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Telegraaf Media Groep: investing in change

Telegraaf Media Groep N.V. (TMG) achieved a turnover in 2005 of €736.7 million compared to €694.3 million in 2004, an increase of 6.1%, mainly originating from new activities. The operating result increased from €26.3 million to €53.2 million. However, when excluding exceptional items in both years (book profits, restructuring charges and a release of pension and early retirement provisions), the operating result actually decreased by approximately 14%, from €38.0 million in 2004 to €32.6 million in 2005, despite cost cutting measures. Once again, the ongoing drop in advertising and the reduction in circulation turnover, both in newspapers and magazines, were the reasons for this decline. The startup costs of new activities reflected in the operating result (including the Sunday edition of De Telegraaf, speurders.nl, vacaturekrant.nl, exhibitions and new magazines in the Netherlands and the Ukraine) amounted to approximately €15.6 million, roughly equal to 2004.

Net profit (after minority interest), including higher profits from participations and other financial income and after higher corporation taxes, showed a slight drop, from €67.7 million for 2004 to €65.4 million for 2005, equivalent to earnings per share of €1.29 and €1.25 respectively.

The annual figures for 2005 and the comparative figures for 2004 have been prepared in accordance with the currently applying IFRS accounting principles.

Overall strategy

TMG focuses on media products, in particular in the consumer market. In the past this strictly related to print media in the Netherlands. Since a number of years the relevance of print is declining due to the many new ways in which information reaches the consumer, sometimes free. As a consequence, consumers and advertiser interests are changing, and costs are under pressure.

Based on our knowledge of the media consumption market and our passion to grow in this market, and given the lacklustre economy and the restrictions imposed by the Dutch government on the creation of growth and

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economies of scale, the following steps have been set or will shortly be taken.

Firstly, the costs of print products are being lowered further through various cost cutting programmes at the publishers and technical services companies. Staff numbers and budgets are being cut significantly. External collaboration and outsourcing of services are also being looked into.

In addition, TMG intends to expand its share in media consumption further by adapting the content of its print products to the changing consumer demands and by adding new value to print products (including Internet and SMS). The publishers will increasingly join forces, and TMG is adjusting its product portfolio, both through print acquisitions and introductions and through the sale of its publishing and printing activities in Limburg.

TMG is furthermore aiming at media consumption activities in the non-print sector. These include participations in SBS and Expomedia, acquisitions of Mobillion and relatieplanet.nl and the participation this year in the Sky Radio group.

Lastly, TMG is exporting its knowledge of media consumption to printed media and other markets that are still experiencing substantial growth. In 2005 a magazine publisher in the Ukraine was taken over. In addition to expanding this publisher (with print but also non-printed media), TMG seeks to grow further in Eastern Europe.

Notes to financial results

Turnover

TMG’s net turnover rose by €42.4 million, of which € 15 million relates to advertising turnover, especially through the acquisitions of Bongers Beheer B.V., Bohil Media B.V. and several magazine titles. TMG succeeded in expanding its market share in all printed media segments. Sp!ts even grew by 33% to a market share of 6.3%. The limited decline of print turnover was offset by the 49% turnover increase of Internet activities, from €8.7 million in 2004 to €13.1 million in 2005.

Total turnover from subscriptions and single-copy sales declined by €2.4 million, in particular at the daily paper De Telegraaf (single-copy sales), the magazines and the regional dailies. Turnover from weekend subscriptions to De Telegraaf grew, however, partly due to the introduction of the Sunday edition.

Turnover from distribution activities for third parties grew by €6.6 million due to the acquisition of distribution orders from Aldipress and PCM.

Other turnover, lastly, increased by €22.2 million. To a large extent this reflects the consolidation of the majority interest in Mobillion that was purchased in 2005 and the acquisition of several new activities by Telegraaf Expomedia Events (TE2).

Expenses

The costs of raw and auxiliary materials grew on balance, reflecting the effect of new activities and an increase in the price of paper. On the other hand, overall consumption declined compared to 2004.

Wages and salaries increased by 2.5%. At year-end 2005 the group employed 4,365 FTEs (fulltime equivalents) versus 4,316 FTEs a year earlier. This reflects the net effect of 203 FTEs due to new activities and a decrease of 154 FTEs as a result of reorganisations and attrition.

Social charges and pension expenses declined on balance by approximately €27 million due to non-recurring events. These partly reflect new pension arrangements with Stichting Telegraaf Pensioenfonds 1959, which under IFRS meant a transition from a defined benefit scheme to a collective defined contribution scheme. In addition, cutbacks on early retirement benefits and the sickness scheme for retired personnel led to an expense reduction.

Lower depreciation of tangible fixed assets and higher amortization of intangible fixed assets mainly reflect the reclassification of ICT projects as required by IFRS standards.

Other operating expenses grew by over €34 million. The increase includes in particular the costs of new activities (€23.3 million for Bongers, Bohil and Mobillion), higher promotional expenses for new activities and higher automation costs. Offsetting these were a drop in printing expenses by over €4 million due to revised print contracts for the magazines and TV Weekeinde.

Financial revenues and charges, excluding revaluations, increased on balance by €1.1 million to €26 million. In 2005 this included non-recurring income of €10.6 million from the sale of the interest in SBS SA that had been built up in 2005 and the sale of the 50% interest in the teletext activities of Media Groep West B.V. The figure for 2004 included a non-recurring book profit of €13.2 million owing to the sale of the interests in ANP and Brouwer. In addition, dividends from Wegener increased in 2005 by €1.4 million, and the result of SBS Broadcasting B.V. grew by €1.7 million. The result of other participations increased on balance by €0.7 million. Interest income and expense decreased by €0.1 million.

Revaluation of financial fixed assets reflects for both years, in line with IFRS requirements, the adjustments to bring the valuation of the participation in Wegener in line with its market value as at 31 December 2005 (€10 per share) and at 31 December 2004 (€9.45 per share).

The cash flow from operating activities grew from €66.3 million in 2004 to €73.6 million in 2005.

Forecast

Once again, we do not issue a profit forecast for this year. In the first place, there is still not enough insight into the developments in the advertising market. For the first eight weeks of this year we see a slight drop in advertising turnover for the daily De Telegraaf and the regional dailies. Income from single-copy sales is also under pressure. Sp!ts, on the other hand, is successful in maintaining its upward trend in advertising turnover.

Secondly, a considerable number of changes will be taking place in the activities portfolio in 2006. These include the proposed sale of MGL, NDL and De Trompetter during the course of the year and the purchase of a 33.33% interest in Sky Radio as of 1 April next. There is still uncertainty, in light of media legislation, as to when TMG will be allowed to acquire 100% of Sky Radio. On 31 December 2005 the 27% interest in SBS Broadcasting B.V. was replaced by a 20% interest in SBS S.à.r.l. The impact of these changes on the result for 2006 cannot yet be assessed.

Factors that are expected to impact the net result for 2006 in a positive sense include the expected book profit on the sale of the activities in Limburg, the results of the participations acquired, the effects of reorganization measures that have taken place, and the growth in turnover from online activities. Negative factors are the provisions for restructuring that will be required in connection with further cost cutting measures, plus an expected rise in the price of paper. Overall economic developments and the consequences for media spending will be the prime issues impacting this year’s results.

The cash flow for 2006 will get a positive impulse from the proposed sale of MGL c.s. The purchase of the interest in Sky Radio will require approximately €20 million, with the remaining cash coming from external funding. The resulting cash facilities can be, depending on the size and realisation of acquisitions and the development of the share value, used for the repurchase of own shares.

Dividend

The General Meeting of Shareholders will be held on Wednesday 19 April in Amsterdam. A proposal will be submitted to the shareholders to declare a dividend of €0.44 per share. The amount involved is €23.1 million, representing approximately 26% of the cash flow. This compares to a dividend last year of €0.30 per share.

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