

## **Transcript Wolters Kluwer IFRS Conference Call, 8 March 2005**

### **Matthijs Lusse – Senior Vice President and Controller**

In the next 15 minutes, I would like to give you some additional information on the impact of IFRS for Wolters Kluwer.

#### *(Disclaimer)*

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The information that will be made available during this presentation is prepared on the basis of IFRS expected to be effective per 31 December 2005. IFRS are however subject to ongoing review and endorsement by the European Union or possible amendment by interpretative guidance from the IASB and are therefore still subject to change. As a consequence the information that will be given to you during this presentation might not be indicative of the actual impact of IFRS on our financial results.

Wolters Kluwer started its implementation process of IFRS in 2002 with a high level impact study. In the first half of 2003, a more detailed impact analysis was performed. Major areas that were identified during this process included Revenue recognition and Pensions. Since Dutch GAAP was also being amended to reflect these new accounting standards and because we wanted to inform the market sooner rather than later of the main implications of the transition to IFRS, Wolters Kluwer decided to adopt the new Dutch GAAP guidelines for revenue recognition and pensions already in 2003.

As a result, the impact of the transition to IFRS on both the profit and loss account and shareholders' equity was reduced in 2004. Overall, the impact of IFRS on our 2004 net income amounts to a positive € 176 million and the impact on equity per 31 December 2004 to a negative € 29 million.

The transition to IFRS, per 1 January 2004, impacted the following areas:

- Share based payments
- Business combinations and Intangibles
- Balance sheet presentation
- Cash flow statement presentation
- Taxation
- Employee benefits
- And, as from 1 January 2005, Financial Instruments

I would like to briefly discuss all these areas.

#### **First, Share based payments**

IFRS 2 requires a company to reflect in its profit and loss account the effect of share based payments. Wolters Kluwer hired an outside advisor to calculate the impact of IFRS 2 on both of our share-based plans, the stock-option plan and the long-term incentive plan. Under Dutch GAAP no expense was incurred on stock options, provided that the

exercise price of the option was equal to the fair market value of the share on the date of grant. Under IFRS, an expense was recognized in 2004 for the stock options that were granted in 2003. This expense was €3 million.

Dutch GAAP requires an entity to recognize the expense associated with a conditional grant of shares, like the Long-Term incentive plan, but does not give details with regard to the calculation. We applied the IFRS 2 methodology to compute the 2004 expense of the Long Term Incentive Plan. Therefore, there is no difference between Dutch GAAP and IFRS.

### **Secondly, Business combinations and Intangibles**

Under IFRS the carrying amount of goodwill is frozen per 1 January 2004 and the amortization of goodwill, that was charged to the profit and loss account under Dutch GAAP, is reversed. As a result the amortization expense decreases by € 173m.

We established that the publishing rights, that were recognized on the Wolters Kluwer balance sheet per 1 January 2004, met the recognition criteria of IFRS. As a result, they were retained on the IFRS balance sheet. Since both Dutch GAAP and IFRS require publishing rights to be amortized over their useful lives, the amortization period did not change. The impairment test that was carried out per the transition date did not give rise to any additional impairments.

### **Thirdly, Balance sheet presentation**

This section relates to the presentation of some items in the balance sheet, being the offsetting of trade debtors and deferred income, and the recognition of deferred tax assets and receivables from forward contracts as non-current rather than as current assets.

To begin with offsetting, Under IFRS netting of assets and liabilities is only allowed under specific circumstances. As a result, subscription billings are no longer offset against receivables per the end of the year, to the extent that those receivables relate to subscriptions that will commence in the following year. Then, deferred tax assets and receivables from forward contracts:

Under IAS 1, deferred tax assets and receivables, that are due after more than 12 months, need to be presented within non-current assets, rather than current receivables.

### **Fourthly, Cash flow statement**

These items relate to the presentation of certain items in the cash flow statement. Cash payments from reorganization provisions that relate to acquisitions will be presented within the cash flow from operating activities, whilst they were previously presented as part of the cash flow from investments. The cash flows from our derivative portfolio, that are intended to hedge our net investments, will be presented within the cash flow from investments, whilst they were previously presented within the cash flow from financing. According to IAS 7, cash flows from derivatives should be presented within the same caption as the underlying hedged item, which is the net investment in our US operations. This has an effect of €35m on both the cash flow from investments and the cash flow from financing in 2004.

### **Fifthly, Taxation**

Under IFRS a deferred tax asset or liability should be recognized on nearly all differences between book and tax values of assets and liabilities. A deferred tax liability should therefore be recognized on publishing rights that are acquired as part of business combinations. Under Dutch GAAP, no such liability was reflected in the balance sheet. According to the IFRS transition arrangements, goodwill and publishing rights should not be changed as a result of the transition to IFRS, except in specific circumstances. It was therefore concluded that a deferred tax liability on publishing rights had to be charged to equity.

As a result, an amount of € 221 million was charged to equity per 1 January 2004, relating to the publishing rights that were carried in the balance sheet per that date. In 2004, an amount of € 25 million was credited to income, reflecting the tax credit on the amortization expense. In the years to come, this deferred tax liability will be released into the income statement as the amortization expense on the publishing rights is incurred. Furthermore, an amount of €11 million was added to goodwill and the deferred tax liability, relating to acquired publishing rights that were recognized in 2004. It should be noted that the deferred tax liability is not expected to crystallize in actual cash payments.

### **Then, Employee benefits**

I'd like to discuss the impact of IFRS on pension accounting. Wolters Kluwer operates a number of defined benefit pension plans. IFRS contains specific guidelines on the accounting principles to be applied to these plans. The accounting of the pension expense with regard to our growing number of defined contribution plans is not impacted by the transition to IFRS. As mentioned in the introduction, Wolters Kluwer implemented pension accounting in accordance with the methodology prescribed under IFRS to the defined benefit plans in 2003 and thus recognized the actuarial losses that existed per 1 January 2003 in its 2003 financial statements. Since IFRS requires that all unrecognized actuarial gains and losses are recognized per the transition date, which is 1 January 2004, we recognized in our IFRS opening balance sheet the actuarial gain, that came up between 1 January 2003 and 1 January 2004 and reversed the amortization of such actuarial gain in the 2004 profit and loss account.

As is the case in general, IFRS will lead to increased volatility of our results. One of the main drivers of our pension expense is the discount rate, which is typically determined based on the effective yield on AA rated bonds per the end of the prior year.

To give you an idea of the sensitivity: A world-wide decrease of the discount rate of 0.5% increases our service costs by approximately €3 million and increases our Defined Benefit Obligation by approximately €80m. To put this into perspective, in 2004 the applicable discount-rate in the EURO zone decreased by approximately 75 basis points, so changes of the magnitude mentioned before and even larger do occur.

We are currently in the process of studying the new proposed option under IAS 19, which would allow for the recognition of actuarial gains and losses in comprehensive income within equity, rather than in the profit and loss account.

### **And Finally, Financial instruments**

In general, IAS 39 leads to more volatility, which either positively or negatively causes increased unpredictability of our results. Over the last few years, we have taken measures in order to mitigate the impact of the adoption of this standard on our results. We believe that we are in a position that we can effectively manage the increased volatility. As indicated, Wolters Kluwer will only adopt IAS 32 and 39 per 1 January 2005, and will not restate its comparative 2004 financial information under IFRS for these standards.

The adoption of these standards has implications for the accounting treatment of our debt portfolio, mainly for the convertible bond, and for the accounting treatment of our derivative portfolio. In the 2005 outlook we indicated that, as a result of the adoption of IFRS, the financing costs would increase by approximately €15m. I would like to share the reasons for this increase with you.

First looking at our debt portfolio.

The main impact of the new standards on our debt portfolio relates the 2001-2006 convertible bond. Under IFRS, the debt component and the conversion option should be recognized separately. The expense of the debt component in the profit and loss account should be recognized taking into account the estimated market interest rate for straight debt instruments with a similar maturity and risk class at the time of the issue of the

convertible bond (30 November 2001). We have estimated that rate to be approximately 5%. Under Dutch GAAP, Wolters Kluwer recognized an effective interest rate in its profit and loss account of approximately 2.5%. As a result, the interest expense increases by approximately €10 million. Now turning to our derivative portfolio.

First of all, Wolters Kluwer has a strict Treasury policy in place. This policy contains guidelines with regard to the use of derivatives. Derivatives can only be used, to the extent that they serve the risk management policy of the company, which means that they mitigate the effects of exchange rate and interest rate changes on net income, equity and cash flow of the company. Whenever possible, we use natural hedges to accomplish this goal, which means that we try to match income and expenses and assets and liabilities in the same currency. We also use derivatives, in situations where such natural hedges do not exist. Wolters Kluwer currently uses the following types of derivatives:

- Interest rate swaps, to hedge the exposure to changes in the fair value of our debt portfolio;
- EUR to USD swaps, both fixed-fixed and floating-floating to hedge our net investment in the US;

We have sought to apply hedge accounting to most of the instruments mentioned above, in order to mitigate the impact of the changes of the fair value of these derivatives on the profit and loss account. It was confirmed that most of these instruments qualify for hedge accounting and that the hedge relationship is highly effective. We therefore believe that the impact of changes of the fair value of these instruments will, under normal circumstances, not materially impact our net income. Turning back to the €15 million additional financing cost in 2005 under IFRS, we mentioned that an additional expense of €5 million is incurred on the derivative portfolio. This expense relates to the EUR fixed to USD fixed swaps.

- Under Dutch GAAP, the effective interest expense that was recognized in the profit and loss account was the fixed USD interest expense.
- Under IFRS however, hedge accounting is applied to this instrument. As a result, the effective interest expense that is recognized in the profit and loss account is the EUR fixed interest expense. As a result of the decline of the USD compared to the EUR, Wolters Kluwer enjoyed a benefit in its financing costs of €5 million under Dutch GAAP. Under hedge accounting as applied under IFRS, this benefit is recognized within equity. The impact of the adoption of these standards on our equity is estimated to be approximately €35 million positive, before taking any tax consequences into account, mainly relating to the treatment of the convertible bond and the Mark-to-Market of the derivative portfolio.

### **Now turning to the overall implications for Wolters Kluwer of the adoption of IFRS (including our benchmark financial information)**

Overall, Wolters Kluwer is positive about the transition to IFRS. The transition to IFRS will facilitate the interpretation of our financial information for an even wider group of investors. This is a clear benefit of the transition.

We would like to stress that the transition to IFRS has no consequences for the way we manage our business, no consequences for our cash flows and will also not impact our dividend policy. As noted in our press release, we do intend to continue the use of our benchmarks, because they more closely reflect the way we manage our business. We do not anticipate a change with regard to the definitions of our benchmarks as a result of the transition to IFRS.

During 2005, we will revisit the use of our benchmarks in the light of emerging market practice. I hope that I've been able to clarify the impact of IFRS on Wolters Kluwer and would like to thank you for your attention.

With that, I would like to open the Q&A part of this conference call.

**Jeff Meys - UBS Warburg - Analyst**

Yes. Good afternoon. I've got a question on your benchmark EPS guidance for next year. You include the 15 million of finance costs. Could you confirm whether you used fully diluted number of shares including the convertible or a non-diluted number for that specific metric. And what adjustments you made for the interest component on the convertible.

**Matthijs Lusse**

Okay. Jeff, according to IAS 33, what you do when you calculate the diluted earnings per share is that you calculate the minimum of the normal, let's say, basic earnings per share and a diluted earnings per share, which is computed by taking into account the additional shares that will become available upon conversion of the convertible bond. So, what we did is that we did that minute -- the test of what comes out of this trade computation of EPS and what comes out of a computation of EPS -- of diluted EPS, that would take into account a higher interest component from the conversion. It was clear that, in this instance, the calculation of the diluted EPS should equal the calculation of, let's say, the basic EPS. And hence, no interest correction is applied to these numbers. Does that answer the question?

**Jeff Meys - UBS Warburg - Analyst**

Yes, you're using a basic number of shares then. Is that correct?

**Matthijs Lusse**

Yes, what we're doing is IAS 33 tells you that you -- that in no circumstances the diluted EPS can be higher than the normal EPS. So, therefore, you have to look at the minimum of the two calculations and that's what we've done.

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

Can you please remind me if and how much of your publishing rights amortization is tax deductible?

**Matthijs Lusse**

Sami, under the new guidelines, everything.

**Bart Gianotten - CAI Cheuvreux - Analyst**

I have two questions. First of all, some other coverages (ph) we've seen quite sizable reclassification for capitalized software from tangibles to intangibles. At Wolters, I don't see that. Is there a specific reason for that? And then secondly, on the option expenses and long term incentive plan expenses, is the 3 million for options, is that an amount that we should roll forward for the next couple of years or is there going to be any changes to the plans? And on these long term incentive plans, (inaudible) the costs have been taken into account in '04. What kind of (inaudible) have been used here and does that mean there is no further expenses on this one for '05 and '06 or what's the metrics behind that?

**Matthijs Lusse**

Bart, first to the software. The explanation is pretty simple; we already classified software as part of intangible fixed assets and there is no reclassification. As far as the options are concerned, you might know that we actually changed from an option plan to our long-term incentive plan in 2004. So 2004 is the last year when you will actually see an expense relating to an option plan in general, okay, because all these option plans had 2-year vesting periods. As far as the long-term incentive plan is concerned, if you dive deeply into the press release, what you see in the equity reconciliation is that there's an EUR8 million amount being credited to equity relating to share-based payments. This is really the long-term incentive plan. Now please remember that the long-term incentive

plan has a 3-year vesting period and that you recognize the costs of the long-term incentive plan ratably over the vesting period, over the 3-year vesting period. So in that sense, you should roll forward the 8 million also into the following years.

**Maurits Heldring - Kepler Equities - Analyst**

A question on pensions. You gave some indications about the impact of a changing discount rate on costs and the projected benefit obligation. Could you share with us what the assumptions currently are for the pension plan, that is, what the discount rate is and the expected return on assets and the salary increase?

**Matthijs Lusse**

That information will all be made available as part of the annual report. So I think I shouldn't make any statements about that.

**Maurits Heldring**

But there have been no major changes in the last year?

**Matthijs Lusse**

Well, as I mentioned, it isn't so much that our, let's say assumptions changed, it is so that the -- the exact thing that I mentioned during the presentation, that the discount rate in Europe has come down significantly. And we, of course, have -- our Dutch and our Belgium pension plans are defined benefit plans. And, of course, there you will see the exact impact that I just mentioned.

**Maurits Heldring - Kepler Equities - Analyst**

Okay. Well, finally, could you remind us what the funded status, then, was as of the end of 2003 for the...?

**Matthijs Lusse**

Then we had a surplus.

**Maurits Heldring - Kepler Equities - Analyst**

Of how much?

**Matthijs Lusse**

I think it was -- it was close to that -- it was close to the -- about EUR 20 million actually.

**Anna Fokkelman - ING Financial Markets - Analyst**

First question on the benchmark cash flow. Did I understand correctly that the acquisition related payments, they were first out of the benchmark cash flow and they will, within IFRS, be included in the benchmark cash flow? And secondly, have you already discussed these IFRS changes with credit agencies and can we expect any changes because of that?

**Matthijs Lusse**

Okay, first question is no. We did not, as I mentioned, we did not change our benchmark definitions as a result of the transition to IFRS. And payments relating to reorganization provisions that were charged as part of acquisitions were always included in our benchmark. So in that sense, nothing changes. The 456 that we realized in 2004 is still the 456. And yes, we have had a discussion with the rating agencies of our -- of the transition to IFRS and I don't -- to the best of my knowledge, they did not indicate any significant change or anything. They actually told us that the whole additional interest expense on the convertible bond was something that they found -- they knew that it had

to be done on the IFRS, but they wouldn't necessarily look upon that as a real additional interest expense because there's no cash outflow associated with this additional cost.

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