Deco Media Oy

Moderator: Olli Turunen
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Olli Turunen: Good morning, ladies and gentlemen, and welcome to Sanoma House and Sanoma's Q3 2014 results presentation. Today's agenda is the following: our CEO and president, Harri-Pekka Kaukonen, will go first through a few highlights of Q3, and then our CFO, Kim Ignatius, will recap the financials of the quarter. After the presentation, you will have a chance to ask questions here in the studio and also over the phone. Harri-Pekka, please go ahead.

Harri-Pekka Kaukonen:

Thank you, Olli. Ladies and gentlemen, welcome on my behalf as well to our Q3 session. I will, so as Olli said, I will start with highlights and then Kim will go through the financials in more detail.

During Q3 our transformation strategy took very good steps, and the strategy implementation is in a good level. The main indicator for that, which is new media sales, grew again by some 7 percent, and a number of quite important milestones were achieved during Q3.

If we look at the operating performance, specifically comparing them year-to-year and how we were expecting things to land, it was a good quarter overall compared to that, and particularly I'd like to mention that Finland and Learning really showed solid performance. The comparable EBIT development in Finland was positive, mainly thanks to the savings initiatives that are really now bringing support to the bottom line and really, if you take all adjustments into account, we were even able to slightly improve compared to previous year.

Learning was also overall solid. There is, again, a time shift there, but even if you adjust for the time shift, Learning had a good quarter. In Holland, the result is somewhat impacted by the investment into new programming, and we are clearly seeing, unfortunately, a little bit softening in the market, but I'll get back to that later in my presentation.

Organic growth was still negative, but we're about halving the run rate from last year, so we're doing about negative 3 percent. This is a little bit softer than we had in Q2, but overall clearly an improvement from a year ago.

We had made some great steps in reach, in market share gains in a number of platforms, particularly in Finland, where TV and radio had a very, very strong quarter, and also in B-to-B sales we were able to gain share in a number of categories.

Already mentioned about Learning. We reached a very important milestone, and I will be speaking a bit more about it, but we finalized the massive portfolio reorganization that we embarked upon earlier this year, so the focus project from a divestment point of view is now complete. And also the associated restructuring measures are moving slightly ahead of target.

SBS is also improving, not at the speed that we really would like to see, but still, if you take away the impact of the major events, we're seeing year-on-year moderate growth in (annuity) share. And then on managing the cost level, our €100 million program is ahead of schedule, it's moving well, and a number of measures have been taken also recently. And overall, if we look at our guidance and outlook for this year, no real change there, so pretty much in line with what we had expected.

Then going a bit into depth in the performance, we have now reached 40 percent in new media sales; that's another way to say non-print. This includes also the TV operations and digital operations, and then some other key areas like events, which are very much associated with our key domains and our brands.

We are close to a 50 percent mark in Holland; I think we will reach that during this year. And during Q3 we had enjoyed particularly strong growth in digital in Finland. And as you can see from this chart, it came from all major brands, so Helsingin Sanomat very strong performance, Ruutu thanks to very strong performance on the Free-to-air side. And then also the hockey league driven supported pay TV subscriptions grew at a very solid rate. So overall, clear indications that our transformation strategy is moving ahead in the right direction.

Then moving to the market. In our previous session during spring, things looked relatively good, particularly in Holland. We're seeing now a bit of a softening in the market; you can see, well, we can have a debate whether plus 5 overall advertising market is softening, but really what you see is the slowing down of growth in TV. And actually, our estimate is that during Q4, we will have a negative TV growth, and that obviously is an important factor as it will directly impact the outlook on SBS performance.

In Finland, no relief in sight. Red numbers since early 2012. It's horrible, and it continues to be really, really difficult. The small sort of bright spot was in TV in Q3, but let's see what Q4 looks like. Hopefully we'll be in the black, but no guarantees there either.

We see a downward shift in consumer confidence in Finland, and if this is sustainable, I mean, then history kind of would indicate that at least the advertising markets will not improve during the next couple of quarters. But that remains to be seen.

So tough conditions continue. I would like to conclude by a few highlights of the strategic achievements that we have accomplished during Q3, and if you want some proof points of the transformation. First, about SBS. We enjoyed moderate growth in Q3 in TV, but also you can see in this chart the corrected apples-to-apples comparison sort of post world championship's viewing share development, and you can see the small improvement, as mentioned.

We also have redesigned the VOD platform KIJK, so we launched it, which means that now we have a better offering and are more competitive in the video market in Holland. We're also combining the video platforms of our NU.nl and our online offering, so we're running it from the same platform, which is exactly what we're doing in Finland as well.

We're now taking good steps in combining TV with our domain brands. A good example is in home deco we started on Sunday afternoons a program called Vtwonen, which is our main brand in home deco, and it's very successful, attracting half a million viewers. So clearly starting to see indications of the domain strategy at work.

And then we're going to launch a new channel, also in Holland, starting from January. Its positioning is sort of in the middle of kind of the male-female, a little bit skewed to female and younger audiences, and that will be, that has been accepted for distribution with the major cable companies, and we will launch it in Jan. So expect that to support growth in Holland on the TV side.

Then project Focus. This has been a humongous undertaking in Holland, and they've done it very, very well. So at the end of it, we ended up selling 23 titles, some 50 million of revenues, and this will lead to enhanced profitability. And what we now have is, we will have five domains in Holland that the business will be organizing itself around. We have very strong positions, as all of these domains, and particularly in women, that's the place where we really have a unique position in the Dutch market.

We're also seeing clear proof that this strategy works. The indices, so the development media sales within the Focus titles is clearly above the non-Focus titles, and actually we're seeing flattish sales development in the Focus titles group overall, which I think is a really strong improvement on the rate of historical rates.

So having the organization focusing on the core brands and the core assets clearly was the right move. Then Finland, Nelonen has had a very, very strong fall. Strong content, strong operations to boost and support the performance, and some very important milestones for Nelonen. First of all, we had first time ever 1 million viewers for any program in Nelonen, and we didn't a few times, actually. And we know strong local content also drives

VOD viewingship and with that, you know, also the performance of Ruutu and the monetization of Ruutu have been on a very good level.

And you can also see that direct impact on the Nelonen TV advertising market share that has shown strong improvement, obviously all driven by strong content, then all good stuff will follow.

I would, you know, really like to thank our organization for the great work that we've done in improving reach. Obviously a media company's nothing without having the product and the content that people like to see, watch, view, get inspired for, and the positive news is that all our major brands are growing. So the viewership is growing, we're increasing reach, and just as an anecdote, but I think it's remarkable in the measurement with Comscore, actually Finland was the only market in Europe where the local media company technically had a bigger reach than Google. Don't know what the real impact of it, but I think it's a nice thing to just observe, and that is a result of the strength of our brands.

And then if you really then factor in the amount of engagement through different channels, then we have a very strong position in Finland, as we've discussed in these sessions before.

A few words about Learning. It's maybe a slightly hidden topic, or maybe we kept a lid on it, but we actually have the biggest e-learning company in northern Europe, with Sanoma. There's no other company that has the level of digital sales that Sanoma Learning has, actually. In our five countries we have more than €50 million of pure digital product out there on an annual basis.

And it's not just that digital is a nice number, everybody talks about digital, it's good to have digital sales, but in Learning also having an integrated competitive offering drives market share. And we see it in two countries, specifically. Since the launch of Bingel a couple of years ago, we have gained market share in primary education year-on-year. And today 70 percent, so 70 percent of primary schools in Flanders, the pupils use Bingel actively. It's an integrated offering that makes life of teachers easier, and it makes it fun for students.

And we just launched a new version of Bingel for grades one to six, and are working on also a secondary education offering. In Holland, Malmberg is furthest ahead of our companies in digitalization. An example on this chart is, we introduced, for the vocational market, really disruptive new, fully e-learning method mathematics and languages, and you can see the results. So you can see the results we gained more than 20 percent share in that market.

And actually Malmberg had during this year launched five major product renewals and launches in the Dutch market. So Learning is doing well, and it is driven to a large extent by the capability and innovation in e-learning to support the strategic growth.

So, hopefully that sheds some light on where we're going with our transformation, and with that, I'll hand it over to you, Kim.

Kim Ignatius: Thank you, Harri-Pekka, and good morning to everybody. My name is Kim Ignatius, and also a very warm welcome on my behalf to this quarterly meeting.

Let's start with the trends that we've seen during the last quarter, and also for the nine-month period. We had, in Q3, sales of 477 million and organic growth of negative 3.3 percent, and when we look at the cumulative nine-month number, actually, the decline rate is almost exactly the same, so fairly stable development throughout the year.

Moving to EBITDA, we had both for the third quarter and for the nine-month period a bit of a higher EBITDA than what we reported for the same period last year. So the reported decline in sales in Q3 is 11 percent, mainly driven by the structural changes, and at the same time the expenses are coming down 11.7 percent. So we can fairly well cope with the decline in the net sales levels.

And the improvement in the cost levels comes from all the categories. So in cost of sales, we're coming down 16 percent. Paper costs, clearly, close to 20 percent down, driven by volumes but also with price declines, distribution by 15 percent down. Our fixed expenses are close to 9 percent down, and employee expenses around 11 percent. So fairly good development in managing the cost base to reflect the trends.

Looking at the amortizations related to TV programming rights and on prepublication rights, a bit higher levels than last year, but not a lot. Depreciation is coming down compared to last year; this is driven by salable assets but also the sale and leaseback arrangement that we've done during this year.

So, getting to the EBIT excluding non-recurring item levels for the quarter 62 million compared to last year's around 77 million, margins a bit lower. But looking at the nine-month period, actually, we have 8.6 percent EBIT margin last year for the same period, 9.1 percent, so we're only half a percent below last year's level. So in the current environment I would say that this is a good, very good achievement.

Non-recurring items this quarter, on the positive side we have 13 million gains from the magazine portfolio, a reduction selling some of the titles, both in Netherlands and in Finland. We have about 9 million coming from being able to recover some of the losses that were linked to exiting the Learning business in the Hungarian market.

Also some pension curtailment was impacting and this relates to the lowered STE accounts that we have in the Netherlands. Naturally part of this positives is then eaten up by the restructuring cost that we have booked for the quarter.

Total financial items also coming down, mainly driven by the clearly lower net debt levels that we have today compared to last year's Q3. There is an impact also from some unrealized derivative F/X gains, which relate to the hedging we do with our US dollar-based programming rights. This is at the level of 6 million.

All in all, profit for the cumulative period is €212 million, naturally impacted by the sales gauge that we have on some of the assets that we have sold during the period. Earnings per share 97 cents, and earnings per share excluding non-recurring items 38 euro cents.

Cash flow is lower than the level that we had for the nine months last year, and this is driven by the lower underlying EBITDA. Then moving to the SBU, and let's start with the net sales development. So in Media Netherlands, our sales are 13 million lower than they were in Q3 last year, and the majority of this, actually around 10 million, is driven by selling the non-core titles, magazine titles, recently in the marketplace. So as Harri-Pekka already said, also the numbers here indicate that the remaining part of the business is actually performing fairly well.

Then in Media Finland, the picture is pretty much twofold, in the traditional print business and especially in the magazine part we see a strong decline in the subscription sales impacting the numbers. On the positive side, then, if we look at Nelonen, both the TV and the radio business we have around 17 percent increase in sales, so very positive numbers. And in Helsingin Sanomat and Ilta-Sanomat the digital part of the business is growing close to 40 percent year-on-year.

So the trends are, as we know and have seen, that the traditional print is coming down fairly strongly, but at the same time the digital operations are picking up very nicely. Learning down 10 million, and again, it relates almost totally to us exiting the Hungarian Learning business, so all the other units are doing very well. The Finnish operation in Learning is impacted by the curriculum change that will take place in 2016.

In the other category, again, structural changes, selling the Hungarian media business, exiting the press distribution business in Finland. The only organic kind of part of this delta is from the press distribution business in Netherlands, where the declining volumes are impacting the numbers.

Moving to EBIT and Media Netherlands, so we had performance wise a bit weaker quarter in Q3. Many things driving this. We have higher TV programming costs, as we already indicated that we would when we met after Q2, so about 5 million higher than in Q3 last year. We're also pushing our digital services forward, investing in future growth. The decline in print sales naturally has an impact as well as the sale of some of the magazine titles.

These negatives we can offset with the efficiency, to some extent with the efficiency improvements that we are executing. In Finland, naturally the picture is the result of the sales development, so some negatives coming from the print sales decline and the digital part of the business then helping to offset that. We have higher opex because of the sale and leaseback arrangement that has a 2 million impact on the quarterly number, and then in Q3 last year we had a 3 million one of the positive item.

In Learning, again, you can say that the majority of the 5 million here, around 4 million, comes purely from the Hungarian business, us exiting it. We all know that quarterly performance in Learning is volatile, depending on timing of deliveries and orders coming in. We have, again, some timing shifts here, what comes to the Learning business, some timing shift from Q4 to Q3, which I would say that adds up to some millions, maybe even up to 5 million.

And this you should take into consideration when you look at your full-year forecast. So I wouldn’t urge you to change your full-year view based on EBITDA performance in Q3. Then, moving to the free cash flow development, the underlying EBITDA is below last year’s level, and this is driven by the structural changes that we’ve had, so a natural outcome, nothing special in TV program cost or prepublication cost.

Net working capital development, as you can see here, follows the trends that we always see between the quarters. Interest rate clearly lower than last year. In other financial items, we have some F/X related items and a similar level of positive impact on the working capital, so it doesn’t actually impact the total free cash flow that we are reporting.

In other adjustment, it’s mainly the restructuring cost and non-recurring items impacting it. On a full-year basis, we have, or nine-month basis, cumulatively negative 9 million free cash flow last year, negative 3 million, so actually pretty close to the levels that we had in 2013. One thing I would like to point our here is that the restructuring cost, the transformation programs do impact our cash flow development quite a bit. So for the full year of 2014, we expect close to 40 million negative cash flow impact from the efficiency improvement programs, the transformation programs.

And this will continue next year as well, before we get kind of further with the programs that we are executing. Then, looking at capital structure, a clear strengthening of the balance sheet. We have a total equity of close to 1.3 billion. When you look at our report, you can see that we have some negatives coming from the net pension liability adjustment, actually net of taxes 66 million hitting our equity cumulatively this year. This is because of the lower interest rate, market rates, and still we do report an improvement in the level of equity and a clear improvement in the equity ratio and also reporting the gearing coming down coming down quite a bit from last year.

So clear strengthening on the net debt level. We are coming from close to 1.3 billion to a level of around 800 million. So the debt level is coming down as a result of the asset sales. This, the lower net debt level naturally will help us in the refinancing that we're getting closer to in 2016 and then finally '17.

What is not improving as we wish to is the leverage net debt to EBITDA ratio, and here it's really the EBITDA that is on focus now to improve that ratio going forward. Then a few words about Russia. I'm sure you noticed that there is a new law in Russia which is restriction, restricting the foreign ownership of media operations to a level of 20 percent. This, of course, puts many western operators in a tricky situation.

For us, the situation is a bit different than some others, because we are in the middle of a strategic review process and possibly looking, even without the legislation, to exit the marketplace. Here you see the businesses that we currently have, do have 100 percent owned operation, and then some joint ventures. Our share of the sales currently of these businesses is 70 million. We book in our profit and loss statement 30 million, and the book value currently is 75 million.

You could ask that isn't the changes in the marketplace triggering a need to test the asset values, and the answer would be yes, it is. We are fairly advanced with our strategic review process, and would like to include the outcome of that also to our testing process, and we will test the Russian assets, as all the other assets, as part of our normal routines in Q4.

Core savings, already discussed here, actually progressing very, very nicely. We had a positive impact of 40 million in the Q3 numbers for the full year, close to 40 million already. The annual run rate is 61 million. In Q2 we reported an annual run rate of 51 million, so again, progressing very nicely. And the ICT savings are really kicking in now in the second half of the year, so towards the end of the year we can report even a better performance.

What comes to the course related to the savings you can pretty much use the old rule that we have mentioned earlier, that to reach the annual run rates pretty much the same level of one time course are being taken. The group outlook unchanged, so we guided the net sales to decline somewhat. Now you're seeing for the nine months a decline of 3.4 percent. The EBIT we guided to be below previous year's level; for the nine months we were .5 percent below, so we are very well in line with the guidance and don't see any need to change it anyway.

For Q4 you need to pay attention to, we have indicated some changes in the market environment in Q4 and also some structural matters. But even with those comments, we stick to our earlier guidance.

So this ends my part of the presentation. I'll hand back to Olli for questions.

Olli Turunen: Thank you, Kim. So, we are ready to take the questions. First, please wait for the microphone and state your name and company.

Sami Sarkamies: OK thanks, Sami Sarkamies Nordea Markets. I have a couple of questions. Let's start with the Dutch operations. A bit struggling to understand why profitability was so poor there in the third quarter. On the other hand you're talking about flattish sales for the magazine businesses you're keeping, but on the other hand it seems that profitability was clearly weaker during the third quarter. Could you please open that up a bit?

And then secondly, related to Dutch operations, you didn't see any growth in online or mobile, even though the market is growing at 11 percent rate. Then on the other hand, you're increasing investments in the transformational projects. Could you also open that up a bit and maybe give a figure on how much you invested during third quarter?

Harri-Pekka Kaukonen:

All right, thank you. First, when it comes to the performance, Kim already mentioned some of the factors that go in there and there's an increase in the programming cost and the investments that you asked as well. Then the other thing impacting is that still the underlying development in magazines in print market compared to previous year, we were still in a rather steep decline, so during this year, what really my message is, that it seems that it's kind of started, that the rate of decline is getting slower.

But just for comparison, we still get slightly hit by that underlying (inaudible). And the Focus project now is sort of rate of decline from it used to be, but we still see an impact of that in a comparable number. So that was what Kim referred to in the print side, where you saw that technically how it impacts.

The online and mobile is something that we are investing both in the transformation of core assets, and then when you look at sort of what we call the pure play digital assets, so that part of Sanoma Digital, that's where we have some work to do to renew the portfolio. The product mix is not stellar because we have one of the bigger assets is Startpagina an old sort of generation portal, which is declining, and we have to rejuvenate the portfolio.

And our portfolio mix, product mix is such that, you know, some of them grow with the market, but we also have part of it which are still in decline, so it will take a little bit of time before we can get that to grow with the market.

And then in terms of investment, you know, in digital, you know, we've referred to, I'd like to refer more to the overall increase on group-wide of 20 million we haven't sort of broken down into it, but you can sort of figure out where our bigger units are and estimate it from there. But we haven't, you know, and the other reason I don't want to put it, it's a little bit of an unnecessary work to start to, you know, pinpoint I don't think it really, at least not from a management point of view doesn't add much to the discussion.

Sami Sarkamies: OK, and then I have an additional question on the divestments. I don't think you will comment any particular assets, but just as a general question that are you seeing good demand for the assets you are trying to divest, and any guidance on timelines would be helpful Thanks.

Harri-Pekka Kaukonen:

Well, I gave a bit of guidance last time I spoke, and to my disappointment I guess I sort of promised that by end of Q3 we'd have some news. Well, these processes take the time they take. All I want to say is that we have solid leading assets in this market, the processes are undergoing once, you know, we can comment once there's something to comment. But clearly, I mean, we've taken a lot of time and we're quite at the back end of the process.

Olli Turunen: So, next question.

Sauli Vilen: Yeah, hi, Sauli Vilen. Regarding your midterm outlook, do you feel that you are able to achieve those targets in the current market conditions, or do you need to get some help from the markets in order to achieve those? Thanks.

Kim Ignatius: When we gave the guidance at the beginning of this year, we indicated that we did not expect any major improvement of the external environment, and I would stick to the same statement even today, that we don't need any major change. Looking at the environment the way it is today, it's probably not even expected, at least not in this country.

And naturally having the guidance unchanged means that we still, for the time being, stick to that.

Sauli Vilen: OK. If I may follow up on that. About Finland and cost savings, considering the fact that the Finland market environment has been going down steadily during the past few years or so, do you feel that you would need any extra cost savings in order to improve the profitability in Media Finland? Thanks.

Harri-Pekka Kaukonen:

Our performance in Finland is not satisfactory. It's not satisfactory on an absolute level and also, you know, if we compare it to some of the competition in Finland. So, and the latter one has nothing to do with market conditions. So we still have quite a lot of work to do.

I must also give credit to the teams, they have already done, they've moved a mountain already. But the work continues. So this is a long way to say yes, we will look and need to look for other improvements, top line and bottom line, and the work is continuously ongoing. So Pekka and his team are working very hard on getting Finland on a better track.

I would like to state here, also, though, that already what we're seeing, i.e., that even when the top line is going down by -5, the bottom line is steady, I think it's good proof of what has been accomplished to date. I mean, a big part of the 100 million program, actually, impacts the Finnish operation, just to give you a sense of it. So it's a long answer. We could have just said yes.

Sauli Vilen: OK, thanks.

Olli Turunen: Next question.

Matti Riikonen: Matti Riikonen, good afternoon. Your Learning business has been the most stable in the group, and now you flag that there's a change in Poland regarding the curriculum. Could you, would you be able to quantify what that actually means if some of the business is lost from you, because that would really help to think of what Poland means for the next couple of years.

I understand that the progress will be during three years, but still, it would be nice to see where the sort of, the end game would be ceteris paribus. And also, you mentioned that there would be a slight change also in Finland. Would be nice to understand also that a bit.

Harri-Pekka Kaukonen:

Just mathematically, if we just run the impact of the change in law from one to three and then to six, we're looking at sort of high single-digit decline in the market. That's still all other things being equal.

What is more difficult to say is how much we can compensate top line through other services and solutions, because the measures will also open up the whole market, because the offering at schools will be less than before. So that naturally then leads to other possibilities. And then the other unknown obviously is how competitive are we then in for the rest. But that should give you an understanding of kind of what it is.

So it's big, no question about it. But I must also say that then that's top line. Then there are obviously measures that we can do to secure bottom line, because for that part of the market, I'll give you an example, there's no point in marketing materials if that's already said, so there are cost elements that also disappear with it, so the flow through is not 100 percent. So that will be cushioning the impact.

The Finnish situation is such that 2016 will have a curriculum reform, and that means typically a year, a little bit more than that, schools start to kind of prepare for that. So nobody wants to kind of buy inventory or, you know, so normally there's a little bit of slowdown, and then to compensate then in the curriculum change here, then there's an uplift in the market. That has been the historical pattern to see, so that's really what was referred to here.

And we see a little bit of that hesitance now in terms, additional spend at schools that we see. And next year is probably a bit of the same, so we're not anticipating that the Finnish market would grow next year. Probably decline.

Olli Turunen: Do you have a follow-up question?

Matti Riikonen: If I continue, with Learning, you talked about that the digital or the online e-learning part has grown significantly, but how big is that in proportion to your sales in Holland and Belgium?

Harri-Pekka Kaukonen:

We are clearly above 20 percent in Holland, which is our lead market, and getting closer to 30 on pure-play. So it starts to be quite substantial. And this is the pure digital. And then you have digital components in your print-based offering on top, but to make life simpler we just give this measure now so that it's more comparable. That latter measure gives a lot of room for interpretation.

Matti Riikonen: If I can continue with TV, then. You had some extra TV programming purchases this year, which, at least in Holland, have not yet brought the hoped impact, so viewer shares are still flat, or flattish. Is it fair to assume that you will continue with the same kind of course going into 2015? And also in Finland's case.

Harri-Pekka Kaukonen:

I would say that that's a good sort of baseline assumption to keep that steady. You're interpreting our modest increase as flat, I'd like to see it a bit positive on the year, full year. You're right, we actually have technically a small decline, but what you clearly saw in Q2 and also September, October is a small uplift on a comparable basis.

So we like to take joy in small progress. But fully with you it's not where we, you know, would like it to be, so we're not perfectly happy with the performance to date.

Matti Riikonen: And then also for the extra investment in new areas that you, that were in the magnitude of 20 million for this year, is it also fair to assume that you would not take these investments away, so that the cost levels that you have achieved pretty much thus far are the ones that are going to be also there for next year?

Harri-Pekka Kaukonen:

Yes, for new development, broadly so, and to restate where these go, they go into Learning and then digitalization of our offering involved with consumer media and Learning, and then the new areas. What do is very actively readjust total development and ICT spend, which, as I shared before, is on the level of 150.

So, for example, this major outsourcing deal, the efficiency we drive there partly goes to the bottom line and partly is kind of reinvested in digital. So we see both we try to, you know, decline on the overall spend, but we also see a shift from traditional IT and maintenance costs to development costs. But the 20, that's a good number, obviously. We're in the midst of finalizing our next year's strategy numbers, so that's ongoing here, but overall in the big picture, that's probably of good assumption.

Matti Riikonen: Thank you.

Olli Turunen: Let's move to the questions over the phone. Operator?

Operator: You do have a question from the line of Panu Laitinmäki from Danske Bank. Please ask your question.

Panu Laitinmäki: Thank you. I would have two questions related to Media Netherlands. So firstly, just going back to the EBIT margin which dropped to about, to around 7 from 14 last year, so how much of this had any temporary items, or is this kind of the new normal level with this level of revenues?

And the second question is related to the TV performance. So in Q3, sales were flat while the market was growing. It seems that the viewing shares have been a declining trend after the World Cup, clearly below the level seen in spring despite higher programming costs. So my question is, what are you doing to turn this performance around? Is it still possible before the year end? Thank you.

Kim Ignatius: Just maybe on the margins, we do report the EBIT margins kind of excluding non-recurring items, which indicates that the rest of the cost base and the investments is part of our normal business. So naturally we all the time do efficiency improvements. We have the Focus project, which aims to improve the EBIT, even thought we let some of the net sales grow. So there's a lot of activities taking place all the time into managing the decline in the traditional, some of that savings is, as Harri-Pekka said, being invested into digital growth. But for the current performance level, the reported margins are the best indicators of where we are today.

Harri-Pekka Kaukonen:

And then on SBS performance, you have sort of two reference numbers and you're right, if we compare our performance in the spring then we are below that. If we compare it to the comparable number last year, then we're slightly above. Already stated the current cycle, early autumn has not been a level we saw. What can you do about it? It's more systematic work and steadily continue to build the grid.

During the last couple of years we have been able to sort of build cornerstones in the grid that are stable and are performing. This year the most remarkable one was Utopia, which is really on the access prime time. Our smaller channels, particularly Veronica, is doing well. It's fair to say that some of the prime time investments during the week in SBS have not been fully successful, whereas on Saturday sort of OK.

So it's a tough game out there. Competition is also not standing still. So it's just steady work and improving the grid. That's on one hand. What we also are doing, we're focusing a lot on three areas. So this is what you call the programming excellence, it's also how you work around it, how you coordinate your different activities in launching and marketing your programs.

We also bring much more consumer data and information into the game so we sort of bring the digital element to support the TV operation, and that, you know, in time should improve the return on this investment.

And then we have two other bids that we're working on. One is just in commercial excellence, and that's increasing we're working with key customers on a Sanoma level in Holland, and then the third one is on operational excellence. So we also need to put more emphasis on cost and cost efficiency to save the bottom line in SBS. So these are the things that we do.

The most difficult one is programming, because it's not only science, there's a little bit of art, and then you need a bit of luck, and it's a fluid market because it's a dynamic thing. Each season competition comes with new stuff, and consumers also have their viewing habits and patterns that are sticky.

Kim Ignatius: Maybe if I may still continue on the margins. Naturally you should not look at one quarter performance, but rather the cumulative numbers, and we do report as part of the quarterly package also the rolling 12-month performance level, so that should be a better indicator for you. And my comments were mainly on the print and the transformational digital, so if you then include in the Dutch operations also the TV business, naturally our target is to aim at the higher share of viewings, and with that improve profitability and margins going forward.

Panu Laitinmäki: Thanks. I still have a follow-up if possible. On the Netherlands performance compared to your kind of projections when you made impairment on the business and there is sizable goodwill still left, given that margin year-to-date is down by 1 percentage point below your kind of projections.

Kim Ignatius: Well, when you refer to the impairment that we took, so naturally we need to be inside the kind of long-term plans and the NPVs of the cash flows in our thinking, so there hasn't been such level deviations in the outlook, we feel that we should have a re-look at it. So no such negative views on the future.

Naturally, as Harri-Pekka mentioned, we are in the middle of our strategic planning process and will test all assets now in Q4, but as I mentioned, no indications that we should have any issues.

Panu Laitinmäki: OK, thanks.

Olli Turunen: OK, we are ready to take the next question over the phone.

Operator: Next question comes from the line of Mikko Ervasti. Please ask your question.

Mikko Ervasti: Thanks, and good morning. A couple of questions on Learning, another timing shift, again, from Q4 to Q3. Is this now sort of always happening that you're able to close the sales well ahead of time and we're seeing this kind of phenomenon going forward as well? Because it really seems to be that's taking place every quarter now. And then my second question is on the Dutch market as a whole. So can you comment on what's driving the slowdown in the digital growth as a whole, so if you combine TV and online, all those figures are coming down a little bit in terms of growth. So what's the impact, or what's happening there, and what would trigger a strategic review for the Dutch business for Sanoma given the market conditions and your performance there, given that it's a business that also requires heart and luck, as you said. Thanks.

Kim Ignatius: Maybe I'll take the first one. So in six years with Sanoma now, and almost every year there's volatility between the quarters. I think there was one year that there wasn't any surprises. So this is normal feature of the business, and many of our Learning people would say that you should only look at the business on an annual basis, because there is so much volatility.

It's not something we drive ourselves, it is a question of when orders come in. We do our sales during Q2 and Q3, and if orders come in, you know, the last day of the quarter or the first day of the following quarter, that is what makes the difference. Same then applies for the incoming cash flows, kind of a one day shift in money coming in can impact the numbers quite a bit. So it's not something we do ourselves.

It's also then the process driven by governments, and so when they mature and when they are finalized. That's part of the nature of the business.

Harri-Pekka Kaukonen:

Then the other question, so what drives the growth rates in TV and digital? Well, it's not easy to really pinpoint it, but there are a couple of facts that I believe can be of interest here. First one is simply that this was a double event year and Holland did very, very well in the football championships. And frankly, maybe that some of the customers just spent a big part of their marketing budget in Q2 and now are having a bit of a hangover and are pulling back. So that's one.

The other bit is that there's some signs that some sectors in retail sales in Holland have been slightly weaker than before, so some softness, and that has led to some bigger customers to, at least short term, to be careful with their marketing spending.

I think what will be a real important factor is when we start to see the sales around Christmas. That probably will reflect kind of on what the state of the economy and the level of investment but it's very difficult, because you cannot see any sort of fundamental big trend line shifts in the underlying economic indicators. But those are the two factors that maybe I can offer as possible explanations.

Kim Ignatius: Maybe an answer to the strategic review.

Harri-Pekka Kaukonen:

OK, that was probably a more important question. We actually have done pretty major strategic review in Holland, to really position the business into a better strategic frame, if you want. Because it's not just cutting non-focus titles. The whole approach that Peter de Mönnink now is driving in Holland is much more geared around domains.

To give you a concrete example about it, is that we have hired a lady from outside who's actually then heading our women's domain development, so really bringing these assets together, focusing on including also thinking about from a female perspective how should we improve the net 5 channel, what other opportunities and services can we offer and bundle with our subscriptions, and I'm not talking about only legacy, but what type of services would be interesting. Because we know we have the context and the interest of women.

So this is a really fundamental shift in the way we're starting to drive the business, and in that sense I think we've done a big strategic review. Then if the question refers to, you know, what would need to happen before we would have to kind of have a radical look at costs, the only thing I say that's part of our strategy process, we obviously model risk scenarios, and then use that to get into counteracting measures which then normally have positive short-term impact, but that's when you start to have a longer-term negative influence on top-line development.

So yes, we still spend a lot on marketing, the developmental spend, et cetera, so those are the kind of areas where we need to start cutting. And as we've seen on the last couple of years, we've done a lot of that on top of the 100 million in programs, so there's a lot of cost flexibility still in the system, but obviously at some point it starts to cut through muscle and bone.

Mikko Ervasti: So if we take it relative to the market, so forget the impact of what's happening in the marketplace, how long would you wait to see these results from your own actions?

Harri-Pekka Kaukonen:

Maybe not sure if I understood the question, but let's say that the current market developments as I see don't trigger this strategic review. We're quite comfortable in that we're doing the right, that directionally and in terms of magnitude, the right kinds of actions.

Mikko Ervasti: All right, thanks.

Olli Turunen: And to add to your question, of course, as you know, our EBIT margin targets for 2016 is 10 percent, so in order to reach the 2016 target, we need to improve profitability as well in Netherlands as in Finland, as said before.

Male 5: Yep, thanks very much.

Olli Turunen: Thank you. Do we have any follow-up questions?

Operator: No further questions coming through from the phone.

Matti Riikonen: One additional question. You said that you are going to launch a new channel in the Netherlands. I was just wondering what kind of investments or costs that will require. I gather that there's probably plenty of synergies from selling, et cetera, et cetera, but probably not everything that you buy as content can be used in the new channel. So any kind of light on that, what it means in the first stage before you know that's how it's going to sell.

Harri-Pekka Kaukonen:

Thanks, good question. Would like to also mention that we obviously launched a new channel in Finland as well, which I forgot to mention. The TV operation works so that because of studio output deals, et cetera, you tend to carry a rather large inventory of programming stock, and in the first stage we can predominantly, you know, use existing inventory. Which means that the risk of launching the channel is relatively low. And that means that we will have much more information about the viewing patterns, the reception, the overall economics of the channel than later on.

So from an investment impact into programming during next year, it's a rather limited impact.

Olli Turunen: OK. No further questions? OK, this ends the Q3 presentation. Thank you for the participation, and we wish you a very good week.

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