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Chaired by Martti Yrjö-Koskinen

Martti Yrjö-Koskinen

Good morning, ladies and gentlemen, and welcome to Sanoma's Q2 interim report January to June 2012. My name is Martti Yrjö-Koskinen and I am the Head of Investor Relations.

Today representing management we have our President and CEO Mr Harri-Pekka Kaukonen and our CFO Mr Kim Ignatius.

After the presentation you will have time to ask some questions and with this first I would like to hand over to our President and CEO.

Harri-Pekka Kaukonen

Thank you, Martti. Ladies and gentlemen, on my behalf also, welcome to Sanoma's Q2 interim report presentation.

I am standing here today with mixed feelings. On one hand I am very pleased to report a very strong solid Q2 performance and on the other hand the market conditions, especially on our advertising market in our key markets, Finland and the Netherlands, have continued to deteriorate during the last couple of months.

But first about our performance in Q2. The numbers themselves speak that we have been very successful in implementing our strategic and operational roadmap. Our net sales grew by 9% driven by the structural changes in acquisitions and also there's a slight timing shift in favour of learning.

If you remember in our Q1 presentation we reported somewhat lower performance and sales of learning and during Q2 they were able to catch up with that and even some more on top of it.

Our EBIT came at 104 million. This is really good performance driven by learning which I've already mentioned but also all the other units came within our expectations. Also, if you look all the way down to the earnings per share development that is also very satisfactory.

Our digital sales continued to grow and in this number we have also combined the broadcasting and the online digital sales and that corresponds now to almost 24% of group total sales.

I have already mentioned about the learning. And what is true is that the print business is developed a bit weaker due to among other things the VAT development here in Finland but also due to the market conditions and I'll get back to the market conditions and how we see the outlook going forward.

We also executed what we promised in terms of financing and strengthening the balance sheet. We divested a number of non-core assets during Q2 and also we are very pleased to say that we were able to secure funding for the next five years. During Q1 we issued the first ever bond for 400 million and then we successfully implemented a revolving credit facility of 600 million in June.

Also if you look broadly at our strategic development i.e. our transformation to build new consumer revenues, learning solutions and advertising solutions I would say we are very much on track and moving ahead.

We have continued organic investments and development. Our digital organisation is really driving forcefully in different initiatives but in addition we've made a number of smaller acquisitions to strengthen this transformation.

I'd like to talk a little bit about them. They're not really material in terms of size but they're quite important in terms of moving us forward.

We acquired an online retail group Read & View in the Netherlands. This is really about digital distribution of print magazines so it strengthened us in the digital channel in Holland. It also strengthened our position in the gift card market which is also an auxiliary alternative distribution channel of magazines in the Netherlands.

A critical component of learning solutions is the ability to test and assess the performance of students. We made a strategic acquisition in buying Bureau Ice in the Netherlands and our plan is to integrate that testing and assessment capability to our core learning solutions and with that to create and strengthen our competitive position not only in the Netherlands but also take this into other markets.

In Finland we acquired radio channels and we are now clearly a market leader in terms of listening and that substantially improves our presence in the radio market. This is of course important as such but we have also demonstrated over the years that radio complements and supports selling of TV advertising in a really, really complementary fashion. This is something that our customers appreciate and it is something that our team has become very good at.

And then finally in the area of advertising solutions we made an acquisition in Belgium into CRM-based solutions that is to really be able to help our advertising customers reach their target groups directly so we are able to help them create new types of multi-channel campaigns but also to create CRM campaigns and CRM capabilities in a new fashion. And that of course then is a stand alone business but it also supports our core advertising business in Belgium. This is also something that we are also planning to take to the Netherlands first and then looking into opportunities to build this capability in other markets where we have custom solutions today.

We are also very glad about the fact that we won the Finnish hockey rights. This is the most wanted property in terms of rights in Finland. We have them for the next five years and we also have the media platform – the multi-media ability to take advantage of these rights. It will support the development of our Pay TV operation but also will support our other assets. We can combine this content in other ways and support and help the SM-league to become even better to support their brand but also provide our audiences with more content related to the hockey league in the future.

And then yesterday Sanoma's Board decided to move ahead with the big renewal of Helsingin Sanomat. It's really a much broader renewal about content to make sure that Helsingin Sanomat stays and becomes even more relevant to its readers. It is based on the fundamental strengths and values of Helsingin Sanomat and is a part of a multi-channel transformation of the newspaper. And specifically this new format – the tabloid format – also creates a new way of telling stories and is a more modern way that appeals according to our feedback to readers of the future.

We continued the divestments during Q2 and actually divested about 150 million worth of assets. You can see the list there. The kiosk operation was the biggest one but there were a number of other smaller assets. And if you really look back 12, 18 months we have actually divested close to half a billion worth of assets. So that together with the 1 billion of refinancing I think really has put us in a very different financial position and strengthened our balance sheet and funding capability.

So all in all I'm very happy to say that Q2 was a good strong quarter for us. We are moving ahead in the strategic plan and in that sense doing exactly as we have planned to do.

And then to the part of the presentation which is really around the markets out there.

You can see the consumer confidence numbers in this chart and unfortunately in April we expected a slight improvement in the general climate in the Netherlands but actually over May and June the situation turned worse. The same is true in Finland and the situation in Belgium has been at reasonably low levels.

And this low consumer confidence impacts directly in particular our single copy sales. It's a discretionary spend and we see that our customers are buying the magazines but less frequently so. They're thinking about the extra couple of euros so it really impacts the behaviour.

The other point is then of course that if nobody is buying anything then it doesn't make much sense in spending a lot of money in marketing. And you can see a quite dramatic shift in our core markets in advertising between Q1 and Q2. If you just look at the quarter numbers it was more or less flat in Finland during Q1 and broadly flat in Holland with typical differences between print and non-print advertising.

But then in Q2 and especially the deterioration increased in speed so April was still okay, May worse, and June was actually horrible.

To give you an example of this – the TV net advertising market dropped by 18% in the Netherlands in June and that was a month where we had the football European championships which in normal circumstances would solidify or keep the market at least stable. So temporarily the advertising markets are under a lot of pressure. And this is something then of course that impacts our view for the future. Also the outlook if you look at what is going on in the European Union, the continuous struggle of sorting the mess out, it's clear that the outlook is somewhat worse than what we anticipated even a couple of months ago. And that is fundamentally really the reason why we have had to have a closer look at our forecast for this year. And it really starts on, you can see, the advertising market development where we previously said that we expected a stable, slightly declining climate. Now unfortunately we look at the rest of the year as more as likely a somewhat declining market.

And given the fact that we're talking about advertising which goes directly to the bottom line in good and bad times now we're facing the bad times and that clearly puts pressure on our end of year H2 performance.

And what is the impact, then, on sales? It's less but we slightly adjusted downwards in EBIT margin we keep the guidance that we have said but really where we see the bigger change is of course in the net profit and earnings per share whereas in the past we expected it to be growing then now we've forecasted it to be somewhat below last year.

What I would like to point out, though, is that this is really a market driven correction. Our performance over the first half was really very well aligned with what we have been guiding. Our sales growth was strong; our operating performance was right in there and also if you look at our first half earnings per share and take into account that in normal conditions – if there are any normal conditions – we actually make more earnings per share in the second half than the first half so you can do the math and see that really this is discontinuity in the advertising market.

What are we going to do about it? And then really the big delta comes from Holland which is our biggest market and our most profitable market.

This naturally means that we need to continue doing what we're doing; the strategic transformation we need to just put more speed onto it and we also need to put more emphasis in adjusting the cost base. And in Q1 we communicated that we have a programme that will address the support functions and support costs where we're digressing about a 15% improvement in performance which turns out to be above the 30 million target.

Then we're also looking at the core business operations. This is something that I cannot today communicate more specific elements of but during the autumn we will then gradually as we continue the work within our local units then we will be informing more as it develops.

We're going to manage all this performance improvement as one programme and we'll then communicate to the markets as well but first we need to do the homework and have the proper discussions etc. So this work is still under progress but we need to put more emphasis on mitigating the impact of the financial markets.

With that I will thank you for my part and hand over to Kim and then I will be back for questions.

Kim Ignatius

Thank you. Good morning, my name is Kim Ignatius. I am very glad to see so many of you here in the middle of the Finnish summer.

Sanoma performed very well in Q2. Our net sales were 646 million up 9% compared to last year's second quarter adjusted for structural changes our net sales declined by 1.7%.

EBITDA was at the level of 177 million and the EBITDA margin grew from 17.8% to 27.4% - so a clear change in the profitability level.

The same applies for the EBIT margin as you can see growing from 11.1% to 16.1% for the quarter.

There are really two things driving this margin change. One is the consolidation of SBS; the TV operations having higher margin levels than the media print businesses and, secondly, the very strong performance of learning during the quarter.

Our earnings per share excluding non-recurring items improved clearly compared to last year's Q2 and so did the cash flow from operations as well.

As mentioned, Sanoma has worked with its business portfolio strongly during the last one and a half years and the asset mix changed naturally as can be seen in our recorded net sales numbers.

Net sales grew from 592 million to 646 million between the two years and you can see that media is growing by 80 million. The majority of it comes from the consolidation of SBS operations on the positive side. Negatively we can see that the organic growth in the media unit was -4.6% and that is because of the macro economic environment and the advertising market development that we can see taking place.

News also impacted by the environmental trends the organic growth was a negative one -5.4%.

Learning, very strong performance as already mentioned and the growth in learning is totally organic and it is impacted by a shift in time partly from Q1 to Q2 and also somewhat from the latter half of the year and into this quarter.

Trade's change -35 million is purely from the transactions that we'd done in selling some of the non-core assets in the entity.

Looking at the EBIT performance last year 65.6 million; in EBIT this quarter 104.2 million – so a major change in the media part of our business; naturally again the SBS consolidation is bringing the majority of the positive changes. The decline in the advertising and circulation sales is impacting negatively. Partly we have been able to offset this with efficiency improvements during the first half of the year.

In News the decline in the profitability comes from the sales development relating to the market conditions and also to the VAT introduction in the beginning of this year.

The impact of the cost savings efforts that were implemented last year during the second half of the year are starting to be visible in our numbers and will be more visible during the latter half of 2012.

Learning net sales performance was very good, as mentioned, and that has an impact, naturally, on the EBIT as well. We mentioned in Q1 that 8 million of our EBIT was shifted in time from Q1 to Q2. This all now came into our business and our numbers in Q2. In addition there's around 6 million of sales time shift and some expenditures that you need to take into consideration during the latter half of the year.

Trades profit improvement comes from the structural changes executed during the last year.

Continuing with the income statement for the first half of the year our net sales were 1 billion 190 million again adjusted to structural changes. The net sales declined by 1.1%.

Our EBITDA was 260 million a clear increase compared to last year and the margin was 21.9%.

So clear improvement in EBITDA but this is partly offset by the increase in the programming rights and you can see the amortisations related to the programming rights going up from 24 million to 80 million.

Also other amortisations increasing by roughly 10 million the majority of the increase in other amortisations is because of PPA amortisations related to the SBS transaction.

Total financial items clearly higher than they were in Q2 last year and for the first half of the year and, again, it is the SBS transaction driving this development.

The effective tax rate for the first six months is very low; it's at 17.7% and this is because of non-taxable transactions against during the first six months.

Moving to the free cash flow again starting with the EBITDA we did have a 85 million increase on the EBITDA level and this was then offset by a paid TV programming costs, the increase was at the level of 65 million.

Change in working capital is at -100 million. If you compare that to last year we were at the level of 72 million so a 30 million negative development if you want to put it that way. There are three things that are impacting it. First of all we did have in Q4 last year a very positive development of our net working capital - the majority of the annual change of +50 million shown here in the chart actually took place in Q4.

Some of this is just based on a situation at the year end and partly this will backfire during 2012 so we will not be able to keep the full positive benefit from last year during 2012.

Secondly, the fact that learning had a very strong quarter in Q2 so as part of the sales being shifted from Q1 and also partly from the coming quarters means that the accounts receivables currently in the learning business are at a very high level.

The third factor impacting the change in working capital are the restructuring programmes that we executed during the last half of 2011 meaning that some of the costs booked in our books impacted the net working capital positively last year and this year when severance payments and other payments are being made it has the reverse impact.

Interest paid higher than last year again because of the SBS transaction. Tax is paid currently at the lower level than where we were in 2012.

It is very important for all of you to remember that we do create most of our cash flow from operations during the latter half of the year. If you look at 2011 our total cash flow from operations was 273 million and during the first half of the year in 2011 it was at the level of 22 million. So most of the cash flow is being created during H2 and this will be the case again this year.

We successfully completed our refinancing as already mentioned here. Our cross debt at the end of Q2 was 1 billion 540 million and our net debt 1 billion 456 million.

The average interest rate is just above 3% and I think we're going to be very pleased with the level of the interest cost that we currently have.

We do hedge our interest cost exposure and currently the interest sensitivity meaning the impact of a 1% change in the market rate is at a level of 1.6 million on an annual basis.

On the left hand side of the chart you can see the maturity profile of the committed facilities and as mentioned we are very well covered for the coming years. In 2017 the picture looks a bit grim. We have two parts maturing. One is the bond that we recently issued and secondly the revolving credit facility. But I want to point out that we do not want to have our major facilities maturing in less than 12 months' time meaning that the revolving credit facility will be refinanced latest during 2016. So these two facilities will not be managed during the same year.

Finally, ending with the outlook that Harri-Pekka already addressed, the Q2 for us was a very strong quarter; we performed well the first half of the year the performance has been in the guidance frame that we have given to all of you. The environment around us, the market conditions, they are deteriorating and therefore we have adjusted, reviewed and revised our guidance for the full year.

This ends my presentation and we are now ready for questions.

Martti Yrjö-Koskinen

Thank you, Kim. And please wait for the microphone before you ask a question and please state your name and company. We will start from the floor. Do you have any questions?

Questions and Answers

Matti Riikonen, Carnegie

You had your CMD estimate June and then you had two weeks left of Q2 and you still reconfirmed your guidance. What was so dramatic that changed during those two weeks that you had to sort of reverse those comments now?

Well it was the first half of June when we met. This is based on the expectations of advertising performance during H2. And May was still not dramatically different as we saw it but the big drop in June was a horrible month and specifically it was bad in the Netherlands and that was across the channels. And really our fundamental view of the Dutch economy and the Dutch advertising market shifted. And unfortunately you can yes look back and critically ask well why the hell didn't we know it but that's just a fact of life and it's unfortunately timing. But that just shows how dynamic the shift in both consumer confidence and the advertising outlook in Holland have been.

It was right after there that you had Mecom came with a profit warning and a clear editorial I think newsprint outlook etc so a lot of things actually happened right after our CMD and that's just unfortunate timing.

Martti Yrjö-Koskinen

Thank you, we have one more question.

Nina Bergring, Åbo Akademi

Hi, it's Nina Bergring from Åbo Akademi Endowenet. Could you just elaborate a little bit on the market in the Netherlands and also in Finland? Is it sort of broad based all sectors just in fear cutting back or are there some specific sectors or anything more you could give us on that?

It is really quite broad in terms of all consumer relating marketing. It hits across the sectors. In Finland we've seen some specific sectors like recruitment advertising has dropped a lot and that hits our news which is very strong in that segment. But in general customers who market direct to consumers are very careful about spending right now. And what I think is the big unknown is really what will happen in Q4. So are they going to pull back or maybe it's going to be that the floodgates open. So it's really difficult to say. But I would say that it's quite broad right now.

Martti Yrjö-Koskinen

Thank you. Another question back there.

Sami Sarkamies – Nordea

Thanks. Sami Sarkamies, Nordea markets. I have two questions. The first one relates to your guidance. You chose to keep your EBIT margin guidance at the around 10% level yet in the first half you had an EBIT margin of 10.1%. What makes you think you can improve in profitability during the second half even though you are faced with weakening market conditions. So for example these cost saving impacts that will become more visible in the second half will they play a role here?

Yes. Mathematically it is also a margin so it somewhat adjusts automatically. But it's true what you say. If you look at the shift or reduction of, let's say, compressible costs or discretionary markets etc there's a bigger impact in the second half which helps to protect the bottom line. Then we have some additional...like last year we announced the pension packages and they will come into force actually starting in August. So we have some cost reduction effect that protects a bit on the big line. So those are the two factors.

Then there are also some other things. Interestingly enough there are still some opportunities to work with pricing and procurement so that delivers some quick cash benefits so it's a combination of these things.

We've tried to model this very carefully based on the plans and this is what we come out with so there is still some flexibility in the cost basis...

Sami Sarkamies – Nordea

And then my second question is related to overall surprises for you in Q2. You said it was broadly in line with expectations with the exception of the market development. Were there any surprises in terms of divisional performance, for example?

Learning did very well but I think they did more or less in line with what we expected because the extra 6 million was kind of borrowing from the future. We think that the impact of June which is a reasonably low month as such could be to some extent compensated with auxiliary adjustment measures. So I think in a lot of areas that was true.

It doesn't impact the numbers hugely but the news performance is impacted by the recruitment advertising and that was a negative surprise in Q2 – that it actually dipped so much during Q2.

Martti Yrjö-Koskinen

Thank you. There is another question here in front.

Mikael Doepel, Handelsbanken

A couple of questions. First of all in terms of the acquired TV assets in conjunction with the Capital Markets Day you gave – I don't know if the right word is guidance – but you gave some kind of indication of how the assets will perform this year. Is this guidance still intact or has it changed?

No, it's a good question. We said that we referred to the 20% margin and we will be below that due to the advertising drop.

And then, secondly, in terms of gearing what would you expect at the end of the year? It came down of course a little bit from Q1 but it is still fairly elevated. You talked about the cash flow and so on so would you expect it to come down significantly at the worst end of the year or how do you see the gearing developing?

I can't give you a gearing target but it will come down as mentioned earlier already here we do generate the majority of the annual operating cash flow during the latter part of the year and that will take place this year as well. In the Capital Markets Day there we said that the net debt EDITDA target that we have is to be below 3.5 at the year end and that's what we are targeting still.

Just finally, you mentioned the advertising market especially in the Netherlands deteriorated significantly in June. Have you seen any relief in July and what are the indications for August?

No, not really; no material change. What I think the good news is, if there is any, is that we are now hitting the slowest month so July and August are very small months in terms of total advertising spend. No material change in magazine advertising and also the TV advertising market is still depressed so, no, I can't say there is any... If we had seen then maybe our guidance would have been slightly different as well – so there you have it.

Thank you very much.

Martti Yrjö-Koskinen

We have a follow-up question.

Matti Riikonen, Carnegie

In terms of TV related costs particularly in the Netherlands and Belgium you have earlier indicated that you will increase the costs in the second half to improve the programme content to stop the market share from declining further. Are you still going to stick to these plans that you increase the costs towards Q4?

Yes, absolutely. We are actually not here for the short term. That's the most important thing for us for both Belgium and the Netherlands is really to get our programming grid in check to build a momentum for the next year. We have announced the programming plan for advertisers both in Belgium and in the Netherlands and the reception has been positive. Whether and how much that transfers into viewing share improvement we will see but we absolutely will stick to our guns here. We are here and we are very confident with the team now in both markets. The plan is good. Now it's about implementation and then at the end there is uncertainty of how the consumers will receive it. But let's put it like this; there are some small encouraging signs. I can say we had viewing shares above 22 in May. June was bad but that was expected because of the European championships. And then July is also around 22 but the final numbers are not there. So to me it demonstrates that the trajectory seems to be quite stable. And then the new programming grid in both Belgium and Holland will then gradually start towards the fall, end of August, early September, and that really is going to be very interesting to see what kind of impact we'll see.

Martti Yrjö-Koskinen

A follow-up question back there.

Sami Sarkamies – Nordea

One question on the news division. Looking at the profitability it seems to be quite unacceptable. What are your plans going ahead? Do you think you will be able to raise profitability significantly and what kind of role does this tabloid renewal play in this?

Thank you for the question. Yes, the performance of News was unacceptably low – no question about it. The team has already before that, it didn't come as a surprise so we see it...there is an improvement programme that is being worked at and the team is targeted a substantial improvement of performance. It's a bit too premature to disclose if it will turn in time when the work concludes but indeed there are opportunities that we can do. And I would say that all these improvements I have referred to, it's not postponing; it is really re-thinking the way we work. And to put it in context, over several years already there's an ongoing transformation of improving costs in the core print and then investing it and that we just need to speed up. I think the teams in all countries have done a great job in pushing out to the next level. So if 2008 was like wave one of improvement then lets say after that a gradual wave two and now we're 3.0 – if you could use that word – and will come with more information about it. The support cost element is one which will also impact Finland to some extent but now we're talking about really how we serve customers, really having a closer look at different products and segments and the performance there and dealing with those types of issues; improving the supply chain and so on.

Martti Yrjö-Koskinen

Thank you. Any more questions from the floor – any follow up questions? No? Operator we are ready to take some questions from the phone.

Operator

Yes, just a reminder for telephone questions. It is *1 to ask a question and the # or pound key to cancel. The first question comes from Mark Braley from Deutsche Bank. Please go ahead.

Mark Braley – Deutsche Bank, London

Good morning. Two questions – first of all on the learning business. Obviously you've explained the timing issues in profit there. I wonder, can you give us a feel on how confident you feel about the Q3 performance? What are you seeing from the public sector buyers market by market of your products? And the second question was on the VAT impact within Finland. Do you think that you now fully understand how that is impacting on customer behaviour or do we need to get through a full year of subscription renewals to have a good view of that?

To address the learning we follow up quite carefully the payers intake or the realisation of orders and all markets are well on track so I think the learning seems to now be very stable in terms of performance and outlook. The only market where we see a potential uncertainty is Hungary. It is not seen in the numbers but last year, for example, there were a lot of cancellations of orders in the autumn and there is no way of knowing what will happen this year; so there is a small risk in there. But all the major markets are doing fine. We also have performed very well in the curriculum change in Poland actually and have been able to organically capture good market share improvement there. So on the contrary I would say learning has performed very well and the outlook is good.

On the VAT we have actually in the room people who know more about it, but I think it's yes and no. We have an emerging view on what is happening but really because of the subscription renewal at the end of the year we'll know more. We also need to then analyse by segment the elasticity by different customers and we're not there yet so a bit of avoiding that question but maybe towards the end of the year we can report more on what we think the full impact will be. I think the 1 to 2% increase in decline has been what we've said and I don't see any major deviation from that estimate as I stand here today.

Thank you.

Martti Yrjö-Koskinen

Any more questions from the phone, Operator?

Operator

There are no further questions from the phone lines.

Martti Yrjö-Koskinen

We have a follow up question here.

Matti Riikonen, Carnegie

You said that you are going to put more emphasis on cost curtailment in the second half, obviously. Do you so far have any estimate of how much you would be planning to save or what kind of extra or one-time related costs you would incur from that? Now you had a bit north of 5 million in Q2, how is that going to continue?

This is something that I mentioned already in my introductory speech that there's work on the way. It's premature now to comment specific numbers and targets. We will come back with that during the course of the autumn as the local teams then conclude their work and so I'm afraid you will just have to bear with us. But we are clearly looking at a substantial programme.

Speaker

Part of this programme is the additions to the improvements that we are aiming with the support functions which we already discussed at the end of the Q1 and if you remember there's a whole course related to this; it's around 200 million and the target here was to reduce it by 15% leading to 30 million annual savings. This, in my view, is going to be a two to three year programme to fully execute it and that is actually moving forward very well - so all the parts being financed, ICT, HR, etc are progressing nicely. Hopefully towards the end of the year we can give you more results of where we are in connection with that and then also inform you about some new areas.

So what we intend once we have more clarity on the business-related part then we will combine that into one programme and then we will be sharing developments.

Martti Yrjö-Koskinen

Thank you. Any further questions? No?

Closing Comments

I think that then concludes this session and Investor Relations is at your disposal when you have any further questions. Thank you for participating and have a good summer.