



Observer AB (publ)

Year-end report January–December 2006

February 8, 2007

Strengthened revenue growth. Further savings measures.

- Operating profit amounted to SEK –612 million (175) and profit before tax was SEK –679 million (117). Profit after tax amounted to SEK –743 million (79), while earnings per share amounted to SEK –9.99 (1.12).
- Operating profit includes goodwill write-downs of SEK 759 million, of which SEK 290 million during the fourth quarter, as well as restructuring expenses of SEK 57 million, of which SEK 23 million during the fourth quarter.
- Excluding goodwill write-downs and restructuring expenses, operating profit rose by 16 percent to SEK 204 million (175) and the operating margin to 11 percent (10). In the fourth quarter underlying operating profit amounted to SEK 32 million (44), including non-recurring expenses of SEK 21 million in the UK, and the operating margin was 7 percent (9).
- The Group's operating revenue increased by 8 percent to SEK 1,915 million (1,776). Organic growth in local currency was 4 percent (2). In the fourth quarter organic growth reached 4 percent (2).
- Cash flow from operating activities amounted to SEK 171 million (164). Cash flow after investments excluding acquisitions amounted to SEK 79 million (72).

Comments by Observer CEO Niklas Flyborg:

"We continue to report revenue growth. This is due to a stronger offering in the Nordic region, further success with the integrated offering in North America and growth in international business and solutions containing analyzed information. The Evaluate service area reported double-digit growth for 2006 driven by very strong growth in the Nordic region.

Development in the UK and Ireland remains unsatisfactory with negative revenue growth. New measures include shutting down the Irish operations and intensifying the transition to a digital client offering and a digital production process, which will facilitate further efficiencies and rationalization gains. Ongoing measures are expected to stabilize operations in the UK during the first half of 2007.

In the Nordic region, a new regional director takes over on February 8, 2007. The restructuring is progressing according to plan and growth was good during the fourth quarter. The transition to digital production has begun.

Our North American operations continue to develop positively with improved earnings and stronger margins. Operations in Germany and Portugal are also developing with good growth and profitability."

Market

The market is developing positively with higher demand for solutions with analyzed information and international services. Monitoring of new channels and media, including expanded broadcast monitoring and blog monitoring, together with increasingly digitalized processes, are creating opportunities for new services.

The increased importance of reputation and brands is driving demand from corporations and organizations to understand and manage their media imprint on a global basis. This, coupled with the growing volume of available information, is creating greater demand and growth opportunities.

Development projects

To better leverage its international presence and capitalize on economies of scale, Observer is adopting a uniform profile and service offering. After coordinating the Nordic region in an organization with shared functions, common solutions and tools are now being developed for the European market. To increase efficiency and profitability in international business, a Group-wide production and delivery process is being established.

The transition to a uniform digital client offering based on a digital production process is under way. The previously announced pilot project in the Nordic region regarding mediation of digital information has succeeded well, and during the fourth quarter of 2006 a company was established for this purpose. The aim is to create a scalable solution for digital production. Nordic clients will gradually switch over to the digital process during the first half of 2007, after which manual production will be phased out.

Restructuring

Restructuring work is proceeding according to plan. The goal of the measures initiated in 2006 is to reduce expenses by SEK 130 million on an annual basis with a full effect by 2008. Restructuring expenses are estimated at SEK 120 million. The measures primarily relate to efficiencies and rationalization gains in the Nordic region, the UK and shared functions.

Following the weak development in the UK and other potential efficiencies identified during the year, restructuring work will be expanded with the goal of achieving another SEK 70 million in annual savings with full effect by 2009. The added measures mainly relate to coordination of business processes and the change-over to a digital client offering based on a digital production process. Restructuring costs are estimated at SEK 50 million. Decision has been made to close the loss-making Irish operations. The aim is to concentrate the operations to the UK where the market potential is greater. Costs for the close-down are estimated to approximately SEK 16 million attributable mainly to costs for winding up personnel and premises. SEK 12 million has been accounted for as a provision in 2006.

Taken together, the previous and current action programs are expected to lead to yearly savings of SEK 200 million with a full effect by 2009. Restructuring expenses are expected to total SEK 170 million. The impact on earnings based on the 2006 expense level and exchange rates is estimated as follows:

SEK million

	2006	2007	2008	2009
Savings impact	10	75	165	200
Restructuring expenses	57	63	50	–

Estimates of aggregate effects are preliminary and could be affected by outside circumstances, which could result in eventual changes in the time schedule.

The Group's development

Operating revenues rose to SEK 1,915 million (1,776), of which SEK 85 million is attributable to acquired units. Exchange rate effects negatively affected income by SEK 3 million. Organic growth was 4 percent (2). In the fourth quarter growth was 4 percent (2).

The Nordic & Baltic region reported organic growth of 5 percent on a cumulative basis and 6 percent in the fourth quarter. The positive development is primarily being fueled by continued strong growth in Evaluate services and international projects. Demand is also increasing in the Monitor service area, in part driven by analysis business.

In North America, growth was 7 percent for the period as a whole and 7 percent for the fourth quarter. Good growth in broadcast monitoring is contributing to the positive trend.

In the rest of Europe, negative growth of 1 percent was reported on a cumulative basis and –2 percent for the fourth quarter. The negative growth was caused by weak development in the UK and Ireland, while Germany and Portugal continue to report good growth.

Operating profit, excluding goodwill write-downs and restructuring expenses, rose to SEK 204 million (175) and the operating margin was 11 percent (10). Operations in the Nordic region and North America reported improved earnings compared with the previous year on both a cumulative basis and for the quarter. The rest of Europe reported substantially lower earnings due to development in the UK and Ireland. In the quarter underlying operating profit for the group amounted to SEK 32 million (44) with an operating margin of 7 percent (9). Profit includes non-recurring expenses of SEK 21 million in the UK in connection with organizational changes and adjustments to balance sheet items. Exchange rate effects negatively affected earnings by SEK 6 million. Fourth quarter profit in 2005 included non-recurring items of approximately SEK 15 million related to pension costs and personnel cutbacks.

Profit after tax for the period was SEK -743 million (79). The tax charge amounted to SEK 64 million (38), of which SEK 25 million (25) is deferred tax for deductible goodwill amortization. The high tax charge is due to a prudent valuation of tax loss carryforwards in foreign subsidiaries.

Financial position

At the end of the period shareholders' equity amounted to SEK 1,249 million (2,148) or SEK 16.78 per share (28.95). Shareholders' equity decreased during the year by SEK 743 million owing to the net loss, by SEK 151 million from exchange rate effects and 8 million from effect of change of principle. The issuance of 249,846 new shares through the exercise of employee stock options increased shareholders' equity by SEK 3 million.

Business acquisitions amounted to SEK 13 million (199). Investments in other fixed assets amounted to SEK 92 million (94) and consisted primarily of the development of service platforms and digitalization of the production process.

Interest-bearing net debt amounted to SEK 764 million (914). Net debt decreased during the year by SEK 150 million, of which SEK 74 million is attributable to exchange rate effects. The debt/equity ratio was 61 percent (43) and the interest coverage ratio was 2.3 (3.2).

In October 2006 Observer AB signed a USD 200 million five-year credit facility with a group of nine banks. The facility has been used to refinance a previous syndicated facility of USD 175 million signed in June 2002.

Operating cash flow amounted to SEK 178 million (163), of which SEK 22 million (73) in the fourth quarter. Cash flow after investments, excluding company acquisitions, amounted to SEK 79 million (72). At the end of the period working capital amounted to SEK -81 million (-80) and the Group's liquid assets totaled SEK 128 million (137).

Goodwill

Goodwill amounted to SEK 1,922 million (2,889). During the year the goodwill item decreased by SEK 967 million, of which SEK 759 million consists of goodwill write-downs and SEK 220 million of exchange rate effects. Acquisitions increased goodwill by SEK 12 million. The first quarter included a goodwill write-down charge of SEK 64 million for the subsidiaries in Ireland, Norway and the Baltic countries as a consequence of restructuring work and operating losses, while goodwill write-downs of SEK 405 million was reported for the UK owing to revised growth expectations. The fourth quarter included additional goodwill write-downs of SEK 270 million related to the UK, after which remaining goodwill amounts to SEK 481 million. During the quarter remaining goodwill related to Norway of SEK 20 million was written off.

Acquisitions

In 2006 Observer strengthened its position in the North American market through complementary acquisitions. In October 2006 it acquired the Canadian media monitoring company Newswatch. The company, with a turnover of CAD 0.7 million in 2005, strengthens Observer's service offering in Atlantic Canada.

During the fourth quarter the net assets of Tempo IV were acquired, as was Sound Clips. Both U.S. companies are active in broadcast monitoring and each has sales of approximately USD 0.5 million per year.

In November 2006 Observer acquired the print monitoring operations of PressWatch, Germany, with annual sales of approximately EUR 1 million.

Other

The County Administrative Court has upheld the Swedish tax authorities' earlier decision to increase Observer AB's taxable income for the year 2000 by approximately SEK 440 million, which would result in a tax charge of SEK 173 million, including tax surcharge. The decision concerns the sale of Sifo Research & Consulting.

Observer has appealed the decision to the Administrative Court of Appeal. The company is of the opinion that the tax authorities' decision will not result in any increased tax cost and, until further notice, will not allocate any provisions connected to the County Administrative Court's decision. The Administrative Court of Appeal is expected to hear the appeal in 2007.

Dividend

The Board of Directors proposes that no dividend be paid for the fiscal year 2006.

Annual General Meeting

The Annual General Meeting will be held on March 29, 2007 at 5:00 p.m. (CET) at Spårvagnshallarna, Birger Jarlsgatan 57A, Stockholm.

Outlook

Observer does not issue forecasts.

Stockholm, February 8, 2007

Observer AB (publ)

The Board of Directors

The year-end report has not been reviewed by the company's auditors.

Accounting principles

From January 1 2005 Observer AB applies the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group year-end report is prepared in accordance with IAS 34 (Interim Financial Reporting) according to the guidelines in RR31 Interim reporting for groups. The Parent Company applies RR32 Reporting for legal entities.

The accounting principles comply with those in the Annual Report for 2005. New and revised IFRS standards that have entered into force from 1 January 2006 will have no effect on Observer's income statement, balance sheet, statement of cash flow or shareholders' equity.

CONSOLIDATED INCOME STATEMENT

SEK in millions	Jan-Dec		Oct-Dec	
	2006	2005	2006	2005
Operating revenue	1,915.5	1,776.3	486.8	489.3
Operating expenses	-1,626.1	-1,530.5	-433.3	-427.1
Depreciation	-85.7	-70.7	-21.7	-18.4
Write-down, goodwill	-758.8	-	-289.7	-
Restructuring expenses	-57.2	-	-22.6	-
Operating profit	-612.3	175.1	-280.5	43.8
Net financial income and expenses	-67.0	-57.9	-14.5	-15.4
Profit before tax	-679.3	117.2	-295.0	28.4
Tax	-63.7	-37.7	-21.3	-29.7
Net profit for the period	-743.0	79.5	-316.3	-1.3
Earnings per share before dilution, SEK	-9.99	1.12	-4.25	-0.02
Earnings per share after dilution, SEK	-9.99	1.12	-4.25	-0.02
Operating profit excl write-down goodwill and restructuring expenses, SEK million	203.7	175.1	31.8	43.8
Operating margin excl write-down goodwill and restructuring expenses, %	10.6	9.9	6.5	9.0

CONSOLIDATED BALANCE SHEET

SEK in millions	31 Dec 2006	31 dec 2005
ASSETS		
Fixed assets		
Goodwill	1,921.6	2,888.9
Other fixed assets	275.8	292.5
Deferred tax assets	33.2	29.2
	2,230.6	3,210.6
Current assets		
Current receivables	383.6	381.0
Current tax assets	21.1	34.2
Liquid assets	127.9	137.3
	532.6	552.5
TOTAL ASSETS	2,763.2	3,763.1
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	1,249.1	2,148.0
Long-term liabilities		
Provisions for deferred tax	102.9	82.9
Long-term liabilities	868.7	1,034.8
	971.6	1,117.7
Current liabilities		
Provisions for restructuring program	33.8	-
Current tax liabilities	19.8	16.2
Current liabilities	488.9	481.2
	542.5	497.4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,763.2	3,763.1
Operating capital	2,081.7	3,097.6
Operating capital excluding goodwill	160.1	208.7
Interest-bearing net debt	763.9	913.9

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK in millions	Jan-Dec		Oct-Dec	
	2006	2005	2006	2005
Operating activities				
Net profit for the period	-743.0	79.5	-316.3	-1.3
Tax	63.7	37.7	21.3	29.7
Net financial income and expenses	67.0	57.9	14.5	15.4
Depreciation	85.7	70.7	21.7	18.4
Write-down, goodwill	758.8	–	289.7	–
Provisions for restructuring program	33.8	–	14.6	–
Other non-cash items	–	10.2	–	9.1
Net of interest and dividends	-68.4	-45.9	-13.9	-16.2
Income tax paid	-30.3	-45.8	-9.1	-0.8
Change in working capital	4.0	0.0	1.3	41.1
Cash flow from operating activities	171.3	164.3	23.8	95.4
Investing activities				
Business acquisitions	-12.6	-198.6	-12.6	-187.7
Investments in other fixed assets	-92.1	-93.5	-24.8	-39.2
Divestment of other fixed assets	–	–	–	–
Increase/decrease in financial fixed assets	0.1	0.9	0.5	0.9
Cash flow from investing activities	-104.6	-291.2	-36.9	-226.0
Financing activities				
New share issue	2.8	104.8	1.1	99.3
Increase/decrease in long-term financial liabilities	-71.1	79.3	-12.6	41.7
Increase/decrease in current financial liabilities	3.9	3.7	-1.3	9.8
Dividend to shareholders	–	-31.5	–	–
Cash flow from financing activities	-64.4	156.3	-12.8	150.8
Cash flow for the period	2.3	29.4	-25.9	20.2
Liquid assets at beginning of period	137.2	98.3	159.7	115.3
Translation difference in liquid assets	-11.6	9.6	-5.9	1.8
Liquid assets at end of period	127.9	137.3	127.9	137.3

CONSOLIDATED SHAREHOLDERS' EQUITY

SEK in millions	31 Dec 2006	31 Dec 2005
Opening balance	2,148.0	1,785.0
Effect of change in principle	-8.0	0.9
Opening shareholders' equity balance	2,140.0	1,785.9
Translation differences	-193.4	261.6
Hedge of net investment in foreign operations	42.7	-52.5
Effect of IFRS 2, Share-based Payment	–	0.2
Net profit for the period	-743.0	79.5
Dividend	–	-31.5
New share issue	2.8	104.8
Closing balance	1,249.1	2,148.0

KEY FINANCIAL HIGHLIGHTS FOR THE GROUP

	Jan-Dec		Okt-Dec	
	2006	2005	2006	2005
Operating margin, %	-32.0	9.9	-57.6	9.0
Operating profit excl write-down goodwill and restructuring expenses, SEK million	203.7	175.1	31.8	43.8
Operating margin excl write-down goodwill and restructuring expenses, %	10.6	9.9	6.5	9.0
Return on equity, %	neg	4		
Return on operating capital, %	neg	6		
Return on operating capital excl write-down goodwill and restructuring expenses, %	9	6		
Debt/equity ratio, %	61	43	61	43
Equity/assets ratio, %	45	57	45	57
Interest coverage, multiple*	2.3	3.2	0.9	2.8
Earnings per share before dilution, SEK	-9.99	1.12	-4.25	-0.02
Earnings per share after dilution, SEK	-9.99	1.12	-4.25	-0.02
Equity per share, SEK	16.78	28.95	16.78	28.95
No. of shares at end of period, thousands	74,454	74,204	74,454	74,204
Avg. number of shares before dilution, thousands	74,351	70,657	74,401	72,413
Avg. number of shares after dilution, thousands	74,391	70,787	74,444	72,521
No. of employees at end of period	2,759	2,743	2,759	2,743

* Definition: Profit after financial items plus interest expenses and write-down goodwill, divided by interest expenses.

REVENUE BY REGION

SEK in millions	Jan-Dec		Oct-Dec	
	2006	2005	2006	2005
Sweden	275.4	273.5	72.2	71.4
Denmark	74.4	73.8	19.5	19.2
Norway	67.7	73.6	15.7	17.9
Finland	91.7	73.7	24.6	19.6
Baltic countries	8.1	8.3	1.4	2.3
Nordic & Baltic	517.3	502.9	133.4	130.4
Germany	179.4	172.5	44.9	44.5
UK	355.2	365.7	86.5	93.5
Portugal	45.4	41.5	11.5	11.1
Ireland	13.7	17.4	3.5	3.8
Rest of Europe	593.7	597.1	146.4	152.9
USA	658.0	542.5	170.7	164.6
Canada	168.2	154.7	41.0	44.1
North America	826.2	697.2	211.7	208.7
Regions	1,937.2	1,797.2	491.5	492.0
Group eliminations	-21.7	-20.9	-4.7	-2.7
Group	1,915.5	1,776.3	486.8	489.3

REVENUE BY SERVICE AREA

SEK in millions	Jan-Dec		Oct-Dec	
	2006	2005	2006	2005
Research/Contact	488.8	477.3	126.0	132.9
Monitor/Evaluate	1,426.7	1,299.0	360.8	356.4
Group	1,915.5	1,776.3	486.8	489.3

INCOME STATEMENT BY REGION

Jan-Dec	Nordic & Baltic		Rest of Europe		North America		Other/ eliminations		Group	
SEK in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External revenue	503.1	488.5	586.2	590.2	826.2	697.6	–	–	1,915.5	1,776.3
Intra-group revenue	2.2	1.4	4.3	2.7	–	–	–6.5	–4.1	–	–
Intra-regional revenue	12.0	13.0	3.2	4.2	–	–0.4	–15.2	–16.8	–	–
Operating revenue	517.3	502.9	593.7	597.1	826.2	697.2	–21.7	–20.9	1,915.5	1,776.3
Operating expenses	–490.2	–486.6	–536.0	–499.8	–588.7	–519.3	–11.2	–24.8	–1,626.1	–1,530.5
Depreciation	–16.5	–13.4	–28.8	–25.7	–37.4	–24.5	–3.0	–7.1	–85.7	–70.7
Write-down, goodwill	–43.7	–	–715.1	–	–	–	–	–	–758.8	–
Restructuring expenses	–28.6	–	–20.8	–	–	–	–7.8	–	–57.2	–
Operating profit	–61.8	2.9	–707.0	71.6	200.1	153.4	–43.7	–52.8	–612.3	175.1
Operating margin, %	–11.9	0.6	–119.1	12.0	24.2	22.0			–32.0	9.9
Operating profit excl write-down goodwill and restructuring expenses, SEK million	10.5	2.9	28.9	71.6	200.1	153.4	–35.9	–52.8	203.7	175.1
Operating margin excl write-down goodwill and restructuring expenses, %	2.0	0.6	4.9	12.0	24.2	22.0			10.6	9.9

Oct-Dec	Nordic & Baltic		Rest of Europe		North America		Other/ eliminations		Group	
SEK in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External revenue	130.4	128.0	144.7	152.2	211.7	209.1	–	–	486.8	489.3
Intra-group revenue	0.3	0.4	1.4	0.6	–	–	–1.7	–1.0	–	–
Intra-regional revenue	2.7	2.0	0.3	0.1	–	–0.4	–3.0	–1.7	–	–
Operating revenue	133.4	130.4	146.4	152.9	211.7	208.7	–4.7	–2.7	486.8	489.3
Operating expenses	–128.9	–131.8	–154.7	–127.7	–144.6	–149.4	–5.1	–18.2	–433.3	–427.1
Depreciation	–4.0	–2.4	–6.5	–6.9	–10.6	–7.3	–0.6	–1.8	–21.7	–18.4
Write-down, goodwill	–20.0	–	–269.7	–	–	–	–	–	–289.7	–
Restructuring expenses	–8.5	–	–13.9	–	–	–	–0.2	–	–22.6	–
Operating profit	–28.0	–3.8	–298.4	18.3	56.5	52.0	–10.6	–22.7	–280.5	43.8
Operating margin, %	–20.9	–2.9	–203.8	12.0	26.7	24.9			–57.6	9.0
Operating profit excl write-down goodwill and restructuring expenses, SEK million	0.5	–3.8	–14.8	18.3	56.5	52.0	–10.4	–22.7	31.9	43.8
Operating margin excl write-down goodwill and restructuring expenses, %	0.0	–2.9	–10.1	12.0	26.7	24.9			6.5	9.0

OPERATING CASH FLOW BY REGION

Jan-Dec	Nordic & Baltic		Rest of Europe		North America		Other/ eliminations		Group	
SEK in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Operating profit	–61.8	2.9	–707.0	71.6	200.1	153.4	–43.7	–52.8	–612.3	175.1
Depreciation, amortization and write-down	60.2	13.4	743.9	25.7	37.4	24.5	3.0	7.1	844.5	70.7
Investments	–18.6	–18.0	–18.8	–28.9	–52.6	–43.4	–2.1	–3.2	–92.1	–93.5
Other non-cash items	20.0	–	13.8	–	–	–	–	10.2	33.8	10.2
Change in working capital	1.7	17.9	–1.8	–14.6	–3.5	8.3	7.7	–11.6	4.1	0.0
Operating cash flow	1.5	16.2	30.1	53.8	181.4	142.8	–35.1	–50.3	178.0	162.5

Oct-Dec	Nordic & Baltic		Rest of Europe		North America		Other/ eliminations		Group	
SEK in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Operating profit	–28.0	–3.8	–298.4	18.3	56.5	52.0	–10.6	–22.7	–280.5	43.8
Depreciation, amortization and write-down	24.0	2.4	276.2	6.9	10.6	7.3	0.6	1.8	311.4	18.4
Investments	–10.2	–7.9	–1.3	–12.5	–13.3	–16.6	–	–2.2	–24.8	–39.2
Other non-cash items	2.7	–	13.8	–	–	–	–1.9	9.1	14.6	9.1
Change in working capital	16.9	22.5	3.1	6.9	–19.3	13.8	0.6	–2.1	1.3	41.1
Operating cash flow	5.4	13.2	–6.6	19.6	34.5	56.5	–11.3	–16.1	22.0	73.2

Observer AB

We improve clients' performance through integrated services and software solutions for reputation and campaign management, media monitoring and research of media contacts.

Observer AB is quoted on the Nordic Exchange. The company has around 2,700 employees and a turnover of SEK 1.9 billion in 2006. Observer operates in the US, UK, Sweden, Canada, Germany, Norway, Finland, Denmark, Portugal, and Lithuania.

Upcoming financial reports:

2007-04-26	Interim report January–March 2007
2007-07-26	Interim report January-June 2007
2007-10-25	Interim report January-September 2007

For further information, please contact:

Niklas Flyborg, President and CEO, telephone: +46 8 507 410 10
e-mail: niklas.flyborg@observergroup.com

Gunilla Rudebjer, CFO, telephone: +46 709 843 836, +46 8 507 417 23
e-mail: gunilla.rudebjer@observergroup.com

Further comments on the report will be provided at a telephone conference with Observer AB's management at 11 a.m. (CET) on February 8. To participate, please phone:

From Sweden: +46 (0)8 505 201 10 (You must dial "08" even if you call from Stockholm.)

From the UK: +44 (0)20 7162 0025

Use code "Observer"

During the telephone conference a presentation will be held. To access the presentation please use this link:

<http://wcc.webeventservices.com/view/wl/r.htm?e=36404&s=1&k=FA1062A18ED040ED3CA3B570F64D4715&cb=genesys>

Observer AB • SE-114 88 Stockholm
Corp. Identity No: SE556027951401 • Telephone: +46 8 507 410 00 • www.observergroup.com