

Risk Management

General

Wolters Kluwer recognizes the following risk categories: strategic, operational, and legislative risks; financial risks; and financial reporting risks. The risk overview provided in this section can never be exhaustive.

Strategic, operational and legislative risks

Markets and products

Wolters Kluwer's strategy is focused on serving professionals with information, software, and services to help them make critical decisions and improve their effectiveness. Its markets are relatively stable with a strong and constant need for up-to-date information, workflow software solutions and services, particularly in the rapidly evolving fields of regulation and compliance (tax, fiscal, financial services, legal, and human resources), learning (education), and health (medical).

The company serves an important part of its customers by means of annual subscription-based products and services with high renewal rates, but also increasingly via large multiyear contracts. The ability to renew these subscriptions and contracts has an important impact on the future of the company's business. The company mitigates this risk by maintaining continuous interaction with its customers through renewal programs, conferences, and advisory boards.

Wolters Kluwer faces competitive challenges from existing and new competitors. In order to maintain growth and sustain its competitive advantage, Wolters Kluwer continuously develops new products, providing its customers with state-of-the-art technological solutions. These products are developed in close collaboration with customers, based on a multiyear product development plan. The portfolio is balanced in terms of markets and geography. Protection of intellectual property rights is important to safeguard the portfolio of information, software, and services. Technological developments make it increasingly difficult to protect intellectual property rights. The company relies on trademark, copyright, patent, and other intellectual property laws to establish and protect its proprietary rights in these products and services. Intellectual property rights could be challenged, limited, invalidated, circumvented, or infringed by competitors.

Risks with respect to the acquisition of companies can relate to the integration of the acquisitions and the realization of expected synergies and financial projections. When acquiring new businesses, or divesting existing business, Wolters Kluwer carries out extensive due diligence efforts and

involves outsider experts as appropriate. In addition, the company strongly focuses on the integration process in the period after the acquisition.

Technological developments

Electronic platforms and networks are an important means of the delivery of Wolters Kluwer's products and services. The company constantly strives to improve its ICT (information and communication technology) environment and performance and is involved in multiyear initiatives such as outsourcing its data centers, implementing new ERP (enterprise resource planning) systems, creating next-generation platforms for electronic products, off-shoring application maintenance and development, and implementing shared service centers. These initiatives continue in 2007. New initiatives in this respect also may be taken in the future. While the company implements risk-mitigating actions during the transition phase, these initiatives are inherently subject to execution risks. Risk-mitigating actions include setting up project teams and oversight boards that are adequately resourced, and careful planning and monitoring of the progress by senior management.

Staffing

The ability of the company to attract talent and retain highly skilled, experienced, and motivated personnel plays an important part in the continued success of its business. To that effect, the company has launched a talent management program aimed at providing its employees with the best opportunities in the industry. In order to assure top-quality human resources the company invests in competitive training and remuneration packages. The company mitigates risks by having a well-understood strategy in place and hiring the best management team available.

Treasury

As is the case with most international businesses, the company manages a variety of treasury risks, including currency and interest rates, liquidity, and credit risk.

Fluctuations in exchange and interest rates affect Wolters Kluwer's reported results. It is the company's goal to mitigate the effects of exchange rate and interest rate movements on net income, equity, and cash flow. Whenever possible, the company tries to establish this by creating natural hedges, such as income and expenses in the same currency and matching assets and liabilities. When natural hedges are not present, Wolters Kluwer strives to realize the same effect with the aid of derivative financial instruments. For this purpose, hedging ranges have been identified and strict policies and governance are in place, including authorization procedures. The company only purchases or holds derivative financial instruments with the aim to mitigate economic risks and most of these instruments qualify for hedge accounting as defined in IAS 39. The company does not purchase or hold derivative financial instruments for speculative purposes. For additional disclosure about treasury risks, please refer to → note 19 of the Consolidated Financial Statements.

Currency

The main currency risks identified by Wolters Kluwer are transaction and translation risks. The transaction risk exposure within individual Wolters Kluwer entities is considered to be limited. The prices that Wolters Kluwer charges its customers for products and services are mainly denominated

Financial risks

in customers' local currencies. Given the nature of the business, almost all related costs are also incurred in those local currencies. Derivative financial instruments to hedge transaction risks are not frequently used.

Translation risk, which is the risk that exchange rate gains or losses arising from translating the income statement and the balance sheet of foreign subsidiaries to the corporate reporting currency (the euro) for consolidation purposes, is partially hedged.

An instantaneous 1% decline of the U.S. dollar against the euro from their levels at December 31, 2006, with all other variables held constant, would have the following impact on the company's financials:

Approximate impact of 1% decline of the U.S. dollar against the euro

in millions of euros

	2006
Revenues	(21)
Operating income	(5)
Net income	(3)
Shareholders' equity	(15)

In order to hedge its net investment in the United States, defined as the total investment in both equity and long-term receivables from the U.S. holding company, the company had U.S. dollar forward contracts outstanding for a total notional amount of €163 million (\$215 million) at December 31, 2006. In 2006, the company created a natural hedge by drawing in U.S. dollars on the credit facility. The company had U.S. dollar debt outstanding for a total notional amount of €760 million (\$1,001 million) at December 31, 2006. This represents a total U.S. dollar balance sheet cover of approximately 40% (2005: approximately 20%). This is within the minimum 20% balance sheet cover as stated in the treasury policy approved by the Audit Committee.

Part of the interest charges have been swapped into U.S. dollars through the use of derivative financial instruments. Of the total interest expense, approximately 70% was payable in U.S. dollars. Assuming the same 70% of total interest expense payable in U.S. dollars, the following sensitivity analysis can be made. An instantaneous 1% decline of the U.S. dollar against the euro from its exchange rate at December 31, 2006, with all other variables held constant, would result in a decrease of approximately €0.8 million of the financing costs (2005: approximately €0.5 million). The increased sensitivity in the financing costs for the U.S. dollar is due to the increase of U.S. dollar denominated debt.

Interest rates

The company strives to protect results and cash flow from interest rate movements, either by arranging fixed or variable rate funding, through the use of derivative financial instruments (interest rate swaps). Of the total interest portfolio (excluding cash and cash equivalents), approximately 33% was variable rate and 67% was fixed rate, in line with the treasury policy of 67-75% fixed and 33-25% variable interest rate debt (all percentages are calculated on principal amounts).

Assuming the same 33% variable and 67% fixed interest rate, the following sensitivity analysis can be made. An instantaneous increase of interest rates of 1% compared to the rates at December 31, 2006, with all other variables held constant, would result in an increase of approximately €7 million of the financing costs.

Liquidity

In order to reduce liquidity risk, Wolters Kluwer has established the following requirements:

- repayment of long-term debt should be spread evenly over time;
- acquire funding at least one year in advance of all maturing long-term debt;
- minimum headroom of €500 million (sum of unused committed credit facilities, cash and cash equivalents, minus short-term other loans and bank overdrafts);
- targets to a net-debt-to-EBITDA ratio of approximately 2.5 as of the end of 2007. The company could however temporarily deviate from this relative indebtedness ratio.

In September 2006, Wolters Kluwer successfully renegotiated the existing credit facility agreement of €750 million with its core relationship banks. The amended terms include a higher facility amount (from €750 million to €1 billion) as well as a lower interest rate margin and a lower commitment fee. The maturity date of the renegotiated multi-currency credit facility is July 2011.

As Wolters Kluwer has access to the unused part of the committed credit facilities of €324 million and has cash and cash equivalents of €138 million minus short-term liabilities of €62 million, the headroom was €400 million at year-end 2006 and reduces the liquidity risk of the company. The company feels comfortable with the current headroom, which is less than its policy, as this is a temporary result of acquisitions and the maturity of debt, and is expected to reverse in the coming months. No property has been collateralized or in any other way secured under these contracts.

Credit

Credit risk represents the loss that would be recognized if counterparties failed to perform as contracted. It is the company's treasury policy to conclude financial transactions, where possible, under ISDA (International Swap Dealers Association) master agreements. Cash is invested and financial transactions are concluded only with financial institutions with strong credit ratings. Furthermore, credit limits per counterparty are in place. The company does not enter into derivative financial instruments to protect default of financial counterparties.

Insurance

As is the case with most international businesses, the company manages a range of different insurable risks by arranging coverage for property damage, business interruption, and casualty; general liability; errors and omission liability; directors and officers liability; employment practices liability; and criminal liability.

The company has put in place a worldwide internal risk engineering program for its property damage and business interruption risks which is steered centrally and aims to improve the risk profile of the operating companies. Accompanied by insurers, the company performs loss control visits to operating company locations on a regular basis, as well as to the locations of key suppliers. The aim is to implement insurers' recommendations, however always after a cost-benefit analysis.

Post-employment benefits

The financial risk of the defined contribution pension plans which have been arranged by the company in most of the countries, and the state pension plans, is limited to the contributions to be paid to the pension funds. These contributions may vary over the years, but usually follow the general trends in the respective countries.

The company faces a higher risk for the defined benefit plans, the main ones being the pension and post-retirement medical plans in the United States and the pension plans in the Netherlands, the United Kingdom, and Belgium. Over the past few years, the company has mitigated these financial risks either by closing some of the defined benefit plans to future accruals (the pension plans in the United States and the United Kingdom) or by changing the plan (in the Netherlands: average salary instead of final salary benefit). The value of the assets and liabilities of these plans depends on the developments on the international financial markets. The company engages external advisors to perform asset liability management studies and advise on the investment strategies for the various pension funds. The pension costs may fluctuate based on developments in the international financial markets. A decrease of 1% of the discount rate would increase the plan liabilities by approximately €150 million, and would increase the annual service costs with approximately €5 million.

Fiscal

Wolters Kluwer operates in numerous jurisdictions and is subject to various levies in these jurisdictions. Most of these taxes are transactional and employee-related and are levied from the legal entities in these jurisdictions. Local management is responsible for the proper handling of these taxes and is supported by corporate staff and external professionals.

Risks that may adversely affect the results are changes in corporate tax rates and restrictions in the tax deductibility of certain items. As a consequence, not only could current and future profits be at risk, but it is also possible that a deferred tax asset, or part of a deferred tax asset, which has become unrealizable could be reversed and taken as a charge to the income statement.

Wolters Kluwer maintains a liability for certain contingencies in line with IFRS accounting standards. This liability is judged on a continuous basis in consultation with external advisors.

Financial reporting risks

The Executive Board is responsible for risk management and internal control within Wolters Kluwer. Wolters Kluwer has risk management and internal control systems in place to identify any significant risks to which the company is exposed, enable the effective management of these risks, meet strategic and operational objectives, ensure the reliability of the financial reporting, and, to the best of its knowledge, comply with relevant laws and regulations. The internal control systems are designed based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, which aims at providing a reasonable level of assurance. Consequently, these systems can never provide absolute assurance regarding the achievement of the company's objectives or the reliability of the financial reporting, or entirely prevent material errors, losses, fraud, and violation of applicable laws and/or regulations.

High-quality financial reporting is of the utmost importance for Wolters Kluwer, providing a true and fair view of the company's financial performance

and position both for managerial and accountability purposes. In order to assure the continued high quality of financial reporting, the following risk management and internal control systems are in place:

- a standard annual planning and reporting cycle, consisting of the annual Business Development Plan (three-year strategic plan) on a divisional and operational entity level, the annual budget, quarterly forecasts, and monthly financial reporting;
- periodic business reviews where divisional and operating company management discuss the progress made against plan and actions to mitigate business risks with the Executive Board;
- specific treasury policies on market (currency and interest), liquidity, and credit risk approved by the Audit Committee, with quarterly reporting by the Treasury Committee to the Audit Committee on the status of these financial risks within the pre-defined ranges;
- standard financial and non-financial procedures and policies including the Letters of Representation that are signed quarterly by all divisional and operating company CEOs and CFOs and relevant Corporate staff members, Insider Trading Manual, Risk Manual, Company Values and Business Principles, Accounting Manual, Internal Audit Department Manual, Mergers & Acquisitions Manual, and Whistleblowers Policy;
- internal audits, planned and carried out to ensure compliance with policies and procedures and detect and address internal control issues;
- an Internal Control Dashboard including all recommendations and outstanding control issues arising from management reviews, internal audits, and external audits; recommendations are actively followed up on a monthly basis;
- hiring and retention policies and practices for top finance professionals throughout the business.

The Wolters Kluwer Internal Control Framework (ICF) consists of approximately 100 key controls, designed to ensure that the results of business processes are adequately reflected in its internal and external financial reporting. In 2006, Wolters Kluwer continued its process of tailoring the key controls, per the ICF, to the business process risks identified within the various operating entities. Acquisitions are included in the Wolters Kluwer Internal Control Framework within one year after the acquisition date.

During 2006, testing of the key controls was expanded. These tests are now carried out within Wolters Kluwer's main operating companies on a regular basis, making use of an automated tool to monitor test results. Test results are discussed periodically with the Executive Board and the Audit Committee. Where needed, action plans are designed and implemented to address important risks.

In 2007 the company will continue to tailor the key controls and expand testing of their effectiveness.

The Internal Control Officers at Wolters Kluwer are located in the main operating entities. They have played an important role in tailoring key controls and implementing them in the business processes within their companies, coordinating test work of the key controls, and reporting the outcome of the tests to management and internal and external auditors.

Based on the results of the risk management and internal control systems in place to date, and after consulting the Audit Committee and Supervisory Board, the Executive Board of Wolters Kluwer is of the opinion that, to the best of its knowledge, the risk management and control systems provide

reasonable assurance that the financial reporting over 2006 does not contain any errors of material significance.

The company continues to improve its risk management and control systems. In the coming years Wolters Kluwer will continue to give high priority to improving design and effectiveness and further integrating risk management and control systems in its daily operations.