

Financial Instruments

note 19

Net debt	Effective	Nominal	Repayment	Repayment	2006	2005
	interest rate	interest rate	commitments	commitments		
	(%)	(%)	1-5 years [1]	>5 years [1]		
Subordinated bonds 1997-2007	6.330	6.250	–	–	–	227
Bonds 1998-2008	5.340	5.250	227	–	227	226
Bonds 2003-2014	5.240	5.125	–	692	692	701
Perpetual cumulative subordinated bonds	7.270	6.875	–	225	225	225
Other long-term loans			84	2	86	46
■ Total long-term loans			311	919	1,230	1,425
Derivative financial instruments			2	–	2	11
■ Total long-term debt			313	919	1,232	1,436
Borrowings and bank overdrafts						
Multi-currency roll-over credit facility 2004-2011					676	–
Subordinated convertible staff bonds 2002-2007	5.550	3.000			1	–
Subordinated bonds 1997-2007	6.330	6.250			227	–
Bonds 1999-2006	5.690	5.550			–	214
Unsubordinated convertible bonds 2001-2006	2.500	1.000			–	447
Other short-term loans					15	12
Bank overdrafts					24	46
■ Total borrowings and bank overdrafts					943	719
Deferred acquisition payments					27	26
Derivative financial instruments					0	14
■ Total short-term debt					970	759
■ Gross debt					2,202	2,195
Minus:						
Cash and cash equivalents					(138)	(428)
Derivative financial instruments:						
Non-current receivable					(10)	(22)
Current receivable					(4)	(108)
■ Net debt					2,050	1,637

[1] Repayments are presented at amortized costs.

The nominal interest rates on the bonds mentioned above are all fixed until redemption, except for the variable interest rate on the multi-currency credit facility. See → Risk Management for the Group's financial risk management approach.

LOAN MATURITY

The following amounts of gross debt at December 31, 2006, are due within and after five years:

Gross debt

in millions of euros

2008	253
2009	35
2010	11
2011	14
Due after 2011	919
■ Long-term debt	1,232
Short-term (2007) ^[1]	970
■ Total	2,202

[1] 2007: includes drawn down on multi-currency roll-over credit facility (€676 million), maturing 2011

Subordinated bonds

Wolters Kluwer has outstanding subordinated bonds of €227 million due in June 2007 (NLG 500 million). Subordinated bonds define that subordinated obligations of the Group rank *pari passu* without any preference among themselves and with all other present and future equally subordinated obligations of the Group.

Bonds

Wolters Kluwer has unsubordinated bonds outstanding for an amount of €919 million. On November 19, 2003, Wolters Kluwer issued unsubordinated bonds due in 2014 with a nominal value of €700 million. The coupon on the bonds is 5.125% with an issue price of 99.618%. Additionally, Wolters Kluwer has outstanding unsubordinated bonds of €227 million due in 2008.

Unsubordinated convertible bonds

The unsubordinated convertible bonds outstanding for an amount of €455 million have been redeemed at 107.88% of their principal amount of €422 million on the maturity date of November 30, 2006.

Perpetual cumulative subordinated bonds

On May 14, 2001, a perpetual cumulative subordinated bond loan with a nominal value of €225 million was issued. The issue price of the bonds was 100%. These bonds bear interest at 6.875%. Wolters Kluwer has the right to redeem the loan as from May 2008. Wolters Kluwer is allowed to refrain from paying interest if there is not declared or made available any dividend for payment. The accrued interest will be paid in a subsequent year where there is dividend declared and paid. In case of bankruptcy, Wolters Kluwer has no obligation to pay any accrued interest; the nominal amounts of the bond will then become a subordinated liability. The proceeds from this bond issue were used to refinance bank facilities, as well as for general corporate purposes.

Multi-currency credit facility

In July 2004, Wolters Kluwer signed a €750 million multi-currency credit facility which was amended and restated in September 2006 to €1 billion with more favorable terms. The amended terms include a higher facility amount as well as a lower interest rate margin and a lower commitment fee. The multi-currency credit facility had an initial maturity of five years with two one-year extension options. The second extension option has been approved in 2006, the maturity of the multi-currency credit facility is 2011. The multi-currency credit facility will be used for general corporate purposes.

Fair value of bonds and derivative financial instruments

	December 31, 2006		December 31, 2005	
	[1] Carrying value	Fair value	[1] Carrying value	Fair value
Bonds	(1,146)	(1,172)	(1,368)	(1,421)
Unsubordinated convertible bonds	–	–	(447)	(447)
Perpetual cumulative subordinated bonds	(225)	(231)	(225)	(233)
Derivative financial instruments:				
▪ Non-current receivable	10	10	22	22
▪ Current receivable	4	4	108	108
▪ Non-current payable	(2)	(2)	(11)	(11)
▪ Current payable	0	0	(14)	(14)
▪ Total derivative financial instruments	12	12	105	105

[1] Carrying value is defined as book value including accrued interest less the capitalized portion of the issuing costs.

The fair value has been determined by the company based on market data or, if not available, appropriate valuation methods or quotes from financial institutions.

The fair value of outstanding bonds at the balance sheet date can deviate from the value at which they have been recorded in the balance sheet.

Hedge accounting

At year-end the outstanding derivative financial instruments qualify for hedge accounting under IFRS. To apply for hedge accounting requires the hedge to be highly effective. During 2006 the result recorded in the income statement as a result of ineffectiveness of hedging is: fair value hedge €(0.1) million, cash flow hedge €0 million, and net investment hedge €0.1 million.

Sensitivity

A sensitivity analysis on the derivative financial instruments portfolio yields the following results assuming an instantaneous 1% decline of the U.S. dollar against the euro from their levels at December 31, 2006, and an instantaneous 1% increase of both the U.S. dollar and euro interest rates respectively.

Sensitivity

<i>in millions</i>	Amount	Exchange rate movement	Interest rate movement
Fair value hedge	€200	–	€(5)
Cash flow hedge	\$200	€0	€6
Net investment hedge	\$215	€2	€0

For the effective part of the hedge, the sensitivity of the hedging item is offset by the sensitivity of the hedged item.

The multi-currency roll-over credit facility is not included in this sensitivity analysis since this is not a derivative financial instrument. However, the U.S. dollar draw-down (\$890 million at December 31, 2006) serves as a net investment hedge. See the → Notes to the Consolidated Financial Statements – Derivative financial instruments and hedging activities for the principal accounting policies.

Employee Benefits

note 20

Employee benefits	2006	2005
Pensions and post-employment plans	168	227
Other (post-)employment obligations	19	23
Total	187	250

PROVISION FOR PENSIONS

The provision for pensions relates to defined benefit plans. The following weighted average principal actuarial assumptions were used to determine the net periodic pension and post-retirement plans' expense and net liability at the balance sheet date.

Economic assumptions

<i>in %</i>	2006	2005
Pension schemes		
Discount rate	4.7	4.3
Expected return on plan assets	5.8	5.3
Expected rate of salary increases	3.3	3.5
Post-retirement plans		
Discount rate	5.4	5.3
Medical cost trend rate	5.0	5.0

The expected rate of return on plan assets on individual categories of plan assets are determined by reference to relevant market indices. The overall expected rate of return on plan assets is based on the weighted average of each asset category. The mortality tables used are generally accepted in the applicable countries. The average increase in salaries is based on the non-closed pension plans. The medical cost trend rate is capped at 5% as stipulated by the Group's post-retirement medical plan in the United States.