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# TMG's recurring EBITA result exceeds € 62 million

TMG (Telegraaf Media Groep N.V.) made significant progress during 2008 on reducing costs, divesting non-core activities, adjusting the multi-media portfolio through acquisitions and divestments, and realising synergies. The recurring (normalised) EBITA result achieved by TMG increased from € 61.8 million in 2007 to € 62.4 million in 2008 on revenues of € 700.1 million and € 684.2 million respectively. The recurring EBITA margin increased from 8.8% to 9.1%.

The economic crisis, which deepened during the second half of 2008, resulted not only in an extensive restructuring provision (€ 52.3 million), but predominantly led to the impairment of the interests in ProSiebenSat.1 Media AG (€ 294.8 million) and in Expomedia Group Plc (€ 18.7 million).

Including amortisation and tax a net loss of € 360.8 million was incurred in 2008. In 2007, TMG made a net profit of € 399.3 million, mainly due to a book profit of € 406.6 million on the sale of interests in SBS Broadcasting S.à.r.l. and Wegener N.V.

*The 2008 and 2007 annual figures have been prepared in accordance with the International Financial Reporting Standards (IFRS) as authorised by the European Commission. The annual report is composed based on continued operations for 2008 as well as for the comparable figures over 2007 (see Appendix). The results from assets held for sale are presented in the consolidated income statement.*

**Strategy**

TMG consists of three media companies, Telegraaf Media Nederland, Sky Radio Group and Keesing Media Group, as well as three operating companies.

Steps were taken by Telegraaf Media Nederland (TMnl), by far the most important media company in terms of TMG's operating result, in relation to optimisation (including the establishment of a Financial Shared Service Centre), portfolio adjustments (including the start up of the De Echo

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door-to-door paper in Rotterdam and the acquisition of an interest in Webregio.nl), divestments (announcement of the decision to sell a number of magazines in the Netherlands) and integration and synergy initiatives (including greater collaboration between HDC Media and Holland Combinatie in the Gooi area).

In the Netherlands, the Sky Radio Group and Keesing Media Group took their first strategic steps into digital radio channels (including 'Sky Radio Lovesongs' and 'Radio Veronica Top 1000 Aller Tijden') and digital games (including the acquisition of zigiz.com), respectively.

In terms of the operating companies, the change in strategic direction for the distribution company to focus exclusively on delivering daily newspapers is increasingly taking shape. With respect to printing operations, the objective of realising cost reductions by increasing efficiency and optimising press capacity has high priority. In 2008, night press capacity was reduced by one press while maintaining the same production.

Internationally, the strategy pursued up until now to enter markets and grow through magazines linked to internet publications has been abandoned. Partly therefore the operations in Sweden were sold to LRF Media and the disposal of business units in the Ukraine is at an advanced stage.

The participation in ProSiebenSat.1 is viewed by TMG as being of strategic importance due to the growth in the international consumption of this media type and the access to television in a fast changing media market.

**TMG's Objectives**

Including the results of assets held for sale, TMG realised recurring EBITA of € 51.8 million in 2008. This resulted in a margin of 7.2% on revenues of € 721.7 million. In 2007 these figures were € 53.3 million, 7.2% and € 738.8 million respectively. At the time of publication of the semi-annual results 2008, the assumption was to reach a margin of at least 8% for the whole year. Given the further economic downturn during the last quarter of the year, particularly revenue development was negatively affected. Where possible, the decreased revenue was absorbed by lowering the costs.

As indicated at the publication of the semi-annual results, the recurring EBITA margin is targeted to grow at a rate of 10% per year over the next three years. Given the 7.2% result achieved in 2008 (including assets held for sale at the end of 2008), this translates to a recurring EBITA margin for 2008 of more than 7.9%. When in accordance with the 2008 financial statements, only 'continued operations' are taken into account, an recurring EBITA margin of 9.1% has in fact already been realised in 2008. However, given economic developments, this margin is expected to come under pressure in 2009.

### Cost Reductions and Reorganisation

A key cost reduction programme was initiated during 2008. This programme includes an almost 500 FTE headcount reduction. The works councils in principle approved the plans and agreement in principle was reached with the trade unions concerning the 2009 - 2010 Social Plan. As a result, headcount has been reduced by 130 during 2008. The cumulative reduction must reach 425 FTE by the end of 2009, while the remaining reduction of 75 FTE will be realised in 2010. These numbers exclude the staff associated with activities designated for disposal and the 100 FTE that will be eliminated in 2009 as a result of the rationalisation of TMG's distribution operations.

### Financial Result

The **recurring EBITA result** increased from € 61.8 million to € 62.4 million in spite of the pressure on advertising revenues, particularly in the last quarter of 2008. This resulted in an operating margin of 9.1%.

Driven by the economic downturn, the **net result** for 2008 was sharply negatively impacted by impairments, particularly of the participation in ProSiebenSat.1 Media AG (ProSiebenSat.1) acquired in 2008. In total, a net loss of € 360.8 million was incurred over 2008 compared to a positive net result of € 399.3 million over 2007. The (book) losses on the participations in ProSiebenSat.1 and Expomedia Group Plc. (Expomedia) amounted to a total of approximately € 324 million. Furthermore, a restructuring provision in excess of € 52 million was recorded. This compares to a book profit on the sale of the interests in SBS and Wegener in 2007.

**Net revenues**declined by € 15.9 million to € 684.2 million in 2008.

Revenues were positively impacted by a modest € 5.1 million increase in circulation revenue, primarily due to higher paid subscription revenue, a strong increase in other revenues in the amount of € 6.9 million in part due to the acquisition of a majority interest in the Pilarczyck Mediagroep during 2007 and the increase in internet revenue from over € 30 million in 2007 to over € 39 million in 2008.

Revenues were negatively impacted by a € 13.8 million decline in advertising revenues primarily evident in the personnel ads, classified ads and the national brands and services segments. Autonomously, advertising revenues declined by more than € 26 million. Furthermore, there was a pressure on prices partly due to the intensely competitive media market. Likewise, by outsourcing the distribution of free local papers to third parties and the termination of a third party distribution and printing contract, revenues from these activities declined by € 14.1 million.

Total **operating expenses** rose by € 4.2 million from € 720.9 million in 2007 to € 725.1 million in 2008.

This rise includes an increase of € 11.9 million in 2007 in restructuring expenses to € 52.3 million in 2008 in relation to the reduction in headcount planned for 2008 through 2010. Apart from the increase in the restructuring expenses, no provision was made for the profit sharing scheme in 2008, which in 2007 amounted to € 14.5 million. Furthermore, there was a significant € 10.2 million reduction in temporary staff costs, down to € 22.7 million.

Expenses generally showed a downward trend in 2008 in comparison to 2007, due to decreasing manufacturing costs (primarily paper and distribution costs) and due to a cost reduction programme initiated back in 2007.

The positive result in the amount of € 352.6 million realised from **associates** in 2007, primarily due to the sale of the interest in SBS Broadcasting S.a.r.l. (SBS), was contrasted in 2008 by the negative result from participations in the amount of € 131.3 million, primarily due to the € 18.7 million write off of the investment in Expomedia, the 6% share in the ProSiebenSat.1 operating result over 2008 in the amount of € 10.2 million, as well as the impairment loss on this participation in the amount of € 99.8 million (also see next paragraph).

**Financial income**declined by € 61.2 million to € 15.7 million in 2008. It should be noted that in 2007 the € 57.0 million book profit on the equity interest in Wegener was included in this amount. The proceeds related to the sale of SBS were invested in term deposits that yielded over € 13.3 million in interest income up to October 2008.

The **financial expenses** include the impairment of the ProSiebenSat.1 put option in the amount of € 195.0 million to € 182.0 million as at 25 September 2008.

The effective **tax** rate on the 2008 operating result is 2.7% compared to negative 1.7% in 2007.

The **net cash flow** in 2008 was negative € 462.3 million. € 65.0 million was generated from business operations, which is slightly higher than the comparable € 62.1 million figure for 2007. The cash flow from investments was negative € 417.8 million, primarily as a result of the € 377.1 million investment in the ProSiebenSat.1 participation effected in September 2008.

**Shareholders' Equity**

Including the loss incurred during 2008, the distributed 2007 dividend and the share buy-back in 2008, shareholders' equity decreased from € 866.8 million at the end of 2007 to € 411.6 million at the end of 2008. This represents a decrease from € 17.43 to € 8.62 per share. The dividend to be paid for 2008 has not yet been factored into equity.

## Shares

During 2008, TMG acquired 1,990,200 (depository receipts for) shares in a buy back programme for a total amount of € 47.0 million. Together with the shares bought back in 2007 this amounts to 2,250,000 (depository receipts) of shares. These shares have not been withdrawn, as a result of which the composition of the number of shares in comparison to 2007 remains unchanged. There are 50,000,000 ordinary shares and 960 priority shares of € 0.25 nominal value. Of the ordinary shares, 31,722,029 were held as depository receipts as at 31 December 2008, amounting to 63.4% (year-end 2007: 63.4%).

## Investment

Investment activities in 2008 amounted to € 417.8 million and include investments in property, plant and equipment, and in intangible assets (excluding goodwill) in the amount of € 15.2 million, acquisitions in the amount of € 39.0 million, and the exercise of the ProSiebenSat.1 option arrangement in the amount of € 377.1 million.

## 2009 Outlook

As announced in the press release issued pursuant to the New Year's speech, under the current economic conditions it is more than ever irresponsible to make any predictions concerning the results for 2009. It is, however, possible to identify a number of factors that could affect the development of the EBITA result:

- Circulation revenues from continued operations are projected to exhibit a positive trend, primarily due to price increases.
- The total advertising revenues from print and radio activities are projected to be significantly lower in comparison to 2008 due to the downturn. Revenues from digital activities on the other hand are expected to show a further increase this year.
- In terms of costs, restructuring measures and the planned outsourcing of a number of non-core activities will result in a cost reduction of at least € 20 million.
  These cost reductions will be offset by the rising cost of paper and the effects of the 2008 and 2009 collective labour agreement (CAO) salary increases.

Additional factors that affect the **net result** for 2009 include lower financial income due to the ProSiebenSat.1 participation, lower restructuring expenses, and a positive effect from the divested activities (gross € 11 million).

The latest data concerning the deterioration of the economy point to a decline of a magnitude not seen since the 1930s. The first two months of 2009 showed a significant company-wide decline in revenues in comparison to the same period in 2008. As a consequence, the operating result is expected to be under pressure during 2009.

TMG is almost debt-free with market leadership positions in major brands in several relevant media markets. The De Telegraaf daily newspaper, Sky Radio and Denksport hold the top positions in the daily newspaper, radio, and puzzle and games markets, respectively. These activities have prospects for a bright future, also in their respective digital markets.

TMG seeks to realise its growth objectives. However, the primary focus in 2009 will be more on strengthening market positions.

**Dividend Policy**

The dividend is normally set within a bandwidth of 15% to 30% of the cash flow, with cash flow being defined as the sum of the net profit and depreciation and amortisation, adjusted for the effects of revaluation and impairment. As a result of high impairments there would be no claim on dividend. Taking into account the operating cash flow and the debt free position, a dividend is proposed of € 0.35 per share in cash. On the total number of (depository receipts of) shares of 47,750,000 this means a payout of over € 16.7 million. The 2007 dividend amounted to € 1.00 per share.




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