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TMG well on track

In 2006 a net profit of €49.6 million was achieved, compared to a net profit of €65.4 million in 2005. This results in a profit per share in 2006 of €0.99. The operating result decreased from €53.2 million in 2005 to a negative operating result of €16.8 million in 2006. However, when normalized for exceptional items and amortisation, the operating result increased from €39.2 million in 2005 to €50.0 million in 2006.

This was due to a slight increase in advertising revenue, cost reductions and a different portfolio arrangement. The cash flow from operational activities totalled €60.2 million in 2006, which was an increase of €13.4 million compared to 2005.

As a result of several alterations in the portfolio arrangement, the results of Telegraaf Media Groep N.V. (TMG) for 2006 and 2005 are not fully comparable. In effect, in June 2006 the operations in Limburg were sold (regional newspapers, free door to door papers and a printing facility), in January TMG acquired a 70% interest in Relatieplanet.nl, in April a 28% interest in Sky Radio Group, and in July the Keesing Media Group was acquired.
In addition, as of July 2005 Mobillion was fully consolidated (formerly a 30% associate). Finally, the 27% interest in SBS Nederland B.V. was swapped for a 20% interest in SBS Broadcasting S.à.r.l. in December 2005.

Strategy
TMG is internationally active in the business of collecting, creating, providing and commercially exploiting information and entertainment (infotainment) on relevant media platforms. The strategy is aimed at pro-actively following and expanding TMG's share of media consumption of consumers (“share of time”), and as a result: it’s relevance and share of advertising spent (“share of wallet”).

Operational policy lines reflecting this strategy are: investing in existing brands and products, seizing opportunities for synergy, costs reductions, investing in multimedia non-print products/companies and exploit our publishing knowledge in other geographical markets.

Key corporate objective is an average net return on equity

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of at least 12% through exploitation of media products.

TMG strives to be a vital market leader on the Dutch print media market with national, regional and local brands. By 2009, TMG is aiming for a market share of 15% of total advertising spent (current share is 12%; current market size over €4 billion) and a structural average return (ROS, return on sales; EBITA/sales) of 15%.

TMG strives to be a digital media market leader in the Netherlands in relevant markets by focusing on digital and a competitive price level, as a result of optimal co-operation and synergy in it’s targeted instrumental niche markets. This position will lead to a 15% share of total turnover by 2009 (current share 3.5%) with an average ROS of 30%.

The Keesing Media Group, which achieves most of its result abroad, and Sky Radio Group, which for the time being is an associate of TMG (28%), both have their own specific objectives.

On an international level, TMG aims to replicate its strategy in selected geographical areas either independently or through partnering with strategic partners, by developing multimedia country-organisations and expansion in niche markets. The objective is to achieve a share in turnover abroad of approximately 10% by 2009 (current share is 5.8% if the Keesing Media Group turnover is adjusted to represent the theoretical year’s revenues).

In addition to the portfolio changes, actions in relation to the cost structure and a strengthened foreign strategy, TMG needs to accelerate its cultural transformation from an informal family culture to an innovative business culture, as well as implement changes within the organisation itself, if it is to achieve these objectives in the fast-changing media market.

These organisational changes are the result of a need to increase the return on print products while simultaneously accelerating the development of our position in the digital market.

Focusing on Dutch publishers, TMG will therefore separate its printing activities from its digital activities, as well as create a new position coordinating both activities and reporting directly to the Executive Board.

This change programme will be called ‘Focus’.

Focus will combine the activities of Uitgeversmaatschappij De Telegraaf, HDC Media, Holland Combinatie, BasisMedia, De Telegraaf Tijdschriften Groep and All Connected Media. At the "front end", facing consumers and advertisers, the brands will still be clearly positioned; at the "back end" the back office will aim to achieve the maximum possible clustering of activities.

Focus. Independently when needed, shared if possible.

Notes to the financial results

Revenues
The net revenue increased €47.8 million (6.5%), to €784.5 million in 2006, consisting of a €35.7 million increase in 'other revenue' (primarily Mobillion), a €16.4 million increase in advertising revenue (including the acquisition of Sky Radio Group and the sale of regional newspapers and door to door papers in Limburg), a net decrease of €7.5 million in circulation revenues (including the sale of daily newspapers in Limburg and the acquisition of Keesing Media Group puzzle magazines) and a net increase of €3.2 million in revenues from production and distribution.

Operating expenses
The total operating expenses increased €121 million, from €686.3 million to €807.3 million, including an increase in exceptional items of €35 million (restructuring, etc.), an increase of over €25 million in amortisation expenses (acquisitions), an increase of approximately €23 million in personnel expenses (in 2005 a curtailment was stated of €27 million relating to limiting and terminating pension and early retirement schemes) and an increase of over €9 million in other operating expenses.
By contrast there was also a decrease of more than €7 million in expenses for raw and auxiliary materials (as a result of an increase of paper price and the sale of activities in Limburg) and a decrease of approximately €4 million in the depreciation of tangible fixed assets.

The total number of FTEs at year-end 2006 was 3,782, which was 580 less FTEs than previous year. This reduction is the result of portfolio changes, reorganisations and new staff hired for new initiatives.

Result
The result from associates dropped by €21.2 million, mainly due to a €16.3 million lower result from the participating interest in SBS (partly substituted by interest income from shareholder loans extended to SBS Broadcasting S.à.r.l.) and TMG's share of approximately €3.0 million in the negative result of Expomedia Plc.

Financial income increased by €6.4 million, as a result of the higher interest on the aforementioned shareholder loans to SBS Broadcasting S.à.r.l. (€10.8 million) and a higher unrealized gain on the Wegener shares (€4.7 million) and lower interest revenues due to acquisitions and the share buybacks. Financial charges increased by €8 million as a result of the acquisition financing of Sky Radio Group and Keesing Media Group.

The gain on sales of discontinued operations relates to the profit realised on the divestiture of the Limburg activities.

Taxes fell by €26.7 million, an income of €6.8 million in 2006 compared to an expense of €19.9 million in 2005. This was partly due to the tax exempt capital gain on the sale of the Limburg activities and a release of the deferred tax liabilities resulting from the decrease in tax rate from 29.6% to 25.5%.

The cash flow from operational activities 2005 regarding the dividend SBS, Wegener and gain on sales of tangible fixed assets was reclassified in the annual financial statements from "cash flow operating activities" to "cash flow investing activities". The adjusted figure for 2005 was consequently €46.8 million and in 2006 the cash flow from operating activities amounted to €60.2 million.

Profit per share fell from €1.25 in 2005 to €0.99 in 2006, calculated over the number of issued shares at year-end 2006, taking into account the share buybacks during the year.

In the consolidated income statement a distinction is made between the result from continued and the result from discontinued operations. The operating result from continued operations decreased from €41.4 million in 2005 to a loss of €21.8 million in 2006. However, when normalized taking into account exceptional items and amortisation, the operating result from continued operations actually increased sharply from €27.4 million to €45.0 million, mainly due to the acquisitions in 2006 of, amongst others, Sky Radio Group, Keesing Media Group and Relatieplanet.

The annual figures for 2006 and 2005 have been presented according to IFRS.

Outlook
The following items will have an effect on the TMG result in 2007:

- Advertising revenue. In general, the last two months of 2006 and the first two months of 2007 show a positive development for regional daily newspapers, door to door papers and Sp!ts, primarily due to an increase in personnel advertisements. The daily newspaper "De Telegraaf" shows a more unsettled picture: there is a slight increase in personnel advertisements, classified advertisements are under pressure, while there is no visible effect of the economic recovery on national brands- and services advertisements. In contrast, revenue from Internet activities is showing steady improvement;
- Positive outcome of the alterations of portfolio arrangement;
- Restructuring measures taken in 2006 and earlier, as well as the centralisation of purchasing are expected to achieve a reduction of costs of at least €10 million;

- Sale of the Wegener shares (sales gain of over €42 million),

and

- Start-up losses on new projects
- Sharp increase of amortisation expenses

Regular investments during 2007 are estimated at approximately €25 million while approximately €14 million will be divested (real estate and outsourcing activities).

This creates an optimistic outlook regarding TMG's current and future position in the changing media industry. It is still too early to make a firm statement regarding the result for 2007, however, TMG does expect to achieve an improved EBITA result compared to 2006.

Cancellation share buyback
In 2006, TMG repurchased 2,499,200 own shares (partly in the form of depositary receipts). A proposal to cancel the repurchased own shares will be put to the Annual General Meeting of Shareholders on 19 April 2007.

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