

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

Good morning ladies and gentlemen. It's one o'clock in the afternoon here in Finland. Welcome to our conference call on the interim results of the first nine months of the year. It will take again about 15 minutes to go through some key points and some key events. After that, we have time for your questions and discussion. Matti Salmi, our CFO, and Kare Laukkanen, our IR manager, are also present here to answer your questions with me. I am using the slide set which is available on our internet site.

Market environment

I am starting from the environment. Our operating environment looks good in most countries. Advertising in our main operating countries has developed positively this year. However, the growth pace has slowed down a bit. The general economic indicators, GDP growth and private consumption, are positive. In Finland, economy and advertising markets are growing. But the growth in advertising has slowed down a bit. In total, the advertising market grew by some 6% during the first nine months of the year. In Holland, consumer confidence is on the same level as in January, but a bit better than in the summer. The estimate for private consumption growth is 2.3% and the advertising market is growing. Consumer magazines have grown less than the other media sectors. In CEE countries, the situation varies a lot. For the Czech Republic, for example, ZenithOptimedia is predicting good advertising growth, whereas Hungary is having some market disturbances at the moment. In Russia, the market, including advertising market, keeps growing. In 2007, the total advertising is expected to increase by 30% and the print advertising by 23%.

Key developments

In order to improve our market position, we have strongly developed our own activities both through acquisitions and by launching new products and services. Our acquisition of the Polish educational publisher, Nowa Era, received approvals from antitrust officials last week. And the deal is expected to be closed at the beginning of 2008. After acquiring digital TV channels focusing on sports, SWelcom now has five TV channels in its portfolio. Rautakirja further developed its operations in Russia by acquiring press distribution and kiosk companies from Hachette and gaining access to good kiosk locations and a position in importing press products in Russia. We have made a small acquisition in language services by acquiring a Swedish translation agency. Also divestments have been made and focusing to the core continues. After the review period, we have divested our multipurpose arena in Hamburg and announced our intention to sell the movie distribution company, RCV, in the Netherlands. Launches of products and services as well as acquisitions have continued also during the third quarter. Strategically, the emphasis continues to be in the CEE countries, Russia and also in digital operations. One of the most significant launches of the year is fashion weekly, Grazia. First launch in Russia in the second quarter, and now also in the Netherlands. Digital operations grew in many countries. New online services were launched in Finland and the Netherlands and acquired in CEE countries. In Finland, we also started a new pay TV channel.

Key figures

Then let's move to the hard facts. Group net sales in total grew by 6.3%. The growth in the third quarter was 4.4%. All divisions increased their net sales in period of January to September. Advertising sales totalled 23% of the Group's net sales. Our EBIT has improved clearly. The EBIT growth in the third quarter was 14% excluding capital gains. This year, the clean EBIT has grown 12% and represents 11.3% of our net sales. However, we expect a big proportion of, for example, marketing costs in magazines to be accrued in the latter part of the year. Grazia launched this year being a good example. With improving equity ratio and a decrease in net debt, our financial position is getting stronger. At the end of September, our equity ratio was about 43%.

Then few words of each of our five divisions. Starting from the biggest one.

Sanoma Magazines

Sanoma Magazines has had a good nine months, the growth being strongest at the beginning of the year. All businesses have increased their net sales. In Holland, especially, online advertising sales grew. The single copy sales market continues to be challenging, basically everywhere. Advertising sales in total represent 29% of Division's net sales. The Division's operating profit excluding major non-recurring capital gains increased significantly. In the third quarter, the growth was 18%. Total EBIT includes some EUR 21 million of capital gains coming mainly from the sale of puzzle magazines in June. We believe that good development will continue also during the remaining months. And even with our marketing expenses in 2007 being heavily focused on the latter part of the year, we believe that magazines will clearly grow its EBIT, excluding capital gains.

Sanoma

Our Finnish newspaper operations continued their good performance also during the first nine months. We expect the advertising growth continues to slow down a bit. But the market is still developing positively, the first nine months seeing almost 6% growth. Sanoma has been able to grow faster than the market in general. For example, our online advertising revenues have increased by 30% compared to the market growth of 23%. Sanoma's operating profit has increased significantly with a growth slightly slowing down in the second and third quarters, in line with the advertising market development. The full year EBIT excluding capital gains is expected to improve.

SanomaWSOY Education and Books

Then SanomaWSOY's Education and Books, a Division for our educational publishing, general literature and business information and services. This division is the most prone to seasonality. Net sales of the Division have increased due to new operations in both educational publishing and language services. Educational publishing is developing positively in Belgium, but its net sales in the Netherlands were on the comparable period level and slightly decreased in Finland. Also, the structural changes in Polish educational sales are showing this year. A large proportion of Young Digital Planet's sales comes from tenders and other major projects. The timing of these projects as well as their effects on the results varie considerably between years. So,

our uncertainty comes basically from Poland. All major markets are doing well. In publishing, both language services and customised learning products aimed at B2B clients are also doing well. Operating profit totalled some EUR 51 million. It was behind the comparable period mainly due to the educational publishing results. EBIT on the third quarter was up by almost 9%. We expect the Division's operating profit excluding the sales gained to be at the previous year's level.

SWelcom

Then to our TV and broadband operations. Despite the fact that SWelcom has launched new free to air TV channel, two radio stations and a pay TV channel, it has been able to improve its EBIT by some 36%, with the third quarter being especially strong. The sales of broadband and digital set top boxes developed well and also affect positively on Division's operating profit. SWelcom is expected to clearly improve their results on 2007 despite their continuous investment in programming.

Rautakirja

Finally, Rautakirja, our retail and press distribution Division. Things are there also positive. Organic net sales growth in the first nine months has been 5.5% and all businesses have grown. Especially kiosks and entertainment business have seen good growth percentages. Press distribution growth is also good partly, of course, fuelled by acquisitions. Rautakirja has put a lot of effort in developing its position in Russia. The Division is also focusing its operations. After the review period, Rautakirja sold its multipurpose arena in Hamburg and the entertainment business includes now purely movie theatres. The cash flow effect of the divestiture of the multipurpose arena was some EUR 70 million. In 2007, Rautakirja is expected to post results in line with previous year.

Outlook for 2007

Our Group guidance remains unchanged. For 2007, we estimate that our net sales increase more than in 2006, when our growth was 4.6%. We also expect that our operating profit excluding major non-recurring capital gains improves. Last year operating profit excluding these gains totalled EUR 288.2 million, which was an all-time high operational result for us. Like I said in the beginning, the first nine months of this year have been very good for us and I am very confident about the remaining part of this year too.

Ladies and gentlemen, thank you very much for your time. Now we are ready for your questions.

Questions and answers

Janne Holmia - *Standard and Poor's* - Analyst

First I'd like to start asking about the education and books. You mentioned that there were some timing differences in the third quarter. If I remember correctly you mentioned also this in the second quarter. Could you just elaborate a little bit on this. And when are you expecting this, I guess the postponed deliveries, can take place?

Hannu Syrjänen - *SanomaWSOY Corporation* - *CEO*

Educational business has much more seasonality than any others. Meaning that the years are not the same and the quarters are not the same. Because of the seasonality or cyclical nature, educational publishing is not based on economical cycles but on many other things, for instance, the changes in the curriculum. And what I said about Poland, it gives us some uncertainties. Because the most part of our Polish business is based on tenders and projects there. And we can't really control when they open those tenders, for instance. And as we know, they had elections there a few weeks back and we do not know if the new government has time enough to open new tenders any more. So, there are, of course, those kinds of uncertainties. But, basically, the underlying business is doing well and we have to also bear in mind that last year our EBIT growth was about 35% during second and third quarters. And these are basically the issues we have to bear in mind when judging the situation we are standing at the moment. And our guidance is that the Division will make about the same level of EBIT than in 2006.

Janne Holmia - *Standard and Poor's* - *Analyst*

Okay. Very well, then I noticed that the number of the titles published both in books and electronic products has increased here in the educational publishing. Was there any particular reason for that, or is it just that, or could we expect more sales than in the future from these, or?

Hannu Syrjänen - *SanomaWSOY Corporation* - *CEO*

The number of titles does not give you the whole picture because you have to bear in mind the same things I just mentioned. It's very much up to changes, for instance, in curriculum and those changes can happen all over the year. They are not timed to certain parts of the year only. These kind of issues defer also by, for instance, the changes in curriculum.

Janne Holmia - *Standard and Poor's* - *Analyst*

Okay. Thank you for that. Then, just a brief question on the Netherlands. I noticed that on your presentation the newspaper advertising has grown about 15% this year. What is the driver behind this over there?

Hannu Syrjänen - *SanomaWSOY Corporation* - *CEO*

As I said in Finnish press conference, two hours ago. You have to be very careful when looking at the market data from Holland. Because the statistics give you only gross figures and we do not know what kind of discounts different media sectors are giving. We do know that, for instance, that newspapers are giving huge discounts. We have to be very careful when looking at those figures and it's very difficult to make any sort of final conclusions by those figures.

Janne Holmia - *Standard and Poor's* - *Analyst*

Okay. Then my final question. You mentioned that next year you would reduce the work force or personnel in Aldipress by around one third. I don't know, have you disclosed, how many people you have working there at the moment. Or what kind of savings could we expect from this?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

What we do have disclosed is that in third quarter figures of Rautakirja there is a EUR 2 million reservation for this restructuring of Aldipress. Those costs will materialize at the end of this year and next year. But they are now in Rautakirja figures of the third quarter.

Veikko Valli - *ABN Amro - Analyst*

I have three questions here. The first one would be on the possible slowing down of the advertising market in Finland. How do you see that affecting your operations? And are there any particular segments where you see the advertising market slowing down?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

The thing is that advertising has grown surprisingly fast in Finland during this year, especially in the beginning of the year. It's still growing pretty fast but the growth rates are a bit smaller than in the beginning of the year. But there is no sign of any downturn in figures. We still see that the market will be pretty good also in the future. Of course, it depends very much what happens in the total economy, whole economy, of the country. But, our prediction is that the market will be pretty good also in the future basically, in all media sectors.

Veikko Valli - *ABN Amro - Analyst*

All right. Then you had a sales growth of 4.4% in the third quarter. What's the underlying organic growth? I mean 4.4% is a bit lower than you've been able to have in quite many previous quarters.

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

As I said, the growth figures are a bit slower than they have been, but still pretty good in my mind. We are basically talking about pretty mature business and it's very much dependent on what happens in the economy. Normally, if something happens, something bad happens I mean, it hits first newspapers and then TV and not that hard in magazines. Basically, that is the dynamics of the advertising market.

Veikko Valli - *ABN Amro - Analyst*

But no clear figure on the organic growth? I mean you had quite a lot of acquisitions.

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

4.2% during the first nine months of this year. We don't have the third quarter separately, but when we have the total growth of 6.3% (year to date), the comparable growth was 4.2%.

Veikko Valli - *ABN Amro - Analyst*

All right, that's very good. Then a question on the appetite for acquisitions. I understand the sale of magazine assets for certain European players is ongoing. Anything to report on this front?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

No. We are not commenting on issues, which are not materialised at all. If there will be something we will come back to that.

Veikko Valli - *ABN Amro - Analyst*

And lastly. Maybe a bit of an open ended question. What do you think is currently the investment case in SanomaWSOY? Why should anyone currently invest in SanomaWSOY?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

Good question. We are growing. We are doing very good business. We are a dynamic European media company. We have a multimedia business here in Finland. We have a lot of growth potential, for instance, in Russia. We have a lot of potential in digital media where we are investing pretty heavily and also in other CEE countries. We are also a good dividend payer. So, I think we are one of the most dynamic media companies at the moment.

Veronika Pechlaner - *Goldman Sachs*

I have a couple of outstanding questions starting with the educational business. You were talking about slashed profits (year on year) as a guidance for 2007 at the book publishing education business overall. Now, on increasing sales numbers that would actually imply quite a bit of a lower margin. Could you comment on a more broader basis. First of all, how much Poland revenues actually account for within that educational business, just in terms of absolute revenue numbers. And then, secondly, what do you think comes next year, what will happen to the margin, if you will get closer to the 15% over time. Or whether you think the margin is still actually pretty solid and is going to stay at the current level. That was my first question.

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

First of all, basically we are not commenting on those individual companies. But, if I remember correctly, our EBIT margin during the first nine months was 20%. It is in my mind, a pretty good EBIT level whatever you compare it to. It's a good benchmark also internationally. So, we are doing very good business. And as I said to Janne earlier, educational business is pretty different compared to other businesses, for instance, in our case. The years are not the same and the quarters are not the same. It's much more difficult to compare those things. I think this performance level is pretty good at the moment. And what comes to next year we have chosen the line that we are not commenting next year yet. We come back to the guidance for next year in January normally.

Veronika Pechlaner - *Goldman Sachs*

Could I then move on to ask a little bit more about Rautakirja. A good part of the entertainment business is up for strategic review or essential for you to sell it. Could you just comment how you generally think about the overall entertainment business at this point, and also Rautakirja in broader terms. Should this be a sign, that you are actually thinking about Rautakirja overall as a non-core business. Or is it really only the entertainment business that you are looking at?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

This is a question that's very difficult to comment. I have no comments on that basically. What we have done as you well know, we have divested our non-core assets for many years already. And this multipurpose arena was one of our non-core assets and we had about EUR 70 million invested there. It was in my mind, pretty wise to take that cash out of there. And now our entertainment part of the business in Rautakirja is purely movie theatre business which is doing very good at the moment. So, no basic changes in Rautakirja or Rautakirja's portfolio.

And, of course, you have to bear in mind that, for instance, press distribution including retail outlets, kiosks and also bookstore chains are part of the same value chain we have here in publishing business for magazines and newspapers and books.

Veronika Pechlaner - *Goldman Sachs*

Sure. That's very clear. Thank you very much for that. And then just two financial questions. One was on the working capital development for the first nine months. Working capital was pretty negative still on the nine months basis. Do you think that will kind of revert in the cash flow statement for the full year?

Matti Salmi - *SanomaWSOY Corporation - CFO*

Yes, it will, of course, as you see in the last year. That's because we were in positive on the last year. Not perhaps so much than it was last year, because we have a couple of things, which affect this working capital. One is a smaller effect which comes from the structural changes. For instance, when the advertising sales are growing, that's more a working capital negative. But the main thing is, the fluctuation in our accounts payables and how that happens to be at the end of the accounting period. That has quite a big influence. At the end of last year, we had quite a lot of this kind of debt in our balance sheet. We are not anticipating totally this year. But this kind of fluctuation happens normally from year to year.

Veronika Pechlaner - *Goldman Sachs*

Okay. And, could you also give us a sense whether your financing costs as a percentage rate of interest is going to change. I think you've done a bit of financing recently. Are there any changes you expect there, or is that going to be in line with what we've seen for the first couple of months of the year?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

In broad terms, yes, of course. The margin is even less than we used to have because, as you know, we renewed our total borrowing capacity. But, of course, we have a very short duration there so that, of course, affects. Depending, of course, how the market rate is developing, so that affects our financing costs in the short term.

Mika Koistinen - *SEB - Analyst*

If I may start with a question you stressed and you've been saying that before as well, that the marketing stand of magazines is this year quite substantially geared towards the second half of the year. And I'm trying to read between the lines here a bit. It sounds like there would be still more of a marketing emphasis in the fourth quarter compared to the third quarter, i.e. that your marketing expenses are still ramping up. Is that the right interpretation of your message?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

That's basically what we have said because, for instance, the launching costs of Grazia magazine in Holland will basically be on the fourth quarter. Our idea has been for years and will also be in the future, that although we are growing and trying to improve our profitability, we are also taking care of the future by being pretty aggressive in launches and development also. That is the case. But what comes to the effect, I think it gives you some guidance that we have upgraded our magazine division. Guidance that we said that EBIT will grow clearly this year compared to last year's figures.

Mika Koistinen - *SEB - Analyst*

Exactly. That's very helpful. Thank you. And, secondly, on the education business. I know that this is a repeat question in a way. But is it fair to say because the performance is still very solid and you had a 20% margin there over the first nine months. Is it fair to say that the margin that you had last year which was more than 22% in the same period, was maybe a bit abnormally high and is perhaps not the representative level of the business going forward.

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

Very difficult to say what happens in the future. But there are, for instance, those Polish tenders we have been talking a lot now, which are very different in nature. Sometimes they are big what comes to revenues and the margin is very low and sometimes it's vice versa. At least we can say that there may be some difference in the margin level also between the quarters and between the years as I tried to explain. This business is not the same year to year basis. There are different kind of changes.

Mika Koistinen - *SEB - Analyst*

Fair enough. And then, thirdly, just on the share buy back. You have the authorization and you also have the Board decision that you can be starting the share buy back at some stage. As far as I'm aware you haven't been doing that, as of yet. But looking at the stock price it seems to be on fairly attractive levels. What's your plan on the buy back for the rest of the year?

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

We have started our buy back project and the last figure I have in mind is about 500,000 shares. The exact number being 537,000 shares we have bought back from the market so far. So, we have started the program.

Ending

Hannu Syrjänen - *SanomaWSOY Corporation - CEO*

Thank you very much for participation in this conference call. It has been a pleasure to talk to you and have this nice discussion. So, thank you very much once again. Have a nice day.

Transcript by Thomson