

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2006 Wolters Kluwer NV earnings conference call. My name is Jackie and I will be your operator for today's conference. [OPERATOR INSTRUCTIONS]. I would now like to turn the presentation over to your host for today's conference, Miss Oya Yavuz. You may proceed.

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Oya Yavuz - *Wolters Kluwer NV - VP IR*

Good afternoon everyone. Welcome to Wolters Kluwer's third 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. Dial-in numbers are also there. You should all have this morning's Q3 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 2 and also in our 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'll open up for Q&A. Nancy?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Thank you Oya. Good afternoon everyone. Our agenda today is to provide you highlights of our third quarter performance for Wolters Kluwer as a whole, as well as an overview of each of the divisions' performance. In addition, we'll provide an outlook for the remainder of '06 and a summary before moving to Q&A. So let's now begin on slide 4 with the highlights for the third quarter.

Wolters Kluwer's organic growth was 4% for the third quarter. Our ordinary EBITDA margin was 20% compared with 17% last year. Our product development spend increased by 7% to EUR72m, and our cost savings in the third quarter increased 32% to EUR33m, which means we are on track to achieve our full-year target of EUR120m. We had strong free cash flow of EUR160m, which is EUR40m higher than the third quarter of 2005. Through the first nine months we are well on track to achieve our 2006 goals.

Looking at the divisional performance, you can see that we had continued strong growth performance from CFS and TAL. Health had 29% revenue growth in the first nine months of this year, which is largely a result from acquisition, with organic growth of 6% in the third quarter and over 1% for the first nine months.

At LTRE we had slightly positive organic growth for the quarter, and strong double digit online growth across the board. Margins also improved, mainly as a result of our restructuring efforts.

Education's third quarter revenues show 2% organic growth, with good performance in Sweden and the U.K.

Now let's turn to slide 6 and we'll start with the divisional overview, beginning with Health.

For the first nine months, revenue at Health increased 29%, which is largely due to the acquisitions of Healthcare Analytics and ProVation Medical. Organic revenue growth was 6% in the third quarter, driven by strong growth in Professional and Education, and with all units contributing positively to the good organic growth in the quarter.

Margins were in line with the same period as last year, but for the first nine months lower. Due to increased investments in the first half of the year in product development and sales and marketing, combined with increased royalty expenses. The full-year outlook for the Health Division is 2% to 3% organic revenue growth.

On slide 7, you can see that the Corporate and Financial Services Division achieved very solid organic growth of 8% in the third quarter. With strong growth in all of its main product lines, Corporate Legal Services performed well with double-digit organic growth. Financial Services also grew 5% organically, mainly driven by a healthy mix of e-forms, software and professional service revenues in the banking market.

EBITDA margins of 24% for the quarter compared to 18% in the prior year. This reflects largely the positive effects of revenue growth. The full-year outlook for the CFS division is 6% to 7% organic revenue growth.

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On slide 8, you can see that the Tax Accounting and Legal Division showed a strong quarter with 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 continued strong customer demand for software, and integrated online library in publishing. With the acquisitions of ATX/Kleinrock, Taxwise and Sage, Tax and Accounting is the clear leader in the U.S. tax market.

Canada and Asia Pacific also showed good growth in the third quarter. Law and Business's growth was driven by new product introductions, particularly integrated online library, improved retention, and strong sales in the Legal Education unit. The full-year outlook for the TAL Division is 4% to 5% organic revenue growth.

Moving to slide 9, we see that the LTRE Division showed slightly positive organic revenue growth in the third quarter. Central and Eastern Europe, Scandinavia, Spain, Italy and Belgium all performed well, driven largely by growth in online and software products. LTRE continued to experience strong double-digit growth in online revenues across all countries.

Margin improvement year over year was due to the benefits of restructuring, including the efforts in the U.K, Belgium and the Netherlands. The full-year outlook for the LTRE Division is 0% to 1% organic revenue growth.

Moving to slide 10. Education's third quarter showed organic growth of 2%, with particularly good third quarter performance in the U.K., Sweden and Hungary. Germany's entry into the elementary school market is also showing promising results. Margins for the Education Division remain strong.

During the strategy update given on September 27, we announced that we are exploring strategic alternatives for the Educational Division. Wolters Kluwer is in the process of evaluating all options, and we will communicate our plans when they are finalized. The full-year outlook for the Education Division is 1% to 2% organic revenue growth.

Now for a few comments on our outlook. On slide 12 we give you an update on our restructuring. By the end of the year we will achieve approximately EUR120m in cost savings, of which we have achieved EUR33m in the third quarter. Non-exceptional restructuring cost in the quarter were EUR7m, and will be approximately EUR30m for the full year. There were no exceptional restructuring costs in the quarter which is in line with our expectations. Our FTE reduction target for the full year is 200, of which we have completed approximately 100 year to date.

Now on slide 13, allow me to give you an overview of where we stand for the full year. On product development we've spent approximately EUR197m in the first nine months. Our non-exceptional restructuring costs in the first nine months were EUR21m. We had no exceptional restructuring costs for the first nine months, and we anticipate none for the full year. By the end of this year we expect to achieve EUR120m in cost savings, of which we've had EUR91m through the first nine months.

So, as a result, you can see that we are tracking well to achieve the goals that we set out in our three-year plan. Our year-to-date results give us confidence to reiterate our full year 2006 guidance of 2% to 3% organic growth, and 16.5% to 17% margins, as we set out in March of this year. We will continue the transformation of Wolters Kluwer, and build on the momentum we've created over the last few years.

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.

So, in summary, our focus remains on driving revenue growth in all divisions. We will be showing higher margins as a result of further cost savings. And with these strong third quarter results, we are confident in achieving all of the key performance targets that we set for 2006.

So, with these comments, I'd now like to move to Q&A.

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QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]. Your first question will come from the line of Paul Sullivan from Merrill Lynch. You may proceed, sir.

Paul Sullivan - Merrill Lynch - Analyst

Morning guys or afternoon. I've just got a few questions. Can you talk about the performance of NDC in light of your comments on pricing pressures? And how does the performance of NDC now compare to your initial target, and is it still tracking your broader expectations?

And then secondly, can you just split out the growth you're seeing at TAL and CFS, in terms of what's driven by the cycle and other more structural issues? And what are your thoughts for next year in light of a slowing U.S. economy?

And then thirdly, you're talking a little bit more about -- you're talking a little bit -- a little more positively about Europe going into the fourth quarter. Can you -- is there any way you can help us quantify the amount of new product you've got going out of the door as we go into Q4?

Nancy McKinstry - Wolters Kluwer NV - CEO

Okay. Thanks Paul. First, in terms of our Healthcare Analytics business which is our renamed NDC business.

It is tracking in line with our expectations for revenue growth for this year of 3%. As we mentioned at the half year, we have been making investments in building out the data within our various products lines, within Healthcare Analytics. And, as we indicated at the half year, the margins expectations were approximately 16% to 17%. We now anticipate that they will be below that level, again because we're making in some additional data purchases in some of the product lines.

More broadly, we remain convinced that this was a good acquisition for us as we are moving to reconstitute our pharma solutions product line, to add more value to pharma customers. And, as you know, the underlying data and information that's provided by Healthcare Analytics, is a must-have product line for many of the pharmaceutical companies.

What we are seeing, as we mentioned in our press release, is that in renewing some of our larger customers for '07 and beyond, we are experiencing a significant price compression on our traditional targeting and compensation product line. So our strategy has been to fill that compressed gap with newer products, such as our longitudinal and patient center product lines.

In some cases, we're successful at filling that gap and even growing above for that account. And in some cases we haven't been successful at completing filling that gap. So in the long term, we believe that this -- the pharma data business is a good business. But we've clearly seen the effects of some of the changes going on in the pharmaceutical industry on our near-term results.

On the question about breaking out TAL and CFS in terms of what effect the U.S. economy has on those businesses and how we see that over the next near-term cycle. Within TAL there's very little effect being driven by the economy. The results in TAL have been largely driven by three major factors.

One is improved retention in our core subscription businesses. Two, a very robust software sales this year across the board, but also particularly in some of the newer software products that we've launched, like Document and ProSystem fx scan, and some of the others. And within Legal -- the Legal business as well as in the Tax and Accounting business, we saw very good online growth for our new integrated libraries. So within TAL, very little cycle effect, all driven off new products, better retention in those various product lines.

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With CFS, which is both our Corporate Legal business and our Financial Services business, what you see is about half the business is subscription-like. And these are our product lines associated with software representation, and so they're less sensitive to economic cycles. The part of the business that is economically cyclical is our Corporate-on-Demand and UCC business lines. And those are tied directly to lending activity and ITO activity and M&A activity in the U.S. So those have clearly benefited from the robust activity that's going on in the U.S.

So overall we still see a growing economy in the U.S. in the next -- in the near term. And given again the diversity within the CFS line, while there certainly it is economically -- more economically sensitive than other parts of our business, we have some product lines that are less tied to the cycle within CFS.

And then on Europe. As you know, we typically have a very strong fourth quarter in terms of revenue performance in Europe. That is driven largely by a lot of year-end products that come out in many of the countries. So you should anticipate that, as we have seen in prior years, we will have a strong finish within LTRE. So I think all that covered it hopefully.

Paul Sullivan - *Merrill Lynch - Analyst*

Yes. No, that's cool. That's brilliant. Thanks a lot.

Operator

Thank you very much. And your next question will come from the line of Patrick Wellington from Morgan Stanley. You may proceed, sir.

Patrick Wellington - *Morgan Stanley - Analyst*

Yes, afternoon everybody. Nancy, could you just give us a little bit of insight into a couple of things? Firstly, where your final 100 employees that are going to leave, which areas they're coming out of?

Secondly, how you're advertising business in the pharmaceuticals promotion area has gone. I mean it was obviously weak at the half year, it's picked up somewhat. Can you give us a bit of flavor for that?

And also in that Health business, what the potential significance of these two new nursing and health professions journal signings might be, as we go into next year?

And then finally, Belgium has now gone into the category of the good guys in terms of growth. Can you just give us a bit of flavor of what's going on there?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Starting with the FTE reductions. The last group of employees is really the result of the conclusion of the restructuring within LTRE, and primarily within the U.K. as we finish stabilizing the SAP system.

In terms of advertising, clearly one of the things that we talked about with all of you at the half year, was how would the promotional spending on the part of pharmaceutical companies transpire over the second half of 2006. And we had hoped that we would have seen a firming up of the spending by pharma on things like advertising and book-voucher programs. We've not seen that, we've seen continued softness.

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So in the advertising realm we have seen maybe a slight pick up in the third quarter, relative to the first and second quarters. But not a pick up relative to last year. So that -- the whole category spending around promoting around new drugs and existing drugs by pharma continues to be soft.

In terms of the signing of the nursing journals. One of the things that we are very focused on strategically is to continue to bring out new proprietary content for us as a company, both in terms of text books as well as in journals. So we've launched a number of our own journals, as you know. And we'll continue to do that. And we continue to push very hard to sign additional journals, primarily with societies.

So the two that we mentioned are not material in terms of those two going forward in '07. But it's really a sign of our efforts around continuing to build out the proprietary content within the health area.

And then Belgium, yes, they are tracking with our expectations. We are also happy to see positive growth in the third quarter. And our goal for this year was to see slightly positive organic growth, in both Belgium and the Netherlands for 2006 and then to continue to see them improve in terms of growth, as we head into '07. And both Holland and Belgium are tracking according to those expectations.

Patrick Wellington - *Morgan Stanley - Analyst*

Great. So, just to come back on the pharmaceutical advertising. I think we identified it as about a \$100m business in '05. Can you give us a rough size of the shortfall that we're likely to see in '06?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Well, the shortfall we wouldn't comment on because that's -- it's so narrow within the business. But I would like to just correct the numbers a little bit, is that roughly the revenues within Health that are associated with promotional spending, it's roughly 15% of the Health business. So roughly \$150m. That includes not just advertising but our book voucher program, medical communications, reprint business, some of the continuing education businesses.

So it's a broad category of product lines, but those that are directly linked to the spending on the part of pharma, to promote new drugs or existing drugs that are on patent.

Patrick Wellington - *Morgan Stanley - Analyst*

Right. But you can give us no indication of how -- to what extent that might have dropped away in your estimate this year?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

No, we don't give that level of guidance. Sorry.

Patrick Wellington - *Morgan Stanley - Analyst*

Okay, thank you.

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Operator

Thank you very much. And your next question will come from the line of Colin Tennant from Lehman Brothers. You may go ahead, sir.

Colin Tennant - Lehman Brothers - Analyst

Thanks very much. Hello everybody. I was -- just wanted to follow up a little bit on the Health Division actually. I'm presuming that the reduction in the top-line guidance, from 3% to 5% to 2% to 3%, is relating to the organic growth, which obviously excludes Healthcare Analytics, is relating to that pharma -- the pharma advertising? I just wanted to make sure that there isn't -- there are no other influences on that.

And then on Healthcare Analytics. At the time of the acquisition, I think Jeff said that he was talking about it hitting the lower end of range of 3% to 5% for this year, which it sounds like it's on track to do, but then trending up towards the high end, i.e., the 5%. Is that still looking like -- looking realistic for next year, or might that take a little bit longer?

And given that you'd pulled down the organic growth for this year for the whole division, 2% to 3%, should we maybe thinking about Healthcare Analytics at the top end of the new range, rather than the old range?

Nancy McKinstry - Wolters Kluwer NV - CEO

Okay. In terms of the change in the guidance for Health for 2006 to 2% to 3% organic growth, that was driven completely by the softness that we're seeing in the promotional spending. As we talked at the half year, there were two factors that would drive the performance in the second half of '06. One was that you would see more new titles be launched for our front list within P&E, and more continued sales in our backlist related to those titles. That has clearly come through. And if you look at our third quarter results, you can see that in those numbers because P&E had a very strong third quarter.

The second factor we talked about was what would happen with promotional spending. We had anticipated, which others in the industry had as well, that we would see some recovery in spending because there was an anticipation that some of the drugs that had been delayed in terms of approval by the FDA would actually get approved.

We haven't seen any major shifts in that. Some of the drugs that they expected to get approved in the third quarter have also been delayed. So we continue to see softness in that area. As I said, that affected about 15% of our Health revenues. And therefore we have changed our guidance to 2% to 3%.

Healthcare Analytics is on track to reach the 3% guidance that we gave you for growth for 2006. It's too early to give you guidance yet for '07 at a divisional level. We will plan to do that with our full-year results, which come out on February 28, 2007. And then we'll give you guidance for all the divisions, not just Health.

Colin Tennant - Lehman Brothers - Analyst

Okay, thanks very much.

Operator

Thank you very much. And your next question will come from the line of Polo Tang. You may go ahead.

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Polo Tang - UBS - Analyst

Hi, it's Polo Tang from UBS here. I just have two questions. Now the first question's just on LTR Europe. Can you maybe just give a bit more color in terms of what's happening with organic growth between the different countries, specifically U.K., Holland and Belgium?

And the second question is really just in terms of cost savings, because it sounds as if the Perot Systems contract, that's been sorted. So I think previously you talked about the Perot Systems contract not really benefiting the numbers until 2008. So can we maybe expect to see an acceleration of when we see the benefits of that, of these cost savings from Perot?

Nancy McKinstry - Wolters Kluwer NV - CEO

Okay. In terms of organic growth in Europe, particularly for the three countries we have been restructuring, as I indicated, Belgium and Holland will have for the year slightly positive organic growth. Belgium already achieved that in the third quarter. They had a pretty strong third quarter. And they will continue to perform well in the fourth quarter to reach full year positive -- slightly positive organic growth.

Similarly Holland, they typically have a good fourth quarter because, again, of a lot of the year-end products that they have. So they are on track to get to the slightly positive level of organic growth.

On the margin side, just -- even though you didn't ask about that, I thought I would indicate that. We continue to see the benefits of the restructuring in those two countries come through in the margins through the third quarter. And, again, that now sets the stage for as we grow the top line in both of those countries, we have the ability to expand their earnings.

With the U.K. As you'll remember, the U.K. was the last country to undergo restructuring. They are still in the process of restructuring. We are starting to see some of the margin improvements there. But as you -- as we indicated, with the FTE reductions, we haven't gotten all of the cost savings yet in the U.K. So they will really deliver improvements as we head into '07.

So in '06 our expectation for the U.K. is slightly improved margins year over year, and still no organic growth. And we are, as I say, setting the stage for '07 for improved performance in the U.K. as we complete the restructuring.

And then as it relates to outsourced agreement with the data center consolidation, as we indicated in the press release, we have successfully concluded our discussions with Perot. We are happy with the outcome. We've resolved the service requirement issue that we had, as well as volume levels and some of the pricing issues.

So we are tracking and we continue to make those -- the transformations occur, meaning continue the consolidation process. The amended agreement has no material effect on our guidance. As we indicated, the structure of the agreement has always been a seven-year agreement, with the investments in the early years of the agreement and then cost savings coming out at the end of the contract, the latter part of the contract.

So that remains on track. As we indicated, that would start to occur in the '08 time period. And there's no material change in the level of percentage savings we should achieve in the deal.

Polo Tang - UBS - Analyst

Okay, thanks.

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Operator

Thank you very much. And your next question will come from the line of Sami Kassab from Exane. You may proceed.

Sami Kassab - Exane BNP Paribas - Analyst

Good afternoon everybody. It's Sami Kassab at Exane BNP Paribas. First of all -- hello Nancy. Regarding the medical advertising promotion business in the Health segment, can you share your view of whether the softness is of a more cyclical nature? Or possibly driven by structural changes you might be seeing in the way pharma Co's promote their drugs, i.e., the rise of the generic drugs? Or relocation of ad budgets to maybe online medias rather than the old traditional way?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes, within specifically advertising, I would say that it has more to do with the delay of the drug being approved, because if you look at advertising journal by journal, what you see is where there has been the launches that people expected, you do see a positive effect of that coming through in terms of advertising spending. So in that case I would say it's structural to the extent that it relates to drug approval. And so as more drugs presumably get approved, you should see some recovery there.

On the other lines of businesses that relate to promotional spending, like books voucher programs, medical communications, those are undergoing more structural change. What you see happening in the pharma business is that there's more spending now on direct-to-consumer advertising in terms of television advertising. There's more focus around e-detailing, which instead of sending out the sales rep to see the physician with drug samples and with other kinds of things, they do that more electronically now.

So what we plan to do in terms of some of our more traditional product lines is you will continue to see us focus on moving up the value chain, as we have been doing, by developing business intelligence, tools, products, with the Healthcare Analytics acquisition. All of that was designed to move further up the value chain within pharma. Among our traditional product lines, you will see us look to revamp them in order to adapt them to more of an electronic promotional environment. And that's what we're in the process of doing right now.

Sami Kassab - Exane BNP Paribas - Analyst

Thank you. And secondly, the expectations of revenue growth in the U.K. next year. Is it based on you going into the legal information market, or has it to do with the improvement of the current business perimeter?

Nancy McKinstry - Wolters Kluwer NV - CEO

It has to do with the improvement of the current product lines that we have.

Sami Kassab - Exane BNP Paribas - Analyst

And lastly maybe any update on the sales pipeline of Expere in the Financial Services business, please?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes. We continue to make progress with Expere, both from a development standpoint as well as a sales standpoint. In terms of the product itself, we have completed the development of the mortgage and the home equity components of the product. And we continue now to expand in consumer lending. We have a full pipeline of potential clients for the products that we are

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pursuing. And our expectation is that we will sign another contract between now and the end of the year. So we're tracking to that goal to have another signed agreement before the end of the year.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you very much, Nancy.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Thank you.

Operator

Thank you very much. And your next question will come from the line of Giasone Salati from Credit Suisse. You may proceed.

Giasone Salati - *Credit Suisse - Analyst*

Hello, it's Giasone Salati from Credit Suisse. I've got three questions, please. The first one is on guidance. Q3 was exceptionally good in terms of EBITA margins, 19.9%, which is, if I do my math correctly, the highest ever margin over the last four years. And in Q4 we should have additional cost savings and maybe incrementally less restructuring costs. Should we expect another increase in margins? And why is the guidance margin staying pretty much at the same level as everything [here]?

The second one is on acquisitions --.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Giasone, could you speak up. We have a hard time hearing you? Sorry.

Giasone Salati - *Credit Suisse - Analyst*

Fine. The second question is on acquisitions. I am wondering if you could give us indications of the areas you find more interesting now on a global scale? Which division you think may need some additional business to complete the product range? Or what areas you really see more interest in, I'm probably thinking of B2B or something like that?

And the third one is on disposals. After Thomson announced the desire to dispose of Education, and also knowing that [inaudible] Education assets are up for sale, do you find the market is overcrowded? And could you update us on at least if you are having talks with potential buyers, if the disposal would most likely happen as a whole or in different bits and pieces? Thank you.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Well, first on the margin question. We are guiding -- reiterating our guidance at 16.5% to 17% operating margins. We are on track to do that. What you see in the third quarter is some effect of expenses and how those are phased throughout the year. And we have often said, quarterly results are less important, so to speak, in terms of overall results for us as a company. We really focus as a company on our whole year guidance. So, on a full-year basis we are tracking well to reach the 16.5% to 17% margin.

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On the acquisitions question. We are, as you know, focused on organic growth. That's been a major driver within our three-year plan. And it will be a major driver of our future in '07 and '08, etc. Our goal behind making any acquisitions from a strategic perspective is to do one of two things. One, either roll up an existing market-share position within one of our segments or move into an adjacent market where we can provide our customers with a broader product line.

What you see, as in '06, we had a number of major strategic opportunities both in Germany in Tax and Accounting as well as in Health. So we had a lot of acquisition activity in '06. We do not anticipate that level of activity in the near term. So our goal is to, again, focus on organic growth and use acquisitions to really round out some of our market positions.

As it relates to disposals, we see to some extent the announcements made by others, in particular Thomson, really coincidental. We don't see that having any impact on our review of our strategic alternatives for our division. As you know, we are a European education provider. We are very focused in primary and secondary education. Thomson's assets are primarily U.S.-based and more higher-education based. So I think it's really an apple to pear thing.

We have -- this is a process we announced on September 27. We are in the early days of the [technical difficulty]. We are seeing that process [technical difficulty] away and we would anticipate putting out to the markets somewhere in the first half of '07 as we [technical difficulty]. Okay?

Giasone Salati - *Credit Suisse - Analyst*

Hi. Sorry, could you repeat that? The line was breaking up. Could you repeat the last, maybe, minute and a half of your answer on Education, please?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. I promise it won't be verbatim but what I was saying is on Education that we are underway with a process. It's still early days. We will come out somewhere in the first half of '07 as we complete the process with an announcement as to what we plan to do. We have a lot of interest from various parties in the division. The division continues to perform in line with our expectations. And other than that we will just wait until we conclude it to come back out and say anything.

Giasone Salati - *Credit Suisse - Analyst*

Okay. And just a quick follow up on my second question on acquisitions. In 2006 the total spending for acquisitions was about a EUR0.5b. Can I imply from your answer that 2007 will definitely be below EUR0.5b acquisition spending?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

As we indicated also on September 27, we feel that an EBITA level of two and a half is a target we would like to achieve. So I think already from that statement you can derive that our acquisition spending by next year will be substantially lower than this year.

Giasone Salati - *Credit Suisse - Analyst*

Including the potential proceeds from Education?

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Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Yes. We are currently reviewing our strategic options. So when the strategic option -- alternative has been chosen, we will come back to you, inform you and we'll tell you what the impact will be on that statement.

Giasone Salati - *Credit Suisse - Analyst*

So total acquisition for 2007 may be depending on proceeds from Education? Is that fair?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Depending on the outcome, we will come back to you.

Giasone Salati - *Credit Suisse - Analyst*

Excellent. Thank you.

Operator

Thank you very much. And your next question will come from the line of Paul Gooden from ABN. You may go ahead, sir.

Paul Gooden - *ABN Amro - Analyst*

Good afternoon guys. Actually most of my questions have been asked but just to push on the very last question. So you're telling us that if you do sell Education, at the moment you're not telling us what you're going to do with the proceeds?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes, what we said -- Paul, this is Nancy, what we said at the 27th and what Boudewijn just reiterated was it's early days. We're looking at a number of alternatives. When we conclude that process we'll come out and fully disclose the plans. If there should be proceeds, we'll tell you what the outcome of that would look like. But, as I say, it's way too early to begin that conversation because we don't have a level of precision that would satisfy your questions. So we would prefer to just wait until we have the complete picture for you.

Paul Gooden - *ABN Amro - Analyst*

I understand. And just one other question. In Europe, there's talk of good momentum building there but when I look at the Q3 growth, it actually slowed about 1.5% on Q2. Now I appreciate we don't want to get perhaps too focused on one -- on any quarter, in fact. But what was behind that? What geographies presumably went backwards in Q3 relative to Q2?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. Well it's really just one event which is we have a major trade show in France, that was in April, I believe, in '06. That was in the second quarter and that's not repeated in the third quarter. And so it's purely a timing kind of effect. Again, we focused very much on full-year results. And LTRE is tracking within the guidance we gave you at near to 1%.

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Paul Gooden - *ABN Amro - Analyst*

That's great. Thank you very much.

Operator

Thank you very much. And your next question will come from the line of [Roger Angelini] from Citigroup. You may proceed.

Rogan Angelini-Hurll - *Citigroup - Analyst*

Good afternoon. It's Rogan actually Angelini-Hurll from Citigroup. I just wanted to clarify something in terms of the cost phasings, which you've mentioned both in CFS and TAL, benefits in the third quarter. Is that costs which have already been taken in terms of the first half or are they, if you like, relative to last year moving into the fourth quarter? And could you possibly give us some color on the scale of that kind of phasing of costs?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Could you just say it one more time because are fading in and out of connection?

Rogan Angelini-Hurll - *Citigroup - Analyst*

Really?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. A little bit higher volume.

Rogan Angelini-Hurll - *Citigroup - Analyst*

Sure. All I was wondering was on the phasing of costs in CFS and TAL, is that phasing with the costs already having been taken in the first half or are these costs that will phase into the fourth quarter, relative to last year? And maybe some color on the magnitude of those -- of that phasing.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes. It's phasing in both directions. Again, we're very focused on the full-year pattern of our results as opposed to one -- any specific quarter. So you will see phasing occur from quarter to quarter in the various divisions. You happen to have seen it in CFS in the third quarter. But, again, it's just the nature of how our business works, particularly with some of the transactional product lines that we have.

So overall, again, I will reiterate our guidance of 16.5% to 17%. And we feel very confident in that guidance. So these are just timing differences that you might see quarter by quarter.

Rogan Angelini-Hurll - *Citigroup - Analyst*

Okay. And any sense of the magnitude -- I know we're getting into very small detail, but what kind of level of costs would CFS and TAL might have moved from third quarter to fourth quarter. Or is that too much detail?

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Nancy McKinstry - *Wolters Kluwer NV - CEO*

Yes, that's too much detail. And, as you know, we don't give quarterly guidance around the margins for divisions.

Rogan Angelini-Hurll - *Citigroup - Analyst*

Sure. Okay. Thanks.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay.

Operator

Next -- I do apologize. Your next question will come from the line of Oskar Tijs from Kempen & Co. You may go ahead.

Oskar Tijs - *Kempen and Co - Analyst*

Yes, Oskar Tijs from Kempen. I've got a few follow-up questions. On the margins on CFS and TAL, they are very impressive in the third quarter. Could you quantify the impact of phasing and are there any other impacts we should consider if we compare to margin improvement in the third quarter to first two quarters?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Do you want to tell all your questions or do you want to --?

Oskar Tijs - *Kempen and Co - Analyst*

Yes, the second one is your cost savings guidance looks really conservative considering the savings you got in the first three quarters. Can you say anything on that?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. On the margins, we are not going to quantify the impact of phasing. Again, we're tracking well to our overall yearly guidance of 16.5% to 17%. Clearly both in TAL and CFS we had strong organic revenue growth in the quarters. That obviously has an impact on margins as well.

In terms of our cost savings, clearly we will -- we have -- we're on track to meet the EUR120m in savings. We may be slightly above that level, but it's not material enough to change our overall guidance.

Oskar Tijs - *Kempen and Co - Analyst*

Thank you.

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Oya Yavuz - *Wolters Kluwer NV - VP IR*

Next question?

Operator

Your next question will come from the line of Gert Potvlieghe from Petercam. You may go ahead.

Gert Potvlieghe - *Petercam - Analyst*

Hello. This is Gert Potvlieghe from Petercam. A question on the cash flow. You had a very strong cash-flow generation in Q3. Do you still expect that working capital outflow or working capital remain stable year on year, which implies that your 350 target is, I think, quite conservative?

And then secondly, what should we expect from cash from derivatives in the full year?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Okay. On the working capital. Maybe you've seen that in our outlook the free cash flow has been actually -- the outlook has changed from larger than 350 said earlier equal to [inaudible]. So in that sense we are -- we feel positively and we feel that our cash-flow generation figure position is strong. Don't forget that, compared to last year, we will still have the EUR33m on the redemption of the convertible to repay.

And to your earlier point on the working capital, we indeed still believe that the improvements made over the last three years will be maintained in this year, the EUR210m, but we don't see a further improvement this year. So I think assumption to keep it stable is a fair one.

In the cash-flow statement you can see that we had over EUR100m of income from derivatives. The majority of our derivative portfolio matures in the third quarter. Currently we still have some positions outstanding which the market trends will tell you is not very material. So from that point I do not anticipate you seeing further inflows in the fourth quarter.

Gert Potvlieghe - *Petercam - Analyst*

And maybe one follow up. Still on corporate costs which were down year on year as well. What do you expect for the full year?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Well, the reason why it's down for the full year is mainly to do with the fact that the long-term percent of costs for divisional and countries has been pushed down to the divisional level so currently are in the divisional EBITA. For corporate you only will find the Healthcare costs for the corporate employees, which also includes the Executive Boards. We don't give a guidance for the full year.

Gert Potvlieghe - *Petercam - Analyst*

Okay. Thank you.

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Operator

Thank you very much for your question. And your next question will come from the line of Mariska Douwens. You may go ahead.

Mariska Douwens - Fortis Bank - Analyst

[technical difficulty].

Nancy McKinstry - Wolters Kluwer NV - CEO

Hello? Sorry, Mariska, we can barely hear you. Can you say it again?

Mariska Douwens - Fortis Bank - Analyst

Okay. Can you hear me now?

Nancy McKinstry - Wolters Kluwer NV - CEO

Yes, very good.

Mariska Douwens - Fortis Bank - Analyst

Alright. I had a question concerning your acquisition spending. You spent about EUR150m in Q3. If I translate that into your sales model, it would be about -- or close to four times sales you acquired in the quarter. Is it fair to assume that the margins on ATX and [inaudible], because those were the main acquisitions in Q3, are above average? Or is it mainly due to high organic growth that you have for these businesses?

Boudewijn Beerkens - Wolters Kluwer NV - CFO

Mariska, the 151 refers to two things. One it is indeed the acquisitions done in the third quarter. Secondly, it's also earn out that we base on previous deals. So just to try to take those deals, their revenues or their -- assume profitability [inaudible] I think is not something you can derive from these numbers. But you can, of course, imagine that overall we try to acquire companies with above-average growth and above-average EBITA margins compared to the whole of WK. And, in that sense, the growth expectations from those acquisitions are always slightly higher than the average we have.

Mariska Douwens - Fortis Bank - Analyst

Thanks. That's it.

Operator

Thank you very much. And your next question will come from the line of Reinier Westeneng. You may go ahead.

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Reinier Westeneng - *SNS Securities - Analyst*

Yes, good afternoon. Reinier Westeneng speaking of SNS Securities. I have got a couple of questions. First of all on your target for '07. You reiterate your guidance for getting revenue growth of 4% and for margins of 19% to 20%. Could you please indicate what the main variables are in order to achieve the high end of the margin guidance? That's the first question.

The second question is -- relates to also the margins. Could you please indicate which divisions are expected to benefit most from the anticipated increase in margins? Of course, equally divided across all divisions.

And finally, I have a question on the general and administrative operating expenses. In Q3 these were 240 compared to 249 in Q3 '05. I know that these costs are variable quarter on quarter, but for the first time we see a decline. Could you please explain why we have seen a decline and what can we expect for the coming quarters?

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay. Thanks, Reinier. I'll take the first two and then ask Boudewijn to comment on the G&A costs.

In terms of our guidance for '07 of 4% organic growth and 19% to 20% operating margins, there's three factors that contribute to the improvement in operating margins from 16.5% to 17% this year to the 19% to 20%.

First is the full effect of the cost savings that we've been able to achieve over the last three years. Second, is the restructuring costs come to an end as the program is complete. And third, the flow-through effect of the improved revenue on the margin. So those are primary drivers. So you should conclude to your specific question about what would be the factors on the high end, it's just one of those things obviously having a stronger influence.

In terms of margins within the divisions as it relates to the '07 guidance, as you know, we don't give specific divisional guidance. But clearly I think we have indicated in the past that you should accept that we will see improvements in LTRE to a greater extent than other divisions because of the fact that we will have completed the restructuring.

And, again, Holland, Belgium, U.K. represents about 40% of the revenues and obviously a fairly substantial portion of the operating income. So with those three countries improved, we will see the overall results reflect that.

And then on G&A, Boudewijn?

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Yes, G&A, what you see in the third quarter, you see our cost savings actually exceeds new product development costs. Secondly, our [mature services] expenditures transition costs were lower in the third quarter of this year versus last year. So, on the one hand, it's something structural and on the other hand it's also comparable.

The same counts, by the way, for the full year, although in the other direction. You see that overall the cost savings were lower than the increase in new product development for the first half. Secondly, we had some higher [inaudible] costs in the first half that actually will be lower actually in the second half and therefore helping in G&A compared to the first.

Reinier Westeneng - *SNS Securities - Analyst*

Okay, thank you.

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Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

The main reasons why there is a difference in the first nine months versus the third quarter. Does that answer your question, Oskar?

Reinier Westeneng - *SNS Securities - Analyst*

Yes. It was Reinier, but it doesn't matter. It answered the question. Thank you.

Boudewijn Beerkens - *Wolters Kluwer NV - CFO*

Thank you.

Operator

Thank you very much. Now I would like to turn the call back over to management for closing comments.

Nancy McKinstry - *Wolters Kluwer NV - CEO*

Okay, great. Thank you very much for joining us this afternoon. And we look forward to seeing you hopefully on February 28 with our full-year results here in Amsterdam. Thank you.

Operator

Thank you, ladies and gentlemen, for your participation in today's presentation. You may now disconnect and have a wonderful day.

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