make any changes quarter-over-quarter.

I would again like to reiterate that it's often difficult quarter-by-quarter at Wolters Kluwer, given the nature of our business. So the most important thing is to focus on the annual guidance that we give within the divisions.

And then on the re-leverage question, Boudewijn, you [want to take that one]?

Boudewijn Beerkens - Wolters Kluwer NV - CFO

Yes. I think we're currently happy with the rating we have, the BBB+ or the BA1. That means also, if you look at our ratios, you'll see that overall we anticipate -- give in our guidance that our ratios will improve on all fronts. So I think, if you talk about how much flexibility or how much room would there be, I think we stick within the framework of what a BBB+ would mean.

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On the firm headroom, it's about 700m. As you know, we had a credit facility outstanding of about 750m. Now, with the different payments we might draw on that, it's approximately 700m.

Giasone Salati - CSFB - Analyst

And maybe if I can ask another small question, please? Could you give us the latest on the [inaudible] deal, on the foundation share, please, after the shareholder meeting?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes. We didn't -- we had two concerns. We have a preference share foundation, which we still have and there is no change on that structure. We also have a trust office, which has nothing to do -- it's not a [inaudible] and it has nothing to do with that activity. That was voted on by our shareholders at our AGM in April and that has been abolished.

Just to be clear, we continue to have a strong ADR program. There has been some confusion, I think, between the trust office and the ADR program. Our ADR program is in place, very happy with it, continues. The trust office, which acted essentially as a proxy for depository receivers, that is no longer in existence. And the administrative part of unwinding that is underway in the next couple of months here.

Giasone Salati - CSFB - Analyst

Thank you.

Operator

Your next question comes from the line of Chris Collett with Goldman Sachs. Please proceed.

Chris Collett - Goldman Sachs - Analyst

Hi, everyone. It's Chris Collett at Goldmans here. Just got a few questions, one relates to --

Nancy McKinstry - Wolters Kluwer NV - CEO

Could you talk up a tiny bit, please?

Chris Collett - Goldman Sachs - Analyst

Sure. Is that better?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes.

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Chris Collett - *Goldman Sachs - Analyst*

Just a couple of questions. First was I wonder if you could just give us a few comments about the performance of NDC and how you see that acquisition bedding down on your -- sticking to your guidance of a 3% top line for the rest of 2006?

Also within health, could you just remind us what your advertising exposure is within the health division?

And lastly also, could you just remind us about your dollar exposure and also just on the current balance sheet hedge?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Thanks, Chris. On NDC, they had a solid first quarter with us. We -- the integration is going well with our pharma solutions group. And we feel confident we can reiterate the guidance that we gave you at the time of the acquisition, which is 3% organic growth and 18% operating margin.

Within health, the advertising accounts for about 6% of their revenues. As you'll remember, for all of Wolters Kluwer it's only a little -- between 3 and 4%, the total of which is primarily in health, France and Holland. So within the health business, it's only 6% of their total revenue.

And then, on the dollar, Boudewijn, do you want to --?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Yes. The current balance sheet hedge, as you called it, is around 25% of our U.S. dollar assets, so corresponding to slightly over 600m.

Chris Collett - *Goldman Sachs - Analyst*

And just in terms of your -- could you just remind us of the sensitivity? Is it still about 80% U.S. dollar at the net income level?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Yes, that's correct. I think you saw also that the currency impact on the revenues in the first quarter was slightly better than we see on the average of the year, as about 55% of the revenues in the first quarter were U.S. dollar based. About 65% was dollar-exposed, and about 80% is dollar-exposed from the net income.

Chris Collett - *Goldman Sachs - Analyst*

That's great. Thank you.

Operator

Your next question comes from the line of Mark Braley with Deutsche Bank. Please proceed.

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Mark Braley - Deutsche Bank - Analyst

Yes, hello. Good morning. Just to come back on this question of the data centers and the Perot contract, I appreciate the commercial sensitivity around this, but just in terms of delivering on the rest of the cost savings, can you give us a feel for how much of the step-up in cost savings from the current run rate, which is about 110m annualized to get to the 150, 160m, how much of that is contingent on the data center consolidation?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes. If you remember, we signed a seven-year agreement with Perot. And the way the agreement is structured is there's an increase in cost in the early years, as the consolidation is underway. And there's two elements of consolidation. One is around just doing the cut over, but then there's a whole transformation that occurs as they then consolidate applications onto different server configurations. That's the nature of how this works.

And so the cost savings that were anticipated from this consolidation were really very back-end loaded, and so beyond the '07 timeframe. So the current challenges that we're facing with this consolidation don't impact the goals that we set of 120m this year and 150 to 160m next year. And we reiterate those saving guidelines.

Mark Braley - Deutsche Bank - Analyst

But you are flagging -- so you're flagging the possibility of extra cost here?

Nancy McKinstry - Wolters Kluwer NV - CEO

Well, again, I can't get into the specifics right now. I will say, as I've said on numerous occasions, it's very challenging activity. We have a lot of transformation underway. It is -- there are difficulties that we're encountering and we're working our way through the difficulties. And as we have more to report that we feel we can say, we'll tell you that.

Mark Braley - Deutsche Bank - Analyst

Okay. Can you just say how many people currently on your payroll will transfer to Perot as a function of --?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes. We already did that activity. That's one of the first things that was done --

Mark Braley - Deutsche Bank - Analyst

Okay, that's done. Alright.

Nancy McKinstry - Wolters Kluwer NV - CEO

[In this] arrangement and it was about 150 people.

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Mark Braley - Deutsche Bank - Analyst

Okay.

Nancy McKinstry - Wolters Kluwer NV - CEO

That's already occurred as part of the transformation.

Mark Braley - Deutsche Bank - Analyst

Right. Okay, thank you.

Operator

Your next question comes from the line of Paul Gooden with ABN Amro. Please proceed.

Paul Gooden - ABN Amro - Analyst

Good afternoon. A couple of questions, all on the cash flow, if I may. The first one is just in terms of working capital usage. Is it still your expectation to be around neutral there on the cash flow?

The second question is on cash taxes. I see that you're in the nice position of not actually paying any cash tax in Q1. Is there any reason to think on a full-year basis that the cash taxes will be particularly different to the P&L taxes?

And my final question just comes back to the benefits from the dollar hedge. I think you said at the full-year results there'd be a 58m cash inflow from unwinding of profitable FX derivatives. Now, clearly, we've seen quite a big change in the dollar rate for the last couple of months. I just wondered has that number changed?

Boudewijn Beerkens - Wolters Kluwer NV - CFO

Okay. On the working capital, yes, we still anticipate to maintain the savings that we made over the last few years of 210m. I think we have been working hard over the last years to improve working capital wherever that's possible. That doesn't mean that we let go in terms of making efforts to make improvements wherever that's possible. But we feel that, at this moment in time, working capital improvement for the full year will be very, very difficult to predict, also of course because the acquisitions run through these numbers too.

On your second question, on no tax for the full year, there's always a difference between the tax payments and actually the effective tax rate and the effective tax charge you have in the P&L. That depends very much on timing of all sorts of charges we get and refunds we get from the tax authorities throughout all the countries in which we operate. So it's always difficult to say, 'Right, it will be this, it will be that.'

To the extent that we have very short-term payments, we know. We also know, of course, what kind of short-term refunds we might have. But it's difficult to predict the number. The fact that it's zero in this quarter is, of course, exceptional, because we had some refunds from The Netherlands.

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Paul Gooden - ABN Amro - Analyst

Okay.

Boudewijn Beerkens - Wolters Kluwer NV - CFO

And on your last one, on the 58m, the 58m still refers to the positions we already closed on the 209m that we secured two years ago.

Paul Gooden - ABN Amro - Analyst

Sure.

Boudewijn Beerkens - Wolters Kluwer NV - CFO

So, out of the total positions we have, about 58m is actually in the bag. Now, depending on the development of the dollar compared to the other positions, the net number could be, of course, more or less.

Paul Gooden - ABN Amro - Analyst

Okay. I'm no FX expert, but presumably, if you're hedging your dollar income stream, you're selling them now. So I guess there should be future benefits coming through that are offset by a hit at your profit level. Is that correct?

Boudewijn Beerkens - Wolters Kluwer NV - CFO

Let's be clear. We do not hedge revenue streams. I don't know whether I picked that up correctly. This is a balance sheet hedge. So, if the dollar would continue to decline, you would of course see that the value of our portfolio would increase, and the other way around.

Paul Gooden - ABN Amro - Analyst

Sure.

Boudewijn Beerkens - Wolters Kluwer NV - CFO

I'm not an expert on predicting dollar rates, but as you said, with the declining dollar as we see at this moment, the value of our overall portfolio is increasing.

Paul Gooden - ABN Amro - Analyst

That's great. Thank you.

Operator

[OPERATOR INSTRUCTIONS]. Your next question comes from the line of Patrick Wellington with Morgan Stanley. Please proceed.

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Patrick Wellington - *Morgan Stanley - Analyst*

Yes, afternoon, everybody. I'm afraid I wanted to go back to the shared services issue. And I suppose what we're trying to do here is make sure there's nothing that's going to bite at us unexpectedly. So do you think you could break the project down in between the components you describe it?

Obviously, there is [inaudible] implementation, but there are also elements of it which affect revenue, like the shared online and forms product platform and your online delivery platform for the legal, tax and regulatory market. So, just so that we're clear, can you break down those elements and tell us where we are and your degree of confidence, if you like, on each element?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. It doesn't quite break down along the way you just described it, Patrick, but let me give you some sense of just where we are with the transformation. The first step is that the people that we had running our data centers move over to Perot and become Perot employees. That happened early in the relationship. We're about a year and four months into the relationship with them.

Then, the next step is we have a schedule of when various business units cut over from an application perspective to the data centers that are owned by Perot. So we have cut over the tax business and the legal business, and then a series of back-office applications that reside in various places within North America. So, for example, through the tax season, applications such as CompleteTax were running under that cut-overed environment. So the issues are really one of transformation, which is one around taking --

The whole concept of the outsource management program is that we ran everything in a very decentralized way. We had applications that resided on individual servers. And as we go through the transformation, the concept of how you get the cost savings is these applications get commingled on various pieces of hardware. And that process is what -- where we are having some challenges and where we need to resolve them, along with the fact that we have clearly grown as an organization over the last year and a half.

So, as I say, we're working through that. I don't feel comfortable talking at more great length about it. As I say, we're in the process of working with Perot on resolving some of the challenges we have.

Patrick Wellington - *Morgan Stanley - Analyst*

That's great, but as one of the previous questions intimated, there is a theoretical risk to the cost savings. Is there a theoretical potential impact on revenue, were things not to go as planned?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

No. First of all, I want to make sure -- we are reiterating our guidance. There's no issues this year on -- we're reiterating guidance for '06/'07, both on cost savings, on operating margins, on revenues. So this is a long-term relationship that we're engaged in. Yes?

Patrick Wellington - *Morgan Stanley - Analyst*

Yes.

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Operator

Your next question comes from the line of Oskar Tijs with Kempen & Company. Please proceed.

Oskar Tijs - Kempen and Co - Analyst

Good afternoon. I've got two questions left. The first is on the Dutch operations. Could you maybe elaborate on the differences in legal and tax operations? Your sales have bottomed out and are starting to grow again. Is there any difference between the tax businesses and the legal businesses? And maybe, if you can, is it differences between the big law firms and the smaller law firms?

And second question is about Expere. You mentioned one contract you closed in the first quarter, in March. Are there any new clients for Expere? And what do you see as the potential size for this business? And maybe related, if you can answer that, what was the investment made for Expere in the first quarter? Thanks.

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes. On the Holland business, there's four business units that make up our Dutch business – legal, tax, HR and then what we call business media, which is largely an advertising-based business. If you look at those four, where we're seeing more positive signs of growth are clearly in legal and tax. There, we have very strong positions within our customer base. We have a lot of proprietary content.

HR is less attractive along those dimensions and obviously was harder hit during the period of '02/'03, when the recession -- or when the economic conditions in Holland were not as attractive. And then, business media is obviously quite cyclical, depending on what's going on with the cycle. So legal and tax is performing, of the four, more strongly and in a growth position.

Within the size of accounts, we cover the full range, from the very largest accounting and law firms to smaller accounts. And we don't see any major variation, in terms of their outlook on their own businesses and in terms of the buying behavior, between the tax and legal accounts.

On Expere, we clearly don't give specifics on the levels of investment or kind of return on investment levels we expect, but I can say that the agreement or the contract that we did sign at the end of last year is going well. We're in the installation phase with that client and we continue to have a robust pipeline of additional prospects that we're working. We have not yet signed a new account, but we anticipate being able to sign a new account - at least one new account - some time during the course of this year.

Oskar Tijs - Kempen and Co - Analyst

Thank you.

Operator

Your next question comes from the line of Maurits Heldring with Kepler Equities. Please proceed.

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Maurits Heldring - *Kepler Equities - Analyst*

Good afternoon, ladies and gentlemen. Two questions. First of all, I was wondering whether you could give us the overall salary cost rise in the first quarter compared with Q1 last year.

And secondly, a question on the European activities. Obviously, the negative growth in the first quarter wasn't representative for the full year. I was wondering whether you could share with us or remind us of the factors that will make growth coming back in the coming quarters, apart from the phasing effects, of course. So what kind of products should we see in the coming quarters and what kind of additional factors will increase growth in Europe?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. As you know, Europe, for us, is now 18 countries. So the answer is that, broadly, it varies country by country what's driving it. But I would say the most macro trends that will drive growth in our European business this year are around continued focus on retention and driving the retention rates up, online development and software development, both of which are going well within Europe in terms of growth rates, and then additional new product development.

And those are the three major factors, broadly, within Europe that will drive performance. And then that varies very much by country to country. In some countries, the focus is on increasing sales and marketing. In other countries, where they have a very strong network of sales and marketing, the focus might be more on the product development.

Maurits Heldring - *Kepler Equities - Analyst*

Okay. On the salary costs?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. Salary costs, we don't give that specific indication. Roughly, it's 3 to 4% over last year's levels.

Maurits Heldring - *Kepler Equities - Analyst*

I don't mean the underlying level, but the overall level. So the overall sales cost compared with --

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Sales cost? I thought you said personnel cost.

Maurits Heldring - *Kepler Equities - Analyst*

No, sorry, wage cost. Overall wage cost compared with Q1 last year.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. We don't have specific wage costs. What I said about the 3 to 4% was the overall personnel cost rise. Now, what you have to think about is obviously we -- there's been FTEs that have left, we've made acquisitions, so obviously there's things that moved in and out of that number.

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Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Of course, we had some -- also, the average dollar rate being slightly higher than in the beginning of the year, you see also some negative impact in euro terms.

Maurits Heldring - *Kepler Equities - Analyst*

Okay, but the rise was less than the revenue rise, the 14%.

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Absolutely.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes.

Maurits Heldring - *Kepler Equities - Analyst*

Okay, thanks.

Operator

Your next question comes from the line of Sander van Oort with van Lanschot. Please proceed.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Hello, there. Are you still there?

Henk Slotboom - *F van Lanschot - Analyst*

Hello?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Hi, Sander.

Henk Slotboom - *F van Lanschot - Analyst*

This is Henk.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Henk, hi there.

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Henk Slotboom - *F van Lanschot - Analyst*

Good afternoon. It's Henk, Henk Slotboom. I've got three little questions left. One is, well, we've seen some phasing differentials in Q1. Are we likely to incur some phasing differentials in the Q2 as well which are different than last year's?

The second question I have is in the press release and in your info you mentioned some softness in advertising, especially in health in the U.S. Perhaps you can give us some more color on that.

And I'm just curious to know, the exhibition you're referring to, the Pharmagora exhibition, perhaps you can give us some further background on that. Is that an annual acquisition -- exhibition, or is it something that normally takes place in the first quarter and now somewhere else in the year, that the timing is different?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Sure. First of all, on phasing, as I indicated earlier, that we don't give quarterly guidance, but what we can say is that the second half of the year is more important to us, both on a revenue and operating income perspective, than the first half of the year.

On advertising, what you see is only 3 to 4% of our total revenues come from advertising. They're concentrated in three geographies -- France and The Netherlands. That is the typical advertising; a lot of it's job-related, that sort of thing. In health, very different kind of business. It's focused on our journals and it's largely linked to drug development and spending by pharmaceutical companies. And what you saw in the first quarter was some contraction in the market around spending. We anticipate that that market will loosen up over the remainder of the year within the health space.

And Jean-Marc is here, and he knows the French business very well, so why don't you talk about pharma?

Jean-Marc Detailleur - *Wolters Kluwer NV - Member of the Executive Board*

Pharmagora is an exhibition we have acquired in 1986, [10] years ago. It's mainly dedicated to pharmacists, a meeting place between the pharmacists and the laboratories. It's the leading exhibition in that field in France. And then it moved from March to April, so you will see, the second quarter, the impact of Pharmagora in the results for the Group.

Henk Slotboom - *F van Lanschot - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Hans Slob with Rabo Securities. Please proceed.

Hans Slob - *Rabo Securities - Analyst*

Yes, good afternoon. A couple of questions about the health [inaudible]. Could you give us an indication with regard to the performance of Ovid?

Secondly, given the slow start for the clinical solutions business, do you expect that business to pick up in the remainder of the year? And could you give some background to the loss of the neurology journal? Thanks.

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Nancy McKinstry - *Wolters Kluwer NV - CEO*

Sure. On Ovid, what you see is that there's a seasonal pattern to the renewals of our Ovid customers, and so that peaks in the fourth quarter of any given year. We continue to have good international performance within Ovid and we anticipate continuing to see progress in the North American market as it relates to the renewal part of the business. So Ovid remains a very strong platform for us from a growth perspective.

We've also seen, within the medical research business, that the acquisition of Boucher that occurred in last year, and we've now created a Vision Care part of our portfolio. That integration is going well and we continue to roll out new products within the MR market. Regarding portal development and some custom applications, we've talked in the past about the American Heart Association and those kinds of relationships continue to go well there.

Within the MR business, it's just naturally, again, a business that we have a stronger second half of the year than we have in the first half of the year. And we had a particularly good fourth quarter, which again, last year, which speaks to the nature of how the renewal businesses are going. So there's nothing unusual about the pattern of behavior within Ovid this year versus last year, just by way of conclusion.

Within the clinical solutions business, the issues that we have been dealing with in the past and continue to deal with is that we're getting very good growth on the electronic part of the business, but continue to see the print part, both our books business and our traditional loose-leaf business, shrink as customers migrate over.

So we are in the process of continuing to invest in [inaudible] components of our online products to drive the growth more strongly in those arenas. And we've also implemented -- we've put together the clinical solutions business with ProVation Medical, so we now have a management team there that is more well-versed in technology and building applications than we had, say, a year or two ago.

So that integration is going well and you will see some improvements on the business side over the course of this year in that line of business. It remains a very good market for us. We are the leader in the drug information business and it does represent an area for us that we can continue to get good growth in the long term. So that's again our philosophy.

And then, on the Journal of Neurology, that was a journal that we did lose. We were notified last year of that, so it is not new information, but it merely reflects the fact that our results in 2006 reflect the loss that occurred of that journal. And it did go to a competitor, not to self-publishing. But I do want to reiterate that, in terms of the journals that remain for '06, all of that business has been renewed at this point. And we're now focused on the '07 and the '08 activity.

So, to close, I'd like to just comment again that we're confident in achieving our 2006 targets. We're in the final year of our three-year plan. The plan is yielding positive results on all fronts, with a strong focus on organic growth and our customers.

So, thank you very much, and we look forward to seeing you at our half-year results in August.

Operator

Thank you for your attendance in today's conference. This concludes your presentation. You may now disconnect. Good day.

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